

AUDIT & STANDARDS COMMITTEE
Wednesday, 14 March 2018 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 3 - 5)

Minutes of the meeting held on 29 November 2017.

4. Matters Arising

a) Annual Audit Letter 2016/17 - Update on Standardisation of Auditing of Management of Pension Funds (Minute 36 Refers)

b) Annual Audit Letter 2016/17 - Housing Subsidies Grant Variances (Minute 36 Refers)

5. Written Questions and Petitions

6. Non Contentious Business

7. Audit & Standards Committee 2018/19 Work Plan and Training Programme (Pages 6 - 11)

8. External Auditor - Audit Plan 2018 (Pages 12 - 50)

9. Local Government Audit Committee Briefing Document (Pages 51 - 62)

10. Internal Audit Strategy and Plan 2018/19 (Pages 63 - 79)

11. Internal Audit Activity Report (Pages 80 - 123)

12. References from other Committees

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

13. Matters of Urgent Business

To deal with any matters of an urgent nature.

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

29 November 2017

7.30 - 8.25 pm

PRESENT

Committee Members

Councillor Karen Clempner (Chair)
Councillor Simon Carter
Councillor Jean Clark
Councillor Eddie Johnson
Councillor Stefan Mullard
Councillor Edna Stevens

Officers

Simon Freeman, Head of Finance
Natalie Hook, Senior Auditor
Sarah Marsh, Internal Audit Manager
Jo Maskell, Governance Support Officer

ALSO PRESENT

Councillor Tony Edwards

APOLOGIES

Councillor Ian Beckett
Councillor Mark Ingall

30. **DECLARATIONS OF INTEREST**

Councillor Simon Carter declared a non-pecuniary interest in agenda item 9 (Internal Audit Activity Report) as a Council appointed director of HTS (Property and Environment) Ltd.

31. **MINUTES**

RESOLVED that the minutes of the meeting held on 6 September 2017 are agreed as a correct record and signed by the Chair.

32. **MATTERS ARISING**

- (a) Local Government Audit Committee Briefing Document
(Minute 22 Refers)

It was noted that whilst Councils had been consulted on the proposed auditor appointments, formal notification of the appointments was anticipated in December 2017.

33. **WRITTEN QUESTIONS AND PETITIONS**

None.

34. **NON CONTENTIOUS BUSINESS**

RESOLVED that no items are taken as non-contentious business.

35. **COMMITTEE WORK PLAN**

The Committee received its current work plan.

RESOLVED that the work plan is noted.

36. **ANNUAL AUDIT LETTER 2016/17**

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 2016/17.

Although not completed at the time of writing this report, the Housing Subsidies Grant had been finalised today and was due to be signed off by the external auditor tomorrow. It was noted that any variances would be reported to the next meeting of this Committee.

It had come to light that nationally there was an anomaly in the auditing of pension fund management and that this needed to be regularised and a standard method of auditing adopted. An update on the situation would be given at the next meeting of the Committee.

RESOLVED that the Annual Audit Letter for 2016/17 and the key issues identified regarding the audit opinion, financial statements and key challenges, are acknowledged.

37. **INTERNAL AUDIT ACTIVITY REPORT**

The Committee received the Internal Audit Activity Report, which showed the progress being made against the Audit Plan since the last meeting of this Committee up to November 2017.

It was noted that, since a treasury management training session had taken place, there were now only nine (not ten) recommendations past their due date in the current recommendation tracker.

RESOLVED that the report is noted.

38. **INTERNAL AUDIT CHARTER**

The Committee received a report on the Internal Audit Charter, which proposed amendments to the Charter since it was last approved by the Committee in 2015.

RESOLVED that the revised Internal Audit Charter, as set out in Appendix A of the report, is approved.

39. **REFERENCES FROM OTHER COMMITTEES**

None.

40. **MATTERS OF URGENT BUSINESS**

None.

CHAIR OF THE COMMITTEE

REPORT TO: **AUDIT & STANDARDS COMMITTEE**

DATE: **14 MARCH 2018**

TITLE: **AUDIT AND STANDARDS COMMITTEE 2018/19
WORK PLAN AND TRAINING PROGRAMME**

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

RECOMMENDED that:

- A** the proposed work programme as set out in Appendix A be approved;
- B** the September 2018 committee meeting is cancelled; and
- C** the subject matter of training sessions for 2018/19 be agreed.

PURPOSE

1. To provide details of the outline the work programme for the Audit and Standards Committee for the 2018/19 year and to consider suggested subjects for training sessions, which will be open to all members (as well as those councils in the Internal Audit shared service - Broxbourne and Epping Forest).

WORK PROGRAMME

2. An effective audit committee is an important part of the Council's governance arrangements, supporting the Council's overall system of internal control. To assist the Audit and Standards Committee in meeting its terms of reference a work programme is prepared on an annual basis.
3. Aspects of the work programme are determined by statutory requirements related to the accounts and matters related to the financial year. Outside of these items, the work plan should cover the committee's assurance needs to fulfil its terms of reference, whilst achieving a balanced and manageable workload.
4. The work programme attached at Appendix A is designed to allow coverage of the following areas in the committee's Terms of Reference:
 - Internal Audit activity
 - External Audit activity
 - Regulatory Framework
 - Risk Management
 - Accounts

5. Traditionally the Audit and Standards Committee meets four times a year, June, September, November and March, with the final accounts being presented at the September meeting. Due to the accelerated close down of accounts for the 2017/18 financial year, these will come to a specially convened Committee meeting at the end of July 2018. As a consequence there would be very little business for the Audit and Standards Committee to attend to should they meet in September 2018, and the recommendation is therefore that the September meeting be removed from the meeting schedule.

TRAINING PROGRAMME

6. The Chartered Institute of Public Finance and Accountancy (CIPFA) practical guidance for local authority and police audit committees recommends core areas of knowledge for audit committees. It also sets out the requirement for regular briefings or training to help committee members keep up to date or extend their knowledge. Core areas of knowledge could include:
 - Organisational knowledge
 - Audit committee role and functions
 - Governance
 - Internal audit
 - Financial management and accounting
 - External audit
 - Risk management
 - Counter-fraud
 - Values of good governance
 - Partnerships
7. In September 2017 the committee received the results of its skills and knowledge analysis which confirmed the committee had collectively a wide range of skills and experiences including both the public and private sector. There was no one area that lacked collective knowledge or experience.
8. A training programme for 2017/18 consisting of a 30 minute training session before each Audit and Standards Committee was agreed and the following training was provided:
 - September 2017– how to read a set of Accounts, ahead of the committee receiving the 2016/17 Statement of Accounts
 - November 2017 – Treasury Management
 - March 2018 – risk management including linkages to the Council’s risk, performance and business planning system (InPhase)
9. Specific training topics post 2017/18 are determined in consultation with the Chair, as appropriate, to co-ordinate with relevant agenda items and the

needs of committee members. Where appropriate, certain topics will be revisited to provide an update or refresher for members. Possible training topics for 2018/19 could include:

- Annual accounts – external audit perspective and external audit plan
- Anti-Fraud and Corruption
- Assurance frameworks and the Annual Governance Statement
- Audit and Standards functions
- Contract Standing Orders and procurement legislation
- Financial Regulations
- Information management, security and data quality
- Principles of good governance
- Risk management
- Role of Internal and External Audit
- Value for Money
- Partnership working

10. The proposed training programme for 2018/19 is detailed below:

- June – assurance frameworks and the Annual Governance Statement
- July 2018– how to read a set of Accounts, ahead of the committee receiving the 2017/18 Statement of Accounts
- November 2018 – Information Governance at Harlow District Council, including an update on the General Data Protection Regulations
- March 2018 – the role of Internal Audit, ahead of the committee receiving the Internal Audit strategy and plan.

11. In order to obtain the maximum benefit from the training provided, all members of the Council are invited to attend if they wish (and where appropriate members from Broxbourne and Epping Forest being part of the Internal Audit shared service). This will assist in mainstreaming the Committee's activities and may help to identify potential future members of the Committee. Training opportunities at Broxbourne and Epping Forest will continue to be offered to Harlow Councillors. .

CONCLUSION

12. The work programme as set out in this report assists the Audit and Standards Committee in discharging their duties as set in their Terms of Reference. Regular briefings or training will ensure committee members keep up to date or extend their knowledge.

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

There are no financial implications and no direct risk management implications arising from the recommendations.

The operation of an effective audit committee provides assurance on the effective management of governance risks and internal controls. Implementation of a work and training plan allows Councillors to fulfil this assurance role.

Author: **Simon Freeman, Head of Finance**

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 fulfilment of a training programme will assist the Council in meeting a number of legal obligations including the consideration and approval of the Annual Statement of Accounts and the Annual Governance Statement.

Author: **Amanda Julian, Legal Services Manager**

BACKGROUND PAPERS

Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)

Appendices:

Appendix A – Audit & Standards Committee Work Plan 2018/19

AUDIT & STANDARDS COMMITTEE WORK PLAN 2018/19

13 June 2018	
○ Internal Audit Annual Report 2017/18	Sarah Marsh
○ Audit & Standards Committee Annual Report 2017/18	Sarah Marsh
○ Period 2 Internal Audit Activity Report 2018/19	Sarah Marsh
○ Update on Gender Pay Gap Regulations <i>(Min 7, 21/6/17)</i>	Natasha Terrell
○ Risk Management Progress Report <i>(Min 32, 25/11/15)</i>	Simon Freeman
31 July 2018	
○ Annual Governance Statement 2017/18	Simon Freeman
○ Audited Annual Accounts 2016/17	Simon Freeman
○ Management Letter of Representation 2017/18	External Auditor
○ External Auditors Audit Results Report 2017/18 (ISA 260)	External Auditor
5 September 2018	
○ Period 5 Internal Audit Activity Report 2018/19	Sarah Marsh
○ Risk Management Progress Report <i>(Min 32, 25/11/15)</i>	Simon Freeman
28 November 2018	
○ Annual Audit Letter 2017/18	External Auditor
○ Period 8 Internal Audit Activity Report 2018/19	Sarah Marsh
○ Review of Internal Audit Charter	Sarah Marsh
○ Review of Audit & Standards Committee Effectiveness and Terms of Reference	Sarah Marsh
○ Review of Internal Audit Charter	Sarah Marsh
○ Review of Code of Corporate Governance	Sarah Marsh
○ Anti-Fraud and Corruption Strategy	Sarah Marsh

AUDIT & STANDARDS COMMITTEE WORK PLAN 2018/19

○ Risk Management Progress Report <i>(Min 32, 25/11/15)</i>	Simon Freeman
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	Each session will start at 7pm ahead of the Committee meeting
June 2018	Assurance Frameworks and the Annual Governance Statement
July 2018	How to read a set of accounts, ahead of the committee receiving the 2017/18 Statement of Accounts
November 2018	Information governance at Harlow District Council including an update on the General Data Protection Regulations
March 2019	The role of Internal Audit, ahead of the Committee receiving the Internal Audit Strategy and Plan

Finance (Includes ICT)

None specific.

Author: Simon Freeman, Head of Finance

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: Amanda Julian, Legal Services Manager

Appendices

Appendix A – Harlow District Council Audit Planning Report year ending 31 March 2018

Background Papers

None.

Glossary of terms/abbreviations used

None.



**Harlow District
Council**
Audit planning report
Year ended 31 March 2018

March 2018

February 2018



Audit and Standards Committee
Harlow Council, Civic Centre
The Water Gardens
Harlow , CM20 1WG

Dear Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

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Contents



15

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

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

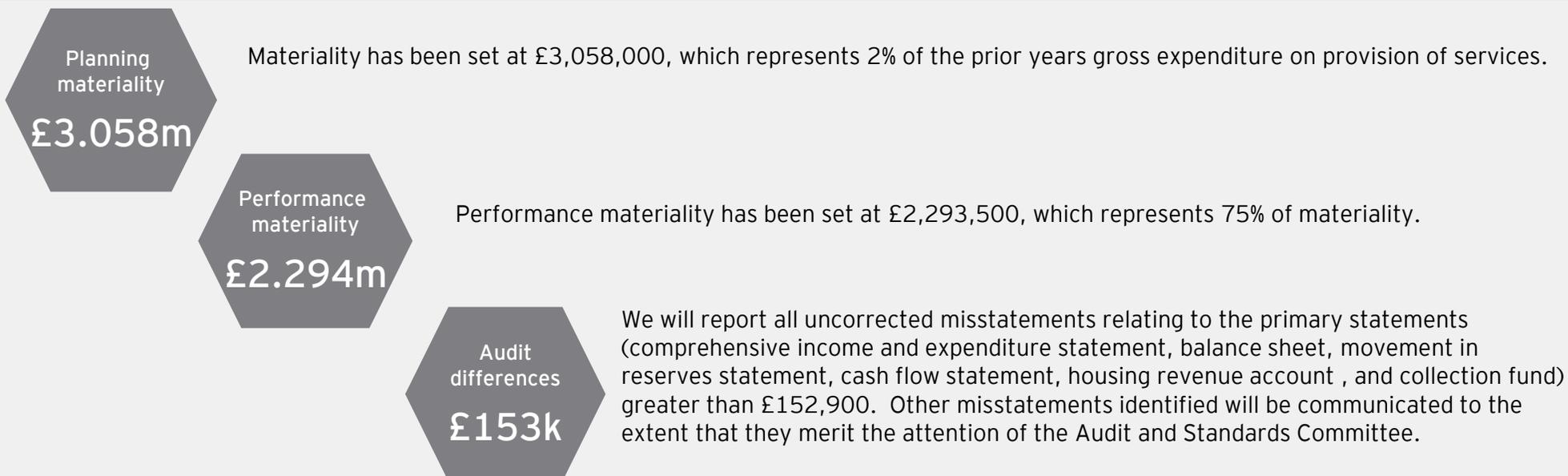
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Management override of controls	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of Pension Liability	Inherent risk	No change in risk or focus	The Council is a member of a defined benefits pension scheme. The valuation of this liability is based on an actuarial report and involves significant estimation uncertainty.
Classification and valuation of property, plant & equipment (PPE)	Inherent risk	No change in risk or focus	The Council undertakes an annual exercise to revalue property assets (including its social housing stock and investment property assets) on a rolling basis. The valuation of property assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements. In prior years we have identified errors in PPE disclosures and highlighted issues with the Council's fixed asset register.
Preparation and disclosure of Expenditure and Funding Analysis (EFA)	Inherent risk	No change in risk but different focus	The prior year introduced the EFA, a new note to the accounts. We identified material disclosure errors. The Council is revisiting how it prepares the EFA. We will need to undertake focused work on any major changes.
Earlier accounts deadline	Inherent risk	New risk	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.

