

AUDIT & STANDARDS COMMITTEE
Wednesday 13 March 2019 at 7.30 pm
Council Chamber - Civic Centre

AGENDA

1. Apologies for Absence and Substitutions
2. Declarations of Interest

Councillors' declarations of interest (if any) in relation to any matters on the agenda.
3. Minutes (Pages 2 - 5)

To agree the minutes of the meeting held on 28 November 2018.
4. Matters Arising
5. Written Questions and Petitions
6. Non Contentious Business
7. Committee Work Plan (Page 6)
8. Annual Report on the Certification of Grant Claims and Returns (Pages 7 - 12)
9. External Auditor - Audit Plan 2018/19 (Pages 13 - 45)
10. Internal Audit Strategy and Plan 2019/20 (Pages 46 - 69)
11. Period 11 Internal Audit Activity Report 2018/19 (Pages 70 - 84)
12. Audit and Standards Committee Work Plan and Training Programme (Pages 85 - 86)
13. Risk Management Progress Report (Pages 87 - 92)
14. References from other Committees

Any references arising from meetings held after the publication of this agenda will be circulated separately.
15. Matters of Urgent Business

To deal with any matters of an urgent nature.

**MINUTES OF THE AUDIT & STANDARDS COMMITTEE
HELD ON**

28 November 2018

7.30 - 9.05 pm

PRESENT

Committee Members

Councillor Stefan Mullard (Vice-Chair, in the Chair)
Councillor Simon Carter
Councillor Jean Clark
Councillor Tony Edwards
Councillor Russell Perrin
Councillor Chris Vince

Officers

Simon Freeman, Head of Finance and Deputy to the Managing Director
Sarah Marsh, Internal Audit Manager
Adam Rees, Governance Support Officer

Additional Attendees

Lisa Clampin, BDO
Francesca Palmer, BDO

30. **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies for absence were received from Councillor Michael Hardware.

31. **DECLARATIONS OF INTEREST**

Councillors Simon Carter and Chris Vince both declared non-pecuniary interests in items 9 and 11 as Council appointed Directors of HTS (Property and Environment) Ltd.

32. **MINUTES**

RESOLVED that the minutes of the meetings held on 31 July and 5 September 2018 are agreed as a correct record and signed by the Chair.

33. **MATTERS ARISING**

None.

34. **WRITTEN QUESTIONS AND PETITIONS**

None.

35. **NON CONTENTIOUS BUSINESS**

None.

36. **COMMITTEE WORK PLAN**

The Committee received its current work plan.

RESOLVED that the work plan is noted.

37. **ANNUAL AUDIT LETTER**

The Committee received the annual audit letter from the external auditors, Ernst & Young, which summarised their findings on the audit work they had undertaken at the Council during 2017/18.

RESOLVED that:

- A** The Committee acknowledged the Annual Audit Letter for 2017/18 (attached as Appendix A to the report) and the key issues identified regarding the audit opinion, financial statements and key challenges.

38. **INTERNAL AUDIT ACTIVITY REPORT**

The Committee received the Internal Audit Activity Report, which showed the progress made against the Audit Plan since the last meeting of the Committee. It is also set out the review of the Code of Corporate Governance, the Anti-Fraud and Corruption Strategy and the Internal Audit Charter.

Councillor Mullard declared a non-pecuniary interest as a member of the Harlow Playhouse Trust

RESOLVED that the Committee:

- A** Noted the outcomes of the work of the Internal Audit service for the period July to November 2018 and identifies any issues for further consideration.
- B** Noted the unchanged Code of Corporate Governance.
- C** Approved the revised Anti-Fraud and Corruption Strategy (attached as Appendix C to the report).
- D** Approved the Internal Audit Charter (attached as Appendix D to the report).

39. **REVIEW OF AUDIT & STANDARDS COMMITTEE EFFECTIVENESS AND TERMS OF REFERENCE**

The Committee received the report Review of the Effectiveness of the Audit and Standards Committee and its Terms of Reference, which set out an action plan for improvement of the functions of the Committee.

The Committee agreed that a task and finish group would be established to look at the appointment of an independent person to the Committee. The terms of reference and membership of which are set out below.

RESOLVED that the Committee:

- A** Noted the results of the review of effectiveness of the Audit and Standards Committee and agrees the proposed action plan for improvements.
- B** Established a task and finish group to look at whether the Committee should appoint an independent person with the terms of reference and membership as set out below.
 - i) To establish the advantages and disadvantages of having an independent person on the Committee.
 - ii) To determine whether the Committee should appoint an independent person.
 - iii) To make a recommendation to the Committee consistent with points i) and ii) above.
 - iv) The membership will be Councillors Simon Carter, Jean Clark and Stefan Mullard.

40. **RISK MANAGEMENT PROGRESS REPORT**

The Committee received a progress report on the Council's risk management arrangements including the review of the Risk Management Strategy.

Having previously identified various corporate risks from the Corporate Risk Register for scrutiny, the Committee considered the outstanding risks for review, namely CR06.

The Committee agreed that a review of the Council's risk appetite would be included the next Risk Management Progress Report which would be considered at the meeting on 13 March 2019.

RESOLVED that the Committee:

- A** Approved the Risk Management Strategy (attached as Appendix A to the report).
- B** Reviewed the Corporate Risk Register as set out in the report.
- C** Agreed that a review of the Council's risk appetite would be included in the next report to the Committee on 13 March 2019.

41. **REFERENCES FROM OTHER COMMITTEES**

None.

42. **MATTERS OF URGENT BUSINESS**

None.

CHAIR OF THE COMMITTEE

AUDIT & STANDARDS COMMITTEE WORK PLAN 2018/19

13 March 2019	
○ Annual Report on the Certification of Grant Claims and Returns <i>(including fees)</i>	External Auditor
○ External Auditor - Audit Plan 2018/19	External Auditor
○ Internal Audit Strategy and Plan 2019/20	Sarah Marsh
○ Period 11 Internal Audit Activity Report 2018/19	Sarah Marsh
○ Internal Audit Compliance with the Public Sector Internal Audit Standards	Sarah Marsh
○ Audit & Standards Committee Work Plan and Training Programme	Sarah Marsh
○ Risk Management Progress Report <i>(Min 32, 25/11/15)</i>	Simon Freeman
Standing Items	
○ Register of Complaints which have been referred to Hearing Sub-Committee	Monitoring Officer
Unallocated Items	
○ None	
Training Plan	
13 March 2019 (7pm)	The role of Internal Audit, ahead of the Committee receiving the Internal Audit Strategy and Plan

Certification of claims and returns annual report 2017/18

Harlow District Council

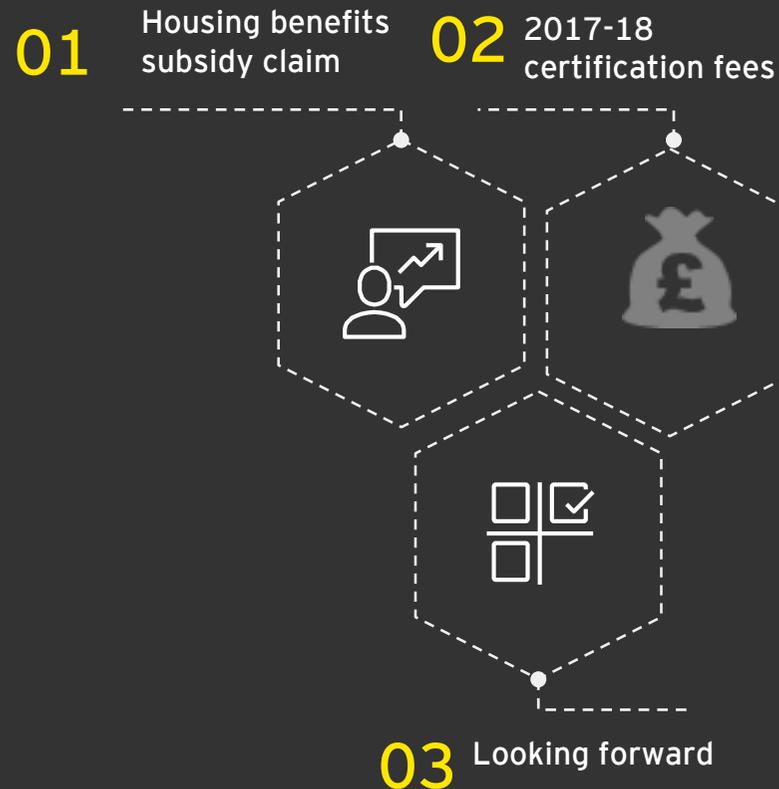
31 January 2019

7

Agenda Item 8

EY
Building a better
working world

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit and Standards Committee and management of Harlow District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, and management of Harlow District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee, and management of Harlow District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 - Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£32,382,803
Amended/Not amended	Amended - subsidy increased by £8
Qualification letter	Yes

The Council administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors and carried out extended testing in several areas. Extended and other testing identified errors which the Council amended. They had a small net impact on the claim, as noted above.

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. We include a summary of pages 4 and 5.



02 - Fees

Claim or return	2017-18 Actual fee	2017-18 Indicative fee	2016-17 Actual fee
Housing benefits subsidy claim	£18,695	£18,695	£22,695

PSAA bases the indicative fee for 2017-18 on the outturn fee for 2015-16 and we delivered the certification work within that fee.



03 - Looking forward

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

Summary findings

Rent Rebates:

Testing of the initial sample identified the following:

- 1 case (total value £1,563) where the Authority had under claimed subsidy by £24 as the benefits system had incorrectly offset the reversal of a prior year overpayment in the headline and expenditure at full rate cells. The effect of this error is to understate Cells 055 and 061 (Error Type 1).
- 1 case (total value £4,422) where the Authority had overpaid benefit by £19 as a result of an interfacing error with the Housing system that resulted in a prior years rent figure (too high) being used in the assessment of benefits payable. The effect of this error is to overstate Cells 055 and understate Cell 065 (Error Type 3).

Based on our prior year experience of the claim we also undertook 40+ test in respect of Claimant Income assessments.

Testing of the sample identified:

- 5 cases (total value £11,303) where the Authority had underpaid the Claimants by £299 due to errors in calculating Claimant Income and the application of Working and Child Tax Credits. The effect of this error is to understate Cells 055 and 061 (Error Type 1).
- 1 case (total value £4,827) where the Authority had overpaid benefit by £1,509 as a result assessing the case as a passported case when the claimant was not in receipt of a relevant benefit. The effect of this error is to overstate Cells 061 and understate Cell 065 (Error Type 3).
- 1 case (total value £4,827) where the Authority had overpaid benefit by £1,007 as a result of omitting relevant items of income from their benefits assessment. The effect of this error is to overstate Cells 061 and understate Cell 065 (Error Type 3).
- 1 case (total value £5,156) where the Authority had overpaid benefit by £21 as a result of the use of an incorrect Working Tax Credit figure in the assessment of Claimant income. The effect of this error is to overstate Cells 061 and understate Cell 065 (Error Type 3).

Summary findings

Rent Allowance:

Testing of the initial sample identified:

- 1 case (total value £9,780) where the Authority had overpaid benefit by £5 due to an adjustment the Claimants Self Employed Earnings for payments into a private pension, without their being any evidence of any such payments being made. The effect of this error is to overstate Cell 094 and Cell 103 and understate Cell 113 (Error Type 3).
- 1 case (total value £8,693) where the Authority were unable to reconcile the subsidy claimed due to a known issue with the CIVICA system regarding cases where underlying entitlement is present and more than one assessment impacting the relevant period is processed. The software supplier are developing and testing a correction to bug fix 59067 and 59065 which are due scheduled for distribution with release 18.4 sometime in December 2018 (Error Type 8).

Based on our prior year experience of the claim we also undertook 40+ testing in respect of Change of Address assessments. We identified no errors.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

IMPLICATIONS

Place (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Project Director Enterprise Zone and Interim Head of Planning on the behalf of Graeme Bloomer, Head of Place

Finance (Includes ICT)

None specific.

Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing

None specific.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

None specific.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – Harlow District Council Audit Planning year ending 31 March 2019

Background Papers

None

Glossary of terms/abbreviations used

None



Report to the Audit and Standards Committee

HARLOW COUNCIL

Audit Planning: year ending 31 March 2019

IDEAS | PEOPLE | TRUST



CONTENTS

1	Introduction	3			
	Welcome	3			
2	Executive summary	4			
	Scope and materiality	4			
	Audit strategy	5			
	Audit risk overview	6			
	Independence and fees	7			
3	Audit scope and objectives	8			
	Overview	8			
	Audit scope entities, components and audit risks	9			
	Audit timeline	10			
	BDO team	11			
4	Audit risks - Financial statements	12			
	Overview	12			
	Management override of controls	13			
	Revenue (and Expenditure) recognition	14			
	Property, Plant & Equipment and investment property valuation	15			
	Pension liability valuation	16			
	HTS Pension Costs and liability Treatment	17			
5	Audit risks - Other matters	18			
	Other matters requiring further discussion	18			
	Changes to accounting standards	19			
	IT general controls	20			
6	Independence	21			
	Independence	21			
7	Fees	22			
	Summary	22			
8	Appendices contents	23			

WELCOME

Introduction

CONTENTS

Introduction

Welcome

Executive summary

Audit scope and objectives

Audit risks - Financial statements

Audit risks - Other matters

Independence

Fees

Appendices contents

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

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

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

We look forward to discussing this plan with you at the Audit and Standards Committee meeting on 13 March 2019 and to receiving your input on the scope and approach.

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



Lisa Clampin

28 February 2019



Lisa Clampin
Audit Partner

t: +44(0)1473 320716
m: +44(0)7791 397160
e: lisa.clampin@bdo.co.uk



Francesca Palmer
Audit Manager

t: +44 (0) 1473 320 739
m: +44 (0) 7970 126254
e: francesca.palmer@bdo.co.uk



Emma Etherington
Audit Senior

t: +44(0) 1473 320802
e: emma.etherington@bdo.co.uk

This report has been prepared solely for the use of the Audit and Standards Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks - Financial statements

Audit risks - Other matters

Independence

Fees

Appendices contents

This summary provides an overview of the key audit matters that we believe are important to the Audit and Standards Committee in reviewing the planned audit strategy for the Council and the Group for the year ending 31 March 2019.

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

Audit scope

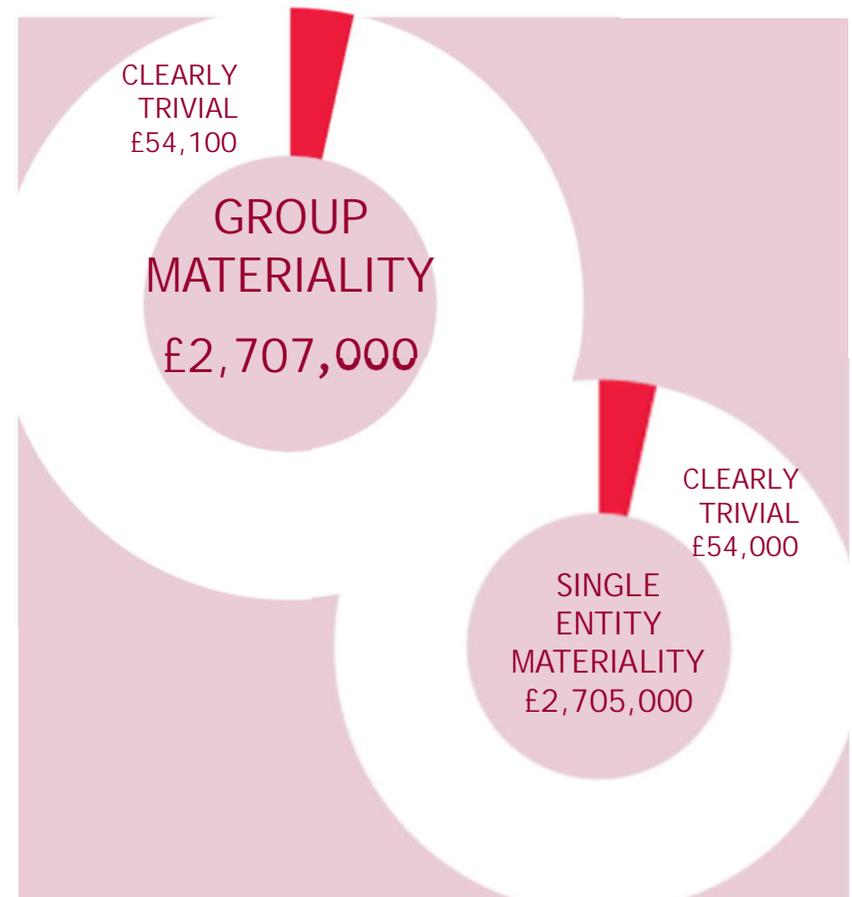
The scope of the audit is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

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

Materiality

Planning materiality for the Council and the Group will be set at 1.65% of gross expenditure for the year using the prior year gross expenditure figure. This will be revisited when the draft financial statements are received for audit.

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



AUDIT STRATEGY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks - Financial statements

Audit risks - Other matters

Independence

Fees

Appendices contents



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

Our starting point is to document/update our understanding of the Group, Council and other component entities' businesses and the specific risks it faces. We review the predecessor auditor's prior year audit file and we discuss with management any changes to the business and management's own view of potential audit risk, to gain an understanding of the Group and the Councils activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, group-wide controls, consolidation process, and that proper accounting records have been maintained.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We then carry out our audit procedures in response to audit risks.

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

AUDIT RISK OVERVIEW

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks - Financial statements

Audit risks - Other matters

Independence

Fees

Appendices contents

Risk identified - Financial statements	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue (and expenditure) recognition	Significant	Yes	Substantive	Medium
Property, Plant & Equipment and Investment Property valuation	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Accounting for treatment of HTS (Property and Environmental) Limited pension costs and liability	Significant	No	Substantive	High



INDEPENDENCE AND FEES

Executive summary



- CONTENTS
- Introduction
- Executive summary**
- Scope and materiality
- Audit strategy
- Audit risk overview
- Independence and fees
- Audit scope and objectives
- Audit risks - Financial statements
- Audit risks - Other matters
- Independence
- Fees
- Appendices contents

Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

Fees

	2018/19
	£
Code audit fees	59,686
Estimated fee for group accounts	2,500
Total audit fees	62,186
Non audit fees	
- Housing Benefit Subsidy certification	(1)16,825
- Pooling Housing Capital Receipts return certification	3,000
Non audit fees	19,825
Total fees	82,011

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council.

Where this requires a variation to the scale fee set by PSAA we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Standards Committee. At this stage we have included £2,500 as an estimated fee for group accounts, this will be revisited to reflect the actual time taken to carry out the work on group accounts.

(1) This is the agreed fee for the initial workbooks. Any additional testing (40+ or 100% reperformance) will be charged at £850 per sample in accordance with our fee letter dated 5 September 2018.

OVERVIEW

- CONTENTS
- Introduction
- Executive summary
- Audit scope and objectives**
- Overview
- Audit scope entities, components and audit risks
- Audit timeline
- BDO team
- Audit risks - Financial statements
- Audit risks - Other matters
- Independence
- Fees
- Appendices contents

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

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

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

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2018/19 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Additional powers and duties	Where necessary we may be required to: issue a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Audit and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

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

This assessment is currently on-going and will be finalised on receipt of draft accounts prior to the commencement of the financial statements audit.

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
HTS (Property and Environmental) Ltd	Provision of housing repairs and maintenance on behalf of the local authority.	Non significant component	Size	N/A	N/A	Desktop analytical review.

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Overview

Audit scope entities, components and audit risks

Audit timeline

BDO team

Audit risks - Financial statements

Audit risks - Other matters

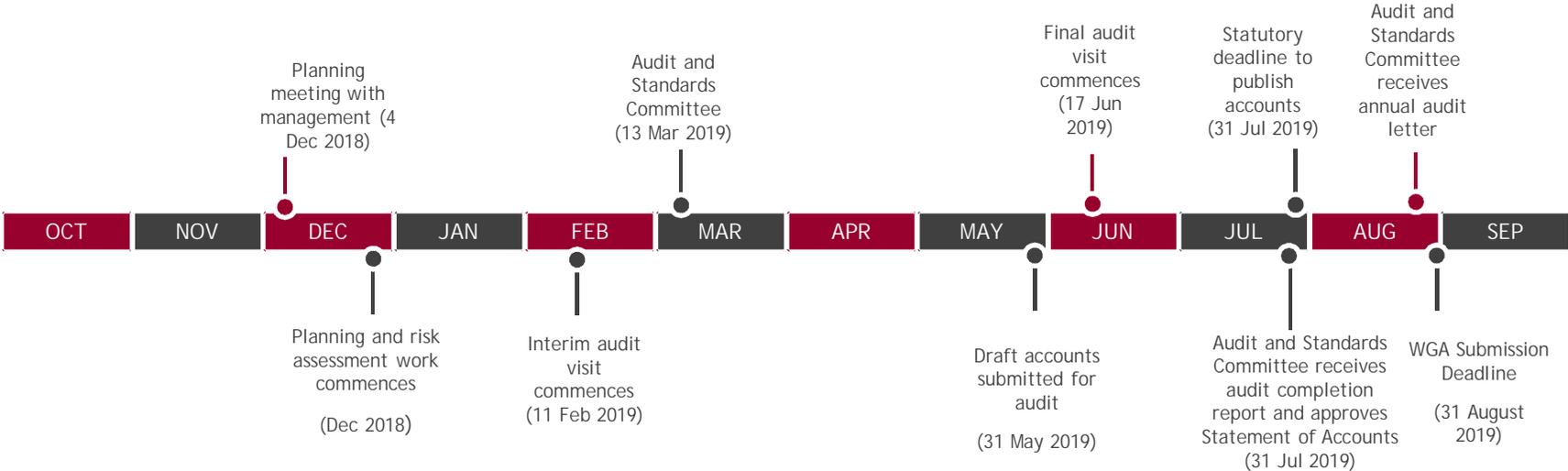
Independence

Fees

Appendices contents

AUDIT TIMELINE

An overview of the key dates



- CONTENTS
- Introduction
- Executive summary
- Audit scope and objectives**
- Overview
- Audit scope entities, components and audit risks
- Audit timeline
- BDO team
- Audit risks - Financial statements
- Audit risks - Other matters
- Independence
- Fees
- Appendices contents

BDO TEAM

Team responsibilities

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
Audit scope entities, components and audit risks
Audit timeline
BDO team
Audit risks - Financial statements
Audit risks - Other matters
Independence
Fees
Appendices contents



Lisa Clampin
Audit Partner

t: +44(0)1473 320716
m: +44(0)7791 397160
e: lisa.clampin@bdo.co.uk

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

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



Francesca Palmer
Audit Manager

t: +44 (0)1473 320739
m: +44(0)7970 126254
e: francesca.palmer@bdo.co.uk

I will lead on the audit of the Council.

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



Emma Etherington
Audit Senior

t: +44(0) 1473 320802
e: emma.etherington@bdo.co.uk

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

OVERVIEW

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

- CONTENTS
- Introduction
- Executive summary
- Audit scope and objectives
- Audit risks - Financial statements**
- Overview
- Management override of controls
- Revenue (and Expenditure) recognition
- Property, Plant & Equipment and investment property valuation
- Pension liability valuation
- HTS Pension Costs and liability Treatment
- Audit risks - Other matters
- Independence
- Fees
- Appendices contents

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue (and expenditure) recognition			Auditing standards presumes that revenue recognition presents a fraud risk. This risk is in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES) and fees and charges. There is also a risk of manipulation of expenditure recognition by inappropriately deferring expenditure to the following year.
3. Property, Plant & Equipment and Investment Property valuation			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Treatment of HTS pension costs and liability			A number of changes to the accounting treatment for HTS's Pensions costs and liability were made a result of the prior year audit. The previous auditors had recommended that the tripartite agreement was changed to reflect the pooled nature of the funds however this has not happened and therefore this increases the risk of the Council acting or accounting for the transactions incorrectly.

