

Audit and Risk Committee Agenda

20 May 2020 at 7pm

Remote Meeting

Membership

Councillor N.M. Walsh (Chair)

and Councillors

D.J.R. Clark, P.H. Clark, N.A. Dudley J.S. Lardge, J.M.C. Raven,
E.J. Sampson, M. Sismey, and M.D. Watson

Local people are welcome to attend this meeting remotely, where your elected Councillors take decisions affecting YOU and your City. There is also an opportunity to ask your Councillors questions or make a statement. These have to be submitted in advance and details are on the agenda page. If you would like to find out more, please telephone Daniel Bird in the Democracy Team on Chelmsford (01245) 606523 or email daniel.bird@chelmsford.gov.uk.

Audit and Risk Committee

20 May 2020

AGENDA

1. Apologies for Absence and Substitutions

2. Minutes

To consider the minutes of the meeting held on 18 December 2019

3. Declaration of Interests

All Members are reminded that they must disclose any interests they know they have in items of business on the meeting's agenda and that they must do so at this point on the agenda or as soon as they become aware of the interest. If the interest is a Disclosable Pecuniary Interest they are also obliged to notify the Monitoring Officer within 28 days of the meeting.

4. Public Question Time

Any member of the public may ask a question or make a statement at this point in the meeting. Each person has two minutes and a maximum of 15 minutes is allotted to public questions/statements, which must be about matters for which the Committee is responsible.

The Chair may disallow a question if it is offensive, substantially the same as another question or requires disclosure of exempt or confidential information. If the question cannot be answered at the meeting a written response will be provided after the meeting.

Any member of the public who wishes to submit a question or statement to this meeting should email it to committees@chelmsford.gov.uk 24 hours before the start time of the meeting. All valid questions and statements will be published with the agenda on the website at least six hours before the start time and will be responded to at the meeting. Those who have submitted a valid question or statement will be entitled to put it in person at the meeting, provided they have indicated that they wish to do so and have submitted an email address to which an invitation to join the meeting and participate in it can be sent.

5. Announcements
6. Public Sector Audit Appointments (PSAA) Update
7. External Audit Annual Audit Letter
8. Audit Planning Report 2019/20 and Progress Update
9. Housing Benefit Subsidy Assurance Procedures 2018/19
10. Internal Audit Plan – Covid-19 Response Phase
11. Internal Audit Charter 2020
12. Risk Management Report
13. Accounting Policies for the 2019/20 Statement of Accounts
14. Audit & Risk Committee Work Programme
15. Urgent Business

To consider any other matter which, in the opinion of the Chair, should be considered by reason of special circumstances (to be specified) as a matter of urgency.

MINUTES

of the

AUDIT COMMITTEE

held on 18 December 2019 at 7pm

Present:

Councillor D. Clark (Chair)

Councillors

P. Clark, N. Dudley, M. Goldman, J. Raven, E. Sampson, M. Sismey, N. Walsh and M. Watson

1. Apologies for Absence and Substitutions

Apologies for absence were received from Councillor Lardge. Councillor Lardge had appointed Councillor M Goldman as her substitute.

2. Election of Vice Chair

Councillor P. Clark nominated Councillor Watson to be elected as Vice Chair. The Committee agreed with the nomination.

RESOLVED that Councillor M. Watson be elected as Vice Chair.

3. Minutes

The minutes of the meeting held on 25 September 2019 were agreed as a correct record and signed by the Chair.

4. Declaration of Interests

All Members were reminded to declare any Disclosable Pecuniary interests or other registerable interests where appropriate in any items of business on the meeting's agenda. None were made.

5. Public Question Time

No questions were asked or statements made.

6. Announcements

No announcements were made.

7. External Auditors Progress Report

The Committee received a short update from BDO, the Councils external auditors, regarding the significant ongoing delays to the completion of the 2018/19 audit. The Committee were informed that since they were last updated in September, the audit had still not been completed due to ongoing resource restraints. Members were informed that all detailed testing had now been completed to date and nothing material had been found, therefore an unqualified opinion was expected. The Committee were assured that the resourcing issue would not be an issue for next years audit, which would include a named senior auditor working on the duration of the audit. The Committee heard that a meeting with officers would

be taking place early in the new year ahead of signing the audit using the delegation granted to the Chair.

Members of the Committee expressed their strong disappointment, that the Audit due in July had still not been completed and agreed that it was completely unacceptable, to be delayed by nearly six months. The Committee had significant concerns across a number of areas and questioned the external auditors on the following issues;

- Why despite several dates when the audit was due to be complete, had these not been met?
- Why had it proved impossible to set an accurate deadline over the last six months?
- The issue of a lack of resources was not an acceptable answer for a significant delay such as this.
- When did the key resources leave BDO and why were they not replaced?
- Why were members and officers told at various points in the last six months, that the audit was a few days from completion, yet now in December it was still not completed?
- How was Essex County Council's audit completed on time, and were Chelmsford really that far down BDO's pecking order?
- What guarantees could BDO make that this would not happen next year?
- Were BDO requesting significantly different information to the previous auditors and was this a reason for the delay?
- Was it not obvious earlier in the year that there were going to be delays?
- How would BDO be compensating the Council for the delay, considering that the Committee or Council did not have the power to seek a different auditor for 2020/21.
- The delays were unprecedented, and the resourcing excuses provided were just not acceptable.
- Would Chelmsford's audit be fully resourced by BDO next year and would there be extra staff available if required?

In response to the major concerns and questions raised by the Committee, the external auditors stated that;

- Key members of staff had left in April 2019 and they had been unable to replace them before the start of the audit.
- A final set of findings had been sent to the Finance team last week, but they would need time to look at these.
- Regular meetings had taken place and it had been expected that the audit would be completed by October. Other work such as the housing benefit claim had to be started recently as well though.
- Different teams were in place for different Councils and the one allocated to ECC did not have the same resourcing issues.
- BDO had not been disingenuous and had worked long weekend hours, in an effort to complete the audit as soon as possible, but the lack of resources had made this difficult.
- Chelmsford's audit had not been set as a lower priority than others.
- Once everything was finalised the delegation to the Chair could be used, to prevent a further delay in waiting for the next Committee meeting in March 2020.
- BDO could not explicitly guarantee that there would not be resourcing issues next year, but they would do everything they can to prioritise resources and deliver an on time audit as agreed.
- BDO wished to convey their apologies to the Council and further resilience would be added for next years audit, but compensation would not be possible, due to the very low audit fees set by the PSAA.

Officers from the finance team also commented on the issues that had caused the delays. They stated that the large sample sizes requested by BDO had been different to the previous auditors and it was unclear what information was required. It was also stated that there had been a lack of continuity of BDO staff, little referencing of issues and the communication from BDO was insufficient. Officers felt that the lack of resources and continuity were the main issues in causing the delays.

RESOLVED that;

1. the update be noted and;
2. the major disappointment at the extended delays be noted and;
3. officers express the views of the Committee when meeting with the Chair of the PSAA at the Essex Finance Officers meeting on 13th January 2020.

(7pm to 7.38pm)

8. **Internal Audit Interim Report 2019/20**

The Committee received a report which summarised the work that Internal Audit had undertaken from April to October 2019. Members were informed that Internal Audit were on track to complete the audit plan as agreed by the end of March 2020.

Members were informed that the report detailed the progression implementing recommendations, service summaries and a review of the effectiveness of Internal Audit. Members were informed that there had been a good rate of implementation over the year. In response to a question regarding the new framework for agency staff, it was confirmed that payments were made on a per use basis.

RESOLVED that the report be noted.

(7.39pm to 7.48pm)

9. **Fraud Investigations Annual Report**

The Committee received a report which provided an update on the work of the Investigation Team in 2019. The Committee was informed about the work of the Council's Senior Financial Investigation Officer and provided with a summary of his role. The Committee heard that the report highlighted the past year of work and detailed the collaborative work with other local authorities that had been taking place. The Committee was informed that various costs had been received due to the work of the team and that percentages of funds claimed back for other authorities was received by the Council.

The Committee also received a presentation from officers on the work of the team. The presentation detailed areas including, what fraud is, who the fraud team are, what they do, an overview of POCA cases and some Chelmsford specific cases.

RESOLVED that the report be noted.

(7.49pm to 8.18pm)

10. **Audit and Risk Committee Work Programme**

The Committee considered a report on its updated proposed rolling programme of work for 2019/20. The Committee was informed that a rolling training programme was included, with sessions for members to be held either before or during scheduled Committee meetings.

It was agreed after a suggestion from the Committee that an update be provided at the March meeting, regarding the Essex Finance officers meeting on 13th January 2020.

RESOLVED that

1. the work programme be approved and;
2. an item be added to the March 2020 meeting regarding the Essex Finance officers meeting.

(8.18pm to 8.19pm)

11. **Urgent Business**

There were no matters of urgent business brought before the Committee.

The meeting closed at 8.19pm.

Chair

AUDIT & RISK COMMITTEE

20th May 2020

AGENDA ITEM 6

| | |
|------------------|--|
| Subject | PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA) UPDATE |
| Report by | DIRECTOR OF FINANCIAL SERVICES |

Enquiries contact: Amanda Fahey, 01245, amanda.fahey@chelmsford.gov.uk

Purpose

This report provides an update on Public Sector Audit Appointment Limited (PSAA)'s response to the issues faced during the 2018/19 audit of Local Authority accounts and related matters.

Recommendation(s)

1. The Audit and Risk Committee are requested to note the contents of this report.

Corporate Implications

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|------------|---|
| Legal: | The Secretary of State for Housing Communities and Local Government has specified PSAA as an appointing person under provisions of the Local Audit and Accountability Act 2014. For audits of the accounts from 2018/19, PSAA appoints an auditor to relevant principal local government bodies that opt into its national scheme |
| Financial: | Opting-in to the national scheme for the appointment of auditors provides greater buying power for the Council and reduced purchasing costs, when compared to an individual procurement exercise, thereby ensuring value for money for its purchase of audit services. PSAA sets the scale fees for the audit year but individual variation can occur, depending on factors such as the |

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| | complexity of the audit, the standard of working papers and the risks perceived within each audited body. A consultation response to the scale fees for 2020/21 is attached to the report. |
| Personnel: | External audit requirements are supported by internal staffing resource. Any shortfall in external audit resource due to availability or skill set may place an additional burden on internal resource. |
| Potential impact on climate change and the environment | N/a |
| Contribution toward achieving a net zero carbon position by 2030: | N/a |
| Risk Management: | External audit plans are based on an assessment of risk and are discussed with the Audit & Risk Committee. |
| Equalities and Diversity: | N/a |
| Health and Safety: | N/a |
| IT: | N/a |
| Other: | N/a |

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|------------------------------------|---|
| Consultees | Chair of Audit and Risk Committee Cabinet Member for Fairer Chelmsford |
| Policies and Strategies N/A | |

1. Introduction

- 1.1. At its meeting of the 18th December, the Audit and Risk Committee received an update from BDO, its external auditors, on the significant delays experienced with the completion of the 2018/19 audit. It was reported that the delays had been the result of ongoing resource shortages across the audit sector, contributing to the significant increase in the number of local authority audits that had not been completed by the target date of 31st July, compared to the previous year. Members expressed their disappointment over the extended delay in concluding the Council's audit and requested that their views be conveyed to representatives of PSAA at a meeting with Essex Finance Officers scheduled for 13th January 2020. In addition, Members asked for feedback from that meeting to be provided to the Committee at its meeting in March.
- 1.2. This report therefore provides some background to the activities of PSAA and sets out the main areas of discussion at the January meeting. Since January, the PSAA have issued a consultation document on the proposed audit fees for the audit of the 2020/21

financial year and the Council's response, as agreed with the Chair of the Committee, is attached for information. The report draws out key areas of the consultation that the Committee may wish to consider or to discuss with BDO in the planning stages for the 2020/21 audit.