Overview of our 2017/18 audit strategy

Materiality



Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Harlow District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements; Developments in financial reporting and auditing standards;
- The quality of systems and processes; Changes in the business and regulatory environment; and Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



02

Audit risks

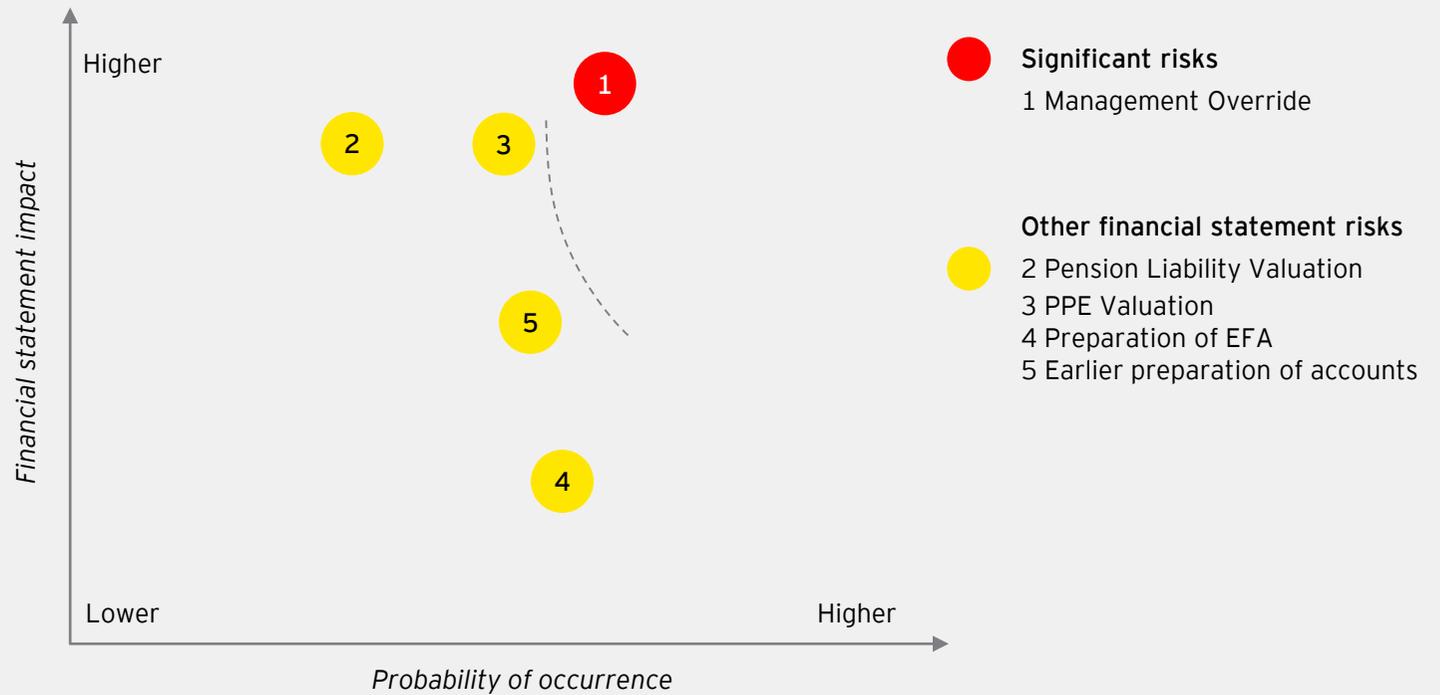


Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2018 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of Management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

Our approach will focus on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias;
- Evaluating the business rationale for significant unusual transactions; and
- Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Pension Liability Valuation

The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Essex County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £110 mn. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the underlying assumptions used.

What will we do?

We will:

- ▶ Liaise with the auditors of Essex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Harlow;
- ▶ Assess the work of the Pension Fund actuary (Barnett Waddington) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

PPE Valuation

The Council undertakes an annual exercise to revalue property assets (including its social housing stock and investment property assets) on a rolling basis. The valuation of property assets represents a significant accounting estimate.

We have previously reported that the Council's Fixed Asset Register is unable to calculate the accounting entries arising from changes in the valuation of these assets. The Council relies on excel-based spreadsheets to manually calculate the accounting entries, using data provided by the Council's valuer and historic data recorded on the Council's Fixed Asset Register. The manual intervention increases the risk of error.

Our approach will be to:

- Assess the reliability of management's experts by drawing on experts commissioned by the National Audit Office and our own valuation specialists.
- Test the reliability of the information provided by the Council to valuers.
- Test the accounting treatment applied to changes in the valuation of property assets.
- Test the classification of property assets within the balance sheet, ensuring that the classification is consistent with the Code.

Audit risks

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

What will we do?

Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement

In 2016/17 we reported that the Council prepared its financial statements in line with the new reporting requirements which impacted the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement, and included the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

During the audit we reported material misstatements in relation of approximately £15m in the 16/17 and 15/16 financial years caused by a duplication of service charges.

The Council are also undertaking to relook at the presentation to ensure that the reporting reflects the Managements structure and still be Code compliant.

We will:

- Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code
- Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

Audit risks

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Earlier accounts deadline

For 2017/18 the Council needs to prepare draft accounts by 31 May and the publish audited accounts by 31 July a challenge and risk for both preparers and auditors.

For the Council there are inherent risks to closing the accounts earlier than ever before.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft accounts and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If the Council is unable to meet key dates within our agreed timetable, we will notify the Head of Finance of the impact on the timing of your audit, which may be that we postpone the audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where we require additional work to complete your audit, due to new risks, scope changes, or poor audit evidence, we will notify the Head of Finance of the impact on the timing of the audit and fees. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

We will:

- ▶ Work with the Council to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate faster close workshops to provide a forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for 2017/18.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit and provide coaching to your team on what constitutes good quality working papers.



03

Value for Money Risks





Background

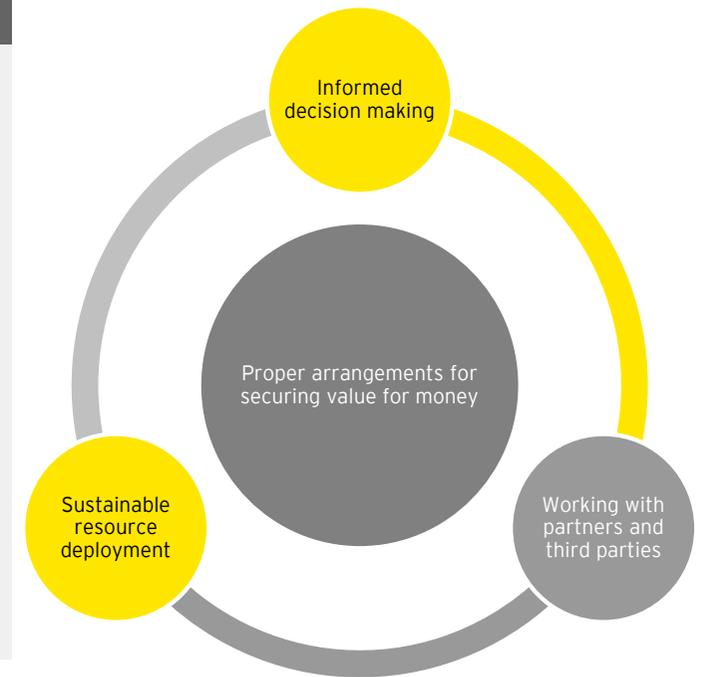
We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



26

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. We have not identified any significant risks but will update our assessment throughout the year and report any changes to the Committee.



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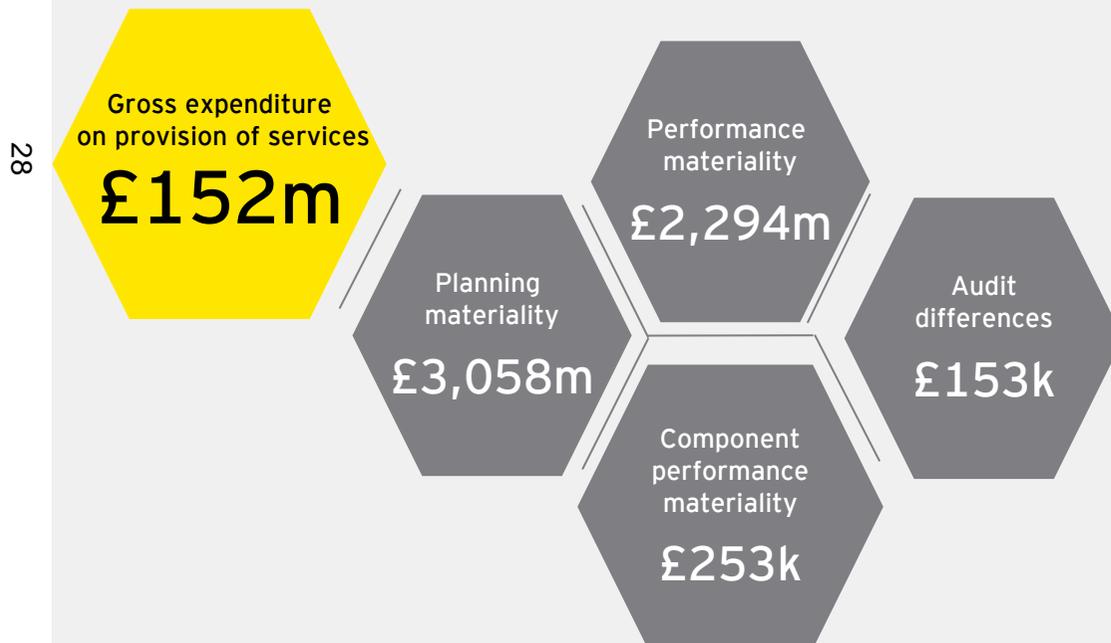
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £3,058m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process.



We request that the Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.058m which represents 75% of planning materiality.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Standards Committee, or are important from a qualitative perspective.



05 Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error; Significant disclosures included in the financial statements; Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Audit Process Overview

Our audit involves identifying and understanding the key processes and internal controls; and substantive tests of detail of transactions and amounts. For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Standards Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

The Council prepares group accounts, consolidating its wholly owned subsidiary, HTS Ltd. Our audit strategy for performing an audit of an entity's component is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

We have determined that HTS Ltd is a significant component due to its financial size. We have also determined our approach will be to apply a full scope to our work on HTS Ltd based on the nature of the transactions between the Council and the company.

31

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix C.

1	A	Full scope audits
0	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit.

Specific scope: where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: Where we do not consider it material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.



06

Audit team



Audit team

Team composition

We have retained the senior members of your audit team - Suresh Patel as your engagement lead and Julie Kriek as engagement manager. We have made a change to the lead executive who provides a critical role in liaising with the Council's finance team, supervising the onsite audit team and carrying out audit work on the higher risk aspects of your accounts. Cliff Powell will fill the lead executive role and brings with him significant experience of auditing local councils in Essex and South East.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property valuations	Management's expert (Wilks Head & Eve)
Pension fund liability	Management's expert (Barnet Waddington); EY's pension team.
Fair value of short and long-term borrowings	Management's expert (Arlingclose)
Non-Domestic Rates (NDR) Appeals Provision	Management's expert (Wilks, Head and Eve)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



34

07

Audit timeline





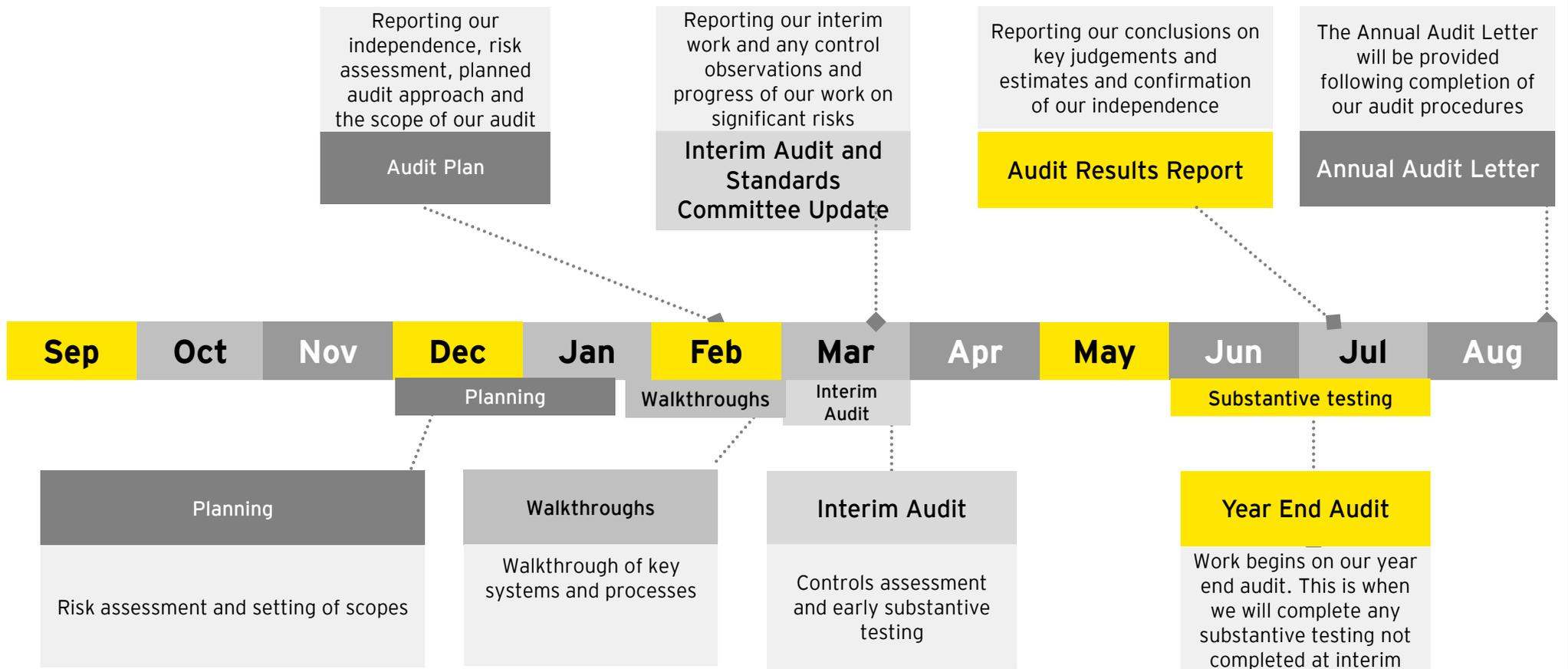
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18. From time to time matters may arise that require immediate communication with the Audit and Standards Committee and we will discuss them with the Audit and Standards Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

35





36

08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, no non-audit services are planned. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	79,514**	77,514	85,514*
41 Total audit	79,514	77,514	85,514
Certification of Claims and Returns	18,695	18,695	18,695
Total other non-audit services	0	0	0
Total fees	18,695	18,695	18,695

All fees exclude VAT

** Includes £6,000 for additional audit work and £2,000 for group accounts.*

*** Includes £2,000 for group accounts to be approved by PSAA*

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix C

Required communications with the Audit and Standards Committee

We have detailed the communications that we must provide to the Audit and Standards Committee.

Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
42 Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report, March 2018
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report, July 2018

Appendix C

Required communications with the Audit and Standards Committee (continued)



Our Reporting to you

Required communications	 What is reported?	 When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report, July 2018
43 Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report, July 2018
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report, July 2018
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report, July 2018

Appendix C

Required communications with the Audit and Standards Committee (continued)

Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report, March 2018 and Audit Results Report, September 2018

Appendix C

Required communications with the Audit and Standards Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report, July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of 	Audit Results Report, July 2018
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report, July 2018
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Planning Report, March 2018 and Audit Results Report, July 2018

45

Appendix C

Required communications with the Audit and Standards Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report, July 2018
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report, July 2018
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report, July 2018
46 Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report, March 2018 Audit Results Report, July 2018
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the **Audit and Standards Committee** reporting appropriately addresses matters communicated by us to the **Audit and Standards Committee** and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix E

Scoping the group audit

The below table sets out the scoping details. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

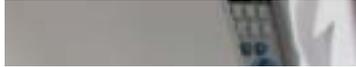
Detailed scoping							
In scope components	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Gross Revenue Expenditure	Profit before tax	Total assets	Size	Risk
HTS Limited	Full	✓	£25.233m	£1.264m	£860k	Yes	No

The expenditure of HTS Limited represents 16.5% of the group Gross Revenue Expenditure. Therefore we consider HTS Limited to be an in-scope significant component based on size and will require a full scope audit.