MANAGEMENT OVERRIDE OF CONTROLS

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

Risk detail

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

Our audit procedures will include the following:

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

Significant risk

Normal risk

Fraud risk

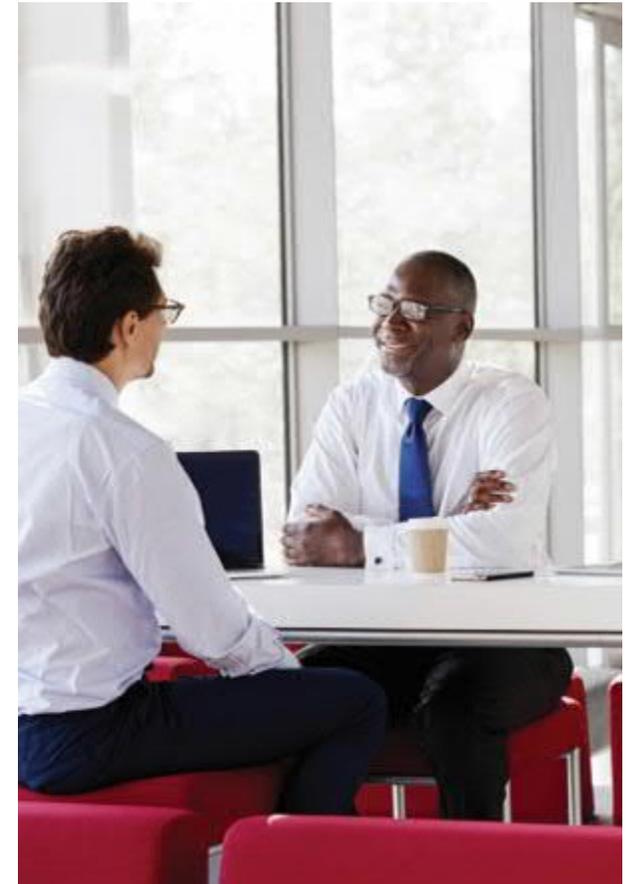
Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council



REVENUE (AND EXPENDITURE) RECOGNITION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Overview
Management override of controls
Revenue (and Expenditure) recognition
Property, Plant & Equipment and investment property valuation
Pension liability valuation
HTS Pension Costs and liability Treatment
Audit risks - Other matters
Independence
Fees
Appendices contents

Under auditing standards there is a presumption that income recognition presents a fraud risk.

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

Risk detail

We consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES) and fees and charges.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Planned audit approach

Our audit procedures will include the following:

- Test an increased sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
- Test an increased sample of fees and charges to ensure they have been recorded in the correct period and to ensure that all income that should have been recorded has been recognised.
- Test an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Overview
Management override of controls
Revenue (and Expenditure) recognition
Property, Plant & Equipment and investment property valuation
Pension liability valuation
HTS Pension Costs and liability Treatment
Audit risks - Other matters
Independence
Fees
Appendices contents

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

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

Risk detail

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date. PPE values are subject to valuation changes and material judgemental inputs and estimation techniques.

The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.

As part of the 5 year rolling re-valuation programme, approximately 20% of the land and buildings assets have been re-valued in 2018/19.

The Council uses an external valuer to perform the valuation assessment.

Planned audit approach

Our audit procedures will include the following:

- Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage;
- Review accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes;
- Review assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual;
- Review the basis for the approach to calculation of useful economic life for housing assets given the recent change in valuer and approach; and
- Confirm that PPE not specifically revalued in the year have been assessed to ensure their reported values remain materially accurate.

PENSION LIABILITY VALUATION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Overview
Management override of controls
Revenue (and Expenditure) recognition
Property, Plant & Equipment and investment property valuation
Pension liability valuation
HTS Pension Costs and liability Treatment
Audit risks - Other matters
Independence
Fees
Appendices contents

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

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

Risk detail

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

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund actuary;
- Review the competence of the management expert (actuary);
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Review the controls for providing accurate membership data to the actuary;
- Contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Check that any significant changes in membership data have been communicated to the actuary.

HTS PENSION COSTS AND LIABILITY TREATMENT

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Overview
Management override of controls
Revenue (and Expenditure) recognition
Property, Plant & Equipment and investment property valuation
Pension liability valuation
HTS Pension Costs and liability Treatment
Audit risks - Other matters
Independence
Fees
Appendices contents

A number of changes to the accounting treatment for HTS's Pensions costs and liability were made a result of the prior year audit. It was recommended that the tripartite agreement was amended however this has not happened.

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

Risk detail

HTS was consolidated into the Council's accounts for the first time last year. The Council have agreed with HTS that it will pay any employer contributions above 14.1% for transferred employees and 10.6% for ex Keir employees. In addition, the Council has guaranteed that any termination liability will remain the responsibility of the Council when HTS's participation in the LGPS scheme finishes. Upon review of the prior year draft accounts the previous auditors concluded that the approach taken was incorrect and requested a number of amendments to both the accounts and the tripartite agreement to reflect the pooling of the funds that is in place. The Accounts were amended and an unmodified true and fair opinion was given. However the Pension fund administrating body has declined to amend the tripartite agreement. Therefore there remains a risk that the accounting is not in line with the agreement or that the Council is inappropriately accounting for the costs and liabilities relating to HTS's share of the Pension fund costs and liability in its single entity accounts.

Planned audit approach

Our audit procedures will include the following:

- Review of the arrangements in place and proposed accounting treatment to confirm that the accounting treatment is in line with the agreement and proper practices and that the Council's accounting for the costs of HTS in the single entity accounts is appropriate and materially accurate.

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Audit risks - Other matters
Other matters requiring further discussion
Changes to accounting standards
IT general controls
Independence
Fees
Appendices contents

OTHER MATTERS REQUIRING FURTHER DISCUSSION

Fraud

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

We have not been made aware of any actual alleged or suspected incidences of fraud. We request confirmation from the Audit and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Predecessor auditors

We will review the work performed by the predecessor auditor. We will perform additional audit procedures on the comparatives if we conclude that sufficient reliance can not be placed on the predecessor auditor's work.

Significant estimates

We will report to you on significant estimates.

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

Internal audit

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

We plan to review the audit work of the Group's internal audit function and anticipate that we will be able to place reliance on their work in respect of their assessment of some control processes. If as a result of our review, we conclude that reliance is not possible, we will report this to you and also perform alternative procedures.

Laws and regulations

We will consider compliance with laws and regulations. These include VAT legislation and Employment Taxes. We will make enquiries of Management and review correspondence with the relevant authorities. Specialist teams within BDO will review VAT and employment tax compliance.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA code under the circumstances.

Financial statement disclosures

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

Any other matters

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

CHANGES TO ACCOUNTING STANDARDS

Classification and measurement of financial instruments (IFRS 9)

- IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.
- CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended. Our initial discussions in respect of investments and borrowings suggest that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Revenue from contracts with customers (IFRS 15)

- IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.
- CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. Our initial review of revenue streams for local authorities suggests that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Impact on our audit

- From our initial considerations it seems unlikely that these changes will lead to a material restatement for the Council, as the projected impact is immaterial this has not been considered as a risk for the purpose of our audit, but substantive testing will be carried out over the disclosures to ensure that they satisfy the requirements.

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks - Financial statements

Audit risks - Other matters

Other matters requiring further discussion

Changes to accounting standards

IT general controls

Independence

Fees

Appendices contents

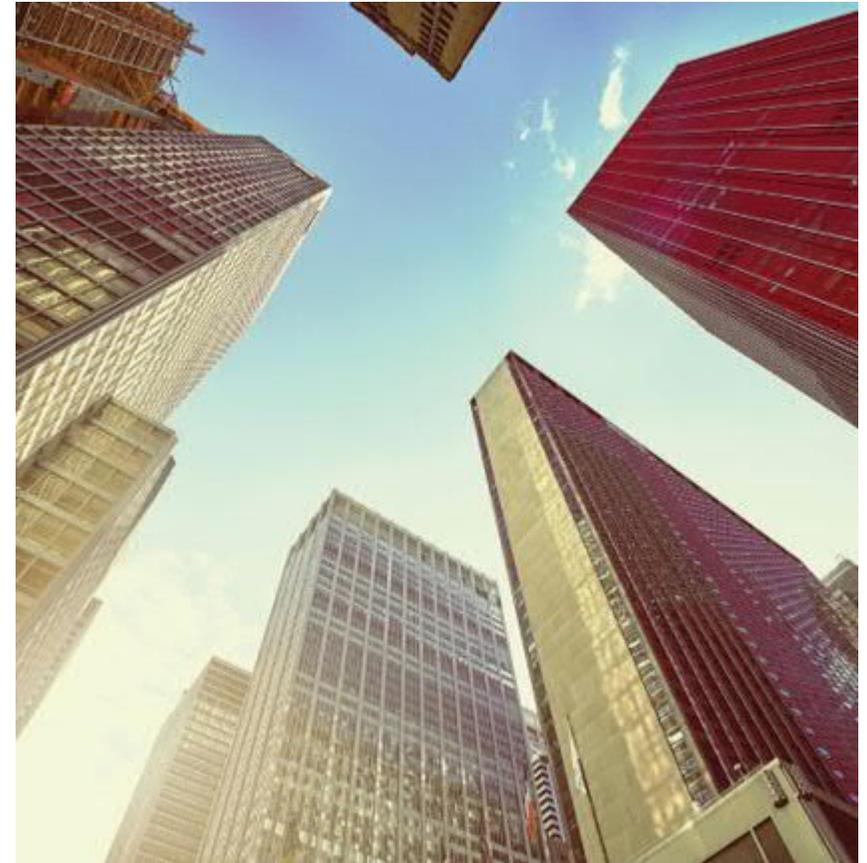
IT GENERAL CONTROLS

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Audit risks - Other matters
Other matters requiring further discussion
Changes to accounting standards
IT general controls
Independence
Fees
Appendices contents

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

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

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



INDEPENDENCE

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Audit risks - Other matters
Independence
Independence
Fees
Appendices contents

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 ending 31 March 2019.

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

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

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

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

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

Non-audit services

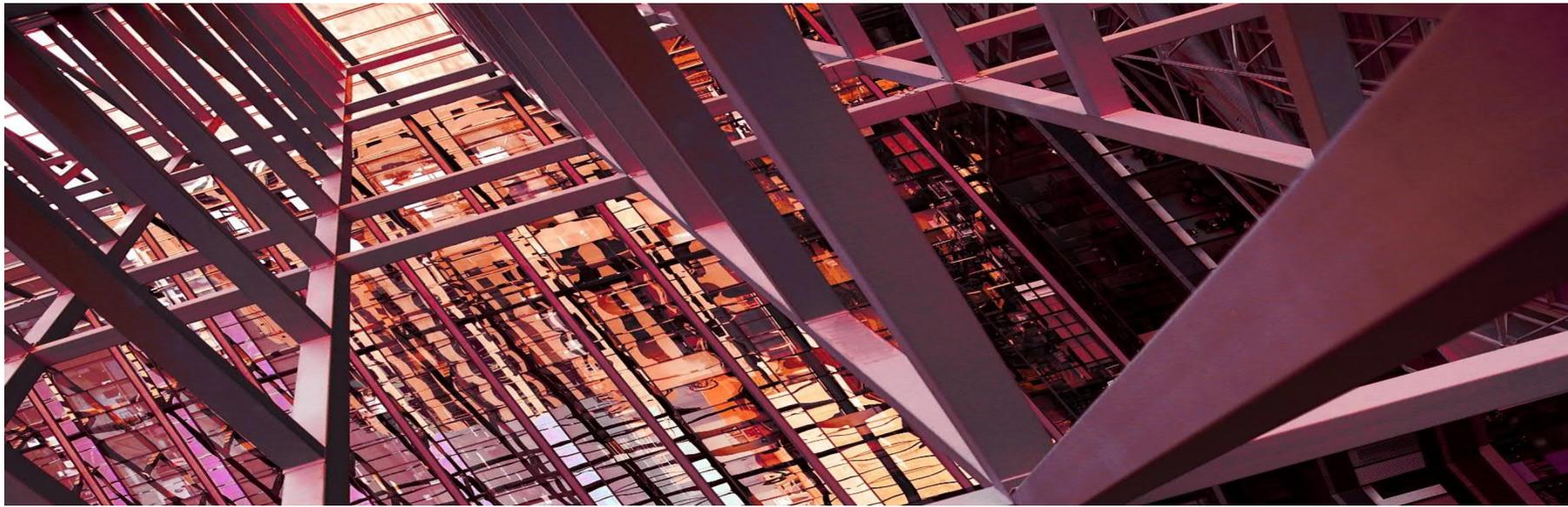
We are planning to provide non audit services in relation to the certification of Housing Benefit subsidy and Pooled Housing Capital Receipts. The fees for this work are included within the fees schedule on page 7.