- 1.3. In addition, the PSAA has recently communicated with Council Chief Financial Officers outlining the audit position in relation to the three financial years spanning 2018 to 2021, the perceived challenges and its responses to those challenges. The text of this email is set out at Appendix 3 for consideration.
- 1.4. While the report goes wider than the initial request from Members, it seems appropriate to include the recent consultation and communication from PSAA, in order to provide additional context to the landscape in which the Council's future audits will take place.

2. Background

2.1. Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a company limited by guarantee without share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA. PSAA is responsible for appointing an auditor for the five-year period from 2018/19 to 2022/23, to relevant principal local government bodies that opt into its national scheme.

PSAA is responsible for:

- appointing auditors to local public bodies, including councils, police and crime commissioners, chief constables, fire and rescue authorities and other relevant principal local government bodies;
- setting scales of fees, and charging fees, for the audit of accounts of relevant bodies;
- overseeing the delivery by its appointed auditors of consistent, high-quality and effective external audit services to opted-in bodies; and
- ensuring effective management of contracts with audit firms for the delivery of external audit services to opted-in bodies.

Further information can be found at <https://www.psa.co.uk/>

3. Meeting between Essex Finance Officers and PSAA 13th January 2020

- 3.1. Essex Finance Officers invited PSAA to attend a meeting to discuss the on-going issues experienced across Essex authorities during the audit of the 2018/19 financial year. The meeting was attended by representatives from Essex authorities and by Andrew Chappell on behalf of PSAA. Andrew Chappell is one of three senior officers comprising PSAA's executive team and as Senior Quality Manager is responsible for overseeing the work of PSAA's appointed auditors and managing all PSAA's audit quality monitoring arrangements. Andrew had 25 years of audit experience with both the Audit Commission and KPMG, before joining PSAA in June 2016.
- 3.2. Mr Chappell explained how PSAA was formed in response to the demand for a group procurement mechanism for public bodies after the demise of the Audit Commission – PSAA did not replace the full functions of the Audit Commission other than the appointment of auditors and the related contract management, leading to significant reductions in fees to public bodies who no longer had to pick up the overheads of the Commission.

- 3.3. Contracts were let in 2017, with 98% of local authorities (including Chelmsford City Council) opting into the scheme, at a time when the audit world was very different (pre-Carillion collapse for example). For 2017/18, 65 audits were outstanding at 31st July 2018, for the 2018/19 audit this figure rose to 208 outstanding at 31st July 2019. Comparable figures for audits outstanding at 31 December of each of these years was 16, rising to 85 for 2018/19.
- 3.4. Mr Chappell reported a combination of contributory factors, with auditor resource issues being of clear significance. Attrition rates in the sector were higher than normal resulting in the loss of staff, particularly of experienced staff, who were moving on once qualified. Other factors included the impact of earlier close on the quality of working papers produced by Councils, although this was not an issue pertaining to Chelmsford City Council. The shortened timetable for auditors to conclude their work (reduced from 30th September to 31 July) meant that single teams could only complete 1 or 2 audits whereas previously the same team had been able to complete 3 audits within the timeframe. This led to the need for additional teams, and additional staffing, at a time when resources were shrinking. There was also a knock-on effect of the audits that had been late in 2017/18 as these would eat into the time set aside for 2018/19 work. It was recognised that auditing was a less attractive profession than it had been previously, and public sector auditing was just one sub sector of this, so knowledgeable staff were hard to recruit and retain. Going forward there were likely to be on-going issues with the sustainability of audit resources.
- 3.5. Another issue was the bottleneck of work for senior audit team members who review the work of the audit team. As the work compressed at this level, some reviews inevitably had to take place later, adding to the delays.
- 3.6. In addition, attention has been focussed on audit quality in the wake of high-profile collapses such as Carillion, Patisserie Valerie, BHS and Thomas Cook. All this at a time when the audit profession has been subject to various reviews such as Sir Donald Brydon's review into the quality and effectiveness of audit, which has made recommendations which will expand the scope of audit work.
- 3.7. Against this backdrop, those authorities present set out their experience of the 2018/19 audit and the issues they faced. For Chelmsford, these have been discussed with the Committee on several occasions now so are not reproduced in this report. In response to the challenge of what action PSAA intend to take in respect of contract or performance management, actions included on-going discussions with the audit firms about how they will ensure sufficient resources are available in the future. While one firm had stated it would be fully resourced by January, this did not necessarily mean via staff of such skill and experience to be "up and running" for the audit period ahead. Other firms reported resource gaps in some geographical areas, but not Essex. PSAA were also asking firms to be more transparent and realistic in their audit plans, so if it wouldn't be possible to conclude the audit by 31st July, be prepared to agree a later date with the auditee, as early as possible in the process so that both parties could plan accordingly. While no-one welcomed a late audit opinion, the certainty would be better than unachievable promises of a timely conclusion.
- 3.8. Councils raised the issue of perceived "cost-shunting" where additional fees had been requested for audit work. It is necessary at times for auditors to charge additional fees if the audit has caused unplanned work to take place or if additional risks are raised during an audit. However, it was felt that the expectation was being set that additional fees would be the norm in future, as audit work is now more complex than when the contracts were initially let. PSAA's response was that all additional fees must be reviewed by them, for reasonableness, whether or not the authority agrees to the additional fee. Ultimately it is PSAA's decision if the additional fee is paid. Finance Officers raised an issue around consistency of additional fees as some had been

charged where others had not, or at different levels, for the same work. The PSAA have since published consultation on the fees for 2020/21 which provides further detail on this and is appended to the report.

- 3.9. If any authority was so unhappy with their auditor for there to be a complete breakdown in relationship, then they could ask PSAA to re-assign them to one of the other firms. However, given that resource capacity issues were being faced across the profession, this did not feel as though it would provide much of a solution. There seemed to be little that could be done contractually and a reluctance for new members to enter the market. This had likely been exacerbated by a number of mergers of firms prior to the letting of the contract, which had reduced the number of suppliers. PSAA were in talks with a number of firms to persuade them back into the market. We may also see existing firms ceasing to bid for other work such as the audit of Housing Benefit Subsidy claims in order to relieve pressure on the main audit. PSAA have also employed consultants to look at how to make the next procurement more attractive to the marketplace, perhaps to “mid-tier” firms but there is little appetite to do the work required to obtain the requisite licence to be able to sign off on local authority accounts.
- 3.10. Councils suggested a return to greater reliance on the work of internal audit to supplement the work of external auditors and assist with a speedier process. However, auditing standards make it challenging to rely on internal audit work without reperforming the audit tests.
- 3.11. While the meeting provided the opportunity to raise local concerns with PSAA and hear the wider context around audit resource issues and increased auditing standards, there was little in the way of comfort that any immediate improvement would be seen. In fact, the general conclusion was that this was not a short-term problem and that it could take some time, years perhaps, for the audit process to get back on track and for the recommendations of various reviews (Brydon/Redmond) to be implemented.

4. Consultation on the Proposed scale fees for 2020/21

- 4.1. Subsequent to the meeting described above, PSAA issued their consultation document on audit fees for 2020/21 (attached at Appendix 1). The proposed fee for the 2020/21 audit is £46,985 for Chelmsford City Council, with the scale of fees being held at the same level as previous years for all authorities. The closing date for responses to the consultation was 6th March 2020, falling ahead of this committee meeting and therefore the response attached at Appendix 2 has been agreed with the Chair.
- 4.2. The consultation document sets out the various circumstances in which the scale fee may be varied and notably at paragraph 13 provides a view that discussion should take place at a local level, between the auditor and the Chief Financial Officer. It is recommended that these discussions take place as soon as possible in the planning discussions for 2019/20 audit in addition to looking ahead to the 2020/21 audit. This is timely, given that the Audit Plan is also on the Committee’s agenda for its March meeting. It will be of particular importance to identify any fee changes that may relate to on-going, rather than one-off, requirements, which may set a new baseline fee moving forward.
- 4.3. The consultation sets out some of the variables which may need to be considered, not least of which is the publication of an amended Code of Audit Practice which will be applicable from 2020/21. New auditing standards, such as IFRS 16 regarding the treatment of leases, may require more work depending on the impact at individual authority level. The revised standard on the auditing of accounting estimates (ISA 540), increases the number of procedures to apply in the testing of estimates from 23

to 39, just in this one area. There is also pressure on auditors to demonstrate “professional scepticism” and exercise greater challenge in areas of judgement within the accounts, or where the authority places reliance on experts.

4.4. As mentioned previously, all proposals for fee variations are reviewed by PSAA for reasonableness

5. Subsequent correspondence from PSAA and final scale fee letter

5.1. On the 2nd March, the Council’s Chief Financial Officer received the email set out at Appendix 3, providing an update on audit matters from Tony Crawley, Chief Executive of PSAA. This aims to provide information on the two main areas raised by local authorities; which are: greater certainty over audit dates and early information and explanation of any additional fees. Note 1 to this document sets out some additional information pertaining to the setting of the scale of fees, charging for additional work and amending the scale fees. This provides the Committee with further information which may be useful when considering any future fee proposals.

5.2. On the 29th April, the Council received the letter set out at Appendix 4, confirming the scale fee for 2020/21 and providing additional information on the effect of COVID-19 on the audit process for the year 2019/20. Audit deadlines have been amended for one year, to allow additional time for local authorities to complete the Statement of Accounts (revised date 31st August) and for auditors to carry out the audit and reporting requirements (revised date 30th November).

6. Conclusions

6.1. These are challenging times for the audit profession, facing both resource issues and an increasing expectations gap from readers of accounts. Auditors are required to follow specific requirements under the Code and via Auditing Standards, which may be perceived to be adding little value to the taxpayer or other stakeholders of local government accounts. Within this landscape, the Council needs to be aware of the potential changes to the audit regime and plan its responses, to enable a smooth audit process moving forward. Members should also be aware of the potential for rising audit costs. In the meantime, officers continue to work closely with the audit team to facilitate the audit process for the benefit of the Council and its stakeholders.

List of Appendices

Appendix 1 - Consultation on the Proposed Scale fees for 2020/21

Appendix 2 - Consultation Response

Appendix 3 - Communication from PSAA 2nd March 2020

Appendix 4 – Scale fee 2020/21

Background documents:

Brydon review:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Redmond review:

<https://www.gov.uk/government/publications/review-of-local-authority-financial-reporting-and-external-audit-terms-of-reference>



Consultation on scale of audit fees for 2020/21

Opted-in local government and police bodies

January 2020

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

From 2018/19 PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

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Consultation on 2020/21 scale of fees

Introduction

1. This consultation considers the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements for local bodies that have opted into Public Sector Audit Appointments' (PSAA) national auditor appointment scheme.
2. PSAA is specified by the Secretary of State for Housing, Communities and Local Government under the Local Audit and Accountability Act 2014 (the Act 2014) and the Local Audit (Appointing Person) Regulations 2015 (Regulations) as the appointing person for principal local government bodies in England, including local police and fire bodies. Under the Regulations we are responsible for consulting on and setting scales of fees for authorities that have opted into our auditor appointment scheme.
3. Scale fees are based on the expected audit work to be undertaken by appointed auditors under the requirements of the:
 - Code of Audit Practice (Code) and supporting Auditor Guidance Notes (AGNs) published by the National Audit Office (NAO);
 - financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC; and
 - professional standards applicable to auditors' work.
4. Other factors that may also need to be taken into consideration in setting the fee scale include changes in audit regulation and inflation. We also take account of the previous year's audits to identify and consider the ongoing implications of any relevant factors that may have emerged.
5. The Regulations require PSAA to set a fee scale before the beginning of the relevant financial year, and that this cannot be amended after the financial year has begun. However, the Regulations allow the audit fee for an individual body to be varied if substantially more or less audit work is required than envisaged by the scale of fees. In some cases this may result in a one-off fee variation affecting a single year, in others it may point to the need for a permanent adjustment to the scale fee for the body concerned.
6. The timing of this year's consultation is slightly later than usual. Under normal circumstances we would have consulted on our approach to the scale of fees for 2020/21 during October 2019 to December 2019. However, we wrote to all S151 officers explaining the need to delay the consultation pending finalisation of the new NAO Code of Audit Practice. The consultation on the Code has now been completed and the new Code was formally laid in Parliament on 22 January 2020. The AGNs that support the Code will provide more detail on the auditor's responsibilities, and we understand that the NAO intends to consult publicly in Summer/Autumn 2020 on them.
7. The background to the 2020/21 fee consultation is unusually turbulent and challenging. Following a number of significant corporate financial failures in the private sector, the Government has commissioned three important reviews. Sir John Kingman has reviewed

audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reported on the quality and effectiveness of audit. In addition to these reviews which focus primarily on private sector audit, Sir Tony Redmond is currently reviewing financial reporting and audit in local government and is expected to report later this year.