Local Government Audit Committee Briefing



Building a better
working world



Contents at a glance





This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



Government and economic news

Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019-2021.

Much depends on how the Brexit negotiations develop.

The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

Provisional 2018-19 Local Government Finance Settlement

On 19th December 2017 the Government set out the provisional funding plan for the 2018-19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:

Council tax referendum principles – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018-19 and 2019-20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. Shire district councils will be allowed an increase of 3% or £5 whichever is higher.

Continuation of the adult social care precept principle of a 2% increase, with the additional flexibility in 2018-19 to increase the precept by an additional 1%, from 2% to 3%, provided that the total increase across the three years 2017-18 to 2019-20 does not exceed 6%.

Analysis by the Local Government Association has estimated that the impact of increased flexibility in council tax precepts could be worth up to £540mn to local authorities by 2019-20. However local services are facing a total funding gap of £5.8bn in 2019-20. Therefore, the increased powers to raise council tax are not sufficient to meet the future funding gap.

Business rate retention – the Government's continued intention to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, public health grant) direct from central government. By 2020-21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

New homes bonus – since inception the new home bonus has allocated £7bn to local authorities to encourage the building of over 1.2 million new homes. The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. This stability will provide some security for district authorities who have based their growth strategy on the New Homes Bonus.

Carillion liquidation

Major public sector building and support services contractor Carillion plc went into compulsory liquidation on 15 January 2018. Carillion's sudden collapse is being felt across the country as a range of public services, from road building to school meals, have been unexpectedly terminated in a number of local authorities.

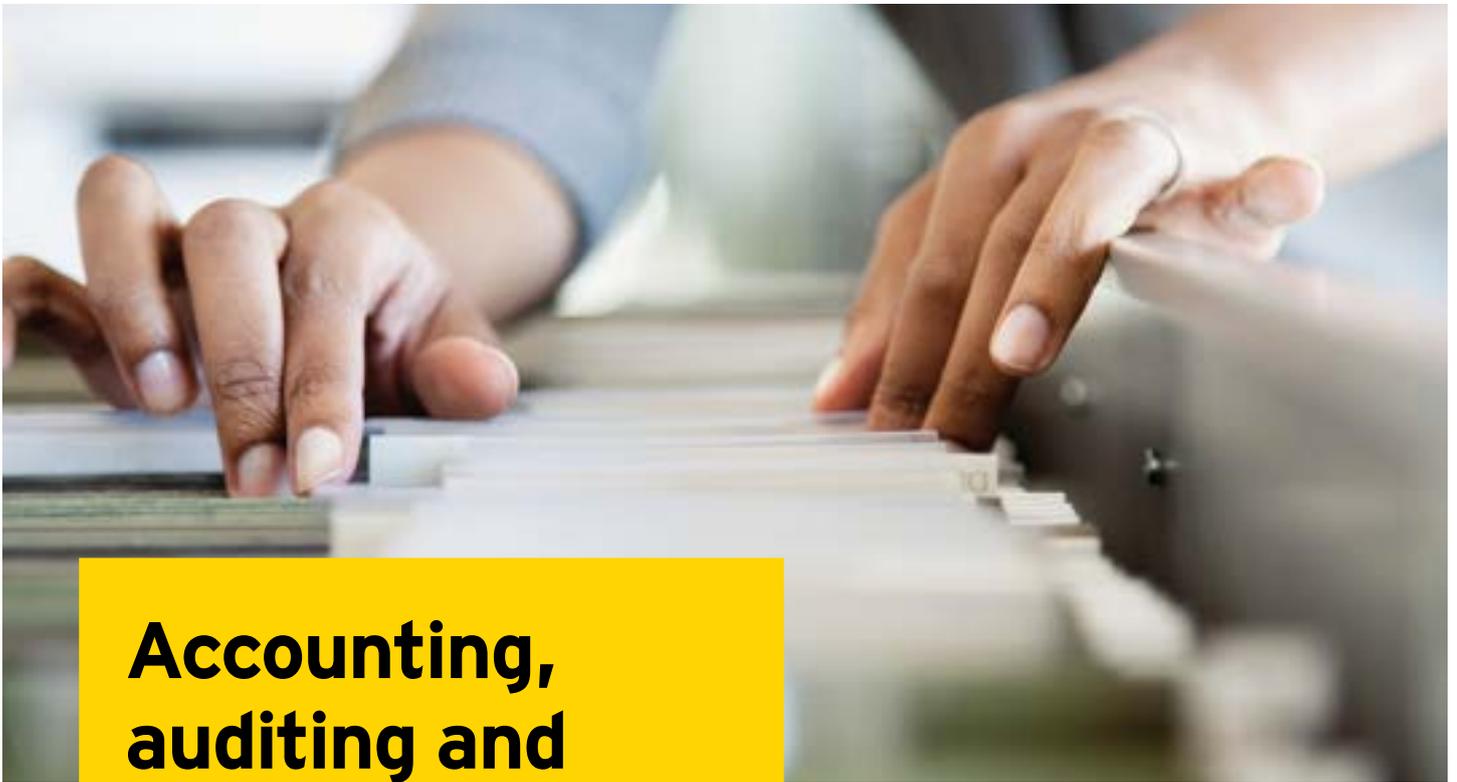
The full extent of the affected services is yet to be determined as local authorities discuss existing contracts with the Official Receiver. Local authorities are implementing contingency plans where possible, including either finding alternative contractors or taking services back in house. For example the response from Oxfordshire County Council in relation to the provision of school meals at 90 schools supplied by Carillion was to guarantee Carillion staff who worked in schools that the county council would ensure that they were paid.

Although the Government has pledged that public services 'will be protected' after Carillion's collapse, it is unclear how or when funding from central Government will be made available to the affected local authorities.

Public sector pay

Since 2013, the Government has implemented a policy of a 1% annual pay increase cap for public sector workers; which was estimated to have saved approximately £5bn by 2019-20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018-19, pay review bodies will be able to award pay increases of greater than 1% as they determine to be appropriate. After the long freeze in real terms of public sector pay future increases above 1% have been welcomed; and it is thought that this has been needed to retain talent within the public domain. However, this will be an additional cost pressure for local authorities that will require financing.

The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018-19 and a further 2% for 2019-20. Lower salaried workers will receive higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.



Accounting, auditing and governance

IFRS 15 – revenue from contracts with customers

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code

Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- ▶ Fees and charges for services under statutory requirements
- ▶ Sale of goods provided by the authority
- ▶ Charges for services provided by a local authority

EY – CIPFA Accounts Closedown Workshop 2017-18

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'telling the story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'faster, smarter and more accurate' accounts closedown for 2017-18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for

both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline
- ▶ Appropriate staff to be available throughout the agreed audit period
- ▶ Complete and prompt responses to audit questions

If your authority is unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below.

Summary of faster close activities

Finance teams are:

- ▶ Critically appraising the content of their accounts, removing unnecessary disclosures
- ▶ Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals
- ▶ Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work
- ▶ Focusing on judgements and significant estimates earlier including engagement with auditors
- ▶ Reviewing the de-minimis level for accruals, including discussion with auditors
- ▶ Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old
- ▶ Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing

Auditors are:

- ▶ Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when

- ▶ Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas
- ▶ Increasing the use of analytics to interrogate ledger and payroll transaction data
- ▶ Using the online EY client portal to streamline communications with finance teams
- ▶ Attending workshops with finance teams on accounting issues and effective working papers
- ▶ Selecting items for sample testing earlier

Together finance teams and auditors are:

- ▶ Holding regular meetings throughout the year to share progress and discuss issues
- ▶ Planning respective activities to ensure sufficient capacity on both sides
- ▶ Revisiting audit issues from the prior year, agreeing how similar issues can be avoided
- ▶ Ensuring the client assistance schedule is appropriately tailored

We have produced a faster close briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.



Regulation news

EU General Data Protection Regulation: are you ready?

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- ▶ Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- ▶ Data Protection Officers (DPOs) – DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- ▶ Accountability – organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures
- ▶ Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data

- ▶ Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- ▶ Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- ▶ Introduction of new rights – right to be forgotten, right to data portability and right to object to profiling
- ▶ Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- ▶ Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.

Key questions for the Audit Committee

Has your local Authority considered the changes to council tax flexibilities into the 2018-19 budget And the impact of changes to business rate retention into your Medium Term Financial Strategy?

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

Has your local authority included in its budget any likely increases of employee wages above 1%?

Has your Authority considered how IFRS 15 might impact your revenue streams?

How has the local authority prepared for the accelerated accounts closedown timetable for 2017-18?

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

Find out more

EY ITEM Club Forecast

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

2018-19 Local Government Finance Settlement

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf

<https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day>

<http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0>

Carillion collapse

<http://www.publicfinance.co.uk/news/2018/01/public-sector-looks-ways-plug-gap-left-carillion>

<http://www.publicfinance.co.uk/news/2018/01/public-services-will-be-protected-after-carillion-collapse>

Public sector pay

<http://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf>

<http://www.publicfinance.co.uk/news/2017/12/local-employers-issue-2-pay-offer-each-next-two-years>

IFRS 15 – revenue from contracts with customers

[http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/\\$FILE/ey-applying-revenue-october-2017.pdf](http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/$FILE/ey-applying-revenue-october-2017.pdf)

EY – CIPFA Accounts Closedown Workshop 2017-18

For Faster Close Activities Checklist: please contact your local engagement lead

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at <http://www.cipfa.org/training>



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ED None

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REPORT TO: **AUDIT & STANDARDS COMMITTEE**
DATE: **14 MARCH 2018**
TITLE: **INTERNAL AUDIT STRATEGY AND PLAN 2018/19**
LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT MANAGER**
(01279) 446884

RECOMMENDED that:

- A** The Committee considers the effectiveness and contribution of the Internal Audit Strategy and Plan within the Council's assurance framework; and
- B** The Committee approves the Audit Strategy and Plan for 2018/19.

1. INTRODUCTION

The Internal Audit function provides independent and objective assurance and advisory services to Harlow District Council. This Internal Audit strategy summarises the key principles for the Internal Audit Team for the period 2018/19, with some longer term aims. The strategy supports the Audit Plan which sets out the work of the Internal Audit service for the year.

Internal Audit supports and contributes to the delivery of the Council's 2018-2021 corporate priorities and guiding principles. These have been taken into account whilst developing the Internal Audit Strategy and Plan.

Council priorities

- More and better housing.
- Regeneration and a thriving economy.
- Wellbeing and social inclusion.
- A clean and green environment.
- Successful children and young people

Council principles

- Being the Community Leader
- Sound resource management
- Equalities and Fairness

2. PURPOSE

The purpose of the Internal Audit Strategy and Plan is to document the Internal Audit team's approach to:

- Provide independent and objective assurance to Councillors and senior management on the effectiveness of the Council's internal control framework.
- Ensure that the Council's key risks to meeting its objectives are considered when determining and allocating the use of internal audit resources.
- Add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money.
- Deliver an Internal Audit Service that is compliant with the requirements of the Public Sector Internal Audit Standards.

3. INTERNAL AUDIT MISSION AND CORE PRINCIPLES

In 2015 the Global Institute of Internal Auditors made some new additions to the International Professional Practices Framework (IPPF) which included for the first time a mission statement and ten core principles. These have been adopted by this Shared Internal Audit Service, contained within the Internal Audit Charter and listed below.

Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

Core principles:

1. *Demonstrates integrity.*
2. *Demonstrates competence and due professional care.*
3. *Is objective and free from undue influence (independent).*
4. *Aligns with the strategies, objectives, and risks of the organisation.*
5. *Is appropriately positioned and adequately resourced.*
6. *Demonstrates quality and continuous improvement.*
7. *Communicates effectively.*
8. *Provides risk-based assurance.*
9. *Is insightful, proactive, and future-focused.*
10. *Promotes organisational improvement.*

4. THE INTERNAL AUDIT APPROACH

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 an advisory basis, contributing advice on risk and controls, for example attendance at project meetings or undertaking a specific investigation of a newly identified issue. The organisations approach is very much one of seeking the advice of the internal audit team at early stages of any major project to

enable helpful and constructive advice to be provided and to influence the final outcome.

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.

5. KEY DELIVERABLES

The key deliverables for the Internal Audit service during 2018/19 are:

- *Delivery of the Plan* - the Internal Audit Manager will ensure there is sufficient audit coverage provided by the approved audit plan to support an annual internal audit opinion and report, which feeds into the Council's Annual Governance Statement.
- *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.
- *Management commitment* - Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework.
- *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.
- *Business insight* - working more closely with Officers, Councillors and services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

6. PROTOCOL FOR AUDIT REVIEWS

We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards.

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.

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.

Final reports will be issued after the agreement of draft reports and will contain completed management action plans identifying those responsible for their implementation and appropriate timescales.

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.

7. QUALITY ASSURANCE AND PERFORMANCE MANAGEMENT

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.

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 complies with the Public Sector Internal Audit Standards. Internal review at the end of 2017/18 confirms the service remains compliant .

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.

The following service performance targets will be reported on in 2018/19:

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 agreement with client to draft. 	<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

Aspect of Service	Performance Indicator	Target
Continuing Professional Education (CPE)	<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 CPE activity per auditor

8. DEVELOPING THE INTERNAL AUDIT PLAN

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:

- The accumulated knowledge and experience of the Internal Audit service, including the results of previous reviews.
- A review of audit themes against the Corporate Risk Register and Council priorities.
- The work of other assurance providers both internally and externally.
- The external environment including economic climate, government initiatives such as welfare reform and changes in funding.
- Harmonisation of audit themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.

It is imperative there is good alignment between the Internal Audit Plan and the risks facing each Council. If this is achieved, 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 (Appendix A) have been taken directly from the Council's Risk Register.

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. Any significant changes will be presented to the Audit and Standards Committee for consideration and approval.

It is important for Internal Audit to plan ahead and allocate resources over the medium term but still maintain a flexible 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 should circumstances remain unchanged. However, as new risks emerge audit resources will be refocused accordingly over the medium term.

The sections of the Internal Audit Plan include:

- **Corporate Framework** – key risk areas including those defined in the Council’s strategic risk register.
- **Strategic themes** – including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work.
- **Service areas** – operational audits determined on a risk assessment and/or business priorities.

9. PRIORITY AREAS FOR 2018/19

Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2018/19. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken.

- *Information Governance and Management:* The General Data Protection Regulations (GDPR) come into force on 25 May 2018. Internal Audit will work with the Council’s Data Protection Officer helping to ensure compliance is achieved and maintained.
- *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 exists across the Council. The Audit Plan is driven by the risks of the Council. Within each individual audit 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.
- *Fraud* – Internal Audit continues to support the Council’s anti-fraud and corruption policy and is pivotal in ensuring a joined up approach is in place.
- *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.
- *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.

At the operational level the key priorities of Internal Audit work in 2018/19 include:

- *Harlow Trading Services (HTS)* – During year two of trading, Internal Audit will continue to actively seek assurances on the adequacy of internal control, governance and the management of risks regarding HTS from the Council's perspective.
- *InPhase* – Internal Audit continues to assist the development of the Council's service planning, performance and risk management system, InPhase, ensuring services are using the system to full advantage.
- *Analytical review* – During 2018/19 Internal Audit will develop its use of the data interrogation software, IDEA, and use this to undertake a range of short, focussed pieces of work on data sets, for example payroll, inventories and spend analysis.
- *Key Financial Systems* – the effectiveness of controls and management of risks with the core financial systems and processes remains a key element of Internal Audit work. As systems remain stable audits are now scheduled on a four year rather than three year cyclical basis.