SUMMARY

Fees summary for year ending 31 March 2019

	2018/19 £
Code audit fees	59,686
Estimated fee for group accounts	2,500
Total audit fees	62,186
Non audit fees	
- Housing Benefit Subsidy certification	16,825
- Pooling Housing Capital Receipts return certification	3,000
Non audit fees	19,825
Total fees	82,011

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks - Financial statements
Audit risks - Other matters
Independence
Fees
Summary
Appendices contents



APPENDICES CONTENTS

A	Responsibilities	24
---	------------------	----

	Council's responsibilities	24
--	----------------------------	----

	Our responsibilities	25
--	----------------------	----

	Communication with you	26
--	------------------------	----

B	Independence	27
---	--------------	----

	Team Member rotation	27
--	----------------------	----

C	Materiality	28
---	-------------	----

	Materiality: Definition and application	28
--	---	----

	Materiality: Definition and application	29
--	---	----

D	Audit quality	30
---	---------------	----

	Audit quality	30
--	---------------	----

COUNCIL'S RESPONSIBILITIES

The Council's Responsibilities and Reporting

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

Financial reporting

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

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

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

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

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

Use of resources

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

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

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

OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality

Our responsibilities and reporting - financial statements

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

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

Our responsibilities and reporting - use of resources

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

This means that we have regard to relevant guidance issued by the NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

What we don't report

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



COMMUNICATION WITH YOU

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality



Those charged with governance

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

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

Communication, Meetings and Feedback

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

Planning Report

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

Internal Controls

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

Audit Completion Report

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

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

TEAM MEMBER ROTATION

- CONTENTS
- Appendix contents
- Responsibilities
- Our responsibilities
- Communication with you
- Independence
- Materiality
- Materiality: Definition and application
- Audit quality

These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

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

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Lisa Clampin Audit Partner	1	5 years
Francesca Palmer Audit Manager	1	7 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

Concept and definition

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

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

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

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

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

Calculation and determination

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

We determine materiality in order to:

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

Reassessment of materiality

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

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

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
43 Materiality: Definition and application
Audit quality



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

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

Unadjusted errors

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

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

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

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

AUDIT QUALITY

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

BDO's audit quality cornerstones underpin the firm's definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing 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 regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of 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 entities.

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



FOR MORE INFORMATION:

Lisa Clampin

t: +44(0)1473 320716

m: +44(0)7791 397160

e: lisa.clampin@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 organisation 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.

© 2019 BDO LLP. All rights reserved.

www.bdo.co.uk

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **13 MARCH 2019**

TITLE: **INTERNAL AUDIT STRATEGY AND PLAN
2019/20**

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT
MANAGER (01279) 446884**

RECOMMENDED that:

- A** Effectiveness and contribution of the Internal Audit Strategy and Plan within the Council's assurance framework be considered.
- B** The Committee approves the Audit Strategy and Plan for 2019/20.

INTRODUCTION

1. The Internal Audit function provides independent and objective assurance and consulting services to Harlow District Council. This Internal Audit strategy summarises the key principles for the Internal Audit Team for the period 2019/20, with some longer term aims. The strategy supports the Audit Plan which sets out the work of the Internal Audit service for the year.
2. Internal Audit supports and contributes to the achievement of the Council's 2019/20 -2021/22 corporate priorities and guiding principles. These have been taken into account whilst developing the Internal Audit Strategy and Plan.
 - a) Council priorities
 - i) More and better housing
 - ii) Regeneration and a thriving economy
 - iii) Wellbeing and social inclusion
 - iv) A clean and green environment
 - v) Successful children and young people
 - b) Council principles
 - i) Being the Community Leader
 - ii) Sound resource management
 - iii) Equalities and Fairness

PURPOSE

3. The purpose of the Internal Audit Strategy and Plan is to document the Internal Audit team's approach to:
 - a) Provide independent and objective assurance to Councillors and senior management on the effectiveness of the Council's internal control framework
 - b) Ensure the recognition of the key risks the Council faces in meeting its objectives when determining and allocating the use of internal audit resources
 - c) Add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money
 - d) Deliver an Internal Audit Service that is compliant with the requirements of the Public Sector Internal Audit Standards.

Internal Audit Mission and Core Principles

4. The Global Institute of Internal Auditors has developed an International Professional Practices Framework (IPPF) for auditors. The IPPF includes a mission statement and ten core principles which continue to be adopted by the Shared Internal Audit Service, and are listed below:
 - a) Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight
 - b) Core principles:
 - i) Demonstrates integrity
 - ii) Demonstrates competence and due professional care
 - iii) Is objective and free from undue influence (independent)
 - iv) Aligns with the strategies, objectives, and risks of the organisation
 - v) Is appropriately positioned and adequately resourced
 - vi) Demonstrates quality and continuous improvement
 - vii) Communicates effectively

- viii) Provides risk-based assurance
- ix) Is insightful, proactive, and future-focused
- x) Promotes organisational improvement.

The Internal Audit Approach

5. While Internal Audit provides assurance through completing a programme of planned work the service is also flexible and responsive to changing and emerging issues. Some audit work is delivered on a consultancy basis, contributing advice on risk and controls, for example ex-officio attendance at project meetings or undertaking a specific investigation of a newly identified issue.
6. The purpose, authority and responsibility of Internal Audit are formally defined in the Internal Audit Charter, which was approved at the November 2017 Audit and Standards Committee.

Key Deliverables

7. The key deliverables for the Internal Audit service during 2019/20 are:
 - a) Delivery of the Audit Plan - the Internal Audit Manager will ensure there is sufficient audit coverage in order to provide an annual internal audit opinion and report, which feeds into the Council's Annual Governance Statement.
 - b) Integrated Approach to Assurance – Providing ongoing assurance to management on the integrity, effectiveness and operation of the Council's internal control, governance and risk management processes. Working with other assurance providers including External Audit to prevent duplication of work.
 - c) Management Commitment - Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework.
 - d) Continually Develop Our Approach – To develop, improve and deliver a quality assurance and improvement programme for the service, including working closely with the Audit and Standards Committee.

- e) Business Insight - working closely with Officers, Members and services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

Protocol for Audit Reviews

- 8. We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards.
- 9. For each audit a Lead Auditee will be identified who will be involved in scoping to ensure the audit is appropriately focused on key risks areas, providing assurance and maximising added value. Terms of reference will be produced for each audit to ensure the scope, objectives and approach are agreed with the appropriate Head of Service.
- 10. Following fieldwork a draft Internal Audit report will be issued for discussion with the appropriate levels of management which is normally set out in the terms of reference.
- 11. Final reports will be issued after the agreement of draft reports and will contain completed management actions plans identifying those responsible for their implementation and appropriate timescales.
- 12. Agreed actions or recommendations will be followed up through the Internal Audit tracker process. All high priority recommendations and any passing their original implementation date are reported to the Audit and Standards Committee.

Quality Assurance and Performance Management

- 13. The Internal Audit Quality Assurance and Improvement Programme ensures the work of the Internal Audit function conforms with the Public Sector Internal Audit Standards (PSIAS), operates in an efficient and effective manner and is adding value and continually improving Internal Audit activity. This is achieved through internal and external assessment, monitoring, and reporting on performance.
- 14. In November 2016 the internal audit function underwent an External Quality Assessment (EQA), which, in line with the PSIAS, must be conducted every five years by a qualified, independent assessor from outside the Council. The EQA, which covered all three Councils in the shared service, confirmed the Internal Audit service complied with the Public Sector Internal Audit Standards. Internal review at the end of 2018/19 confirms this compliance still holds true.

15. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, performance targets have been established based on best professional practice.

16. The following service performance targets will be reported on in 2019/20:

Table 1 – Service Performance Targets 2019/20

Aspect of Service	Performance Indicator	Target
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> Sufficient internal audit work in order that the Internal Audit Manager can give their annual opinion.
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting Issue of final report after draft report is agreed 	<ul style="list-style-type: none"> 10 working days 5 working days
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> 10 working days Within agreed timescales
Continuous Professional Development (CPD)	<ul style="list-style-type: none"> Auditors maintain and improve their knowledge, skills and other competencies through directed and self directed activities 	<ul style="list-style-type: none"> 40 hours of CPD activity per auditor

Developing the Internal Audit Plan

17. The methodology for developing the Internal Audit Plan is focused on the quantification of the risks associated with the Council's objectives in consultation with key Officers. This process also takes into account:

- a) Knowledge and experience accumulated in Internal Audit, including the results of previous reviews
- b) A review of audit themes against the Corporate Risk Register and Council priorities
- c) The work of other assurance providers both internally and externally

- d) The external environment including economic climate, Brexit implications, government initiatives such as welfare reform and changes in funding
 - e) Harmonisation of themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.
18. It is imperative there is good alignment between the Internal Audit Plan and the risks facing each Council. Through this, Internal Audit's work will help inform each Council's risk management framework, enabling greater recognition of key mitigating controls and other sources of assurances available. Where possible the risks identified in the Audit Plan, as set out in Appendix 1, have been taken directly from the Council's Risk Register.
19. In addition, an assurance map, as set out in Appendix 2, has been produced that provides a structured way to identify the main sources and types of risk assurances in the Council. This demonstrates sufficient Internal Audit work has either been undertaken or has been planned for the Council's key risks.
20. The Internal Audit Plan is indicative and changes may need to be made as the risk profile and priorities of the Council change. This will be achieved by ongoing review and amendment in consultation with relevant officers and any significant changes brought to the Audit and Standards Committee for approval.
21. It is important for Internal Audit to plan ahead and allocate resources over the medium term but still maintain a flexibility of approach. This is achieved by documenting known risks over a three year period so that the three year plan includes an indication of proposed audit work for years two and three, based on current known risks if circumstances remain unchanged. However, as new risks emerge audit resources over the medium term will be focused accordingly.
22. The sections of the Internal Audit Plan include:
- a) Corporate Framework – key risk areas including those defined in the Council's strategic risk register
 - b) Strategic themes – including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work

- c) Service areas – operational audits determined on a risk assessment and/or business priorities.

Priority Areas for 2019/20

23. Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2019/20. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken:

- a) Information Governance and Management- Internal Audit continues to work with the Council's Data Protection Officer helping to ensure and maintain compliance across the Council
- b) Risk Management – Internal Audit has a key role in promoting effective risk management and through its work continues to assist the Head of Finance in ensuring a robust risk management framework across the Council. The Audit Plan is driven by the risks of the Council. Within individual audits Internal Audit will seek compliance with good risk management practices and the adequacy of controls put in place by management to mitigate risks in their service areas
- c) Fraud – Internal Audit continues to support the Council's anti-fraud and corruption policy and is pivotal in ensuring a joined up approach the Council
- d) Value for Money (VfM) – A focus on VfM is reflected in Internal Audit's work mainly as a cross cutting theme within operational audits. These will incorporate how the Council makes the best use of resources and assets, the balance of cost and performance and meeting the needs of our residents; and providing challenge on whether services could be provided in a different way
- e) Audit Planning, Strategy and Audit and Standards Committee Support – Internal Audit continue to work with the Audit and Standards Committee in developing its role in relation to best practice and to contribute to effective corporate governance of the Council.

24. At the operational level the key priorities of Internal Audit work in 2019/20 include:

- a) Harlow Trading Services (HTS) – Internal Audit continues to actively seek assurances on the adequacy of internal control, governance and the management of risks regarding HTS from the Council’s perspective
- b) Analytical review – First started in 2018/19, Internal Audit will continue to develop its use of data analytics and use this to undertake a range of short, focussed pieces of work on data sets, which for example could include payroll, inventories and spend analysis
- c) Key Financial Systems – the effectiveness of controls and management of risks with the core financial systems and processes remains a part of Internal Audit work. Audits have been scheduled on a cyclical basis so not all key financial systems will be undertaken each year.

Resources

- 25. 2018/19 has been the second year of the formal shared service between Harlow, Epping Forest and Broxbourne Councils, with Broxbourne being the host authority and employer of the shared internal audit staff. A Shared Services Board was created and is meeting regularly to oversee the implementation and delivery of the Internal Audit function, assess quality and performance, manage risks and consider major changes to the service. The Board comprises of key Officers from Broxbourne, Harlow and Epping Forest as well as the Internal Audit Manager.
- 26. The Internal Audit function consists of the Internal Audit Manager (1.0 full time equivalent (f.t.e)), three Senior Auditors (2.8 f.t.e) and two Auditors (2.0 f.t.e). In order to make good use of the government’s Apprenticeship Levy and to help develop auditors of the future one of the two vacant Auditor posts was filled with an Apprentice in September 2018, with a view to take them on permanently subject to performance. The aim is to take on another apprentice in the summer. In the meantime, external providers of Internal Audit are being used to cover the vacancies.