8. It is not yet clear what the long term implications of these reviews will be. However, the impact of early recommendations has been significant, heightening the pressure on auditors to meet regulatory requirements to deliver audits which reflect greater professional scepticism across all sectors, including local audit.
9. The outworking of these pressures has had a major impact on the conduct of local audits of 2018/19 financial statements, and has highlighted a number of significant underlying challenges for local auditors and/or audited bodies. These include the very tight timetables for preparation of accounts and delivery of audit opinions; recruitment and retention difficulties which are resulting in an increasing shortage of audit resources with suitable experience for local government work; auditor concerns about the quality of some bodies' pre-audit accounts and working papers; and challenges resolving technical issues within increasingly complex accounts. The end result has been a significant number of audit opinions being delayed beyond the 31 July target publication date set out in the Accounts and Audit Regulations.

Responding to this consultation

We welcome comments on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@psaa.co.uk

The consultation will close on **Friday 6 March 2020**.

Proposed fee scale for 2020/21

10. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:
 - issues which have given rise to additional audit work in relation to 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
 - new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews highlighted in para 7; and
 - the introduction of the new Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.
11. Paras 19 to 32 below provide further and more detailed information about some of the potential factors concerned. The list is illustrative rather than comprehensive.
12. The nature of many of the factors highlighted is that their impact is likely to vary from one audited body to another. Even within classes of similar bodies impacts may vary significantly depending upon local characteristics which have implications for audit risks. Importantly, although the new Code and the revised AGNs will clearly apply to all bodies, they may require different levels of audit work depending, for example, on the maturity of the body's value for money arrangements in respect of the specific themes/reporting criteria identified in relation to the new audit commentary, namely financial sustainability, governance and improving economy, efficiency and effectiveness.
13. In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.
14. Our expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits and with a specific aim also to look ahead to identify any implications for 2020/21. Where a factor is relevant to the specific body concerned the parties should consider whether any additional audit work is likely to be required and, if it is, whether it is likely to be a one-off response, i.e. in all probability affecting a single audit year, or an ongoing requirement. The former will potentially translate to a one-off fee variation; the latter will logically lead to an ongoing scale fee adjustment.
15. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process - a cause of understandable frustration when it arises.

16. PSAA will consider the reasonableness of any proposed one-off fee variations and/or ongoing adjustments to scale fees arising from these discussions. Ideally the majority of such conclusions will reflect an agreed position which is supported by both the audited body and the auditor. However, even where agreement has been reached, PSAA will review proposals and advise the relevant parties if we have any significant concerns. In the event that authorised representatives and auditors are unable to reach an agreed position, PSAA will arrange a discussion with the parties with a view to determining a fair outcome in relation to any one-off variations or ongoing scale fee adjustments arising.
17. We believe that local discussions of the type outlined will enable an important exchange of views and information between auditor and audited body. As well as addressing the factors listed in this consultation document, it will provide an opportunity for both parties to raise any other issues which they consider to be relevant to the efficient conduct of the 2020/21 audit. The outcomes of the discussion will inform planning and preparation for the audit, and should be reflected in the audit plan submitted to the body's audit committee or other responsible group, ensuring that those charged with governance are appropriately informed.
18. PSAA does not need to increase scale fees for any other pressures affecting the company's own costs including inflation. Accordingly, we propose that the base scale of fees for 2020/21 should remain unchanged from the scale agreed in respect of 2019/20 audits. However, as outlined above, we envisage that local discussions between audited bodies and auditors will lead in some cases to ongoing adjustments to individual scale fees as well as to one-off variations. For transparency, we will summarise the volume and extent of these adjustments and variations as part of our established quarterly audit contract monitoring reporting arrangements ([Quarterly Monitoring Report](#)).

Auditors' assessment of risk and complexity – key variables

19. The paragraphs below provide a summary of some of the variables which may have implications for audit risk and work and which may therefore need to be considered in local discussions between auditors and audited body representatives.

Code of Audit Practice and supporting guidance notes

20. Under the provisions of the 2014 Act, the NAO is responsible for publishing the statutory [Code of Audit Practice](#). It also publishes supporting AGNs for auditors. The 2014 Act requires the Code be reviewed and revisions considered by Parliament at least every five years. The current Code came into force on 1 April 2015, and the new Code will apply from 1 April 2020, i.e. from audits of 2020/21 accounts.
21. The current Code requires the auditor to give an opinion on the financial statements of a body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money (VFM). The new Code requires a sharper focus on VFM arrangements, with specific reporting criteria on: financial sustainability, governance, and improving economy, efficiency and effectiveness. The new Code also requires auditors to provide a commentary on their findings, rather than the current requirement to state a conclusion on whether the audited body did or did not have appropriate arrangements in place.
22. The proposed Code states that determining how much work to do on arrangements to secure VFM is a matter of auditor judgement, based on the requirements set out in the

Code and supporting guidance. Supporting AGNs will be published later in 2020 as referenced earlier in this paper.

23. The extent of any additional work to be required on VFM arrangements will depend on local circumstances and may vary from year to year and from authority to authority. Further, there may be a one-off effect as both authorities and auditors make the transition from old to new requirements and lay the foundations for appropriate audit coverage.
24. Early discussions about the new Code will be helpful. However, definite conclusions about implications for audit risk and workplans will need to await and have regard to relevant guidance (AGNs). PSAA will also be able to consider the impact of the new Code requirements in more depth once the AGNs are finalised. At that stage we may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Financial reporting requirements

25. The scale fees reflect the audit work needed at audited bodies based on current financial reporting requirements. Any changes to these requirements may have an implication for the extent of audit work required to deliver an appropriate level of assurance.
26. For example, from 2020/21 the Code of Practice on Local Authority Accounting issued by CIPFA/LASSAC requires the adoption of the requirements of an updated version of IFRS16 on the treatment of leases. The changes to the requirements may mean additional work is needed.
27. The impact of the standard will vary between authorities and accounting periods, based on factors such as the volume of leases and quality of documentation. There may be a greater impact in the first year of implementation of the new standard compared to subsequent years.
28. Auditors will need to have local discussions with individual opted-in bodies about IFRS16 as the bodies will need to disclose the estimated impact in their 2019/20 accounts. These discussions will inform the auditor's judgement about the amount of additional audit work that will be needed for both 2019/20 and 2020/21. Bodies may wish to discuss with auditors if there are any actions which they can take to reduce the extent of additional audit work needed.

Professional standards applicable to auditors' work

29. Auditors are under increasing pressure to demonstrate greater professional scepticism when carrying out their work, for example, by exercising greater challenge in areas where management makes judgements or relies on advisers/experts. The International Auditing and Assurance Standards Board (IAASB) has revised its standard on accounting estimates, 'ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures', to respond to the evolving business environment. The revision is intended to ensure that the standard continues to keep pace with the changing market and fosters a more independent and challenging/sceptical mind-set in auditors. Audit firms in turn have updated their work programmes and reinforced their internal processes to meet the new expectations.

30. ISA 540 (Revised) becomes effective for financial statement audits for periods beginning on or after 15 December 2019 and will therefore apply for 2020/21 audits. The current version of the standard has 23 required procedures for auditors to apply to test each significant estimate in the accounts; the revised standard has 39. These changes are likely to have a variable impact on 2020/21 audit plans depending on the type, number and significance of estimates included in an individual authority's financial statements.
31. More generally, regulatory standards are being raised and seem set to continue to do so in response to widely reported financial failures in the private sector and resulting reviews commissioned by Government. Current regulatory practice is to apply standards to all relevant audits, unless specifically dis-applied or adapted (for example by Practice Note 10).

Quality of financial statements and supporting working papers

32. Scale fees are based on the expectation that bodies will provide the auditor with complete and materially accurate financial statements with supporting working papers. Where this is not the case, the auditor may need to undertake further work. Local discussions provide a useful opportunity to anticipate and highlight any issues which may give rise to incomplete or inaccurate accounts and/or supporting papers.

The proposed fee scale for 2020/21

33. We propose a fee scale for 2020/21 which is unchanged from the fee scale for 2019/20. As outlined above, we have not attempted to make allowance for matters such as those set out in paragraphs 19-32, because their impact will vary from one body to another and therefore requires local discussions between auditors and individual bodies.
34. If an auditor wishes to put forward a proposed adjustment to the scale fee in response to any of the matters set out in paragraphs 19-32 above, or other matters, we will, if time permits, take that into account in finally setting the scale fee before 31 March 2020. Otherwise such proposals will be considered in the usual way as part of the fee variation process.

Fee consultation 2019/20

35. We invited responses to the consultation on the 2019/20 fee scale from over 480 opted-in bodies and other institutions and received a total of 30 responses. They were generally positive about the proposal not to change the level of scale fees.
36. However, audit providers raised some concerns about the:
 - difficulties created by some very low scale fees, particularly for pension fund audits. Irrespective of size and complexity there are core audit requirements that auditors have to meet to complete an audit which is compliant with the requirements of the Code and professional standards, including the same suite of auditor reports and attendance at similar numbers of meetings with those charged with governance;
 - low hourly rates for charging additional fees – the standard hourly rates provided by PSAA for charging for additional Code related work have been adjusted in line with fee reductions over the years. Several firms challenged the logic of reducing rates in this way, explaining that fee variations increasingly relate to new, higher risk areas

and require expertise from elsewhere in the firm, at rates which routinely exceed audit rates; and

- additional audit work required for a Public Interest Entity (PIE), as this status requires an enhanced audit report. Given its ongoing nature, auditors suggest that these additional requirements should be reflected in adjustments to relevant scale fees rather than via a succession of one-off variations.

37. We accepted that if an audited body becomes a PIE, there is ongoing additional work needed and that a new scale fee should therefore be established. We are also currently exploring a range of issues in relation to scale fees in more detail, and have established a project which will conclude in 2020. The PSAA Board will consider the outcome of this research to determine any improvements that should be made to the processes for setting and varying scale fees including the methodology for making adjustments to any relevant individual scale fees.

Fee variations process

38. Variation requests must be made to PSAA by the auditor using a standard process. The auditor cannot invoice an audited body until PSAA has approved the request.
39. Fees for considering objections will be charged from the point at which auditors accept an objection as valid. Similar arrangements will apply to any special investigations undertaken, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Value added tax

40. All the 2020/21 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Next steps

41. PSAA has a statutory duty to prescribe a scale of fees for the audit of accounts of bodies that have opted into its national auditor appointment arrangements. Before prescribing scale fees, we are required to consult opted-in authorities, representative associations of relevant authorities and bodies of accountants.
42. We welcome comments from audited bodies and stakeholders on the proposals outlined in this document. The consultation will close on **Friday 6 March**.

Please send comments or questions by email to:

workandfeesconsultation@psaa.co.uk

43. Following responses to this consultation, we will publish the final 2020/21 scale of fees for publication in March 2020.
44. If you have complaints about the way this consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.

PSAA

Emailed to: workandfeesconsulation@psaa.co.uk

Response to consultation on 2020/21 scale of fees, Chelmsford City Council

Chelmsford City Council welcomes the opportunity to respond to the consultation on the scale of audit fees for 2020/21.