10. RESOURCES

2017/18 was the first year of the formal shared service between Broxbourne, Epping Forest and Harlow 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 is comprised of key senior officers from Harlow, Broxbourne and Epping Forest Councils.

The Internal Audit function consists of six staff members (5.8 full time equivalent (fte) officers) - the Internal Audit Manager (1.0 f.t.e), three Senior Auditors (2.8 f.t.e) and two Auditors (2.0 f.t.e). Due to an internal promotion one of the Auditor posts has been vacant. In order to make good use of the government's Apprenticeship Levy and to help develop auditors of the future the vacant post will be filled by an Apprentice during 2018/19, with a view to take them on permanently should they prove capable in the role. In the meantime, external providers of Internal Audit are being used to cover the vacancy.

11. AUDIT PLAN

The Audit Plan as detailed in Appendix A requires 399 days as summarised in the table below:

Thematic Area	Audit days 2018/189
Corporate framework including governance, assurance framework, fraud, value for money and risk management	75
Information and performance management	25
Projects, Joint Working and Partnerships	15
Financial audits	30
IT Audits	20
Cross cutting/themed audits	40
Operational Audits	89
Follow Ups	25
Audit Committee Support	25
Advice and other engagement with the business	40
Contingency (including investigations)	15
TOTAL	399

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **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**

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: **Amanda Julian, Legal Services Manager**

BACKGROUND PAPERS

Public Sector Internal Audit Standards

Internal Audit Charter

Internal Audit resource plan and risk assessment

Glossary of terms/abbreviations used

f.t.e – full time equivalent

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (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>Harlow Trading Services (HTS) – strategic governance audit</p>	<p>Conflicts of interest with third parties (HTS, partnerships and shared services)</p>	<p>Equalities and use of impact assessments</p>	<p>Review of effectiveness of governance and oversight arrangements especially during periods of significant change. In 2018/19 we will build on the previous year's HTS audits to ensure robust governance arrangements are in place and that potential conflict of interests with significant partners are being well managed.</p> <p>Member of the Corporate Governance Group.</p>
<p>Fraud</p> <p>Proactive fraud work</p>	<p>CR01 (Financial resilience) - any loss through fraud is a drain on resources which, in turn, reduces the amounts available for service delivery.</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 action plan.</p> <p>Potential for fraud considered in all audits. Co-ordinate National Fraud Initiative data matching process.</p>
<p>Assurance Framework incl. Risk Management and support to Audit Committee</p>	<p>Risk in achieving corporate priorities as these are underpinned by sound</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>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</p>

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (to be finalised when the work is scoped)
	leadership, management of resources, and governance.				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.	General Data Protection Regulation compliance	Subject Access Requests Data breach management	Data retention and disposals	General Data Protection Regulation (GDPR) comes into effect 25 May 2018. IA will work with the Council's Data Protection Officer to help ensure compliance across the Council.
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.	HTS related performance indicators	Community Wellbeing Place	Housing (last audit 2015/16)	The suitability and integrity of Performance Indicators (PIs) considered within operational audits, including reliance on third party data. For 2018/19 this will be covered in audits such as housing repairs.
Value for Money (VfM) - Guiding principle of the Council	VfM helps the Council manage its corporate risk CR01 on	Use of data analytics and spend analysis	Print and stationery	Use of consultants Facility Management	2018/19 introduces a suite of short/sharp audits driven by data analytics e.g. spend analysis, inventories and payroll. Continue the small Officer group looking at spend

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (to be finalised when the work is scoped)
	financial resilience.				analysis across the Council. VfM is always considered within operational audits. Also in 2019/20 we will assess 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 Trading Services (Property and Environment Ltd)	Community safety and discretionary services (covered later in plan under Community Wellbeing)	Harlow and Gilston Garden Town (joint initiative with Epping Forest, and East Herts)	Through our 2018/19 audit programme we will assess how HTS arrangements are working in practice.
Projects Business case, project methodology, governance arrangements, contract management and viability	Poor project management increases the risk of projects not being delivered on time, to budget or does not meet the needs of the Council.	Capital projects programme (carried forward from 2017/18)	IT projects and role of IT Governance	✓	Time set aside each year to examine a sample of projects. Capital projects will take into account the revised project management methodology being developed within InPhase.
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.

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (to be finalised when the work is scoped)
Themed/cross cutting audits					
Procurement Themed audits - compliance, VfM, fraud, goods and services. End to end processes (need, selection, appointment, contract management & exit strategies)	Risks include non-compliance with legislation, fraud, not achieving value for money, poor service delivery.	Contractual arrangements within Housing	Contract Management and Performance	Compliance with Contract Standing Orders – tendering process including contracts register	The 2018/19 audit relates to contracts outside of HTS and includes the Council's arrangements with Savills.
Health & Safety	Risk of compromising the health and safety of individuals and non-compliance with H&S legislation leading to fines or imprisonment.	Asbestos Management (last audit 2015/16)	Corporate H&S Framework, including policies	Staff wellbeing including stress management	Asbestos management will ensure there is a joined up process for both housing and non-housing properties. In 2019/20 we will assess the H&S framework in place to protect people working for and visiting the Council.
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	BCP in 2018/19 will assess progress being made to align and maintain business continuity and IT disaster recovery plans.

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (<i>to be finalised when the work is scoped</i>)
Key Financial Controls (KFC). Four-year rolling programme of full system and key control audits (unless significant change in process/system or poor audit outcome)	CR01 (Financial resilience)	Housing Rents (last audit 15/16)	Treasury Management (last audit 15/16) Payroll (last audit 16/17) Fixed Assets Register (last audit 14/15)	Council Tax and Business Rates (last audit 16/17) Debtors (last audit 16/17)	Treasury Management will take into account the Council's approach to property investments, being a potential growth area.
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 (last audit 14/15)	HTS – progress against the business case	Playhouse	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.
IT Audits: IT Governance, IT Regulation, Security/Privacy, Business Systems, DRP/BCP, Network, Emerging Technologies e.g. mobile devices, IT Applications and Projects	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.	IT Asset Management Software licencing	Mobile working Provision of IT services to HTS	Change and patch management IT Strategy	A specialist IT Auditor will be brought in for more technical audits. In 2018/19 we will make sure the Council is making good use of its IT assets and software licences

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (to be finalised when the work is scoped)
Operational/service audits - Audits post 18/19 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	Housing repairs (carried forward from 2017/18) Leaseholders (completion of the audit started end of 17/18)	Voids (last audit 14/15) and planned maintenance (last audit 16/17). Access to housing (combining homelessness and allocations) H&S – fire risk assessments	Major works (last audit 16/17). Right To Buy (last audit 15/16) Sheltered Housing H&S – gas safety (last audit 16/17) and legionella	Housing repairs carried forward from 2017/18 as new processes being developed following transfer of services to HTS. The 2018/19 access to housing audit will take into account the Homelessness Reduction Act which comes into force April 2018.
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	Customer Services Review Complaints (last audit 14/15) Safeguarding (completion of the audit started end 17/18)	Community Safety (last audit 14/15) Harlow Museum including Science Alive (governance arrangements) Social Media	Playhouse (last audit 17/18) Safeguarding (last audit 17/18) Harlow Health and Wellbeing Strategy and associated action plans	Customer services review will assess progress against the action plan and will link with the complaints audit.
Regeneration and Enterprise Zone	CR02 - The Harlow Offer. CR06 - Lack of Resources and Capacity, Council and key partners	Economic Development	Town Centre regeneration Growth Area Funding	Enterprise Zone (last audit 16/17)	The 2018/19 economic development review will examine the Council's approach to this, ensuring there is a joined up approach in achieving the Council's objectives, both internally and externally.

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (to be finalised when the work is scoped)
Place: Properties, facilities & projects Properties & estates Operations, energy & emergency planning Planning & Building Control Environmental Health Licensing Street Scene	CR06 - Lack of Resources and Capacity, Council and key partners	Planning and Building Control Oversight of on-boarding arrangements for replacement waste and recycling contract.	Parks and landscapes and Streetscene (to assess new processes implemented beginning of 2018/19) and to include playgrounds. Waste and recycling Non-housing property repairs and maintenance	Asset management strategy (including acquisitions, disposals and maintenance regimes) Section 106 agreements (last audit 14/15) Development Management (and links to the Local Plan) Environmental crime (enforcement)	The 2018/19 planning and building control audit will also include covenant control being a source of income for the Council.
Governance: Corporate & Governance Support Legal Services Electoral Services Human Resources Procurement & Relationship (covered elsewhere in the plan)	Risk of corporate priorities not being met should these service areas fail to deliver.	HR – starters, movers and leavers	HR - Staff performance management (including appraisal arrangements)	HR – job evaluations Electoral Services	The 2018/19 HR audit will be based on analytical review as detailed under the VfM section.

Audit Area and Context	Corporate Risks	2018/19	2019/20	2020/21	Outline/Scope of work for 18/19 (to be finalised when the work is scoped)
Policy & Performance (covered under performance management)					
Finance: Revenues & Benefits (covered under KFC audits) ICT (covered elsewhere in the plan) Accountancy (see also KFC audits) Insurance	CR01 (Financial resilience)	Covered in other audits	IT Strategy Insurance (last audit 13/14), including services provided to HTS	Finance – Budgetary control/financial management (last audit 14/15)	
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.

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**
DATE: **14 MARCH 2018**
TITLE: **INTERNAL AUDIT ACTIVITY REPORT**
LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT MANAGER**
(01279) 446884

RECOMMENDED that:

- A** The Committee approves the proposal to defer three audits and remove one audit from the 2017/18 Audit Plan as detailed in the report; and
- B** The Committee approves the Council's revised Anti-Fraud and Corruption Strategy.

PROGRESS AGAINST AUDIT PLAN

1. Work is continuing to deliver the 2017/18 Audit Plan as detailed in Appendix A. The Committee is requested to approve the deferral of three audits and the removal of one audit from the plan as detailed below:
 - Serious and Organised Crime (procurement) – This audit was trialled at Broxbourne utilising a Home Office self assessment checklist to provide a high level review of the Council's serious and organised crime risks. The audit simply confirmed Internal Audit's existing knowledge regarding the adequacy of policies, procedures and processes in place to prevent and combat serious and organised crime. Given the outcome of the audit and the existence of a similar level of knowledge in respect of Harlow and its policies and procedures there will be little advantage in repeating the audit for Harlow and it is therefore proposed that this audit be removed from the audit plan.
 - Capital projects – as agreed with the Head of Finance this audit has been deferred to allow time for the revised corporate project methodology to take effect.
 - Housing and non-housing repairs and maintenance (two separate audits) – these have been deferred to 2018/19 to allow time for new procedures implemented post HTS transfer to take effect.

INTERNAL AUDIT REPORTS

2. The following reports from the 2017/18 Internal Audit Plan have been issued since the Committee received its last update in November 2017:

Cyber Security - Substantial assurance

This was a non-technical audit assessing the range of technologies, processes and practices the Council has to protect networks, computers, and data from attack, damage or unauthorised access.

The security of the Council's computer network and servers is well managed and effective controls exist to detect unauthorised access. Incident management plans are also in place to deal with potential security threats. User access management is well controlled and there are restrictions in place to protect the security of the network. ICT equipment is all recorded within an appropriate asset register which is reviewed on an annual basis.

The audit identified that communication to staff regarding cyber security risks is good but there remains a need to provide formal training to further reduce the risk of staff comprising network security.

Whilst there are good controls in place to ensure software licenses are not exceeded, an annual review of software on devices needs to be implemented to minimise the risk of fines from software companies for exceeding license agreements.

The ICT Operational Board has been formed but due to other demands has failed to meet for some time. The audit recommends that these meetings are restarted to ensure there is effective ICT governance in place at Third Tier Manager level across service areas.

Key Financial Systems: Creditors – Moderate assurance

The Council processes approximately 10,000 invoices a year with an estimated value of £60m. Recommendations resulting from the audit largely relate to process issues and the need to ensure that all procedures are effectively applied to reduce the possible exposure of the Council to financial loss and/or fraud. The service area is actively addressing these matters as a matter of urgency.

Key Financial Systems: General Ledger – Moderate assurance

A Schedule of Reconciliations, detailing the reconciliations to be performed, their frequency and the officers responsible is in place. Reconciliations for feeder systems are performed at varying frequencies including Rent Allowances, Rent Rebates, Payroll and Cash & Bank. Overall differences are being identified and corrected promptly and suspense accounts regularly cleared, however, there have been on occasion lapses (of up to two months) for two of these reconciliations, payroll and cash & bank. Segregation of duties is maintained when reconciliations are performed but there were identified instances where journals have not been independently reviewed in line with the agreed procedures.

A new budgeting IT module, Planner, was implemented during 2017/18 as part of the wider Agresso system upgrade and this has improved budget monitoring by cost centre managers.

ONGOING AUDIT WORK

3. A number of assignments in the 2017/18 Audit Plan are intended to provide advice and guidance to the Council throughout the year on current issues. This includes Internal Audit representation on business groups and project teams across the Council. As these assignments will not normally result in a single, traditional audit report, Internal Audit has summarised the output of this work below for information:

- **General Data Protection Regulation (GDPR)** - The General Data Protection Regulation comes into effect in May 2018. Internal Audit is playing a key role within the GDPR project team which is being led by the Legal Services Manager, being sponsored by the Managing Director and being overseen by the Corporate Governance Group. There is a lot of work in progress across the Council to ensure privacy statements are in place, the Council has a comprehensive set of Information Asset Registers, relevant Council policies are fit for purpose and reviewing existing contract agreements to ensure compliance with GDPR. The project team is also developing an awareness and training programme for both staff and Members.
- **National Fraud Initiative (NFI)** - is a data matching exercise which compares electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include the Department for Works and Pensions (DWP), police authorities, fire and rescue authorities as well as local councils and a number of private sector bodies. The latest data match occurred December 2017 and involved comparing Council Tax and Electoral Register data to identify instances of single persons discount fraud. The review of outcomes from the latest data matching exercise is complete. No instances of fraud were identified. The Council has expressed an interest in taking part in a pilot data-matching exercise later in the year to identify business rates fraud.

Internal Audit is a key contact for NFI, co-ordinating the submission of the Council's data and ensuring there is a process for reviewing the data matches in accordance with the Council's available resources and the requirements of the Cabinet Office.

- **Corporate Fraud Group** – This Group, chaired by the Head of Housing, continues to meet quarterly, monitoring the anti-fraud and corruption action plan and ensuring there is a joined up corporate approach to reduce the risk of fraud and corruption.

The Council's Anti-Fraud and Corruption Strategy has been updated (Appendix C). The main changes have been to strengthen the corruption elements in light of the new national Anti-Corruption Strategy 2017-22, which sets out a long term framework for tackling corruption. The Audit and Standards Committee are requested to comment on and approve the revised Anti-Fraud and Corruption Strategy.

INTERNAL AUDIT PUBLIC SECTOR STANDARDS COMPLIANCE

4. In line with good practice, the Internal Audit service should ensure it is compliant with the Public Sector Internal Audit Standards (PSIAS) on an annual basis. These were last updated in 2017, notifying the Audit and Standards Committee of any areas of non-compliance. The main change to the Standards related to guidance on the Internal Audit Manager's role beyond internal auditing. The inclusion of the new guidance was to clarify the position where Heads of Audit may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities.
5. In November 2016 the service was confirmed as being fully compliant with the PSIAS by an external assessor, as previously reported to the Committee. The most recent review has confirmed that 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 roles and the service remains compliant with the approved standards.