Audit Plan

- 27. The Audit Plan, as set out in Appendix 1, requires 341 days as summarised in the table below:

Table 2- Summary of Audit Plan

Thematic Area	Audit days 2019/20
Corporate framework including governance, assurance framework, fraud, value for money and risk management	75
Information and performance management	25
Projects, Joint Working and Partnerships	20
Financial audits	39
IT Audits	10
Cross cutting/themed audits	25
Operational Audits	70
Follow Up work	15
Audit Committee Support	18
Advice, other engagement with the business and contingency	44
TOTAL	341

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning on behalf of Graeme Bloomer, Head of Place**

Finance (includes ICT)

Failure to achieve the audit plan may lead to a lack of assurance that internal controls are effective and risks properly managed.

Author: **Simon Freeman, Head of Finance and Deputy to the Managing Director**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Regeneration, Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

The responsibilities, duties and obligations of Internal Audit are set out in the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (2016) against which internal audit activity should be measured and determined.

Author: **Simon Hill, Head of Governance**

Appendices

Appendix 1 – Harlow Internal Audit Three Year Plan 2019/20-2021/22

Appendix 2 – Harlow Risk Based Assurance Map

Background Papers

Public Sector Internal Audit Standards

Internal Audit Charter

Internal Audit resource plan and risk assessment

Glossary of terms/abbreviations used

EQA - External Quality Assessment

f.t.e – full time equivalent

HTS – Harlow Trading Services

IPPF - International Professional Practices Framework

PSIAS - Public Sector Internal Audit Standards

VfM - Value for Money

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
Corporate Framework					
<p>Governance & Probity</p> <p>The corporate priorities are underpinned by sound leadership, management of resources, and governance</p>	<p>The Council's governance framework underpins everything it does; therefore, robust arrangements are key in managing this risk.</p>	<p>Conflicts of interest</p> <p>Governance – Harlow and Gilston Garden Town</p>	<p>Equalities Act and use of impact assessments</p>	<p>Trading companies – governance arrangements (last audit 18/19)</p>	<p>Review of effectiveness of governance and oversight arrangements especially during periods of significant change.</p> <p>In 2019/20 we will review how conflicts of interest for staff (and Members) are managed as this was the focus of several recent investigations by Internal Audit.</p> <p>Also in 2019/20 Internal Audit (IA) will look at the governance arrangements to support the collaboration between Epping Forest, Harlow and East Herts to deliver the government's Garden Town initiative.</p> <p>The 2020/21 the equalities audit will assess compliance with the Equalities Act and consider the use of Equality Impact Assessments within decision making, ensuring all decisions have a completed and evidence based assessment.</p>
<p>Fraud</p> <p>Proactive fraud work</p>	<p>CR01 (Financial resilience) - any loss through fraud is a drain</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>Member of the Corporate Fraud Group. Oversee the delivery of the Council's anti-fraud and corruption</p>

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
	on resources which, in turn, reduces the amounts available for service delivery.				action plan. Potential for fraud considered in all audits. Co-ordinate National Fraud Initiative data matching process.
Assurance Framework incl. Risk Management and support to Audit Committee	Risk in achieving corporate priorities as these are underpinned by sound leadership, management of resources, and governance.	✓	✓	✓	Co-ordination of year-end assurance reporting, including the Annual Governance Statement. Member of the Corporate Governance Group. Assistance to Head of Finance and the Insurance and Risk Manager in enhancing and embedding the Council's risk management framework. Support and training to the Audit Committee.
Information Management and Governance - Data protection and security. Data sets, owners and protocols. Governance and data sharing. Training and awareness	CR08 Information Governance and Data Compliance: Breach of data protection and other legislation related risks which could lead to significant fines and reputational damage.	Data retention and disposals GDPR (General Data Protection Regulation) checklist Information Governance Group	Data breach management Subject Access Requests HTS GDPR compliance	Data sharing with third parties (last audit 16/17)	Continue to assist the Council's Data Protection Officer (DPO) by providing assurance in targeted areas. For 2019/20 this will be a cross cutting review to ensure the Council's data retention and disposal policy is fit for purpose and being complied with. In addition IA will complete a GDPR checklist for all audits, feeding the results back to the DPO. Member of the Corporate Information Governance Group. The following year Internal Audit will consider the work undertaken by HTS during 2019/20 to ensure it is GDPR compliant.

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
Performance Management: Data integrity & quality (collection, collation, analysis and validation). Use of performance targets	Risk of non-achievement of corporate priorities and lack of transparency.	Covered elsewhere	Place	Housing (last audit 2015/16)	The suitability and integrity of Performance Indicators (PIs) considered within operational audits. For 2019/20 this includes parks, landscapes and Streetscene, complementing the HTS (Harlow Trading Services) Best Value Review, Leah Manning Centre and Commercial Rents
Value for Money (VfM) - Guiding principle of the Council	VfM helps the Council manage its corporate risk CR01 on financial resilience.	Data analytics (purchase cards)	Print and stationery	Use of consultants Facility Management	Continue with short/sharp audits driven by data analytics. For 2019/20 this will include a follow up of the 2018/19 limited assurance purchase card audit. In 2019/20 we will assess the progress being made with the print project as well as looking at the Council's arrangements for buying stationery.
Joint Working, Shared Services, Outsourcing and Partnerships	On corporate risk register: CR06 - Lack of resources and capacity, Council and key partners.	Harlow and Gilston Garden Town (joint initiative with Epping Forest, and East Herts)	Events Management (last audit 17/18)	Harlow Trading Services (Property and Environment Ltd) – last audit 17/18	To ensure joint arrangements are working in the best interests for the Council with appropriate governance/monitoring arrangements in place. In 2019/20 this will be covered in the governance review of the Garden Town arrangements (see start of Plan).
Projects	Poor project management	Capital projects programme	IT projects and role of IT	Corporate approach to	Time set aside each year to examine a sample of projects. Capital projects

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
Business case, project methodology, governance arrangements, contract management and viability	increases the risk of projects not being delivered on time, to budget or does not meet the needs of the Council.	(carried forward from 2018/19) Advice and guidance for the HR system project	Governance	project management	will take into account the revised project management methodology being developed within InPhase. Also in 2019/20 internal control advice and guidance will be given whilst procuring and implementing a new HR system.
Contingency	Annual provision for responsive work, special investigations and/or key/emerging risk areas	✓	✓	✓	Will take into account themes/issues coming out of the Annual Governance Statement.
Themed/cross cutting audits					
Income Streams <i>Management of resources features in the corporate plan</i>	To ensure financial resilience the Council needs to protect and maximise its income streams	Commercial rents – carried forward from 2018/19	Parking (last audit 15/16)	Playhouse (last audit 17/18)	Commercial properties rents will examine how leases are set up and rental income is monitored to ensure there are effective and efficient processes in place being a key source of income for the Council.
Procurement Themed audits - compliance, VfM, fraud, goods and services. End to end processes (need, selection,	Risks include non-compliance with legislation, fraud, not achieving value for money, poor service delivery.	HTS and Public Contract Regulations	Compliance with Contract Standing Orders – tendering process	Contract Management and Performance, including the waste contract	IA will assess the level of compliance by HTS to Public Contract Regulations.

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (<i>to be finalised when the work is scoped</i>)
appointment, contract management & exit strategies)					
Health & Safety	Risk of compromising the health and safety of individuals and non-compliance with H&S legislation leading to fines or imprisonment.	Corporate H&S Framework, including policies	Staff H&S for those located away from the Civic office	Staff wellbeing including stress management	In 2019/20 we will assess the H&S framework in place to protect people working for and visiting the Council as the H&S function now sits in a different service.
Business Continuity Planning (BCP)	Without adequate BCP the Council could fail to deliver its services in the event of significant incident.	Business Continuity Planning	IT Disaster Recovery (last audited 16/17)	Emergency Planning	Using a checklist approach business continuity and IT Disaster recovery arrangements will be assessed. Followed by a technical review of the Council's IT Disaster Recovery arrangements the following year.

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
<p>Key Financial Controls (KFC)</p> <p>Four-year rolling programme of full system and key control audits (unless significant change in process/system or poor audit outcome)</p>	<p>CR01 (Financial resilience)</p>	<p>Fixed Assets Register (last audit 14/15)</p> <p>Treasury Management (last audit 15/16)</p>	<p>Payroll (last audit 16/17)</p> <p>Benefits (last audit 16/17)</p> <p>Cash and banking (16/17)</p>	<p>Council Tax and Business Rates (last audit 16/17)</p> <p>Debtors (last audit 16/17)</p>	<p>Rolling programme of key financial control (KFC) audits, therefore, some audits do not feature in this 3-year plan these being housing rents (last audit 18/19), creditors (last audit 17/18) and General Ledger (last audit 17/18). Treasury Management will take into account the Council's approach to property investments, being a potential growth area. The payroll audit will take place following implementation of the new HR system.</p>
<p>IT Audits: IT Governance, IT Regulation, Security/Privacy, Business Systems, DRP/BCP, Network, Emerging Technologies e.g. mobile devices, IT Applications and Projects</p>	<p>CR08 Information Governance and Data Compliance: Risks around data and asset security and loss of service. Opportunity for IT to be an enabler for delivering the Council's priorities.</p>	<p>Change and Patch Management</p>	<p>Provision of IT services to HTS</p> <p>IT Strategy</p>	<p>Cyber security (last audit 17/18)</p>	<p>A specialist IT Auditor will be brought in for more technical audits. In 2019/20 we will make sure there is a structured mechanism when making changes or applying patches.</p>

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
Operational/service audits - Audits post 19/20 may change depending on the Council's risk profile					
Housing: Housing Management Property Services Housing Needs and Options Sheltered Housing Area Housing Home Ownership	CR03 - Lack of Suitable Housing Mix CR04 - Lack of adequate Council housing	Homelessness Planned maintenance and major works (last audit 16/17)	Housing Allocations (last audit 2014/15) Voids management (last audit 14/15) Overview of H&S related inspections: gas, fire safety, electrical legionella, asbestos and lifts	Right To Buy (last audit 15/16) Sheltered Housing Leaseholders	The 2019/20 homelessness audit will take into account the Homelessness Reduction Act which came into force April 2018 and will build on similar audits undertaken at Epping Forest and Broxbourne. The planned maintenance/major works audit will focus on those works undertaken by HTS.
Community Wellbeing: Community Safety Community, Leisure and Culture Customer & Media Services Youth & Citizenship	CR05 - Inability to fulfil Community Leadership role CR07 - Ability to support children and family aspirations	Leah Manning Centre	Community Safety (last audit 14/15) Harlow Museum Playhouse follow up	Community Engagement or Health and Wellbeing Strategy and associated action plans Pets Corner Social Media	The Leah Manning Centre will cover mainly financial and regulatory aspects (Care Quality Commission)
Regeneration and Enterprise Zone	CR02 - The Harlow Offer CR06 - Lack of Resources and Capacity,	Covered under the Garden Town audit	Town Centre regeneration	Enterprise Zone (last audit 16/17)	The Town Centre regeneration audit will build on the outcomes of the 2018/19 Economic Development audit.

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
	Council and key partners				
Place: Properties, facilities & projects Properties & estates Operations, energy & emergency planning Planning & Building Control Environmental Health Licensing Streetscene	CR06 - Lack of Resources and Capacity, Council and key partners	Parks, landscapes and Streetscene	Waste management (recycling element) Non-housing property repairs and maintenance Planning and Building Control	Asset Management Strategy delivery Development Management (and links to delivery of the Local Plan) Enforcement actions	The 2019/20 planning and building control audit will also include covenant control being a source of income for the Council. The parks and landscapes audit will assess new processes implemented 2018/19 and to include playgrounds
Governance: Corporate & Governance Support Legal Services Electoral Services Human Resources Procurement & Relationship (covered elsewhere in the plan) Policy &	Risk of corporate priorities not being met should these service areas fail to deliver.	Covered in other audits	HR system implementation review HR - Staff performance management (including appraisal arrangements)	Staff absence (2017/18)	HR related audits are dependent on implementation of the new HR system.

Audit Area and Context	Corporate Risks	2019/20	2020/21	2021/22	Outline/Scope of work for 19/20 (to be finalised when the work is scoped)
Performance (covered under performance management)					
Finance: Revenues & Benefits (covered under KFC audits) ICT (covered elsewhere in the plan) Accountancy (see also KFC audits) Insurance Internal Audit	CR01 (Financial resilience)	Covered in other audits	Financial resilience (budgetary control, financial management, and business planning (last audit 2014/15)	Insurance (last audit 13/14), including services provided to HTS	
Follow Up Audits Review of progress against recommendations on the tracker	Tracker process ensures risks identified in audits have been managed to an acceptable level.	✓	✓	✓	Includes specific follow up work especially where Limited assurance previously given. Includes maintaining the recommendation tracker, which is reported at each Audit and Standards Committee.