The Council is supportive of the proposal to maintain scale of fees at the same rate as for 2019/20 and understands that additional fees may be proposed depending on the extent of additional work required at individual authorities. These additional fees to be subject to negotiation at a local level and to review and approval ultimately by PSAA. However, the Council has some concerns about the potential for cost shunting in the face of known lack of resource (in terms of numbers of auditors and their relevant skill mix) and is concerned about a potential lack of consistency in applying additional fees across audits carried out by the same firm, as well as inconsistency of charging between firms.

In addition, the argument for additional fees due to changes in the Code of Practice, for example, which will apply to all authorities, might be better addressed via an uplift across the scale rather than being considered individually.

Auditors are arguing that the increasing complexity of audit scope, and the difficulties in recruiting and retaining staff, mean that the scale fee is no longer relevant to the cost of the work that is required. There should perhaps be a methodology that adjusts the scale of fees in line with major changes to the auditing regime and the Council notes that a project has been established to explore a range of issues in relation to scale fees, which will conclude in 2020. We also welcome early discussion of additional fees, not only to enable budgetary planning and early understanding of the cost drivers, but in order to provide some ability for the organisation to mitigate the costs by perhaps offering an alternative solution or additional evidence.

It does feel as though there is some inevitability of increased fees in the future and that in the meantime, the impact of any proposed variations will continue to be argued at a local level, therefore also being subject to the local relationship between auditor and audited body.

Yours sincerely,

Councillor Nora Walsh - Chair of Audit & Risk Committee

Amanda Fahey - Director of Financial Services

Dear S151 officer,

Given all the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. That is an incredibly unsatisfactory position, particularly for all the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish soon. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backcloth PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. <https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, the impact will vary dependent on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. Note 1 below explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

Tony Crawley

Chief Executive

Public Sector Audit Appointments Limited

Note 1

PSAA's approach to fees

PSAA's position is unusual because, as the appointing person for principal local authorities, the company is required to set a scale of fees spanning more than 480 audits, each of which is unique, reflecting differing levels of size, responsibility, complexity, capacity, capability, risk, etc.

The company's current scale of fees reflects the continuation of a methodology developed by the Audit Commission during its tenure. It is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and is also susceptible to change over time. Accordingly, the company's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include:

- i) Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale;
- ii) Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor;

iii) Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;

iv) Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.

Each of these arrangements is discussed in more detail below.

i). Linking tender prices to the extant scale of fees

When PSAA goes out to tender for audit services, as it did most recently in 2017, it provides suppliers with details of the then current scale of fees and invites firms to price their bids by reference to that scale. This is a vital opportunity for firms to bring their own experience and judgement to bear about the reasonableness of current scale fees in the context of current and expected future market conditions and risks. If the firm considers the current scale to be generous, it can bid at say, 70 or 80% of scale. Conversely, if current fees are felt to be too low, the firm can bid at say, 120 or 130% of scale. PSAA does not impose any parameters in this process - each firm is completely free to reflect its own considered judgement.

Following a rigorous evaluation of tenders, the contracts awarded to successful suppliers reflect the specific price at which each individual firm has bid.

ii). Pooling firms 'costs

In setting the overall scale of audit fees, PSAA has regard not only to the payments which will be due to firms under the contracts awarded but also the need to fund PSAA's own costs incurred in carrying out its functions - principally letting and managing contracts, appointing auditors and setting a scale of fees.

When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

iii). Charging for additional audit work

The nature of an audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. In such circumstances, the auditor may therefore be entitled to charge for the additional work depending upon the specific drivers which have given rise to it. If, for example, additional work arises because the auditor has not conducted the audit in accordance with expected standards, the auditor must bear the cost. Alternatively, if additional work is necessary because the local body has not met its obligations to deliver accounts and working papers which enable the auditor to reach the required level of assurance, the auditor may be entitled to propose a fee variation to reflect the scale of the work concerned.

Additional work may also be required as a result of the introduction of new accounting or auditing standards, or new regulatory requirements. Where these have arisen after bids have been submitted and could not reasonably have been foreseen, the auditor will usually be entitled to propose an appropriate fee variation.

It is important to emphasise that the process for approving one-off fee variations (and/or ongoing scale fee adjustments - see para 4 below) is itself subject to careful checks and balances. Auditors are required to discuss any relevant proposals with appropriate representatives of the body concerned. All such proposals are subject to approval by PSAA. In making any submissions to PSAA, auditors are required to confirm that proposals have been discussed with the body and to indicate whether or not they have been agreed by the body. In turn, PSAA will consider the legitimacy and reasonableness of the proposals and advise the parties accordingly.

iv). Amendments to scale fees

The vast majority of fee proposals submitted by auditors in respect of additional audit work are limited to one-off fee variations. In some cases it is apparent that this does not reflect possible longer term implications. This is an important conversation which will sometimes alert the body to potential ongoing work and expected further variations which can be avoided by the body taking additional measures or taking other remedial actions. In other circumstances it will highlight the need to adjust the scale fee going forward so that the additional work concerned is properly reflected as a recurring requirement.

By routinely working through longer term implications and engaging in constructive discussions, bodies and firms can play a critically important role in helping PSAA to ensure that the scale of fees is subject to continuous review and, where appropriate, updating.

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

| | Scale fee for the audit 2020/21 | Scale fee for the audit 2019/20 |
|-------------------------|--|--|
| Chelmsford City Council | £46,985 | £46,985 |

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive



CHELMSFORD CITY COUNCIL

Annual Audit Letter

Year ended 31 March 2019

IDEAS | PEOPLE | TRUST 

EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

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

Responsibilities of auditors and the Council

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

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

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

Audit conclusions

| Audit area | Conclusion |
|----------------------|-----------------------|
| Financial statements | Unmodified opinion |
| Use of resources | Unmodified conclusion |

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

We issued our audit opinion on the financial statements and use of resources conclusion on 4 February 2020, which was after the national deadline of 31 July 2019 due to resource constraints within the audit team.

BDO LLP

9 March 2020

FINANCIAL STATEMENTS

Audit opinion on the financial statements

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

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Final materiality

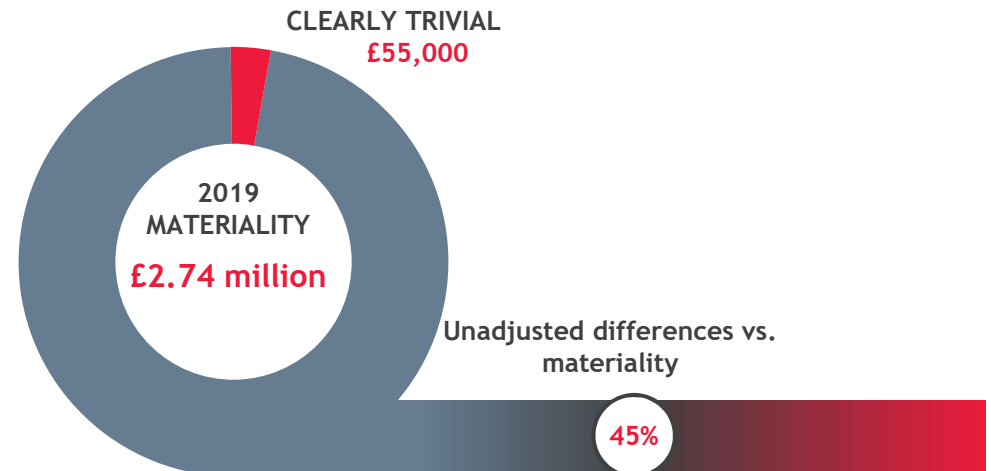
Materiality was calculated at £2.74 million based on a benchmark of 1.75% of gross expenditure.

Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services by £395,000 and increase net assets by £850,000.



FINANCIAL STATEMENTS

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

| Risk description | How the risk was addressed by our audit | Results |
|---------------------------------|---|---|
| Management override of controls | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;• Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and• Reviewed unadjusted audit differences for indications of bias or deliberate misstatement. | No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias. |

FINANCIAL STATEMENTS

| Risk description | How the risk was addressed by our audit | Results |
|-------------------------------------|--|---|
| Revenue and expenditure recognition | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Tested an increased sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria had been met; and• Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end had been. | <p>No issues were identified by our audit of grants or expenditure either side of the year end.</p> <p>Our testing of other expenditure identified amounts relating to 2017/18 that were included in 2018/19, resulting in a projected overstatement of expenditure of £209,000. This was reported as an unadjusted audit difference.</p> |

FINANCIAL STATEMENTS

| Risk description | How the risk was addressed by our audit | Results |
|------------------------------|--|--|
| Land and building valuations | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed the instructions provided to the valuer and reviewed the valuer’s skills and expertise in order to determine if we could rely on the management expert;• Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;• Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes;• Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appeared unusual; and• Confirmed that the assets not specifically valued in the year had been assessed to ensure that their reported values remain materially correct. | <p>We found that the gross internal areas used in the valuation of some assets were incorrect, resulting in a projected understatement of the value of land and buildings of £455,000.</p> <p>We identified a further projected understatement of land and buildings of £114,000 as a result of our testing of the indexation of these properties.</p> <p>We also identified one error relating to the accuracy of the valuation calculation, resulting in a projected understatement of the value of investment properties of £64,000.</p> <p>All of the above misstatements were reported as unadjusted audit differences.</p> |

FINANCIAL STATEMENTS

| Risk description | How the risk was addressed by our audit | Results |
|-----------------------------|--|--|
| Pension liability valuation | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Agreed the disclosures to the information provided by the pension fund actuary; • Reviewed the competence of the management expert (actuary); • Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data; • Reviewed the controls for providing accurate membership data to the actuary; • Contacted the administering authority auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and • Checked that any significant changes in membership data had been communicated to the actuary. | <p>Recent legal cases regarding transitional protection for members of certain public sector pension schemes where the terms of the benefit provided by the scheme have changed determined that these protections were age discriminatory. No allowance was made for these judgements in the information provided to the Council by the actuary for the purposes of preparing its Statement of Accounts due to the uncertainty surrounding the impact on the Local Government Pension Scheme (LGPS).</p> <p>Following publication of the Council's unaudited 2018/19 Statement of Accounts, the government's request for an appeal relating to one of these cases was refused by the Supreme Court. The Council requested the actuary to prepare updated information recognising the impact of the judgements, resulting in an increase in both past service cost and the net pension liability of £1.856 million.</p> <p>The actuary also reported a further increase in the net pension liability of £1.448 million arising from a lower return on assets compared to the estimate available at the time the unaudited accounts were prepared.</p> <p>The financial statements were amended to reflect the updated values provided by the actuary.</p> |

USE OF RESOURCES

Audit conclusion on use of resources

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

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

| Risk description | How the risk was addressed by our audit | Results |
|----------------------------------|---|--|
| Digital Transformation Programme | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">Reviewed the steps taken by the Council to address the weaknesses identified by the predecessor auditor in the following areas:<ul style="list-style-type: none">Options appraisal and scenario planningGovernance framework supporting implementation, scrutiny and monitoring of the Digital Transformation ProgrammeCompliance with agreed procurement proceduresConfirmed that procedures implemented to address the above matters have operated effectivelyInterviewed key officers. | <p>In early 2018/19, the Council took steps to address the weaknesses identified in the governance of the Digital Transformation Programme. We obtained evidence to demonstrate that these improved governance processes were implemented.</p> <p>The Council is currently developing a business case for the next stage of the digital transformation programme.</p> <p>Detailed financial information regarding the cost of the programme to date was presented to members at the June 2019 meeting.</p> <p>The Council has engaged a consultant to assist with the development of the programme. New project management arrangements are being implemented, with direct accountability to the Chief Executive. These arrangements were still being finalised at the time of our audit work.</p> <p>The Council has successfully implemented the key applications which will help it to deliver the organisational transformation envisaged at the start of the project.</p> |

REPORTS ISSUED AND FEES

Fees summary

| | 2018/19 Final £ | 2018/19 Planned £ |
|--|-----------------------|-------------------------|
| Audit fee - PSAA scale fee | 46,985 | 46,985 |
| Non-audit assurance services: | | |
| Fees for reporting on government grants: | | |
| • Housing benefits subsidy claim | 16,800 | 12,800 |
| Total fees | 63,785 | 59,785 |

The difference between the planned and final fees for the housing benefit subsidy claim is due to additional audit work arising from the identification of errors in the initial sample of housing benefit claims tested.