RECOMMENDATION TRACKER

6. The Audit and Standards Committee receives details of all overdue recommendations, plus any high risk recommendations from final reports, regardless of whether they are overdue or not.
7. The current tracker (see Appendix B) contains 14 recommendations past their due date (compared to ten in November 2017). Regular monitoring of these recommendations by both Internal Audit and the Senior Management Board ensures progress continues to be made.
8. A comparison with previous periods is outlined in the table below to demonstrate progress.

Recommendation Priority	Number (as at March 2018)	Number (as at November 2017)	Number (as at September 2017)	Number (as at June 2017)
High - not yet due	0	0	0	0
High - passed due date	0	0	0	0
Medium - passed due date	14	10	8	9
Low - passed due date	1	0	2	4
Total	15	10	10	13

INTERNAL AUDIT PERFORMANCE INDICATORS

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.

Aspect of Service	Performance Indicator	Target	As at end Feb 18	Year End 2017/18
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> 95% minimum 	<ul style="list-style-type: none"> 82% 	<ul style="list-style-type: none"> 89%
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> 10 working days 5 working days 	<ul style="list-style-type: none"> Average 4 working days Average 3 working days 	<ul style="list-style-type: none"> Average 8 working days Average 3 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 	<ul style="list-style-type: none"> Average 12 working days Not always met as reported via the tracker 	<ul style="list-style-type: none"> Average 29 working days Largely met (as reported by the tracker)

AUDIT AND STANDARDS COMMITTEE TERMS OF REFERENCE

10. Following recommendations made by the Constitution Panel, Council at its meeting held on 1 February 2018, approved that authority is delegated to the Audit and Standards Committee to approve the Annual Governance Statement and the Annual Statement of Accounts. In addition, approval was given to amend the Constitution so that the Chair of the Audit and Standards Committee, rather than the Leader of the Council, is given authority to sign both of these key documents off.
11. The recommendation by the Constitution Panel was made to enable the much shorter timescales for signing off the Statement of Accounts (moving from the end of September to the end of July) as required by Government in the Accounts and Audit Regulations 2015 to be achieved.
12. Committee members are asked to note the revised Terms of Reference for the Audit and Standards Committee (Appendix D).

PROGRESS AGAINST THE ANNUAL GOVERNANCE STATEMENT

1. In June 2017, the Audit and Standards Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts.
2. The Corporate Governance Group the membership of which is 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. The table below sets out the current position against the action plan:

Objective	Action to be taken in 2017/18	Progress at March 2018
1. General Data Protection Regulations (GDPR)	<p>It is imperative that businesses and public bodies are prepared for the GDPR which will apply in the UK from 25 May 2018. The government has confirmed that the UK's decision to leave the EU will not affect the commencement of the GDPR.</p> <p>Work is already in hand to ensure Harlow is compliant with the requirements of the GDPR ahead of May 2018 and beyond.</p>	<p>The GDPR project group chaired by the Legal Services Manager and sponsored by the Managing Director is progressing well.</p> <p>A Council wide Information Asset Register is in place and work is ongoing to establish the legal basis for all processing activities.</p> <p>Review of relevant policies is progressing and these will be rolled out alongside training for Officers and Members..</p>
2. Performance and Risk Management system	<p>The Corporate Risk Register format is now incorporated into the new service planning and risk management system InPhase. Work will continue in 2017/18 on the database to ensure linkages between corporate and operational risks, corporate and service objectives and performance management information coupled with a staff awareness campaign.</p>	<p>Corporate Strategic Risks continue to be monitored and updated quarterly within InPhase. Performance measures detailed in the quarterly Joint Finance and Performance Management are now run from InPhase.</p> <p>For 2018/19 InPhase service plans, and their associated risks, will be linked to team plans.</p>
3. Revised Local Code of Corporate Governance	<p>The Council's Code of Corporate Governance will be updated to ensure it is aligned to the new framework for Corporate Governance published by CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives)</p>	<p>The Council's Code of Corporate Governance has been updated and is available on the Council's website.</p>

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

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**

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)

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: **Brian Keane, Managing Director**

Background Papers

Internal Audit Plan and Internal Audit monitoring reports

Appendices:

Appendix A – Audit Plan Monitoring

Appendix B – Audit Recommendations Tracker

Appendix C – Revised Anti-Fraud and Corruption Strategy

Appendix D – Revised Audit and Standards Committee Terms of Reference

**Appendix A - Audit Plan Monitoring 2017-18
March 2018**

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	
Quarter 1 -3										
Sam's Place	Community Wellbeing	10	Final report	■	■	■	Moderate	0	4	1
Harlow Playhouse (incorporating cash and banking)	Community Wellbeing	12	Final report	■	■	■	Moderate	0	6	0
Cyber Security	IT	12	Final report	■	■	■	Substantial	0	2	1
Key Financial Controls: - Accounting Systems/ General Ledger	Finance	12	Final Report	■	■	■	Moderate	0	2	0
Key Financial Controls - Creditors	Finance	12	Draft Report	■	■		Moderate	0	5	1
Discretionary Services (Events Management)	Community Wellbeing	15	Draft Report	■	■					
HTS: Performance and payments	Corporate	16	Draft report	■	■					
Priority Estates	Regeneration	12	In progress	■						
HR - Absence Management	Governance	10	In progress	■						
Quarter 4										
Safeguarding	Corporate	12	Scoping							
Home Ownership and Leaseholders service charges	Housing	12	Scoping							
Not a specific audit										
Fraud action plan	Corporate	5	Completed							
Agresso update oversight	Finance	5	Completed							
General Data Protection Regulations	Corporate	15	In progress							
Project oversight - waste contract	Place	5	In progress							
Project oversight - HR/payroll system	Governance	5	In progress							
Project oversight - customer strategy	Community Wellbeing	10	In progress							
Inphase - performance management and risk system	Corporate	15	In progress							
National Fraud Initiative	Finance		In progress							
Totals				9	7	4		0	19	3
Defer/drop (subject to approval)										
Responsive Repairs	Housing	12								
Council building - repairs and maintenance	Place	10								
Key Financial Controls - Capital Expenditure and Fixed Assets	Finance	12								
Procurement and Organised Crime	Corporate	12								

Key

HTS - Harlow Trading Services

HR - Human Resources

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
Recommendations added from the new tracker process									
Corporate Business Continuity Plan – Follow Up (May 2015)	5	Each service needs to develop a timetable to test its BCP (Business Continuity Plans). This testing process needs to be managed centrally to ensure: <ul style="list-style-type: none"> • Testing is carried out as planned • Outcomes of the testing is recorded • Action plans are developed to address any failures/weaknesses • BCPs (Service and Corporate) reviewed and updated as necessary post testing, and periodically thereafter 	Significant	A methodology for testing the BCPs will be determined by 31 March 2014 and a timetable developed to test each plan during April – June 2014.	Operations Manager/ Property and Facilities Manager/ Head of Place	31/03/14	01/11/15 30/04/16 31/07/16 31/03/17 01/05/17 31/03/18	<p>May15: Some testing of Council systems has been carried out as part of Emergency Planning (e.g. emergency power supplies at the Civic Centre, plus comprehensive ICT testing at Latton Bush).</p> <p>Aug15/Jun16: Whilst service level plans are being completed testing cannot take place, however joint working with Chelmsford CC around ICT disaster recovery may see some testing in this area in 2016.</p> <p>Aug/Nov16: Joint working with Chelmsford CC around ICT recovery has stalled. The implementation date is revised to the end of the financial year so that Harlow Council can explore other arrangements.</p> <p>Feb 17: Slow progress has been made with ICT due to HTS transition. Progress with BCP and testing is being monitored by the Corporate Governance Group.</p> <p>May/July 17: As part of the ITDR review, BCP testing will be discussed, providing all BCP's are in place. Once all service and Corporate BCP's are signed off, work can begin to discuss the testing of BCP's.</p> <p>Oct 17/Feb 18: All BCP's are now completed. These will now feed into a review of the IT Disaster Recovery Plan and Corporate Business Continuity Plan. Timetabling of recommended testing will be reviewed in conjunction with the Senior Management Team to enable the recommendations to be concluded.</p>	Overdue
Community	2a	The Safer Harlow Partnership (SHP)	Significant	Will review and update	Community Safety Team	30/09/15	31/01/16 30/06/16	Oct/Feb16: A full SHP or RAG meeting is needed prior to final agreement.	Overdue

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
Safety (June 2015)		needs to locate, review and update and overall governance document that sets out statutory roles, stakeholders, frequency of meeting, voting arrangements and other Partnership governance and administrative arrangements.		documentation.	Manager/ Head of Community Wellbeing		31/10/16 31/03/17 30/06/17 31/01/18 30/09/18	<p>June/Nov16: The SHP Coordinator post was made redundant in March 2016, due to a reduction in funding, and remaining staff resources have had to be prioritised on other activities. As agreed with Internal Audit, this document will now be in place by the end of the financial year.</p> <p>Feb 17: Harlow Council is still attempting to obtain data from the police in order to undertake the Strategic Assessment that is required.</p> <p>May/July 17: Responsible Authorities Group (RAG) meeting has been arranged for September 2017.</p> <p>Oct 17: A RAG meeting has taken place and governance matters were discussed and reviewed. The next meeting is scheduled for November where the final approach is to be agreed and referred to a full SHP meeting scheduled for December 2017. Once agreed this action is complete.</p> <p>Feb 18: Responsible Authorities Group met in December to discuss ToR and governance arrangements. This is an agenda item for the Safer Harlow Partnership Regulatory Authority Group meeting. Progress is ongoing.</p>	
Human Resources - Recruitment (September 2015)	2	Recruitment training on Wisenet (e-Learning module) should be provided to recruiting managers and evidenced.	Requires Attention	Agreed. Online training programme to be created on Wisenet and sent out to new managers with recruiting responsibilities. Certificate will be issued at the end of the course and a copy will be placed in	HR Manager /Head of Governance	31/03/16	31/12/16 30/06/17 30/09/17 31/03/18 30/04/18	<p>Jun/Nov16: Meeting has been postponed until Sept 16 to discuss and prepare an online training programme via Wisenet. The HR Advisor meets with recruiting managers to give one to one advice and guidance on the recruitment process.</p> <p>Feb/May 17: Trial has been completed. The recruitment module is ready. The staff member who completes e-learning also has other responsibilities, the main</p>	Overdue

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
				individual files.				<p>one being Payroll. Due to the additional Election this year this is not ready to launch.</p> <p>July/Oct 17: Wisenet requires a systems upgrade as the existing module is no longer supported, therefore training cannot be provided at the moment. The upgrade will be undertaken by CLS (External Consultants), in liaison with ICT. Awaiting response from CLS. This is unlikely to be achieved until early 2018.</p> <p>Feb 18: CLS have updated parts of the system and it was anticipated this would progress further in quarter 4. Ilearn (new name for Wisenet) has been impacted by CLS elements still outstanding and unexpected and unavoidable staff absence.</p>	
External Data Transfers December 2016	1b	The Records Retention/ Disposal Guidance policy should be reviewed and updated to ensure it meets the Council's requirements.	Medium	Agreed, this is in the process of being reviewed	Legal Services Manager/ Head of Governance	30/04/17	30/09/17 25/05/18	<p>May 17: This is part of the process required to implement the GDPR and is currently being reviewed to ensure on going compliance by 25 May 2018</p> <p>July / Nov 17: This is part of the GDPR project plan and is currently on track.</p> <p>Feb 18: The retention schedule has been circulated to departments for update as part of GDPR.</p>	Overdue
External Data Transfers December 2016	2a	Housing (Asset Management and Business Management) - In respect of contracts for services (i.e. printing of bulk data for housing; and Locata) a	Medium	Agreed. An information sharing agreement will be put in place for Locata. We will liaise with Procurement to ensure that an agreement is in place for CDS/Fuller Davis.	Housing Asset and Business Systems Manager/ Head of Housing	31/03/17	30/06/17 31/12/17 25/05/18	<p>May/July 17: Corporate procurement, has advised it will need to be Housing Services responsibility to set up an information sharing agreement. Discussed with Amanda Julian to agree a data sharing agreement template. Locata and our external printing provider will be asked to sign a data sharing agreement once agreed with Legal Services.</p>	Overdue

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
		contract which contains an information sharing agreement should be put in place.						Oct 17: The signing of the sharing agreement is taking longer than expected. Feb 18: This action will be aligned with new data sharing requirements as part of the wider project to ensure compliance with GDPR from 25th May 2018. Housing are in the process of familiarising ourselves with the new requirements and developing an action plan with clear prioritisation of the required actions before the regulation becomes effective on 25th May 2018.	
External Data Transfers December 2016	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 01/07/18	Feb/May 17: The Environment & Licensing Manager has drafted a data sharing agreement between Veolia and Harlow Council, setting out the principles for data sharing in connection with the waste and recycling contract, to ensure compliance with the Data Protection Act. The draft agreement has been approved by the Assistant Solicitor and sent to Veolia. Awaiting response. July 17: No response received from Veolia. The Environment & Licensing Manager has written to Veolia requesting an update. Oct 17: Veolia has responded with several queries and requests for additional information. Negotiations are in progress. 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.	Overdue

06

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
				Agreed. HTS - Assistant Solicitor/ Head of Governance	HTS - Assistant Solicitor/ Head of Governance	01/02/17	25/05/18	<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 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>	Overdue
Licensing May 2017	1	Monthly reconciliations of Taxi and Premises Licensing income should be undertaken between the database systems and the General Ledger. The reconciliations should be independently reviewed and the checks evidenced.	Medium	The management team at Environment and Licensing will take advice from the Council's Finance Team and from IDOX, its systems suppliers, to identify the most cost effective means of carrying out and validating a regular reconciliation process. The proposals will be agreed with the Council's Internal Audit Team before implementation.	Environmental and Licensing Manager / Environmental Health Manager / Principal Environmental Health Officer	31/12/17	01/04/18	<p>Feb 18: The team has worked with the software supplier for the back office systems in it's use to create reporting capability to enable reconciliation of individual records with the Council's ledger system for premises Licensing functions, and for taxi licensing functions. A draft report has now been supplied and is being tested.</p> <p>Work with the Contact Harlow is required to ensure that the ledger records can be correlated unambiguously with back office system event records. It is now anticipated that active reconciliation of all such records will be active from 1 April 2018</p>	Overdue

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
IT Disaster Recovery June 2017	1	The ITDR plan should be reviewed and updated in light of the BC plan updates	Medium	Agreed. This will be actioned alongside the current review and update of service and corporate business continuity plans being facilitated by the Interim Operations Manager.	Senior ICT Manager/ Head of Finance	30/09/17	31/12/17 31/05/18	Oct 17: The service Business Continuity Plans have only just been completed causing a delay in being able to move this forward. Feb 18: The draft Business Continuity Plan is now with the Head of Finance and Senior Management Board for comments/approval. The Business Continuity Plan covers Disaster Recovery.	Overdue
Sam's Place August 2017	1b and 2	A formal review of the service should be completed as this has not been undertaken since 2011. The review should consider a number of options such as charging, or other providers such as Action 4Children running Sam's Place directly. The strategic risks relating to Sam's Place (both financial and non-financial) should be reviewed and updated. This should be undertaken in conjunction with the options review above.	Medium	Review of Sam's Place to be undertaken by February 2018 Financial and non-financial risks will be reviewed and updated as part of the wider service review.	Youth and Citizenship Manager, (Head of Community Wellbeing)	31/01/18	31/03/18	Feb 18: The review, including reviewing corporate risks, has been done and just needs writing up.	Overdue