Appendix 2: Risk based assurance map for Harlow

Ref	Corporate risk	Risk rating (gross)	Risk rating (residual)	1st line of defence – delivering the risk and control environment	2nd line of defence – oversight and assurance functions	3rd line of defence – independent assurance and advice
CR01	Financial resilience	21 (red)	18 (amber)	Medium Term Financial Strategy, budget setting and monitoring processes. Supporting policy and procedures including Financial Regulations and Contract Standing Orders.	Council approval Medium Term Financial Strategy, annual budget and regular monitoring of the financial position.	External Audit issued an unqualified opinion on the 2017/18 financial statements and an unqualified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for 2017/18. Internal Audit undertakes a rolling programme of key financial control audits. Most recently 2017/18 creditors (moderate assurance) and 2017/18 General Ledger audit. Housing rents audit currently in progress.
CR02	The Harlow Offer	21 (red)	18 (amber)	Raft of activities and projects undertaken by dedicated Officers.	Infrastructure Plan, town centre improvements, housing mix. Enterprise Zone delivery lead, Economic	Internal Audit of Economic Development is being completed as part of the 2018/19 Audit Plan. 2016/17

Ref	Corporate risk	Risk rating (gross)	Risk rating (residual)	1st line of defence – delivering the risk and control environment	2nd line of defence – oversight and assurance functions	3rd line of defence – independent assurance and advice
					Development Strategy. Links to the Local Plan and delivery of Junction 7A.	Enterprise Zone audit (substantial assurance).
CR03	Lack of suitable housing mix	21 (red)	21 (red)	Duty to cooperate discussions. Housing studies including joint ones to support the Local Plan. Implementation of Local Development Plan and delivery of the Harlow and Gilston Garden Town.	Local Plan reporting to Cabinet with Council oversight The Managing Director and one Member sit on the Harlow and Gilston Garden Town Board.	Planning Inspectorate examination. Following approval of the Local Plan, audits are planned on delivery mechanisms and Development Management Garden Town audit planned for 2019/20.
CR04	Lack of adequate housing	13 (yellow)	17 (amber)	Raft of activities and projects undertaken by dedicated Officers Creation of Harlow Trading Services (Housing and Regeneration) company.	Pathfinder Project, Priority Estates schemes Modern Homes (Housing Investment) programme, Asset Management Strategy, Tenancy Strategy, Allocations Policy, Homelessness Strategy, Tenant and Leaseholder Engagement Strategy	2017/18 Priority estates audit (substantial assurance). Homelessness audit forms part of the 2019/20 Internal Audit plan, with the three year plan including audits on allocations and Asset Management Strategy.
CR05	Inability to fulfill Community Leadership role	18 (amber)	18 (amber)	Harlow Wellbeing Strategy, Safer Harlow	Oversight by the Head of Community Wellbeing, who sits on the Safer Harlow	2014/15 Community Safety audit (substantial assurance). Future

Ref	Corporate risk	Risk rating (gross)	Risk rating (residual)	1st line of defence – delivering the risk and control environment	2nd line of defence – oversight and assurance functions	3rd line of defence – independent assurance and advice
				Partnership Consultation process/community engagement regarding discretionary services	Partnership Board.	audits planned on community safety and either Community Engagement or Health and Wellbeing Strategy
CR06	Lack of resources and capacity, Council and key partners	18 (amber)	18 (amber)	Essex Waste Management Plan, Waste Collection Contract, Street scene 'contract' with HTS, Landscapes 'contract' with HTS, Town Park regeneration project, NEPP.	Shareholders Sub Committee oversees HTS arrangements. HTS Best Value Review. Council representatives sit on the North Essex Parking Partnership Board. Quarterly Joint Performance Review Meetings (JPRM) and Operations Board.	2017/18 HTS payment mechanisms audit (moderate assurance). 2018/19 HTS strategic governance audit (substantial assurance). Internal Audit oversight whilst the new waste contract was let. Three year audit plan (2019-22) includes Streetscene, parking and waste management.
CR07	Ability to support children and family aspirations	13 (yellow)	9 (yellow)	Signposting for residents (often through ECC), partner agencies (statutory, voluntary, schools), promotion of and support to Harlow College and Anglia Ruskin University, the	Oversight by the Head of Community Wellbeing	2017/18 Sam's Place audit (moderate assurance). Future audit planned on museum provision.

Ref	Corporate risk	Risk rating (gross)	Risk rating (residual)	1st line of defence – delivering the risk and control environment	2nd line of defence – oversight and assurance functions	3rd line of defence – independent assurance and advice
				BMAT Stem Academy, Harlow Youth Council and Harlow School Readiness project		
CR08	Information Governance and Data Compliance	23 (red)	21 (red)	Suite of data protection and retention policies and procedures, which were reviewed and updated before the General Data Protection Regulation (GDPR) became law on 25 May 2018 Cyber security controls in place	Named Data Protection Officer Corporate Governance Information Group chaired by the Head of Governance	Internal audit: 2017/18 Cyber Security audit (substantial assurance). 2016/17 external data transfer audit (moderate assurance). Internal Audit is a member of the Information Governance Group. 2019/20 audit planned on data retention and disposal.
CR09	Provision of repairs, maintenance, landscape and Streetscene services	14 (yellow)	14 (yellow)	New Services Agreement. Contract wording and specifications confirm contractor requirements. HTS have regular reviews of Efficiency Plan and Risk Register.	Monthly performance reviews involving Portfolio holders. HTS risk register reviewed quarterly at Joint Performance Review Meeting (JPRM). Shareholders Sub Committee oversees HTS arrangements.	2017/18 HTS payment mechanisms audit (moderate assurance). 2018/19 HTS strategic governance audit (substantial assurance). 2016/17 External Works audit (substantial assurance). 2018/19 audit on

Ref	Corporate risk	Risk rating (gross)	Risk rating (residual)	1st line of defence – delivering the risk and control environment	2nd line of defence – oversight and assurance functions	3rd line of defence – independent assurance and advice
					Best value review being led by the Head of Governance.	housing repairs currently in progress. Three year audit plan (2019-22) includes Streetscene.

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **13 MARCH 2019**

TITLE: **INTERNAL AUDIT ACTIVITY REPORT**

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT MANAGER
(01279) 446884**

RECOMMENDED that:

The Committee approves the proposal to defer three audits as detailed in paragraph 1 of the report.

PROGRESS AGAINST AUDIT PLAN

1. Work is continuing to deliver the 2018/19 Audit Plan as detailed in Appendix A. The Committee is requested to approve the deferral of three audits as detailed below:
 - a) Planning and Building Control – deferral requested to allow time for the vacant Planning and Building Control Manager post to be recruited to
 - b) Capital projects programme - this audit has been deferred to allow time for the revised corporate project methodology to take effect
 - c) Commercial rents – deferral requested due to competing priorities.

INTERNAL AUDITS REPORT

2. Three reports have been issued since the Committee received its last update in November 2018:

- a) Leasehold Service Charges – Substantial Assurance

There are rigorous processes, including adequate documentary evidence, to support leaseholder service charge calculations, and the methodology employed for apportioning costs complies with the lease agreements, legislation and Council policy.

Estimated service charge invoices and statements of actual service charges are sent to all leaseholders in accordance with legislation. Orchard (the housing IT system) is updated promptly with sold properties and charges are calculated on a daily basis from the date of sale, ensuring all leaseholders are fully recharged for services.

Robust debt monitoring and recovery processes, carried out in line with Council policy, maximise leaseholder service charge income for the Council. The section consistently accomplishes a high recovery rate and in 2017/18 achieved 99.6 per cent (target 99 per cent).

For accounting purposes, the Council is using a revised model for apportioning the costs of the various services provided under the HTS contract. If this allocation was used to calculate leasehold service charges, the cost to leaseholders would be significantly higher. As there has been no change to the service provided to leaseholders, the Council is unable to justify such an increase and therefore leasehold service charge calculations are based on the previous Kier contract costs with an additional uplift for inflation. As part of the three-year best value review of the HTS contract, the Annual Service Charge allocation model should be revisited and, based on actual HTS costs, so there is a more realistic allocation of leaseholder service charges.

- b) Housing Rents - substantial assurance regarding the collection of housing rents income and moderate assurance regarding Former Tenant Arrears

The Housing Rents system was found to have effective controls in place over setting up new tenants, daily uploads of the cash receipting file, current tenant arrears, write offs and performance monitoring.

Notwithstanding this, the audit identified that Former Tenant Arrears (FTAs) are not regularly pursued by the Housing Section due to capacity issues. Instead, priority is given to maintaining control and collecting current arrears, in order to minimise risk that these will become uncollectable. At the time of the audit the FTA balance remained high at circa £1.1 million and there are plans to consider future resources allocated to collection either through appointing an Arrears Officer to monitor, handle and collect FTAs or the use of an Agency.

- c) HTS Strategic Governance – Substantial Assurance

The governance arrangements for HTS (Property and Environment) Ltd consist of its Articles of Association, a Scheme of Delegation, and a Business Plan and were found to be fit for purpose and working well in practice.

The Council's interests are protected by way of the Shareholder Sub Committee. The Sub Committee is supported by its Terms of Reference, the reports it receives and attendance of HTS staff at its meetings. Overall, the Sub Committee is fulfilling its role, however, there are a number of opportunities for it to become more strategically focused. For example, by receiving reports from other assurance providers (such as Internal Audit), ensuring it is not too focused on

operational issues and considering an away day or session with the HTS Board to explore growth opportunities.

ONGOING AUDIT WORK

3. A number of assignments in the 2018/19 Audit Plan are intended to provide advice and guidance to the Council throughout the year on current issues. As these assignments will not normally result in a single, traditional audit report, Internal Audit will summarise its output here for Councillors' information:
 - a) Information Governance: Internal Audit sits on the recently formed Officer Information Governance Group (IGG), which is chaired by the Head of Governance. The Group is developing and overseeing an information governance framework to ensure the Council remains compliant with legislation as well as drive efficiencies by having a more co-ordinated approach.
 - b) Corporate Fraud Internal Audit also sits on the Corporate Fraud Group, which is chaired by the Head of Housing. This Group oversees the implementation of the Council's anti-fraud and corruption strategy and the Group noted recent successes by the Tenancy Fraud Officer who started in May 2018:
 - i) 111 tenancy checks completed
 - ii) 13 properties recovered
 - iii) Three fraudulent applicants removed from the Housing Register and one from temporary accommodation
 - iv) Three Right to Buys stopped
 - c) National Fraud Initiative (NFI): The mandatory biennial NFI exercise for 2018/19 has commenced. The purpose of this is to match Council data on individuals such as Council Tax, Housing Benefit, payroll and electoral roll records against other Councils' data, and national data such as deceased persons. Potential matches could include an employee being employed by more than one council, residents claiming benefits in more than one borough or claiming discounts such as single person discount which they are not entitled to. All matches have now been released and specific officers have been given responsibility for reviewing potential matches. The current protocol is to review high grade matches. Internal audit provides assistance and monitors progress being made.
 - d) Service Assurance Statements: Internal Audit is co-ordinating the process to ensure service assurance statements are completed by each Head of Service and their managers as part of year-end processes. The results of these will be analysed by Internal Audit, shared with the Corporate Governance Group and the results fed into

the 2018/19 Annual Governance Statement which will be presented to the committee in June.

RECOMMENDATION TRACKER

4. The Audit and Standards Committee receives details of all overdue recommendations, plus any high priority recommendations from final reports, regardless of whether they are overdue or not.
5. The current tracker, attached as Appendix B to the report, contains eight recommendations which have passed their due date. A comparison with previous periods is outlined in the table below:

Table 1 – Recommendation Tracker Comparison

Recommendation Priority	Number (as at March 2019)	Number (as at Nov 2018)	Number (as at June 2018)	Number (as at March 2018)
High - not yet due	0	0	1	0
High - passed due date	1	1	0	0
Medium - passed due date	5	5	12	14
Low - passed due date	2	2	4	1
TOTAL	8	8	17	15

6. The high level recommendation relates to the HTS payment mechanism audit and work is in progress regarding the need to undertake a fundamental review of performance indicators.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

7. In line with good practice, the Internal Audit service should on an annual basis ensure it is compliant with the 2017 Public Sector Internal Audit Standards (PSIAS), notifying the Audit and Standards Committee of any areas of non-compliance.
8. In November 2016 the service was confirmed as being fully compliant with the PSIAS by an external assessor and this is still the case as there have been no significant changes in the way the Internal Audit service is delivered or operates, and the Internal Audit Manager has not taken on any additional responsibilities that could compromise the service's independence or objectivity.