Communication

| Reports | Date | To whom |
|-------------------------|---------------|-----------------------------------|
| Audit plan | March 2019 | Audit and Risk Committee |
| Audit completion report | February 2020 | Chair of Audit and Risk Committee |



FOR MORE INFORMATION:

Lisa Clampin

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

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AUDIT AND RISK COMMITTEE
20 May 2020

AGENDA ITEM 8

| | |
|------------------|--|
| Subject | External Audit 2019-20 Audit Planning Report |
| Report by | BDO |

Enquiries contact: Barry Pryke, Senior Manager, BDO Tel:01473 320 793, barry.pryke@bdo.co.uk

Purpose

This report highlights the key sections of our 2019-20 Audit Planning Report

Recommendation(s)

- 1. That the Audit and Risk Committee note the matters highlighted in this report.**

Corporate Implications

| | |
|--|---|
| Legal: | The statutory responsibilities of local auditors are set out in the Local Audit and Accountability Act 2014. |
| Financial: | Audit fees are set out at page 7 of the Audit Planning Report. |
| Potential impact on climate change and the environment | None |
| Contribution toward achieving a net zero carbon position by 2030 | None |
| Personnel: | Staff resources are a key component of delivering a timely audit – both internally for the Council and externally for BDO |
| Risk Management: | The audit plan is predicated on a risk-based approach as set out in the Audit Planning Report. |
| Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N) | N/a |
| Health and Safety: | N/a |
| IT: | IT plays an important part in the audit, both in terms of an area of risk to be audited and in the use of digital techniques such as data analytics which support performance of the audit. |

| | |
|--------|-----|
| Other: | N/a |
|--------|-----|

| | |
|-------------------|---|
| Consultees | The 2019-20 Audit Planning Report has been reviewed by the Director of Financial Services |
|-------------------|---|

| |
|--|
| Policies and Strategies |
| The report takes into account the following policies and strategies of the Council: None |

1. Introduction

- 1.1 Auditing standards require us to communicate with those charged with governance (deemed to be the Audit and Risk Committee) throughout the audit process. Our Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.
- 1.2 The matters below are those which are key to our planning and risk assessment process. We encourage members to read the Audit Planning Report in full.

2. Scope and Materiality (page 4 of report)

- 2.1 The scope and objectives of our audit are consistent with the previous year. More detail is provided on page 8 of the report.
- 2.2 We have set materiality at 2% of gross expenditure. This has increased from 1.75% in the prior year, reflecting the outcome of the prior year audit and the greater understanding the audit team has of the Council following completion of a full audit cycle.
- 2.3 For planning purposes, gross expenditure on net cost of services in the 2018/19 audited Statement of Accounts has been used to calculate a materiality of £3.17 million (£2.74 million in the prior year).
- 2.4 The clearly trivial threshold is the level above which we will report unadjusted misstatements identified during the audit to the Audit and Risk Committee. This has been set at £63,000 for 2019/20 (£55,000 in the prior year).
- 2.5 Further information on the concept of materiality is included on pages 27 and 28 of the report.

3. Independence and Fees (page 7 of report)

- 3.1 We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.
- 3.2 The core audit fee for 2019/20 is £46,985. This is consistent with the scale fee published by Public Sector Audit Appointments Limited (PSAA), which is based on the historical position from 2012/13.

3.3 The scale fee does not reflect any of the significant changes in audit scope and depth of audit work linked to the valuations of land and buildings and the pension liability which have taken place since 2012/13, nor the raised bar for audit quality now expected by audit regulators. Auditors are now required to perform an extensive range of procedures to satisfy themselves that such valuations are materially correct. This includes verifying the completeness and accuracy of inputs into valuations, setting expectations regarding assumptions and obtaining evidence to support any valuations which fall outside of these expectations.

3.4 We will discuss the impact of these changes on fees with officers in the first instance. Approval for any agreed fee variation will then be sought from the Audit and Risk Committee and PSAA.

4. Audit Risks (page 10 onwards)

4.1 The outcome of our risk assessment relating to the Council's financial statements is shown on pages 11 to 15 of the report, which describe the risks of material misstatement we have identified and the audit procedures we will perform in response to these risks.

4.2 We have identified one significant risk in relation to use or resources. This relates to sustainable finances and reflects the uncertain funding position facing the sector.

5 Other matters (page 17)

5.1 We are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

5.2 We ask that, if members are aware of any suspected, alleged or actual fraud that have not been brought to the attention of the Committee via the Council's formal fraud reporting channels, that they contact a member of the audit team (contact details are included in the report).




6 2019/20 Audit Progress

6.1 The audit team completed their planning and interim visits in January and February 2020.

6.2 The planning visit included updating our understanding of the Council as a whole and updating our documentation relating to the Council's key financial systems and IT general controls.

6.3 Our interim visit involved completing substantive testing of income and expenditure (including payroll costs) for the period April 2019 to November 2019. The audit team also completed testing of s106 and Community Infrastructure Levy income and commenced our review of land and building valuations. Our interim procedures were completed as planned. The work will be subject to our internal review process prior to our final audit visit.

6.4 Members will be aware of the significant impact of Covid-19. The Government has enacted legislation which has pushed back the deadlines associated with the publication and audit of local government accounts. The Council is now required to publish unaudited accounts by 31 August 2020 and audited accounts by 30 November 2020. Officers have requested that our final audit visit take place in September 2020 and we are maintaining an ongoing dialogue with the Council regarding the implications of Covid-19 on the preparation of its statement of accounts.



Report to the Audit and Risk Committee
CHELMSFORD CITY COUNCIL
Audit Planning Report: year ending 31 March 2020

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WELCOME

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

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these, together with the BDO team.

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

We look forward to discussing this plan with you at the Audit and Risk Committee meeting on 25 March 2020 and to receiving your input on the scope and approach.

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

Lisa Clampin

9 March 2020



Lisa Clampin
Engagement lead

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Senior Manager

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

SCOPE AND MATERIALITY

Executive summary

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This summary provides an overview of the key audit matters that we believe are important to the Audit and Risk Committee in reviewing the planned audit strategy for the Council for the year ending 31 March 2020.

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

Audit scope

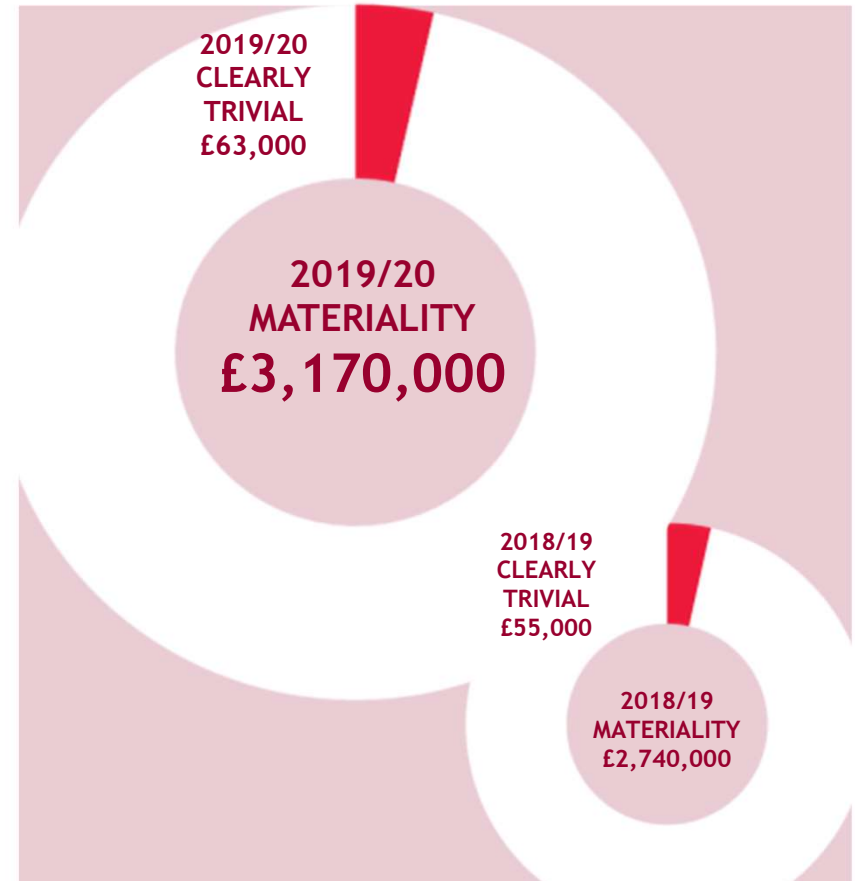
The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the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

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

Materiality

Planning materiality for the Council will be set at 2% of gross expenditure for the year (prior year 1.75%). The increase in materiality reflects the development of our understanding of the Council when compared to the prior year (which was our first year as external auditor). It also reflects the outcome of the prior year audit, which did not identify any significant material matters. This will be revisited when the draft financial statements are received for audit.

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



AUDIT STRATEGY

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

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

We will continue to update this assessment throughout the audit.

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

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| Risk identified | Risk rating | Fraud risk present | Testing approach | Impact of significant judgements and estimates |
|--|-------------|--------------------|------------------|--|
| Management override of controls | Significant | Yes | Substantive | Medium |
| Revenue recognition and expenditure cut-off | Significant | Yes | Substantive | Medium |
| Valuation of land, buildings and investment property | Significant | No | Substantive | High |
| Valuation of pension liability | Significant | No | Substantive | High |
| Related party transactions | Normal | No | Substantive | Low |
| Sustainable finances (use of resources) | Significant | N/A | N/A | N/A |



INDEPENDENCE AND FEES

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Independence

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

Fees

| | 2019/20 | 2018/19 |
|---|----------------|------------------------|
| Core audit fees | £46,985 | £46,985 |
| Total audit fees | £46,985 | £46,985 |
| Fees for non-audit services - audit related: | | |
| • Certification of housing benefits subsidy claim | £12,800 | ⁽¹⁾ £16,800 |
| Total non-audit services fees | £12,800 | £16,800 |
| Total fees | £59,785 | £63,785 |

(1) The final fees for the 2018/19 housing benefit subsidy claim reflects additional audit work arising from the identification of errors in the initial sample of housing benefit claims tested.

Amendments to the proposed fees

The 2019/20 planned Code fee is the PSAA-published level. The Scale is based on the historical position from 2012/13 and so does not reflect any of the changes in audit scope and depth linked to current audit requirements for property or plant and equipment or pensions liability valuation work. Discussions on the total fee impact will be held initially with officers in the context of detailed operational planning and interim audit scope so as to best mitigate increases. We will then seek approval of the proposed variation in fee from the Audit and Risk Committee and Public Sector Audit Appointments Limited.

OVERVIEW

Audit scope and objectives

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

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

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

| Reporting | Objectives |
|--|--|
| Auditing standards | We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office. |
| Financial statements | We will express an opinion on the Council’s financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions. |
| Statement of Accounts | In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit. |
| Use of Resources | We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. |
| Additional powers and duties | Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review. |
| Report to the Audit and Risk Committee | Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Risk Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit. |

BDO TEAM

Team responsibilities

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Lisa Clampin
Engagement lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

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

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

I am responsible for the overall quality of the engagement and am supported by the rest of the team.