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
Playhouse October 2017	1c	Playhouse Management to create written procedures that raise awareness for staff of their responsibilities to protect cash and that cash differences (unders/overs) are to be monitored and reviewed.	Medium	Procedures to be implemented and Senior Hosts to deliver training to the General and Casual Hosts with regards to cash handling.	Technical and Projects Manager Community, Leisure and Cultural Services Manager	01/02/18	30/06/18	Feb 18: Written procedures are in the process of being created.	Overdue
Playhouse October 2017	3	To review the Fire Risk Assessment 2015 and ensure recommendations are completed, prioritising any action according to level of risk	Medium	The Playhouse Director to re-read the FRA's and highlight works required to Manager and Head of Service with a view to produce an up to date FRA.	Technical and Projects Manager Community, Leisure and Cultural Services Manager	01/02/18	30/06/18	Feb 18: The Playhouse Manager is in the process of completing the first stage of this task. New Fire alarm installation is ongoing.	Overdue
Playhouse October 2017	4	Review the recommendations made in the Health and Safety audit report, documented and ensure recommendations are completed, prioritising any action according to level of risk	Medium	The Playhouse Director to read and highlight resources required to implement this and report to the Manager and Head of Service.	Technical and Projects Manager Community, Leisure and Cultural Services Manager	01/03/18	30/06/18	Feb 18: The Playhouse Manager is in the process of completing the first stage of this task.	Overdue

Internal Audit Recommendation Tracker (Overdue)

Appendix B

Last Updated: 28 February 2018

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
Playhouse October 2017	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.	Technical and Projects Manager Community, Leisure and Cultural Services Manager	30/11/17	30/06/18	Feb 18: Meeting with the Council's Insurance Manager originally scheduled for February is to be rearranged for March 18.	Overdue
Cyber Security January 2018	2	Resurrect the ICT Operational Board to ensure there is effective ICT Governance arrangements in place and meetings are held on a regular basis.	Medium	The ICT Operations Board will have regular meeting commencing in February 2018.	Senior ICT Manager	28/02/18		Feb 18: The Senior ICT Manager is looking to hold an ICT Operations Board meeting on W/C 26th February, which Internal Audit will be invited to.	Overdue
General Ledger February 2018	1	Reconciliations should be undertaken and reviewed in a timely manner as per the Schedule of Reconciliations. In addition, a 'sign-off' section should be included within the Council's Schedule of Reconciliations, to enable the preparer and reviewer to evidence (and date) the formal review. Senior management should evidence that timely reconciliations are being completed.	Medium	The allocation of the payroll and bank reconciliation work is due to be reviewed with a view to some aspects of this work being allocated across the wider team in order that they are completed in a timelier manner.	Finance Manager	28/02/18	30/06/18	Feb 18: The payments reconciliation is due to be transferred to another Finance Officer in June 2018 after the closure of the accounts has been completed.	Overdue

HARLOW DISTRICT COUNCIL ANTI-FRAUD AND CORRUPTION STRATEGY

1. Purpose of the strategy

Theft, fraud, corruption and bribery are criminal offences. Harlow Council is committed to the highest standards of integrity, and will not tolerate them in any form. The Council's principle is zero tolerance towards offences and offenders.

The purpose of this Anti-Fraud and Corruption Strategy is to support the Council's ~~2016-19~~2018-21 Corporate Plan by protecting the public purse as every pound lost through fraud cannot be spent on services. In particular, this Strategy:

- Sets out the aims and long term vision of the Council's Anti-Fraud and Corruption framework
- Outlines the Council's approach to Anti-Fraud and Corruption
- Outlines the expected outcomes along with how the Council intends to achieve and monitor these

2. Key Objectives

The key objectives of the Council's Anti-Fraud and Corruption framework are to:

- protect the Council's resources and assets, ensuring they are used as intended;
- maintain a culture where fraud or corruption is not tolerated; and
- ensure staff and Members demonstrate the highest standards of honesty and integrity at all times.

This strategy also supports the national 2016-19 Fighting Fraud and Corruption Locally Strategy which advocates turning strategy into action by Councils considering their counter fraud response and performance against each of the six 'C' themes:

- **Culture** – creating a culture in which beating fraud and corruption is part of daily business
- **Capability** - ensuring a range of anti-fraud measures deployed is appropriate to the range of fraud risks
- **Capacity** – deploying the right level of resources to deal with the level of fraud risk
- **Competence** – having the right skills and standards
- **Communications** – raising awareness, deterring fraudsters, sharing information and celebrating successes
- **Collaboration** – working together across internal and external boundaries, with colleagues, with other local authorities, and with other agencies, sharing resources, skills and learning, good practice, innovation and information.

3. Definitions

In law, **fraud** is deliberate deception to secure unfair or unlawful gain, or to deprive a victim of a legal right. The purpose of fraud may be monetary gain or other benefits, such as obtaining a home or a job with the Council by way of false statement

Corruption is a form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit. Corruption may include many activities including bribery.

4. Strategic response

The principles of the Council's anti-fraud and corruption strategy are **acknowledge, prevent and pursue**.

Acknowledge	Prevent	Pursue
Acknowledge and understanding fraud <u>and corruption</u> risks	Preventing and detecting more fraud <u>and corruption</u>	Being stronger in punishing fraud <u>and corruption</u> /recovering losses
<p>Assessing and understanding fraud <u>and corruption</u> risks</p> <p>Committing support and resources to tackling fraud <u>and corruption</u></p> <p>Maintaining a robust anti-fraud <u>and corruption</u> response</p>	<p>Making better use of information and technology</p> <p>Enhancing fraud <u>and corruption</u> controls and processes</p> <p>Developing a more effective anti-fraud <u>and corruption</u> culture</p>	<p>Prioritising fraud recovery and the use of civil sanctions</p> <p>Developing capability and capacity to punish <u>corruption and</u> fraudsters</p> <p>Collaborating with law enforcement</p>
Some specific examples for Harlow District Council		
<ul style="list-style-type: none"> • Risk management process • Fraud <u>/corruption</u> proofing policy and processes • Fraud <u>and corruption</u> awareness 	<ul style="list-style-type: none"> • Whistleblowing policy • Strong internal control culture • Staff and supplier vetting • Participation in the National Fraud Initiative and the pan-Essex council tax matching campaign • Staff and Member Code of Conduct and Declarations of Interest • Information security and 	<ul style="list-style-type: none"> • Fraud response plan • Appointment of housing fraud officer • Enforcement powers and application of sanctions • Collaboration with other authority fraud teams

	IT policies	
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5. Key Fraud and Corruption Risks

It is important that the Council recognises and actively manages its risks relating to fraud and corruption, using its Risk Management Strategy and Toolkit in helping to achieve this. Fraud and corruption risks are routinely considered as part of the Council's strategic risk management arrangements using both pro-active and reactive components.

The key fraud and corruption risk areas for councils have been identified in the 2016-19 Local Government Counter Fraud and Corruption Strategy and those relevant to Harlow District Council are listed below; although not an exhaustive list:

- *Tenancy*: Fraudulent applications for housing or succession of tenancy, subletting of the property and Right To Buy fraud
- *Procurement*: Tendering issues, split contracts, double invoicing
- *Payroll*: False employees, overtime claims, expenses
- *Council Tax*: Discounts and exemptions, council tax support
- *Grants*: Work not carried out, funds diverted, ineligibility not declared
- *Internal Fraud*: Diverting council monies to a personal account, accepting bribes, stealing cash, misallocating social housing for personal gain, working elsewhere while claiming to be off sick, wrongfully claiming benefit while working, abuse of position such as misuse of assets/resources
- *Identity Fraud*: False identity/fictitious persons applying for services/payments
- *Business Rates*: Fraudulent applications for exemptions and reliefs, unlisted properties and rates avoidance
- *Money Laundering*: Exposure to suspect transactions
- *Insurance Fraud*: False claims including slips and trips
- *Disabled Facility Grants*: Fraudulent applications for adaptations to homes aimed at the disabled
- *No Resource to Public Funds*: Fraudulent claim of eligibility
- *Local Enterprise Partnerships*: Voluntary partnership between local authorities and business, procurement fraud and grant fraud
- *Cyber Dependent Crime and Cyber Enabled Fraud*: Enables a range of fraud types resulting in for example diversion of funds, creation of false applications for services and payments

The United Kingdom Anti-Corruption Strategy 2017-22 sets out a long term framework for tackling corruption. For local government, including Harlow Council, this sets out the following goals:

- Greater procurement transparency, enabling better identification and mitigation of corruption risks.
- Strengthened awareness and capability within contracting authorities leading to a stronger awareness of corruption risks and more capability to detect and deter illegality.

6. Approach

The prevention and detection of fraud and corruption and the protection of the public purse is everyone’s responsibility. The key components in achieving this are:

Proactive

- Strengthening the anti-fraud culture to increase resilience to fraud
- Preventing fraud through the implementation of appropriate and robust internal controls including robust procurement and cyber security measures
- Increasing fraud and corruption awareness of Council officers and Members
- Deterring fraud attempts by publicising the actions the ~~organisation~~ Council takes against corruption and fraudsters

Reactive

- Detecting fraud and corruption through data and intelligence analysis
- Implementing effective whistleblowing arrangements
- Investigating fraud and corruption referrals
- Applying sanctions, both civil and criminal
- Seeking redress, including the recovery of assets and money

The table below lists the suggested approach and expected outcomes against each of the three principles of the Council’s Anti-Fraud and Corruption Strategy, which will be supported by a rolling action plan.

Principle	Approach	Expected Outcome
Acknowledging and understanding fraud <u>and corruption</u> risks	<p>Strengthen <u>Using</u> the risk management process to assess current and future fraud and corruption risks</p> <p>Need for <u>Continued</u> cultural change and increase in fraud and corruption awareness both internally and outside of the Council</p> <p>Annual fraud report through central collection of fraud data</p>	<p>Increased reporting of cases</p> <p>Increased awareness of anti-fraud <u>and corruption</u> process and procedures throughout the organisation <u>Council</u></p>

	Improved sharing of fraud <u>and corruption</u> threats, information and intelligence both internally and externally	
Preventing and detecting more fraud <u>and corruption</u>	<p>Fraud <u>and corruption</u> proofing of policy and processes</p> <p>Better use of data and technology to prevent and detect fraud <u>and corruption</u></p> <p>Assessment of the Council's internal controls framework to ensure it remains robust</p> <p>Supporting anti-fraud <u>and corruption</u> policies and procedures including whistleblowing and money laundering</p>	<p>Increased levels of anti-fraud <u>and corruption</u> awareness</p> <p>When fraud or corruption has occurred because of a breakdown in the Council's systems or procedures, the Section 151 Officer will ensure that appropriate improvements in systems of control are implemented to prevent a recurrence.</p> <p>Any significant control issues are reported in the Annual Governance Statement along with actions taken to address the issue.</p>
Be stronger in punishing Fraud <u>and corruption</u> / recovering losses	<p><u>Develop c</u>Capacity and capability to investigate and prosecute fraud <u>and corruption</u></p> <p>Consistent and effective response for dealing with fraud <u>and corruption</u> cases</p>	<p>Successful use of sanctions and/or prosecution</p> <p>Recovery of fraud <u>Reduce the losses increased as a result of fraud or corruption</u></p>

7. Responsibility for implementing this strategy

Responsibility	Role
<u>Chief Executive</u> <u>Managing Director</u>	Ultimately responsible for preventing and detecting theft, fraud and corruption and promoting an anti-fraud <u>and corruption</u> culture.
Members	As elected representatives, all members of the Council have a duty to the public to maintain the highest standards of conduct and ethics, and to ensure the Council is open and transparent in all the decisions it makes. Members are required to adhere to the Council's constitution, which incorporates a

	Member Code of Conduct.
Audit and Standards Committee	<p>Monitoring Council policies on whistle blowing, for contraventions of financial and other procedures or fraud related situations, Anti-Fraud and Corruption Strategy and complaints. To satisfy itself there are adequate arrangements in place to manage risk (including that relating to fraud and corruption) effectively. To monitor Council policies on anti-fraud and corruption and to receive periodic reports on fraud and corruption.</p> <p>Promoting and maintaining high standards of conduct by Councillors and co-opted persons of Committees.</p> <p>Monitoring the operation of the Code of Conduct.</p>
Corporate Governance Group, led by the Section 151 Officer and Monitoring Officer	Developing, reviewing and maintaining an anti-fraud and corruption framework.
Corporate Management Team/Heads of Service Senior Management Board	Ensuring all staff follow this strategy and any related policies and procedures, supported by the Council's Internal Audit and Human Resources functions.
Section 151 Officer	Has a statutory responsibility under the Local Government Act 1972 for the proper administration of the Council's financial affairs. Where irregularities, fraud or corruption are suspected the S151 Officer should be informed. On being informed of an alleged irregularity, fraud or corruption the S151 Officer will determine the arrangements for investigating the matter in line with the Council's Fraud Response Plan.
Monitoring Officer	Under the Local Government Act 1972 has the specific duty to ensure that the Council, its Officers, and its Elected Councillors, maintain the highest standards of conduct in all they do. They also advise the Council on the legality of their decisions.
Directors and M-managers (all levels)	<p>Responsible for preventing and detecting fraud <u>and corruption</u> and ensuring they operate effective mechanisms in their area of control to:</p> <ul style="list-style-type: none"> • Prevent theft, fraud and corruption thereby safeguarding the Council's assets and interests • Promote employee awareness • Assess the risk of fraud <u>and corruption</u> and take appropriate action • Take prompt action in line with the Fraud Response Plan where they suspect or are alerted to possible theft, fraud or corruption
All staff	All staff have a responsibility to prevent, detect and

	report on fraud <u>and corruption</u> or suspected <u>fraudcases.</u>
Partners and Contractors	Required to comply with the Council's policies and procedures when undertaking work for and jointly with the Council
External Audit	Under the International Standard on Auditing 240, when conducting an audit External Audit are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
Internal Audit	Providing assurance on the effectiveness of systems and procedures to prevent and detect fraud and corruption (by undertaking audits). Supporting managers in minimising fraud and corruption related risk and are alert in all their work to risks and exposures that could allow fraud and corruption to take place.

8. Supporting policies, procedures and processes

The Council has a range of policies, procedures and processes in place to formalise arrangements for the prevention, detection and investigation of fraud and corruption. These include:

- Anti-Fraud and Corruption Strategy (this document)
- Whistleblowing Policy (located on the Council's Infonet)
- Anti-Bribery Policy Statement (Appendix 1 of this document)
- Fraud Response Plan (Appendix 2 of this document)
- ~~Prevention of Money Laundering procedures (located on the Council's Infonet)~~
- Anti-Money Laundering Policy and Procedure (Appendix 3 of this document)
- Employee and Member Codes of Conduct (located on the Council's Infonet and published as part of the Constitution)
- Financial Regulations (located on the Council's intranet and published as part of the Constitution)
- Contract Standing Orders (located on the Council's Infonet and published as part of the Constitution)

9. Policy reporting, review and monitoring performance

This policy can only be varied with the collective agreement of the Chief Executive/Managing Director, the Section 151 Officer and the Monitoring Officer.

The Head of Finance, as Section 151 Officer, will develop a rolling anti-fraud action plan to support the strategy, in conjunction with the Head of Internal Audit and senior managers.

It will be the responsibility of ~~the Corporate Management Team (CMT)~~the Senior Management Board, via the Corporate Governance Group, to ensure there are adequate resources to support the action plan.