INTERNAL AUDIT PERFORMANCE

9. Performance indicators are in place to monitor service performance and the current status, with a comparison with last year's year-end results, are reported below.

Table 2 – Performance Indicator Comparison

Aspect of Service	Performance Indicator	Target	As at March 2019	Year End 2017/18
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> Sufficient internal audit work in order that the Internal Audit Manager can give their annual opinion. 	<ul style="list-style-type: none"> On target 	<ul style="list-style-type: none"> Achieved
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting 	<ul style="list-style-type: none"> Within 10 working days 	<ul style="list-style-type: none"> 6 days 	<ul style="list-style-type: none"> 4 days
	<ul style="list-style-type: none"> Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> Within 5 working days 	<ul style="list-style-type: none"> 4 days 	<ul style="list-style-type: none"> 5 days
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> 24 days * 	<ul style="list-style-type: none"> 11 days
	<ul style="list-style-type: none"> Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> Within agreed timescales 	<ul style="list-style-type: none"> Largely met (as reported by tracker) 	<ul style="list-style-type: none"> Largely met (as reported by tracker)
Continuous Professional Development (CPD)	<ul style="list-style-type: none"> Auditors maintain and improve their knowledge, skills and other competencies through directed and self-directed activities 	<ul style="list-style-type: none"> 40 hours of CPD activity per auditor 	<ul style="list-style-type: none"> Target for 2018/19 achieved. 	<ul style="list-style-type: none"> Not reported, as new PI for 2018/19

* The reason for the increase is due to delays because of the Christmas break and managers agreeing a suitable resolution with Internal Audit for the more complex or wider reaching recommendations.

PROGRESS AGAINST THE ANNUAL GOVERNANCE STATEMENT

10. In June 2018, the Audit and Standards Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts.
11. The Corporate Governance Group (made up of the Head of Finance, Head of Governance, Legal Services Manager, Insurance and Risk Manager, Policy and Performance Team Leader and the Internal Audit Manager) continues to monitor the actions set out in the AGS on a regular basis, being a standing agenda item. The table below sets out the current position against the action plan:

Table 3 – Annual Governance Statement Actions

Key improvement area	Action to be taken in 2018/19	Progress at March 2019
1. General Data Protection Regulations (GDPR)	On 25 May 2018, the EU General Data Protection Regulation came into force. It is important the Council not only maintains compliance but ensures there is a continuous process for improvement too.	The Officer Information Governance Group is driving this forward. Membership includes the Council's Data Protection Officer, who is working in conjunction with Internal Audit to ensure data protection compliance.
2. Business Continuity Plan (BCP) testing	Testing regimes to be introduced to verify the effectiveness of business continuity plans, provide training to participants on what to do in a real scenario and identify areas where the plan needs to be strengthened.	Progress against this is being monitored by the Corporate Governance Group. The updated corporate business continuity plan/emergency plan has been reviewed by Senior Management Board, who approved the need for a testing regime to be implemented. In the meantime, IT disaster recovery arrangements at Latton Bush are being tested in conjunction with service users.

IMPLICATIONS

Place (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)

It is important that the organisation responds to and implements the recommendations flowing from the internal audit process in order to protect and improve the overall internal control environment of the Council.

Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing

None specific.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

Internal Audit provides a key element of assurance within the overall Governance framework within the Council and it is important that recommendations flowing from internal audit recommendations are acted upon and implemented within reasonable timescales if reliance on internal controls and procedures is to continue.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – Audit Plan Monitoring

Appendix B- Audit Recommendation Tracker

Background Papers

None.

Glossary of Terms/Abbreviations Used

AGS – Annual Governance Statement

FTA – Former Tenant Arrears

IGG – Information Governance Group

NFI – National Fraud Initiative

PSIAS – Public Sector Internal Audit Standards

**Appendix A - Audit Plan Monitoring 2018-19
March 2019**

77

	Risk Area	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	High risk Recommendations	Medium risk recommendations	Low risk recommendations
Leaseholders	Housing	10	Final report	■	■	■	Substantial	0	1	0
HTS - strategic governance	Housing	10	Final report	■	■	■	Substantial	0	1	1
IT - software licences	Finance	10	Final report	■	■	■	Substantial	0	1	1
Key Financial Control - Housing rents	Housing	15	Final report	■	■	■	Substantial/Moderate	0	3	0
IT Asset Management	Finance	10	Final report	■	■	■	Moderate	0	1	4
Purchase cards (new audit)	Finance	15	Final report	■	■	■	Limited	2	5	0
Safeguarding	Community Wellbeing	10	Final report	■	■	■	Limited	1	2	1
Playhouse follow up (cash handling)	Community Wellbeing	5	Final report	■	■	■	n/a	0	2	0
Asbestos Management	Housing	15	In progress	■						
Economic Development	Community Wellbeing	15	In progress	■						
Housing Repairs	Housing	15	In progress	■						
Customer services review	Community wellbeing	10	In progress	■						
Complaints	Community wellbeing	12	In progress	■						
Contractual arrangements (Housing)	Housing	20	Scoping							
Human Resources - starters, leavers and movers	Governance	10	Scoping							
Income - commercial rents	Place	15	Deferral requested							
Planning and building control	Place	10	Deferral requested							
Capital projects programme	Finance	15	Deferral requested							
Not a specific audit										
Fraud action plan/NFI	Corporate	10	On-going							
General Data Protection Regulations compliance	Governance	25	On-going							
Project oversight - waste contract	Place	5	On-going							
HTS joint working/KPIs	Housing	5	Subsumed within planned HTS audits							
Data Analytics	Corporate	20	Days used for the purchase card audit							
Business Continuity Planning	Corporate	5	On-going							
Totals				13	8	8		3	16	7

Key
 HTS - Harlow Trading Services
 NFI - National Fraud Initiative

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
<p>External Data Transfers December 2016</p> <p style="text-align: center;">78</p>	2b	Management should ensure that adequate data sharing protocols/ information sharing agreements are in place for Veolia and Kier Harlow. (HTS)	Medium	Agreed. Veolia – Environment and Licensing Manager/ Head of Place	Veolia – Environment and Licensing Manager/ Head of Place	31/12/16	01/07/17 31/12/17 30/07/18 31/01/19 31/03/19	<p>May 17: A data sharing agreement between Veolia and Harlow Council has been drafted, approved by the Assistant Solicitor and sent to Veolia. Awaiting response.</p> <p>July 17: No response has yet been received from Veolia. This may be because the Veolia management team are engaged in bidding for the replacement contract. Nonetheless the Environment & Licensing Manager has written to the General Manager for domestic contracts at Veolia requesting an update on the proposed data sharing agreement. Data Sharing protocols/agreements form part of the current waste service discharged by Veolia.</p> <p>Oct 17: Veolia has responded with several queries and requests for additional information. Negotiations are in progress and the agreement should be completed by December.</p> <p>Feb 18: Veolia has been reminded they are required to complete the data sharing agreement for GDPR compliance purposes. The contract specification for the new waste contract includes a requirement for data sharing protocols/agreements between the Council and the successful contractor.</p> <p>May 18: The main focus has been to prepare for the procurement of the waste and recycling contract, including agreeing the extension of the existing waste contract with Veolia. The data</p>	Overdue

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
79								<p>sharing agreement has therefore not been signed. Veolia will be reminded of the requirement to sign the data sharing agreement. In mitigation, limited personal data is shared with the waste contractor. On target for completion in July.</p> <p>Oct 18: The draft sharing protocol is agreed. Veolia will contact the Environment and Licensing Manager in the near future with the identity of their team members who will be responsible for completing this.</p> <p>The Council has made completion of and adherence to the Data Sharing Protocol, a contract term, and so the contract cannot be signed off until this is in place. Therefore, this is expected to be completed by January 2019.</p> <p>Mar 19: Officers within Veolia have been identified to who will be responsible for completing the Data Sharing Protocol. As part of the contract a draft Data Sharing Protocol has been completed and will be sent to the Council's Legal team for review. The contract starts 01 April 2019 and therefore the Data Sharing Protocol must be completed and approved before that date.</p>	
	Agreed. Kier Harlow/(HTS) - Assistant Solicitor/ Head of Governance	(HTS) - Assistant Solicitor/ Head of Governance	01/02/17	25/05/18 31/01/19 31/03/19	<p>May 2017: All information sharing processes and policies are being reviewed to ensure compliance with the GDPR.</p> <p>July 17: Internal and external resource</p>	Overdue			

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
08								<p>has been allocated to this work, which has commenced.</p> <p>Oct 17: HTS has been informed they will need to appoint a DPO and have privacy notices etc. in place. A meeting is to be arranged to meet with HTS to go through what they data they receive and what they do with it, to determine if they are data controllers [which they will be in some incidents] or data processors.</p> <p>Feb 18: Data sharing mapping has commenced for HTS and terms and conditions for Data Sharing agreements for both HTS and Veolia have been drafted.</p> <p>May 18: There is a data sharing protocol on the infonet which is to be used as a template for all contracts that process personal data. These will be published both on the HDC web and the WEISF portal to show compliance with GDPR.</p> <p>Oct 18: A draft variation deed for the Services Agreement between the Council and HTS is now in final form and can be signed containing all GDPR Information Sharing obligations between the Parties. In addition, draft protocols for information governance have been provided to the HTS Contract Administrator.</p> <p>Mar 19: The Variation Deed for the Services Agreement is now complete and there is no further action required</p>	

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
								for the formal contract by the Council's legal team. Draft data sharing protocols have been prepared for both the waste contract and HTS and the Data Protection Officer for HTS has this in hand.	
Playhouse (2017/18) October 2017 81	5	Liaise directly with the insurance officer to ensure the lists of contents are updated and an accurate valuation is reached.	Medium	A meeting will be arranged with the Insurance and Risk Manager and identify who will be best placed to carry out the content review due to the time involved. Carry out review of 2011 inventory and update accordingly.	Technical and Projects Manager Community, Leisure and Cultural Services Manager	30/11/17 01/04/18	30/12/18 31/01/19 30/04/19	Feb 18: Meeting with the Council's Insurance Manager originally scheduled for February is to be rearranged for March 18. May 18: Meeting with insurance has taken place and works are ongoing and likely to be continued up to end of 2018. Oct 18: Working with insurance to obtain quotes for this work to be completed. Mar 19: Action to be taken to be confirmed at meeting with Head of Service on 12 th March	Overdue
Harlow Trading Services (Property and Environment) Limited Contract Payment Mechanisms (2017/18) May 2018	1.1	The performance indicators within the contract should be reviewed to ensure the Council's requirements for improved efficiencies, incentivised performance and value for money are met.	High	A Board will be created to drive this forward, supported by a series of Task and Finish groups. Governance framework to be in place by 30 September 2018.	Managing Director (as project sponsor)	30/09/18	31/12/18 01/10/19	Oct 18: Due to resourcing constraints JPRM will be used as the vehicle to drive the reviews of KPIs. Task and finish groups established as appropriate through the Shared Operational Performance group. A review of the datasheets for the Major & Minor KPIs is underway via the Contract Administrator as part of the process to transfer HTS data to the Council's InPhase system. Expected completion: JFPR Q2 2018/19. Mar 19: Due to competing work priorities, only 28 (major & minors KPIs) out of the 78 (major, minor and measurement KPIs) are currently in the	Overdue

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
82								InPhase system and formally reported via JFPR. This work is ongoing for the rest of the financial year (2018/19) with projected completion date of the summer of 2019/20; as result of competing work priorities	
	1.2	The review of KPIs should be identified and managed as a formal project with appropriate documentation and timescales for each KPI. The review of individual KPIs should be prioritised on a risk basis.					31/03/19	Oct 18: In addition to paragraph 2 above, an in-depth review of the indicators for each service area has commenced with the Environmental Services as part of the Council's Environmental Improvement Project. Environmental Services KPIs to have been reviewed by end of financial year. JPRM to discuss and schedule the other service areas following the lessons learnt from the activities within the Environmental stream. Mar 19: The review of the Environmental Service KPIs is underway. A review of the Non Housing Service KPIs is an also taking place. The 31 March 2019 remains the completion date for both reviews.	Overdue
	1.3	As part of the review, consideration should be given on paying HTS in arrears as well as invoking penalty clauses where performance is below expectations.					31/03/20	Oct 18: The payment mechanism to be included in the Best Value Review of the contract as per Cabinet report of September 2015. Mar 19: Terms of Reference for Best Value review agreed and include payment mechanism; briefing meetings for Project team and officers involved in review to be scheduled for February. Outcomes of review to be reported in January 2020.	Overdue