Barry Pryke
Senior Manager

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

OVERVIEW

Audit risks

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

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

| Description of risk | Significant risk | Normal risk | Overview of risk |
|---|------------------|-------------|---|
| 1. Management override of controls | | | Management is in a unique position to perpetrate fraud by overriding controls. |
| 2. Revenue recognition and expenditure cut-off | | | Income recognition presents a fraud risk. For public sector bodies the risk of fraud related to expenditure is also relevant. |
| 3. Valuation of land, buildings and investment property | | | The valuation of land and buildings is a significant risk as it involves a high degree of estimation uncertainty. |
| 4. Valuation of pension liability | | | The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty. |
| 5. Related party transactions | | | There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2019/20 requirements. |
| 6. Sustainable finances (use of resources) | | | The Council will need to deliver savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met. |

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MANAGEMENT OVERRIDE OF CONTROLS

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

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

Risk detail

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

Planned audit approach

Our audit procedures will include the following:

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



REVENUE RECOGNITION AND EXPENDITURE CUT OFF

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Auditing standards presume that income recognition presents a fraud risk.

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

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

Risk detail

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

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

Planned audit approach

Our audit procedures will include the following:

- Testing an increased sample of grants included in income to supporting documentation from grant paying bodies and check whether recognition criteria have been met.
- Checking that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTY

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

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

Risk detail

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

The Council undertakes an annual review of its asset base alongside market data to identify assets whose value may have moved by a material amount. This exercise determines which assets will be subject to a formal revaluation in the current year. The Council uses an external valuer to undertake the valuation exercise and, as a minimum, aims to revalue each asset once every three years.

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

Planned audit approach

Our audit procedures will include the following:

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

VALUATION OF PENSION LIABILITY

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

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

Risk detail

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

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

Planned audit approach

Our audit procedures will include the following:

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

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2019/20 requirements.

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

Risk detail

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

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

Planned audit approach

Our audit procedures will include the following:

- Review management processes and controls to identify and disclose related party transactions;
- Review relevant information concerning any such identified transactions;
- Discuss with management and review councillors’ and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertake Companies House searches for potential undisclosed interests.

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SUSTAINABLE FINANCES (USE OF RESOURCES)

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The Council will need to deliver savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

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

Risk detail

The revenue monitoring report presented to Cabinet in November 2019 highlighted that the Council is projecting a £1.319m (8.65%) overspend against its 2019/20 revenue budget. This overspend is expected to be funded from reserves.

The Council has set a balanced budget for 2020/21. However, the update to the Medium Term Financial Strategy (MTFS) presented to Full Council in February 2020 shows that the Council expects to have a cumulative budget deficit of £2.651 million by the end of 2022/23, with the shortfall for 2021/22 forecast to be £1.119 million.

The MTFS has also been prepared in the context of uncertainty around government grants and the outcome of the Fairer Funding Review. While the Council historically has a good track record of achieving savings, the medium term financial position may deteriorate if funding decisions result in a reduction in resources available to the Council when compared to the assumptions made in the MTFS.

Planned audit approach

Our audit procedures will include the following:

- Review the assumptions used in the MTFS;
- Review the delivery of the budgeted savings in 2019/20 and the plans to deliver identified savings for 2020/21; and
- Hold interviews with key officers.

OTHER MATTERS REQUIRING FURTHER DISCUSSION 1

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Fraud

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

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud reported by the Council (such as those relating to housing benefit and council tax). We request confirmation from the Audit and Risk Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

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

Internal audit

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

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

Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

OTHER MATTERS REQUIRING FURTHER DISCUSSION 2

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Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

Significant accounting estimates and judgements

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

Financial statement disclosures

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

Related parties

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

Any other matters

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

GOING CONCERN

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

Managements' responsibilities

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

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

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

Audit responsibilities

Our responsibilities in respect of going concern are:

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

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

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

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IT GENERAL CONTROLS

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

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

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

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

- Total;
- iTrent;
- PARIS/Civica;
- CIPFA Asset Management
- Capita; and
- Omniledger



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INDEPENDENCE

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

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

This document considers such matters in the context of our audit for the year ending 31 March 2020.

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

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

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

Non-audit services

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

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

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COUNCIL'S RESPONSIBILITIES

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Financial reporting

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

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

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

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

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

Use of resources

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

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

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

OUR RESPONSIBILITIES

Responsibilities and reporting

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Our responsibilities and reporting - financial reporting

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

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

Our responsibilities and reporting - use of resources

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

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

What we don't report

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



COMMUNICATION WITH YOU

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Those charged with governance

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

Communication, meetings and feedback

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

Audit Planning Report

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

Internal Controls

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

Audit Completion Report

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

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

TEAM MEMBER ROTATION

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This table indicate the latest rotation periods normally permitted under the independence rules of the FRC’s Ethical Standard.

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

Independence - engagement team rotation

| Senior team members | Number of years involved | Rotation to take place after |
|---------------------------------|--------------------------|------------------------------|
| Lisa Clampin Engagement lead | 2 | 10 years |
| Barry Pryke Manager | 2 | 10 years |

MATERIALITY: DEFINITION AND APPLICATION

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Concept and definition

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

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

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

- Narrative disclosure e.g. accounting policies, going concern; and
- Instances when greater precision is required (e.g. Remuneration and Staff Report and related party transactions).

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

Calculation and determination

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

We determine materiality in order to:

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

Reassessment of materiality

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

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

MATERIALITY: DEFINITION AND APPLICATION



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

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

Unadjusted errors

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

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

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

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

AUDIT QUALITY

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

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

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



AQR RESULTS 2018/19

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Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the [FRC Website](#). We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

Firm's results

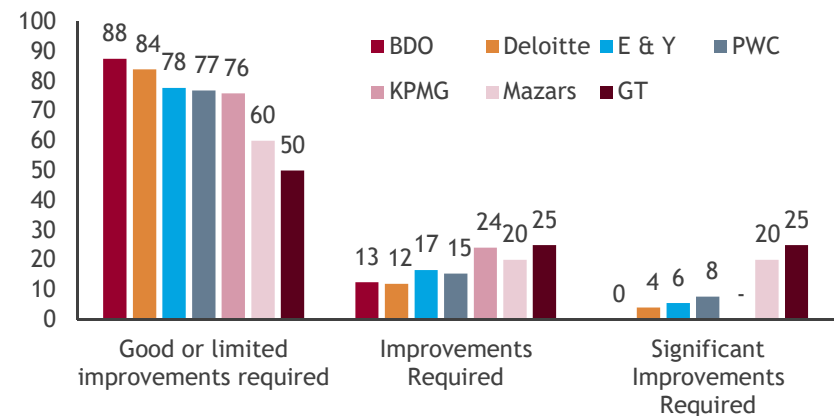
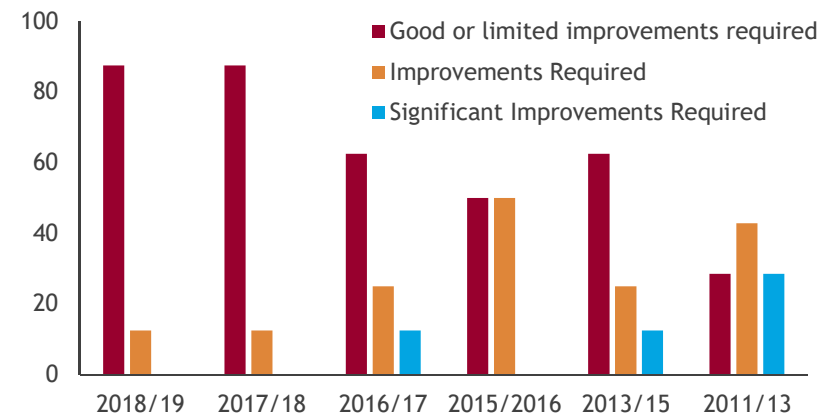
The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

We include details of our model 'The Cycle of Continuous Improvement'. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

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

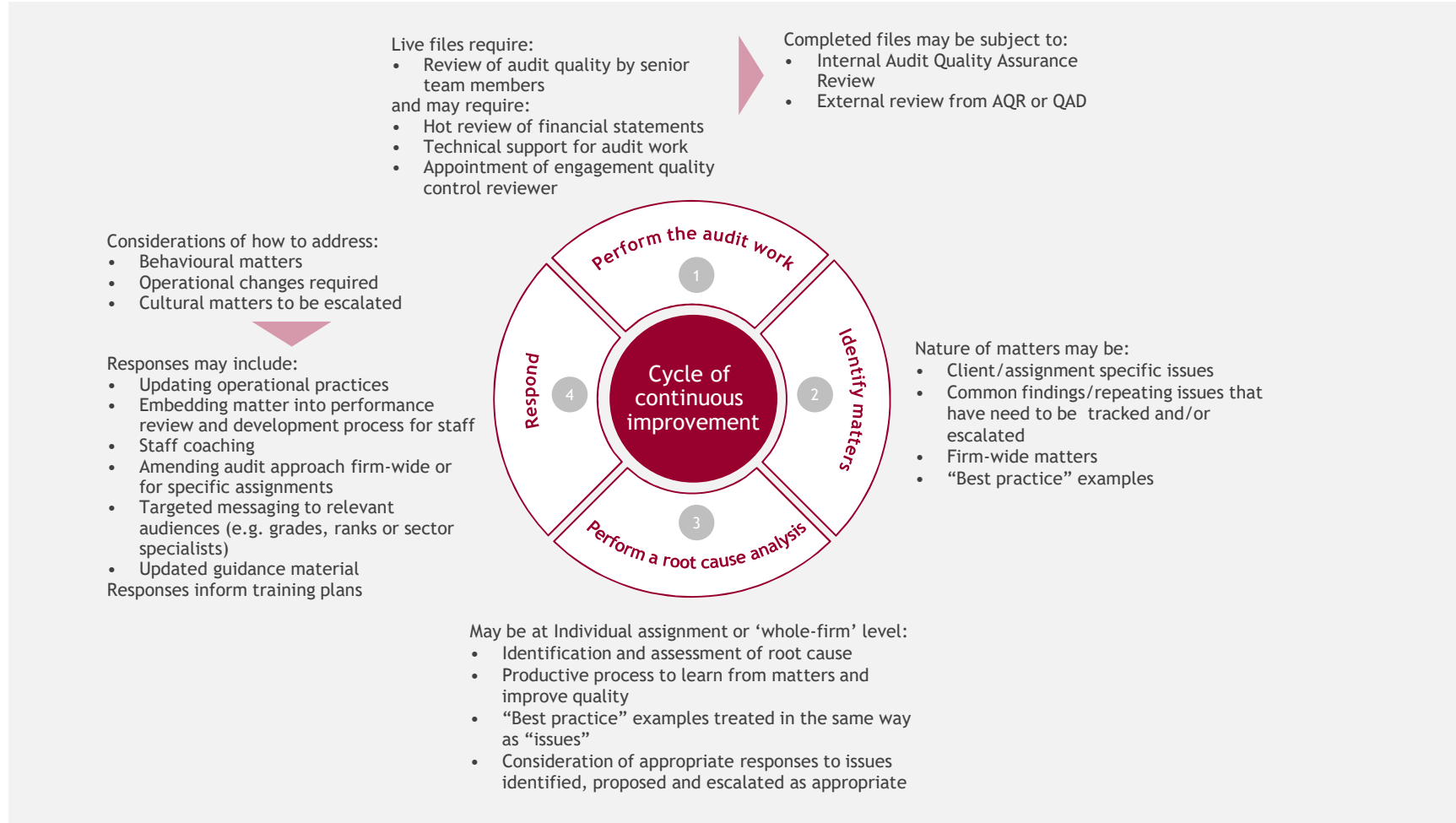
More details will be included in our Transparency Report which will be available on our www.bdo.co.uk.