The Audit and Standards Committee will receive regular fraud updates ~~from the Section 151 Officer~~ to assist in their oversight of the Council's anti-fraud and corruption strategy and arrangements.

~~The expected outcomes from this strategy are detailed in the table in section 6 (Approach). Reporting on performance will be made to the CMT and the Audit and Standards Committee on an annual basis.~~

ANTI-BRIBERY POLICY STATEMENT

Bribery is a criminal offence. Harlow ~~District~~ Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor does it or will it, accept bribes or improper inducements. To use a third party as a conduit to channel bribes to others is also a criminal offence.

Harlow District Council is committed to the prevention, deterrence and detection of bribery and has zero tolerance towards bribery. ~~The Council aims to maintain anti-bribery compliance "business as usual", rather than as a one-off exercise.~~

Bribery

Bribery is defined as an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage. It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to ~~"facilitate" or~~ expedite a routine procedure
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by the Council in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy.

Objective of this policy

This policy provides a coherent and consistent framework to enable Officers to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach. The Council requires that all staff, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the Council's resources for which they are responsible
- comply with ~~the spirit, as well as the letter, of~~ the laws and regulations of all jurisdictions in which the Council operates, ~~in respect of the lawful and responsible conduct of activities.~~

Scope of this policy

This policy applies to all of the Council's activities. For partners, joint ventures, subsidiary companies and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the Council. It does not rest solely within assurance functions, but in all service areas.

~~This policy covers all staff, including all levels and grades, those permanently employed, temporary agency staff, contractors, agents, Members (including independent members), volunteers and consultants.~~

The Council's commitment to action

The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date
- Making all employees aware of their responsibilities to adhere strictly to this policy at all times
- Training-Raising awareness, and where appropriate offer training, so all employees ~~so that they~~ can recognise and avoid the use of bribery by themselves and others
- Encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to all employees to report breaches and suspected breaches of this policy
- Include appropriate clauses in contracts to prevent bribery.

Gifts and hospitality

This policy is not meant to change the requirements of the Council's gifts and hospitality policy (included in the Officer Code of Conduct). This makes it clear that sample tokens of modest value bearing the name or insignia of the organisation giving them (for example, pens, diaries or calendars) whether given personally, or received in the post, may be retained unless they could be regarded as an inducement or reward. You should refuse the offer or invitation (or return the gift) unless your Head of Service has advised you that it may be accepted or retained.

Staff responsibilities

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control. All staff are required to avoid activity that breaches this policy. Staff must:

- ensure that they read, understand and comply with this policy
- raise concerns as soon as possible as they believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in summary dismissal for gross misconduct.

Raising a concern

This Council is committed to ensuring that all of its officers have a safe, reliable, and confidential way of reporting any suspicious activity. Officers have a responsibility to help detect, prevent and report instances of bribery. If an officer has a concern regarding a suspected instance of bribery or corruption, they should report it.

There are multiple channels to help staff raise concerns and should refer to the Whistleblowing Policy and determine their favoured course of action. Staff who do not have access to the intranet should contact the Internal Audit Manager or their Head of Service. Concerns can be [raised](#) anonymously.

In the event that an incident of bribery, corruption, or wrongdoing is reported, the Council will act as soon as possible to evaluate the situation. The Council has a clearly defined Whistleblowing Policy and Fraud Response Plan which set out procedures for investigating fraud, misconduct and noncompliance issues. This is easier and quicker if concerns raised are not anonymous.

Staff who refuse to accept a bribe, or those who raise concerns or report wrongdoing can understandably be worried about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

The Council is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith. If you have any questions about these procedures they can be directed to the Internal Audit Manager or the Council's Monitoring Officer.

Bribery Act 2010

Under the Bribery Act 2010 there are four core bribery offences:

1. offering, promising or giving a bribe
2. requesting, agreeing to receive or accepting a bribe
3. bribing a foreign public official; and

4. a corporate offence of failing to prevent bribery.

A local authority, such as Harlow District Council, could be liable to prosecution if an employee, agent, or subsidiary bribes another person, intending to obtain an advantage for the local authority.

For individuals, the penalties for committing a crime under the Act are a maximum of 10 years' imprisonment, along with an unlimited fine, and the potential for the confiscation of property under the Proceeds of Crime Act 2002.

HARLOW COUNCIL FRAUD RESPONSE PLAN

1. Introduction

- 1.1 The Fraud Response Plan defines the way that Harlow Council applies its various policies and procedures to suspected theft, fraud, corruption and bribery.
- 1.2 It fits in with various other documents, including the Council's anti-fraud and corruption strategy and the whistleblowing procedure. The procedures for dealing with suspected money laundering are different from other problems – see the Anti-Money Laundering policy and procedure for the necessary actions.
- 1.3 Different rules apply to Benefits Fraud.
- 1.4 The aim of this Plan is to provide a toolkit for dealing with problems, and rapid access to expert advice. This fraud response plan guides managers on how to react to suspicions of fraud, theft, corruption and bribery.
- 1.5 Additionally, it gives an outline on how investigations will be progressed, the manager's role and the role of the Investigating Officer.

2. Purpose of the Fraud Response Plan

- 2.1 The Fraud Response Plan is designed to ensure timely and effective action in the event of suspected fraud to:
 - Minimise fraud by taking prompt action
 - Prevent further losses where fraud has occurred
 - Maximise recovery of losses
 - Ensure the accuracy and integrity of evidence for successful disciplinary and court action
 - Identify lessons to be learned to improve fraud management
 - Maximise positive publicity when frauds are discovered and dealt with effectively
 - Deter others from fraud that they may be contemplating

In addition to obvious frauds involving theft of assets or the misappropriation of funds, the following are examples of the types of activity that may be regarded as fraud. The list is merely indicative and not exhaustive:

- Manipulation or misreporting of financial information.
- Misuse of the organisation's assets, including cash, stock and other assets
- Deception (e.g. misrepresentation of qualifications to obtain employment)
- Offering or accepting bribes or inducements from third parties
- Conspiracy to breach laws or regulations
- Fraudulent completion of official documents (e.g. VAT receipts)
- Time recording fraud

- Theft of intellectual property (e.g. unauthorised use of a brand name/logo, theft of customer data or product design)

3. The Manager's role in dealing with suspected fraud

First response

Where managers suspect a fraud has taken place the first **course of action must be to contact the Head of Finance (as Section 151 Officer) and Internal Audit** who will in turn ensure the Monitoring Officer and the ~~Chief Executive~~Managing Director are informed.

The only exception to this is where the matter is clearly related to the benefits system. In such cases, refer the matter direct to the Department of Works and Pensions (DWP), details of which can be found on the Council's web site.

The Head of Finance will retain overall responsibility and control for any investigation but will delegate responsibility for leading the investigation to an Investigating Officer ensuring they are independent of the service area under investigation and appropriately experienced and trained. Internal Audit will provide advice and guidance to the Investigating Officer if they are not appointed as such. **Investigations of suspected fraud should only be undertaken by officers authorised by the Head of Finance.**

There may be circumstances where it is appropriate for local managers to undertake some preliminary exploration to check on the validity of an allegation or irregularity to establish whether there is a case to be investigated. Where this occurs, advice should be sought from the Head of Finance or Internal Audit as such activity may alert the fraudster, resulting in the destruction of evidence or compromising the collection of further evidence.

Human Resources will be consulted should action need to be taken against an individual staff member, such as suspension to protect evidence. Therefore, the Head of Finance will inform Human Resources at the earliest opportunity, and if appropriate agree a way forward.

Where initial investigations point to the likelihood of a criminal act having taken place, the Head of Finance or Monitoring Officer will inform the Police. Crime numbers should be obtained and provided to Internal Audit/Insurance for reporting purposes.

Initial Enquires

Speed is of the essence, therefore the Investigating Officer should make discreet initial enquires to determine if there actually appears to be an irregularity. During this initial enquiry the Investigating Officer should:

- Determine the facts and factors that gave rise to the suspicion
- Examine the factors to determine whether a genuine mistake has been made or whether an irregularity has occurred
- Document their findings, ensuring access is restricted i.e. not held in an 'open area' of the network

- Secure any relevant documentation/records if this can be done without alerting the perpetrator

The Investigating Officer should not formally interview staff at this stage.

4. Formal Investigation

The Head of Finance will instigate a formal investigation, in consultation with Internal Audit and the relevant Head of Service, to be undertaken by the appointed Investigating Officer. In the absence of the Head of Finance, their responsibilities are transferred to the Monitoring Officer or ~~Chief Executive~~Managing Director.

Consideration will be given by the Head of Finance whether to involve other agencies such as Police, HM Revenue & Customs, Cabinet Office ~~(the successor body for the Audit Commission)~~, the Department for Work and Pensions, the National Anti-Fraud Network, the National Crime Agency, External Audit and other councils.

The Head of Finance, in consultation with Human Resources, will consider whether it is necessary to suspend one or more employees to protect evidence, colleagues or assets in line with disciplinary procedures.

5. Conducting the Investigation

The exact format of an investigation is fluid but some general principles will apply to all investigations:

- Investigate and report back to the Head of Finance promptly. If the investigation extends more than two or three days then the Head of Finance or Internal Audit should be given periodic updates.
- Comply with legislation on interviewing (Police and Criminal Evidence Act, PACE) and surveillance (Regulation of Investigatory Powers Act, RIPA). However, it is not normally necessary, even when there may be a criminal offence, to conduct interviews under PACE rules. The police can re-interview witnesses and suspects later on in the process.
- Record all evidence received, ensuring that it is sound and adequately supported (see further guidance below).
- Keep written records of all fact-finding meetings and interviews.
- Email correspondence about the investigation should be discreet and use an agreed 'case name' rather than real names or locations.
- All sensitive attachments should be password protected (or, preferably, not emailed).
- Hold evidence securely, with appropriate restriction to access (both manual and electronic documentation)
- Maintain confidentiality and discretion throughout, and share information on a "need to know" basis. In particular, be mindful that senior officers may need to hear disciplinary cases, and therefore should not know details of cases.

- Where appropriate, contact other enforcement agencies e.g. Police, HM Revenue & Customs. This should be always enacted via Internal Audit as they may have established lines of communication and referral protocols.
- Investigators must not accept any offer of repayment of money or resignation at any stage, as this could prejudice the investigation. Any such offers should be recorded in the interview notes, and passed on to the Head of Finance for consideration (in conjunction with the HR Manager).

The Council has the right to suspend any employee involved pending the outcome of an investigation. Suspension does not imply guilt but suspension can prevent the removal or destruction of vital evidence. When suspects are not suspended, supervision will usually need to be increased. Always seek advice from Human Resources on suspensions and any subsequent disciplinary action.

The Head of Finance ~~Internal Audit Manager~~ will report losses to the Council's Insurance Team at the earliest stage.

~~Some organisations always delay internal disciplinary procedures pending police action on criminal offences, and dismiss employees after a court case. Explicitly, Harlow Council will pursue disciplinary matters at once, in order to remove perpetrators from the payroll as rapidly as is possible using proper process.~~

6. Actions Following the Completion of an Investigation

Upon completion of an investigation, the Investigating Officer will report findings in an appropriate format (usually written) to the Head of Finance. The final report will also be issued to the Chief Executive/Managing Director and the Monitoring Officer, and if appropriate to the relevant Head of Service, HR Manager and members of the Audit and Standards Committee.

In all cases the Council's insurers should be informed of actual losses as soon as these have been firmly established.

The Head of Service must remedy control weaknesses identified during the course of the investigation. Internal Audit will provide advice and support on effective controls.

Internal Audit will record of all investigations and final outcomes in the theft, fraud, corruption and bribery register, including crime numbers. This information informs future prevention strategies, and is used in reporting fraud and corruption at the Council.

The Communications Team should be informed (it is useful to have a protocol regarding publicity of frauds) so that publicity can be ~~properly managed~~ effectively.

Whenever fraud has been proved, the Council will make every effort to recover the losses. The method used will vary depending on the type of loss and the regulations and powers available. All means of recovery including recovery under social security legislation, attachments to earning, civil court proceedings and criminal court compensation will be used as appropriate to the offence.

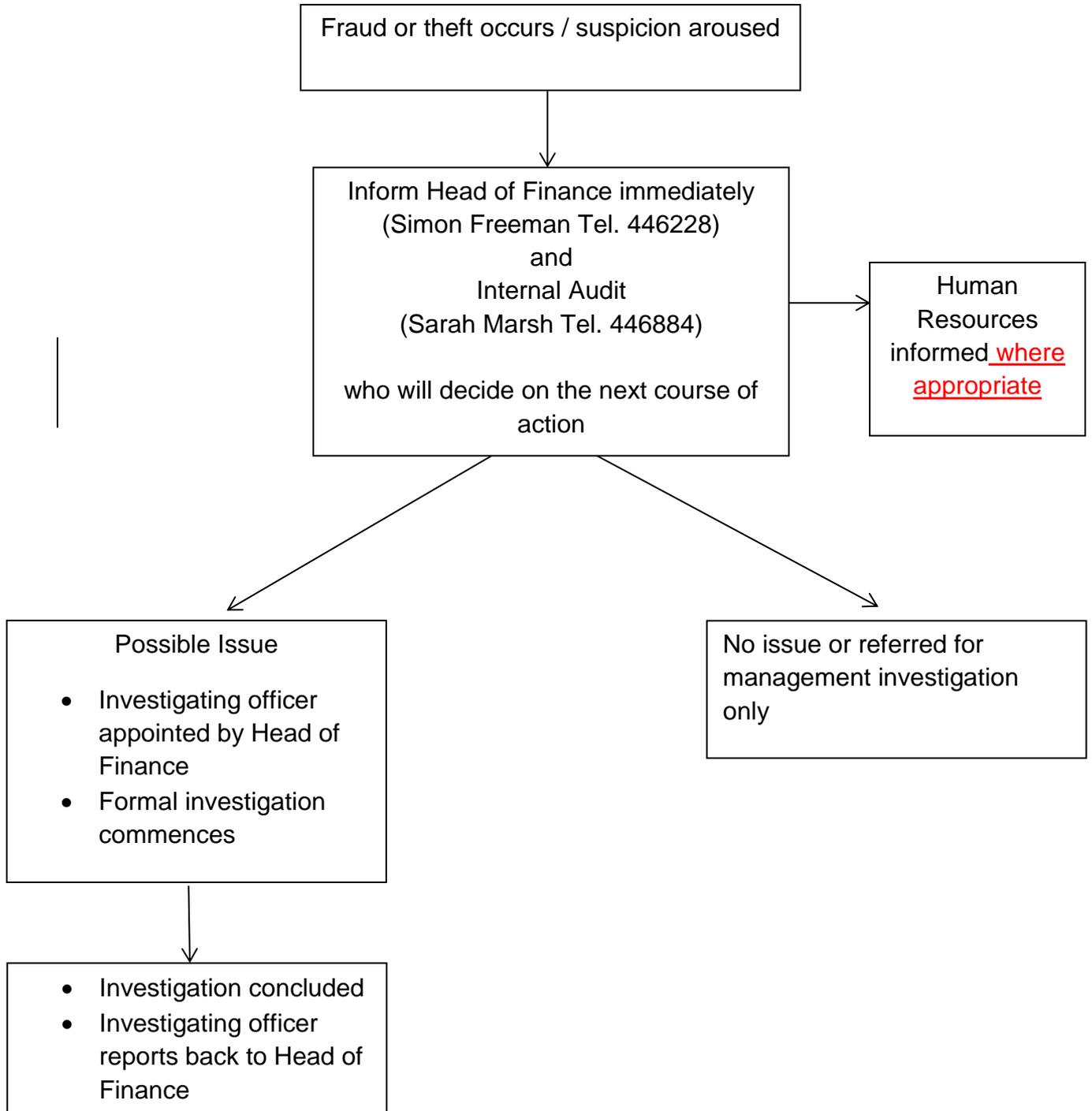
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~~October-January 2018~~

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Outline of Fraud Response Process



Harlow Council Anti-Money Laundering Policy and Procedure

1. Introduction

The Council is committed to the prevention of money laundering. ~~and to working with the appropriate authorities to apprehend those who commit offences under the anti-money laundering regulations.~~

These procedures are to be followed by all staff and Members to ensure compliance with the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007.