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
Purchase Cards (2018/19) October 2018	3.1	<p>Policies are required to clarify the Council's approach for:</p> <ul style="list-style-type: none"> the provision of hotel accommodation, the provision of employee uniform and subsistence and hotel allowance claims. 	Medium	<p>Policies related to allowances , including those referred to within this audit are being reviewed or drafted as a suite of documents which will be presented to SMB by 30/12/18</p>	HR Manager/ Head of Governance	30/12/18	30/04/19	<p>Mar 19: New Head of Governance commenced in January 2019. Draft completed for review of HoS and SMB, recommendation by HR Manager accepted by SMB to expand coverage of policy to include "business travel" and mileage rates within the policy. For appropriate consultation with SMB/TU before implementation.</p>	Overdue
Software Licensing (2018/19) December 2018	1	<p>A Software Management policy should be developed and distributed accordingly.</p>	Medium	<p>A Software Management Policy will be developed and distributed to all staff</p>	Senior ICT Manager	28/02/19	31/03/19	<p>Mar 19: A Software Management Policy is being developed and will be distributed as part of the updated Information Security Policy and Acceptable Terms of Use by 31/03/19.</p>	Overdue
IT Asset Management (2018/19) December 2018	4	<p>Consideration be given to making departments responsible for the verification of the assets and locations, with IT then undertaking a small sample test.</p>	Low	<p>This will be discussed with the Senior Management Board as to the practicalities and risks that this may introduce.</p>	Senior ICT Manager	31/01/19	31/03/19	<p>Mar 19: This still needs to be discussed with the Senior Management Board</p>	Overdue
IT Asset Management (2018/19) December 2018	5	<p>An annual asset to inventory reconciliation process be introduced to confirm the numbers of IT assets within departments. ICT may then undertake a compliance check</p>	Low	<p>This will be discussed with the Senior Management Board as to the practicalities and risks that this may introduce.</p>	Senior ICT Manager	31/01/19	31/03/19	<p>Mar 19: This still needs to be discussed with the Senior Management Board</p>	Overdue

Internal Audit Recommendation Tracker (Overdue)

Last Updated: 01 March 2019

Appendix B

Audit Year (Date report issued)	Rec Ref	Original Recommendation	Priority	Original Managers Response	Responsible Officer/ Head of Service	Agreed Imp Date	Revised Imp Date(s)	Status Update from Management	Status
		on a sample basis.							
84	1b & 1c	<p>Cash handling procedures to be documented and clearly state the responsibilities to protect cash. Staff to sign and agree to these procedures.</p> <p>Cash handling procedures should be displayed in prominent locations around the bar area to remind staff.</p>	Medium	The Playhouse Manager is in the process of developing cash handling procedures in consultation with the Head of Community Wellbeing.	Playhouse Manager	31/01/19	30/04/19	Mar 19: Action to be taken to be confirmed at meeting with Head of Service on 12 th March	Overdue
	1d	All staff involved in cash handling and banking should receive finance training to raise aware of the importance of following correct cash handling procedures.		Training to be arranged in the new year with the Duty Manager (Contact Harlow) - The Playhouse Manager and HR have arranged this.	Playhouse Manager	28/02/19	30/04/19	Mar 19: Playhouse Manager to delegate to Commercial and Development Manager – Internal Audit will be copied in to email.	Overdue

AUDIT & STANDARDS COMMITTEE WORK PLAN 2019/20

June 2019	
○ Audit and Standards Committee Annual Report 2018/19	Sarah Marsh
○ Internal Audit Annual Report 2018/19	Sarah Marsh
○ Period 2 Internal Audit Activity Report 2019/20	Sarah Marsh
○ Risk Management Progress Report	Simon Freeman
○ Annual Governance Statement 2018/19	Simon Freeman
July 2019	
○ Audited Annual Accounts 2018/19	Simon Freeman
○ Management Letter of Representation	External Auditor
○ External Auditors Audit Results Report 2018/19 (ISA 260)	External Auditor
November 2019	
○ Annual Audit Letter 2018/19	External Auditor
○ Period 8 Internal Audit Activity Report 2019/20	Sarah Marsh
○ Review of Internal Audit Charter	Sarah Marsh
○ Review of Audit & Standards Committee Effectiveness and Terms of Reference	Sarah Marsh
○ Review of Code of Corporate Governance	Sarah Marsh
○ Review of Anti-Fraud and Corruption Strategy	Sarah Marsh
○ Risk Management Progress Report	Simon Freeman
March 2020	
○ Annual Report on the Certification of Grant Claims and Returns <i>(including fees)</i>	External Auditor
○ External Auditor - Audit Plan 2019/20	External Auditor
○ Internal Audit Strategy and Plan 2020/21	Sarah Marsh
○ Period 11 Internal Audit Activity Report 2019/20	Sarah Marsh

AUDIT & STANDARDS COMMITTEE WORK PLAN 2019/20

○ Internal Audit Compliance with the Public Sector Internal Audit Standards	Sarah Marsh
○ Audit & Standards Committee Work Plan and Training Programme	Sarah Marsh
○ Risk Management Progress Report	Simon Freeman
Standing Items	
○ Register of Complaints which have been referred to Hearing Sub-Committee	Monitoring Officer
Unallocated Items	
○ None	
Training Plan	Topic
June 2019 – starts 6.45pm ahead of the Committee meeting	Presentation by the External Auditors (BDO) on their role at Harlow
July 2019 – date and time to be confirmed	Financial accounts, ahead of the Audit and Standards Committee receiving the annual accounts for approval
November 2019 – starts 6.45pm ahead of the Committee meeting	Fraud Awareness training
March 2020 – starts 6.45pm ahead of the Committee meeting	Risk Management Training

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **13 MARCH 2019**

TITLE: **RISK MANAGEMENT REPORT**

LEAD OFFICER: **STUART MOSELEY, INSURANCE AND RISK
MANAGER (01279) 446215**

RECOMMENDED that:

- A** The Committee agrees the Risk Management Appetite as set out in this report.
- B** A Risk Maturity Assessment is carried out and that the findings are reported back to the Committee during 2019/20.
- C** A Risk Appetite Framework is established and reported back to the Committee during 2019/20.

BACKGROUND

- 1. The Audit and Standards Committee's terms of reference includes the responsibility to monitor the effective development and operation of risk management within the Council.
- 2. The Council's Risk Management Strategy agreed by the Committee in November 2018 states that the responsibility of the Audit and Standards Committee is to:
 - a) Monitor the effective development and operation of risk management in the Council
 - b) Understand, scrutinise, and endorse the Council's risk management strategy and monitor the Council's risk appetite.

RISK MANAGEMENT APPETITE

- 3. Risk appetite can be defined as 'the amount and type of risk that an organisation is willing to take in order to meet their strategic objectives' and its purpose:
 - a) Helps unlock value by better aligning decision making and risk and sets the tone for the Council's risk culture
 - b) Is more than just a set of benchmarks; it is also a means of communication across interested stakeholders on the Council's willingness and capacity to take on risk.
- 4. In 2016, consensus on the overall risk appetite for the Council was arrived at based on facilitated discussions with CMT/HOS and Third Tier Managers. Following the recent addition of additional guiding principle 'Equalities and

Fairness', SMB have agreed related risk appetite and narrative relating to it. The Council's risk appetite by corporate priority and guiding principles, agreed by SMB, are set out in Appendix 1 to this report.

FURTHER RISK MANAGEMENT ISSUES

5. Risk appetite is not a single, fixed concept. There will be a range of appetites for different risks which need to align and these appetites may well vary over time. Furthermore, risk appetite should be developed within the context of the Council's risk management maturity and risk capacity.
6. In order to support the Risk Management Strategy, it is also good practice to incorporate a Risk Appetite Framework setting out the Council's overall approach to risk appetite and including processes, controls and systems, through which risk appetite is established, communicated and monitored.
7. On an ongoing basis it is also good practice to carry out a Risk Maturity Assessment. A Risk Maturity Assessment allows benchmarking of risk management within the Council against best practice and establish how well risk management as a discipline is embedded and integrated. In doing this, the Council can better understand which practical aspects of its risk processes are working well and what can be improved further. The Council should consider undertaking an assessment during 2019/2020 and, following such review a risk maturity assessments should be carried out as an annual process.

IMPLICATIONS

Place (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)

None specific.

Author: Simon Freeman, Head of Finance

Housing

As outlined in the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

The Council's appetite and maturity for risk will be assessed through its Service planning and performance monitoring processes to ensure best practice is maintained as part of the corporate framework.

Author: Simon Hill, Head of Governance

Appendices

Appendix 1 – Risk Appetite General Statement

RISK APPETITE GENERAL STATEMENT

The Council recognises that it must take risks. Indeed, only by taking risks can it achieve its aims and deliver beneficial outcomes to its stakeholders. It must, however, take risks in a controlled manner, this reducing its exposure to a level deemed acceptable, from time to time, by the Cabinet.

Methods of controlling risks must be balanced in order to support innovation and the imaginative use of resources, especially when it is to achieve substantial benefit. In addition, the Council may accept some high risks because of the cost of controlling them or our statutory obligations.

As a general rule the Council will seek to control all highly probable risks which have potential to:

- Cause significant harm to service users, staff visitors and other stakeholders.
- Compromise severely the reputation of the Council.
- Have financial consequences that could endanger the Council's viability.
- Jeopardise significantly the Council's ability to carry out its core purpose and statutory duties.
- Threaten the Council's compliance with law and regulation.

The Council's current overall risk appetite is defined as **MODERATE** (see Appendix A for definitions). This means the Council remains open to innovative ways of working and to pursue options that offer potentially substantial rewards, despite also having greater level of risks. However, the Council's preference is for safe delivery options which have a lower degree of risk, especially for those services required by statute.

Risk appetite is not a single, fixed concept and there will be a range of appetites for different risks which may vary over time. The Council's risk appetite by corporate priority and guiding principles are set out in Appendix B.

Appendices:

Appendix A - Risk appetite definitions

Appendix B - Risk appetite by corporate priority

Appendix A – Risk Appetite Definitions

Avoid	No appetite. Not prepared to take risk.
Adverse	Prepared to accept only the very lowest levels of risk, with the preference being for ultra-safe delivery options, while recognizing that these will have little or no potential for reward/return.
Cautious	Willing to accept some low risks, while maintaining an overall preference for safe delivery options despite the probability of these having mostly restricted potential for reward/return.
Moderate	Tending always towards exposure to only modest levels of risk in order to achieve acceptable outcomes.
Open	Prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk.
Hungry	Eager to seek original/creative/pioneering delivery options and to accept the associated substantial risk levels in order to secure successful outcomes and meaningful reward/return.

Appendix B – Risk Appetite by Corporate Priority

Corporate Priorities	More and better housing	Open	We invest when there is a good likelihood of return and opportunities to grow, choosing innovative options in order to deliver a significant contribution.
	Regeneration and a thriving community	Open	Our focus is on driving forward regeneration by taking on innovative projects which are resource intensive with long lead in times.
	Wellbeing and social inclusion	Moderate	Often working with partners we will continue to deliver our wellbeing strategy, usually taking moderate to low risk options.
	A clean and green environment	Moderate	Maintaining good levels of standards we tend towards exposure to modest levels of risk in order to achieve acceptable outcomes.
	Successful children and young people	Cautious	We will take low risk options to enhance in our support of children and young people.
Guiding Principles	Sound resource management	Cautious	It is important the Council is getting its best from available resources whilst ensuring long term sustainability. We will seek best use of our resources, and generation of alternative funding in order to protect services.
	Being a community leader	Moderate	Promoting the needs of Harlow and being recognised as a community leader, we tend towards modest levels of risk to achieve outcomes.
	Equalities and Fairness.	Moderate	Developing and promoting the Equalities and Fairness agenda across Harlow, we usually take moderate to low risk options to achieve outcomes.