AQR RESULTS 2018/19

BDO performance

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

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AUDIT AND RISK COMMITTEE
20th May 2020

AGENDA ITEM 9

| | |
|------------------|--|
| Subject | Housing Benefit Subsidy Assurance Procedures 2018/19 |
| Report by | BDO |

Enquiries contact: Barry Pryke, Senior Manager, BDO Tel:01473 320 793,
barry.pryke@bdo.co.uk

Purpose

This report summarises the outcome of the agreed upon procedures in relation to the Council's 2018/19 housing benefit subsidy claim

Recommendation(s)

- That the Audit and Risk Committee note the findings reported to the Department for Work and Pensions in the Reporting Accountant's report at Appendix 1.**

Corporate Implications

| | |
|--|---|
| Legal: | None |
| Financial: | The financial implications are described in the report. |
| Potential impact on climate change and the environment | None |
| Contribution toward achieving a net zero carbon position by 2030 | None |
| Personnel: | None |
| Risk Management: | None |
| Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N) | None |
| Health and Safety: | None |
| IT: | None |
| Other: | None |

| | |
|-------------------|------|
| Consultees | None |
|-------------------|------|

Policies and Strategies

The report takes into account the following policies and strategies of the Council: N/A

1. Introduction

- 1.1 Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government.
- 1.2 The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A - Statement of Authority claimed entitlement to Housing Benefit.
- 1.3 Grant claims and returns are not within the scope of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor. The Council engaged us to carry out 'Agreed-upon procedures', based on the instructions and guidance provided by the Department for Work and Pensions (DWP), on form MPF720A.
- 1.4 The Council's Housing Benefit team undertake detailed testing on a sample of claims selected by us. We re-perform a sample of this work to confirm that the conclusions reached are correct. The outcome of this work is reported to the DWP in the form of a Reporting Accountant's report.
- 1.5 Our reporting accountant's report was issued to the DWP on 20 December 2019 and is attached at Appendix 1. The key findings from our work are summarised below.

2. Summary of Findings

- 2.1 Testing of an initial sample of 40 housing benefit claims (covering non-HRA rent rebates and rent allowance benefit types) identified the following errors:
 - Two cases where a change of circumstances had been implemented from the wrong date
 - Two cases where income was calculated incorrectly
 - One case where incorrect eligible rent was used
 - One case where an LA error and administrative delay overpayment was misclassified as an eligible overpayment
 - One case where an eligible overpayment was misclassified as an LA error overpayment due to a manual adjustment being made to the claim
 - Two cases where expenditure relating to non-HRA rent rebates were misclassified due to manual adjustments; and
 - One case where a statutory applicable amount was omitted from the claim.
- 2.2 The guidance requires that auditors undertake extended testing of 40 additional cases with similar characteristics ('40+ testing') if initial testing identified errors in the

benefit entitlement calculation or in the classification of expenditure. Such testing is also undertaken as part of our follow-up of prior year issues reported. The results of this testing are extrapolated across the population to estimate a potential error amount. The extrapolation methodology is prescribed by the DWP. Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate. Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this as an observation in our Reporting Accountant's report.

- 2.3 Initial testing resulted in three new areas of 40+ Testing (misclassification of overpayments, misclassification of amounts between below and up to the LHA amount and above the LHA amount and incorrect rent/date of change in circumstances) and one area of 100% testing (misclassification of overpayment due to a manual adjustment being made to the claim).
- 2.4 Four areas were tested as a result of being reported as prior year issues (application of tax credits, calculation of earned income for both non-HRA rent rebates and rent allowances and addition of dependents from the correct date).

3. Conclusion

- 3.1 The final claim was amended to increase subsidy by £1,125 to £42,041,147.
- 3.2 However, the potential impact resulting from the extrapolated errors, if DWP was minded to finalise the subsidy based on these findings, would increase subsidy due to the Council by £6,188 (misclassification of overpayments -£105, earned income £2,561 and non-HRA rent rebate expenditure misclassification £3,732).

List of Appendices

Appendix 1 – Reporting Accountants' Report for the Housing Benefits Subsidy Claim form MPF720A, year ended 31 March 2019

Background Papers

Nil

APPENDIX 1 - REPORTING ACCOUNTANTS' REPORT FOR THE HOUSING BENEFIT SUBSIDY CLAIM FORM MPF720A

Housing Benefit (Subsidy)

Assurance Process 2018/19

Module 6 DWP Reporting Framework Instruction

Reporting accountants' report for the Housing Benefit Subsidy claim form MPF720A of Chelmsford City Council, year ended 31 March 2019

To: Housing Benefit Unit, Housing Delivery Division, DWP Business Finance & Housing Delivery Directorate, Room B120D, Warbreck House, Blackpool, Lancashire FY2 0UZ.

And: The Section 151 Officer of Chelmsford City Council.

This report is produced in accordance with the terms of our engagement letter with Chelmsford City Council dated 26 April 2019 and the standardised engagement terms in Appendix 2 of HBAP Module 1 2018/19 issued by the Department for Work and Pensions (DWP) for the purpose of reporting to the Section 151 Officer of Chelmsford City Council (the 'Local Authority') and the DWP.

Our report is prepared solely for the confidential use of the Local Authority and the DWP and solely for the purpose of facilitating the claim for Housing Benefit Subsidy on form MPF720A dated 29 April 2019.

This report should not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by the standardised engagement terms), without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than the local authority and the DWP, we acknowledge that the local authority and/or the DWP may be required to disclose this report to parties demonstrating a statutory right to see it.

This report is designed to meet the agreed requirements of Local Authority and the DWP as described in the DWP HBAP reporting framework instruction 2018/19.

This report should not therefore be regarded as suitable to be used or relied upon by any other party for any purpose or in any context. Any party other than the Local Authority and the DWP which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so entirely at its own risk. To the fullest extent permitted by law, we accept no responsibility or liability in respect of our work or this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by the reliance of anyone other than the addressees on our work or this report.

Respective responsibilities of the Local Authority and the reporting accountant

We conducted our engagement in accordance with HBAP Modules 1 and 6 2018/19 issued by the DWP, which highlight the terms under which DWP has agreed to engage with reporting accountants.

The Section 151 Officer of the Local Authority has responsibilities under the Income-related Benefits (Subsidy to Authorities) Order 1998. The section 151 Officer is also responsible for ensuring that the Local Authority maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Local Authority. It is also the Section 151 Officer's responsibility to extract relevant financial information from the Local Authority's accounting records, obtain relevant information held by any officer of the Local Authority and complete the attached form MPF720A in accordance with the relevant framework set out by the DWP.

Our approach

For the purpose of the HBAP engagement we have been provided with a signed copy of form MPF720A 2018/19 dated 19 December 2019 by the Section 151 Officer. The Section 151 Officer remains solely responsible for the completion of the MPF720A and is the signatory on the local authority's certificate on claim form MPF720A.

Our engagement was carried out in accordance with the DWP reporting framework instruction which has been prepared in accordance with the *International Standard on Related (ISRS) 4400, Engagement to perform agreed-upon-procedures regarding financial information*. The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis as set out in HBAP Modules of the HBAP reporting framework instruction on the Local Authority's form MPF720A dated 19 December 2019, and to report the results of those procedures to the Local Authority and the DWP.

The results of these are reported on in Appendices A, B, C and D.

Inherent limitations

The procedures specified in DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the local authority's claim for Housing Benefit subsidy on form MPF720A. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the local authority's claim for Housing Benefit subsidy on form MPF720A in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the Local Authority's form MPF720A and does not extend to any financial statements of the Local Authority, taken as a whole.

This engagement will not be treated as having any effect on our separate duties and responsibilities as the external auditor of the Local Authority's financial statements. Our audit work on the financial statements of the Local Authority is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. Our audit report on the Local Authority's financial statements is made solely to the Local Authority's members, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work was undertaken so that we might state to the Local Authority's members those matters we are required to state to them in an auditor's 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 Local Authority and the Local Authority's members, as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of that audit.

Summary of HBAP report

Summary of Initial Testing

In accordance with HBAP modules an initial sample of cases was completed for all general expenditure cells. We have re-performed a sample of the Local Authority's testing and confirm the tests we have carried out concur with the Local Authority's results:

Cell 011 Non HRA Rent Rebates

- **Incorrect implementation of the Monday following rule in regards to a change in circumstances:** two cases were identified where the Local Authority had implemented a change in circumstances from the incorrect date. In both cases, this error resulted in an underpayment of benefit. However, the nature of this error is such that it could result in an overpayment and an additional 40 cases selected from the headline cell population were tested for this error.
- **Incorrect earnings:** one case was identified where the Local Authority had applied the incorrect earnings in relation to a non-dependent. This error resulted in an underpayment of benefit. However, the nature of this error is such that it could result in an overpayment. An additional 40 cases selected from a sub-population of non-HRA claims with earned income were tested.
- **Rental income:** one case was identified where the Local Authority had used the incorrect eligible rent in the benefit calculation. This error resulted in an underpayment. However, the nature of this error is such that it could result in an overpayment. An additional 40 cases selected from the headline cell population were tested for this error.
- **Misclassification of eligible overpayment:** one case was identified where the Local Authority had misclassified an *eligible* overpayment as an *LA error and administrative delay* overpayment. Additional testing of 40 cases selected from the population of cell 028 was performed by the Local Authority for this error.
- **Misclassification of subsidy above the LHA amount:** two cases were identified where the Local Authority had misclassified subsidy below and up to the LHA amount as subsidy above the LHA amount. In both cases, the error arose due to a mid week move being processed incorrectly. One further case was identified where incorrect processing of a mid-week move resulted in an underpayment of benefit. Additional testing of 40 cases selected from a sub-population of claims with mid-week moves was performed for this error.
- **Misclassification of overpayments arising from manual adjustments:** One case was identified where the Local Authority had misclassified an *eligible* overpayment as an *LA error and administrative delay* overpayment during the manual processing of adjustments to non HRA cases. Additional testing of the 63 cases affected was performed for this error.

Cell 094 Rent Allowances

- **Incorrect calculation of Earned Income:** one case was identified where the Local Authority had incorrectly calculated the claimants earned income during assessment. An additional 40 cases selected from a sub-population of claims with earnings was performed for this error.

- **Omission of Family premium applicable amount:** one case was identified where the Local Authority had omitted the family premium for which the claimant was eligible from the assessment. As this error could only result in an underpayment of benefit, additional testing was not required.

Completion of Modules

Completion of Module 2

No issues were identified.

Completion of Module 5

We have completed the questionnaire for the appropriate software supplier and no issues were identified.

Summary of testing arising from Cumulative Assurance Knowledge and Experience

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding Qualification Letter. Where appropriate the Authority has completed testing of the sub populations for:

- Non HRA Rent Rebates cell 011: Revised tax credits figures being applied at the correct date
- Non HRA Rent Rebates cell 011: Earned income calculation errors
- Non HRA Rent Rebates cell 011: Addition of new dependants and associated applicable amounts from the correct date.
- Rent Allowances cell 094: Earned income calculation errors

We have re-performed a sample of the Local Authority's testing and confirm the tests we have carried out concur with the Authority's results. These results are outlined in the appropriate appendix.

The following CAKE tests have returned no errors and are considered as closed:

- Non HRA Rent Rebates cell 011: Revised tax credits figures being applied at the correct date
- Non HRA Rent Rebates cell 011: Addition of new dependants and associated applicable amounts from the correct date.

Summary paragraph

For the form MPF720A dated 20 December 2019. for the year ended 31 March 2019 we have completed the specific test requirements detailed in the DWP reporting framework instruction HBAP and have identified the following results set out in Appendix A, B, C and D).

Firm of accountant: BDO LLP
Office: Ipswich
Contact details (person, phone and email): Lisa Clampin, Partner
01473 320716
lisa.clampin@bdo.co.uk

Signature / stamp:

Date: 20 December 2019

Appendix A: Exceptions/errors found

Error Type 3 - benefit overpaid or insufficient supporting information.

Cell 011 Overpaid benefit - Change in circumstances applied from wrong date

Cell 011: Non HRA Rent Rebate

Cell Total: £2,294,566.00

Cell Total: £2,294,566.00 - *sub population*

Cell Population: 435 cases

Cell Population: 435 cases - *sub population*

Initial testing identified two cases (combined value: £20,223.54) where a reported change in circumstances was not correctly implemented by the Local Authority from the Monday following the notification of the change in circumstances. This error resulted in an overpayment of £13.07.