Money Laundering is defined under the Proceeds of Crime Act (POCA) 2002, and involves possession, or in any way dealing with, or concealing the proceeds of any crime. It also involves similar activities defined by the Terrorism Act 2000, relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism.

Any person involved in a known, or suspected, money-laundering activity in the UK risks a criminal conviction carrying a jail term of up to fourteen years. The offences apply to everyone, in both personal and professional capacities. Such acts are not offences if the person makes an 'authorised disclosure' to a police constable, customs officer or an officer nominated as the Money Laundering Reporting Officer (MLRO) by their employer.

This policy sets out the procedure to minimise the risk that Harlow Council services will be used in money laundering, and to protect employees from the risk of prosecution if they become aware of money laundering activity in their work.

2. Policy

The Council's policy is that all Members and employees will comply with the legal requirements, ~~and with their spirit.~~ Failure to do so will put the individual at risk of disciplinary action.

The Council will apply the provisions of the legislation in a proportionate way, matching its actions and requirements to the seriousness of potential offences. This will be done in a way that is entirely consistent with the Council's general policy on theft, fraud, corruption and bribery, which is that it will not tolerate these behaviours. It is also consistent with related policies and procedures, such as the whistleblowing procedure and the fraud response plan.

This Policy applies to all Members and employees of the Council to:

- prevent the organisation and its staff being exposed to money laundering;
- identify areas where it may occur; and
- comply with all legal and regulatory requirements.

This policy and procedure document gives an overview including what to do about suspicions of money laundering.

3. What is money laundering?

There are **three principal offences** – concealing, arranging and acquisition/use/possession.

Concealing is where someone knows or suspects a case of money laundering, but conceals or disguises its existence (section 327 of the Proceeds of Crime Act 2002).

Arranging is where someone involves himself or herself in an arrangement to assist in money laundering (section 328).

Acquisition, Use and Possession is where someone seeks to benefit from money laundering by acquiring, using or possessing the property concerned (section 329).

There are also **three ‘third party’ offences** under POCA – tipping off, failure to disclose and prejudicing an investigation.

Tipping off is where someone informs a person or people who are, or are suspected of being, involved in money laundering, in such a way as to reduce the likelihood of their being investigated, or prejudicing an investigation. **Failure to disclose** is self-explanatory – not reporting suspicious activity. These are described in more detail in Sections 8 and 9.

It is unlikely that a member of staff would commit any of the three principal offences, but failure to disclose a suspicion and ‘tipping off’ are serious offences in themselves, and there are only very limited grounds in law for not reporting a suspicion.

The **primary money laundering offences** are punishable by up to 14 years imprisonment with up to five years for **third party offences**.

Although ‘money laundering’ generally means the activities of organised crime (for which the legislation and regulations were first introduced), it technically covers any suspicion that someone is benefiting financially from dishonest activities.

‘Criminal property’ is defined very widely. It includes not only the proceeds of crime committed by somebody else, but also possession of the proceeds of an individual’s own crime – for example, retaining money from non-payment of income tax. It does not matter how small the amount of money involved. It also includes the proceeds of crimes that take place abroad. However, the main concern is with organised criminal activity.

4. Legal framework

There is no statutory requirement on the Council to adopt a Money Laundering Policy or appoint a Money Laundering Reporting Officer but Harlow Council follows good practice by having these in place. The requirement (on the organisation and on individuals) is to disclose suspicions that may arise during the course of normal business.

5. The Council's obligations

Harlow Council will ensure that staff who are most likely to be exposed to, or suspicious of, money laundering have guidance on the law and, where necessary, suitable training.

The Council has procedures for reporting suspicious transactions and if necessary, making an appropriate report to the National Crime Agency (NCA).

The Council has made arrangements to deter and prevent money laundering. There are formal procedures for evidencing the identity of parties with whom the Council interacts 'by way of business' for services that could be deemed to be 'relevant'. See Sections 10 and 11 below.

Employees do not need detailed knowledge of the criminal offences. However, the employees most likely to encounter money laundering must be aware of the procedures, and of their personal responsibilities.

ANTI MONEY LAUNDERING PROCEDURE

6. Examples of how the Council may become involved in money laundering

This procedure provides sufficient detail for most staff, and gives guidance to those most likely to encounter attempts at money laundering information on what they must do. The following list gives examples of how the Council may become involved in money laundering although it is not exhaustive:

- Accepting large cash amounts – this Council has set a limit of £10,000. This can be a single transaction, or a group of related transactions. However, it is important to be vigilant when receiving any cash payments over £1,000.
- The request of a large refund.
- Property investments or purchases.

Indicators which may suggest Money Laundering activities include:

- Payments to the Council of large amounts ~~_, although report any suspicious cash transactions to the Money Laundering Reporting Officer (MLRO). Regulations state cash amounts over 15,000 Euros (or the sterling equivalent) must be reported, however, staff must report any suspicious cash transactions to the Money Laundering Reporting Officer (MLRO).~~
- Cash overpayments made by a customer resulting in a large refund request being made.
- Cash transactions made that are significantly outside of normal expectations.
- Involvement of third parties when dealing with the Council and cash payments, without logical reason.
- Customers/contractors or suppliers who are unwilling to ~~provide, without reasonable excuse, proof~~ provide proof of identity, or information on the sources of the funds.

7. Disclosure procedure

Harlow Council has nominated the following officers to manage anti-money laundering measures within the organisation:

Money Laundering Reporting Officer (MLRO)	Head of Finance: 01279-446228
Deputy MLRO	Head of Governance <u>Principal Finance Manager</u> : 01279-446 <u>225037</u>

You should report all known or suspected money laundering activities, or concern that your involvement in a matter may amount to a prohibited act, to the MLRO as soon as possible. Failure to do so could lead to prosecution. This can be done either verbally or completing the 'Report to Money Laundering Reporting Officer' form available on the Infonet

Once you have reported a matter to the MLRO, you must not make any further enquiries without instruction from the MLRO. You **must** co-operate with the MLRO and other authorities during any subsequent investigation.

Where the MLRO concludes a disclosure is necessary, he will do this in the prescribed manner, as soon as possible, by submitting a Suspicious Activity Report (SAR) via the SAR online system.

Where consent is required from NCA for a transaction to proceed, then the transaction in question **must not** go ahead until NCA has given consent, or there is deemed consent because NCA has not given instructions inside the legal timescale.

Where the MLRO concludes that there are no reasonable grounds to suspect money laundering they must record this on the report, and give consent in writing for transactions to proceed.

The MLRO commits a criminal offence if he knows or suspects money laundering is taking place and does not subsequently report it to NCA. They must act on all reports from members and employees, and positively decide whether or not to report. All records must be kept for five years.

8. "Tipping off" and "Failure to Disclose" Offences

It is an offence to indicate to the subject of a money laundering report that a report has been made. If, knowing a disclosure has been made, you say or do anything which is likely to prejudice any investigation that might be conducted, you are guilty of tipping-off.

Therefore, where you suspect money laundering and report it to the MLRO, be very careful what you say to others afterwards. For example, a lawyer who reports his suspicions of a money laundering offence may commit a tipping off offence if he then tells the client. However, preliminary enquiries of a client to obtain more information (e.g. confirm their identity, clarify the source of funds) will not amount to tipping off, unless you know or suspect that a report has been made.

Even if **you** have not reported the matter to the MLRO, but you know or suspect that **someone else** has made such a disclosure and you mention it to someone else, this could amount to a tipping off offence.

You must not, therefore, make any reference on a file to a report having been made to the MLRO because, should the client/customer exercise their right to see the file under the Data Protection or Freedom Of Information Acts, such a note will obviously “tip them off” and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

Likewise it is an offence if someone fails to disclose i.e. they have knowledge or suspicion either as an employee or by the MLRO.

9. “Prejudicing an investigation” offence

If you know or suspect that an appropriate officer is, or is about to be, conducting a money laundering investigation and you make a disclosure to a third party that is likely to prejudice the investigation, you are committing an offence. Falsifying, destroying, disposing of, concealing any document which is relevant to the investigation or allowing this to happen is also an offence.

Any person found guilty of tipping off, failing to disclose or prejudicing an investigation is liable to imprisonment (maximum 5 years), an unlimited fine, or both.

However, defences are available for such offences, for example:

- Where you did not know or suspect that the disclosure was likely to be prejudicial; or
- Where you are a professional legal adviser and the disclosure was:
 - to a client (or his representative) in connection with the giving of legal advice;
 - to any person in connection with legal proceedings (existing or contemplated);

but **not** where the information was given with the intention of furthering a criminal purpose.

10. Specific requirements for “relevant business”

The following activities could be deemed to be ‘relevant’:

- Provision ‘by way of business’ of legal services which involves participation in a financial or real property transaction
- Provision ‘by way of business’ of services which involve the formation, operation or management of a company or trust
- Dealing in goods of any description ‘by way of business’ whenever a transaction involves accepting a total cash payment of £10,000 or more.
- Dealing in and managing investments ‘by way of business’.

11. Client identification procedure

Where the Council is carrying out business that could be deemed to be 'relevant' and:

- forms an ongoing business relationship with a client; or
- undertakes a one-off transaction involving payment by or to the client of £10,000 or more; or
- undertakes a series of linked one-off transactions involving total payment by or to the client(s) of £10,000 or more; or
- it is known or suspected that a one-off transaction (or a series of them) involves money laundering;

then you must follow the Client Identification Procedure below before undertaking any business.

Satisfactory evidence of identity establishes that the client is who they claim to be. This applies to existing clients if evidence is not already on file, as well as new ones. In all cases, you must retain the evidence for at least five years from the end of the business relationship or transaction(s).

Where satisfactory evidence of identity is not available the business arrangement or one off transaction should not proceed.

Where the client is acting or appears to be acting for someone else, you must also take reasonable steps to establish the identity of that other person.

The law states that particular care must be taken when the client is not physically present when being identified.

Client Identification Procedure: For all clients there must be a signed, written instructions on their organisation's headed paper at the outset of the business relationship.

The Officer dealing with the transaction will require the other party to produce evidence of identify in the form of:

- a bank or credit card statement (less than 3 months old)
- a birth or marriage certificate

Dealings with a company should be verified by: ~~Additional evidence should also be in place, for example:~~

- checking the organisation's website to confirm the identity of personnel, its business address and ~~any other details~~ sits business activities;
- checking the company details with Companies House to confirm the nature and business of the company and confirm the identities of any directors
- meet the client at their business address;

- ~~• confirm that the organisation is included in the telephone directory;~~
- ~~• asking the key contact officer to provide evidence of their personal identity and position within the organisation.~~
- ~~• and position within the organisation, for example:~~
 - ~~○ passport, photo ID card, driving licence;~~
 - ~~○ signed, written confirmation from an appropriate senior person in their organisation confirming that they work for the organisation and are empowered to conduct this type of transaction.~~

12. Record keeping

Each unit of the Council conducting relevant business must maintain records of:

- client identification evidence obtained; and
- details of all relevant business transactions carried out for clients

for at least five years. This is so that they may be used as evidence in any subsequent investigation into money laundering by the relevant authorities.

The precise nature of the records is not prescribed by law, however, they must provide a sound management trail during any subsequent investigation. (For example, distinguishing the client and the relevant transaction and recording in what form any funds were received or paid.) In practice, Council sections will routinely keep records of work carried out for clients in the course of normal business and these will usually be sufficient.

13. Conclusion

It is relatively unlikely that Harlow Council will encounter money laundering. However, we need to be aware of the issues, and ready to deal with any suspicious circumstances promptly and properly.

Simon Freeman
Section 151 Officer

Appendix D: Revised Terms of Reference for the Harlow Audit and Standards Committee

The role of the Committee is two-fold:

1. **Audit** - The Committee oversees the Council's internal audit and risk functions; receives and approves external audit reports; scrutinises and approves the Annual Statement of Accounts; makes reports and recommendations to the Cabinet, Committees and the Council as a whole on the adequacy of its corporate governance and risk management arrangements and the associated control environment.
2. **Standards** - The Committee deals with a range of matters including issues concerning Councillors' conduct, provides advice and guidance to the Council, the Cabinet and individual Councillors and advises on the application and review of the Constitution.

The Terms of Reference of the Audit and Standards Committee are as follows:

Audit

1. To approve the Internal Audit charter.
2. To consider the Audit Manager's annual report and opinion, the summary of Internal Audit activity and the level of assurance it can give over the Council's internal control, risk management and corporate governance arrangements.
3. To approve the risk-based Internal Audit plan, including resource requirements and its approach to using other sources of assurance.
4. To consider summaries of Internal Audit reports.
5. To consider reports from Internal Audit on agreed recommendations not implemented within reasonable timescales.
6. To consider reports dealing with the management and performance of the providers of Internal Audit services.
7. To consider the external auditor's Annual Audit and Inspection Letter and other reports.
8. To comment on the scope and depth of external audit work and to ensure it gives value for money.
9. To liaise over the appointment of the Council's external auditor.
10. To commission work from Internal Audit and the external auditor.

Regulatory framework

11. To review any issue referred to it by the ~~Managing Director~~ Chief Executive, ~~Chief Operating Officer,~~ Statutory Officer or any Council body.
12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
14. To monitor Council policies on whistle blowing, for contraventions of financial and other procedures or fraud-related situations; Anti-fraud and Corruption Strategy and complaints.
15. To ~~the production~~ approve of the Annual Governance Statement, ~~and recommend its adoption to the Cabinet.~~
16. To consider the Council's framework of assurance and ensure it ~~is~~ adequately addresses the risks and priorities of the Council.
17. To consider the Council's compliance with its own and other published standards and controls.

Accounts

18. To review and approve the Annual Governance Statement and annual Statement of Accounts, ~~and considering~~ whether appropriate accounting policies have been followed, ~~and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Cabinet and/or the Full Council.~~
19. To consider the external auditor's report to those charged with governance on issues arising from their audit of the accounts.

Accountability arrangements

20. Report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Standards

21. Promoting and maintaining high standards of conduct by Councillors and co-opted persons of Committees.
22. Assisting Councillors and co-opted persons of Committees to observe the Code of Conduct.

23. Advising the Council on the adoption or revision of the Code of Conduct.
24. Monitoring the operation of the Code of Conduct.
25. Advising and/or censuring and/or imposing a sanction on a Councillor or co-opted person of a Committee (or former Councillor or co-opted person) of the Council.
26. Having oversight of all aspects of Councillor development.
27. Having a monitoring and guidance role on whistle blowing, bullying and harassment regarding Councillors.
28. Being fully involved in any ethical review of the Council or its activities.

Meetings are open to members of the public, except for when confidential information is being considered.

Members of the public may **ask questions** at meetings of the Audit and Standards Committee.

Chairing

1. Full Council shall appoint the Chair and the Vice Chair of the Committee.

The Audit and Standards Committee has one permanent Sub-Committee, the Hearing Sub-Committee