As it was not possible to correctly establish the error for amendment, an additional sample of 40 cases was completed. This additional testing did not highlight any further errors.

The following table is based on these findings and states the extrapolation of the identified error:

| Sample: | Movement/brief note of error: | Original cell total/sub population: | Sample error: | Sample value: | Percentage error rate: (to two decimal places) | Cell adjustment: | |
|---------------------------------|---|-------------------------------------|---------------|-----------------|--|------------------|------|
| | | [CT] | [SE] | [SV] | [SE/SV] | [SE/SV x CT] | |
| Initial sample - 20 cases | Change in circumstances actioned from incorrect date. | £2,294,566 | £13 | £113,896 | - | - | |
| Additional sample - 40 cases | Change in circumstances actioned from incorrect date. | £2,294,566 | £0 | £124,077 | - | - | |
| Combined sample - 60 cases | Change in circumstances actioned from incorrect date. | £2,294,566 | £13 | £237,973 | 0.01% | £126 | |
| Corresponding adjustment: | Cell 015 overstatement. | £2,294,566 | £13 | £237,973 | 0.01% | £(126) | |
| Total corresponding adjustment: | Cell 026 understatement. | | | | | | £126 |

Cell 011 Overpaid benefit - Earned Income Calculation Error

Cell 011: Non HRA Rent Rebate

Cell Total: £2,294,566.00

Cell Total: £ 660,240.71 - *sub population*

Cell Population: 435 cases

Cell Population: 285 cases - *sub population*

In 2017/18 it was identified, and reported in the corresponding qualification letter, that the Local Authority had incorrectly calculated earned income, resulting in an overpayment of benefit.

During initial testing, three cases (combined value: £22,232.84) where the assessment was based on earned income were tested. In one of these cases (value £9,256.22), non-dependent earnings were incorrectly calculated, resulting in an underpayment.

As it was not possible to correctly establish the error for amendment, an additional sample of 40 cases where an assessment in the subsidy period was based upon earned income, was tested.

The additional testing identified one case which resulted in an overpayment £0.15 due to a miscalculation of the claimant's earned income.

The following table is based on these findings and states the extrapolation of the identified error:

| Sample: | Movement/brief note of error: | Original cell total/sub population: | Sample error: | Sample value: | Percentage error rate: (to two decimal places) | Cell adjustment: |
|---------------------------------|---|-------------------------------------|---------------|---------------|--|------------------|
| | | [CT] | [SE] | [SV] | [SE/SV] | [SE/SV x CT] |
| Initial sample - 2 cases | Incorrect income calculation | £2,294,566 | £0 | £22,232 | - | - |
| CAKE sample - 40 cases | Incorrect income calculation | £660,240 | £0 | £66,843 | 0.00% | - |
| Combined sample - 42 cases | Incorrect income calculation | £660,240 | £0 | £89,076 | 0.00% | - |
| Corresponding adjustment: | Combined sample - cell 015 is overstated | £660,240 | £0 | £89,076 | 0.00% | - |
| Total corresponding adjustment: | Combined sample - cell 026 is understated | | | | | - |

Cell 094 Overpaid benefit - Earned Income Calculation Error

Cell 094: Rent Allowances total expenditure

Cell Total: £40,898,955.00

Cell Total: £ 8,536,881.82 - *sub population*

Cell Population: 8,881 cases

Cell Population: 2,356 cases - *sub population*

In 2017/18 it was identified, and reported in the corresponding qualification letter, that the Local Authority had incorrectly calculated earned income, resulting in an overpayment of benefit.

During initial testing, five cases (combined value: £19,541.88) where the assessment was based on earned income were tested. From these five cases, an error was identified in the earned income calculation for one claim (value: £4,406.82) which resulted in an overpayment of £3.44.

As it was not possible to correctly establish the error for amendment, additional testing of 40 cases, where an assessment in the subsidy period was based upon earned income, was completed. The additional testing identified:

One case (total value: which resulted in an overpayment of £19.68 due to a miscalculation of the claimant's earned income.

Three cases which resulted in a combined underpayment of housing benefit £34.35 in 2018/19 due to the miscalculation of the claimants earned income. The underpayment errors ranged from £0.04 to £33.83. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect the subsidy claimed and, therefore, have not been classified as errors for subsidy extrapolation purposes.

Two cases in which the Local Authority had miscalculated the claimants earned income, but this error did not have an impact on the total entitlement.

The following table is based on these findings and states the extrapolation of the identified error:

| Sample: | Movement/brief note of error: | Original cell total/sub population: | Sample error: | Sample value: | Percentage error rate: (to two decimal places) | Cell adjustment: |
|---------------------------------|---|-------------------------------------|---------------|---------------|--|------------------|
| | | [CT] | [SE] | [SV] | [SE/SV] | [SE/SV x CT] |
| Initial sample - 5 cases | Incorrect income calculation - cell 094 | £40,898,955 | £3 | £19,542 | - | - |
| CAKE sample - 40 cases | Incorrect income calculation - cell 094 | £8,536,881 | £20 | £50,860 | - | - |
| Combined sample - 45 cases | Incorrect income calculation - cell 094 | £8,536,881 | £23 | £70,402 | 0.03% | £2,561 |
| Corresponding adjustment: | Cell 102 overstated | £8,536,881 | £23 | £70,402 | 0.03% | £(2,561) |
| Corresponding adjustment: | Cell 114 understated | £497,385 | £(0) | £70,402 | 0.00% | £0 |
| Total corresponding adjustment: | Cell 113 understated. | | | | | £2,561 |

Error Type 4 - expenditure misclassification. Where benefit expenditure has been misclassified

Cell 011 Expenditure misclassification - LHA Misclassification Error

Cell 011: Non HRA Rent Rebate

Cell Total: £2,294,566.00

Cell Total: £ 66,055 - *sub population*

Cell Population: 435 cases

Cell Population: 365 cases - *sub population*

Headline Cell: £2,294,566.00

Initial testing identified thirteen cases that included a part week split of housing benefit due to the claimant undergoing a mid-week move (total value of benefit expenditure in part week periods: £2,333.76). In two cases, misclassifications across the detailed cells relating to subsidy up to the LHA amount and subsidy above the LHA amount were identified. The Local Authority had incorrectly applied the LHA rate across the whole week of the claimant's move. The errors ranged from £96.99 to £341.40. As the claimants are eligible for benefit up to the LHA rate for each part week period, cell 015 relating to subsidy above the LHA amount is overstated to the total amount of £438.39.

One further case was also identified where incorrect processing of a midweek move resulted in an underpayment of benefit of £90.39. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect the subsidy claimed and, therefore, has not been classified as an error for subsidy extrapolation purposes

As it was not possible to correctly establish the error for amendment, an additional sample of 40 cases where a mid-week move had taken place were tested. This additional testing identified:

Three cases of misclassification. One case related to self-contained accommodation, as with the errors identified in the initial sample, and consequently results in an overstatement of Cell 015. Two cases related to non-self-contained accommodation, resulting in an overstatement of Cell 013. The errors ranged from £2.89 to £60.00. The combined misclassification identified was £69.59. Cell 014 and Cell 012 are understated by a corresponding amount.

The following table is based on these findings and states the extrapolation of the identified errors:

| Sample: | Movement/brief note of error: | Original cell total/sub population: | Sample error: | Sample value: | Percentage error rate: (to two decimal places) | Cell adjustment: |
|---|---|-------------------------------------|---------------|---------------|--|------------------|
| | | [CT] | [SE] | [SV] | [SE/SV] | [SE/SV x CT] |
| Initial sample - 13 cases | Part week split incorrect. Cell 015 overstated. Cell 014 understated. | £2,294,566 | £438 | £2,334 | - | - |
| Additional sample - 40 cases | Part week split incorrect. Cells 013 and 015 overstated. Cells 012 and 014 understated. | £66,055 | £70 | £6,651 | - | - |
| Combined sample - 53 cases | Part week split incorrect | £66,055 | £508 | £8,985 | 5.65% | £(3,732) |
| Corresponding adjustment | Cell 013 is overstated | £66,055 | £63 | £8,985 | 0.70% | £(462) |
| Corresponding adjustment | Cell 015 is overstated | £66,055 | £445 | £8,985 | 4.95% | £(3,270) |
| Understatement corresponding adjustment | Cell 012 is understated | | | | | £462 |
| Understatement corresponding adjustment | Cell 014 is understated | | | | | £3,269.71 |

Cell 028 Expenditure misclassification - Misclassification of Eligible Overpayments Error

Cell 028: Overpaid (non-HRA) rent rebates (current year): Eligible overpayments

Cell Total: £34,046.81

Cell Population: 142 cases

Headline Cell: £2,294,566.00

Initial testing included eight cases that contained eligible overpayments amounting to £809.19. In one of these cases, the eligible overpayments had been misclassified by the Local Authority resulting in Cell 028 being overstated by £78.31.

As it was not possible to correctly establish the error for amendment, an additional sample of 40 cases taken from cell 028 was tested to confirm classification was correct.

This additional testing did not identify any further errors as in all the additional cases the overpayments had been appropriately classified.

The following table is based on these findings and states the extrapolation of the identified error:

| Sample: | Movement/brief note of error: | Original cell total/sub population: | Sample error: | Sample value: | Percentage error rate: (to two decimal places) | Cell adjustment: |
|------------------------------|---|-------------------------------------|---------------|---------------|--|------------------|
| | | [CT] | [SE] | [SV] | [SE/SV] | [SE/SV x CT] |
| Initial sample - 8 cases | Misclassification of Eligible overpayments - cell 011 | £2,294,566 | £78 | £809 | - | - |
| Additional sample - 40 cases | Misclassification of Eligible overpayments - cell 011 | £34,047 | £0.00 | £9,375 | - | - |
| Combined sample - 48 cases | Misclassification of Eligible overpayments Cell 028 is overstated | £34,047 | £78 | £10,184 | 0.77% | £(262) |
| Corresponding Adjustment | Cell 026 - LA error and administrative delay overpayments is understated. | | | | | £262 |

Appendix B: Observations

Error Type 1 - underpaid benefit which would always result in an underpayment

Cell 094 Rent Allowances Total Expenditure - Underpaid benefit due to the omission of the family premium from the applicable amounts

Cell 094 Total: £40,898,955.00

Cell 094 Population: 8,881 cases

Headline Cell: £40,898,955.00

Initial testing of Cell 094 identified one case where the Local Authority had incorrectly omitted the family premium from the applicable amounts for which the claimant was eligible in the calculation of the entitlement. This resulted in an underpayment of housing benefit in the amount of £98.32.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes. Because this error will always result in an underpayment of benefit, additional testing has not been undertaken.

Appendix C: Amendments to the claim form MPF720A

Error Type 4 - expenditure misclassification. Where benefit expenditure has been misclassified

Cell 011 Expenditure misclassification - Overpayment misclassification error arising from manual adjustments

Cell 011: Non HRA Rent Rebate

Cell Total: £2,294,566.00

Cell Total: £ 42,225.24 - *sub population*

Sub Population: 63 cases

Initial testing identified one case in which the Local Authority had processed a manual adjustment to post benefit expenditure to the correct subsidy cells. This resulted in expenditure being misclassified as an LA error and administrative delay overpayment rather than an eligible overpayment. Cell 026 was therefore overstated.

Additional testing was performed on the subpopulation affected by this error, comprising 63 cases. As this is a small population, all remaining cases were tested. We reperformed the test on 11 cases, including six cases identified by the Local Authority as fails. This additional testing identified:

Misclassification of overpayments in a further six cases. In one case the misclassification identified was an eligible overpayment misclassified as expenditure up to the LHA amount, resulting in cell 014 being overstated. The remaining five errors identified related to the misclassification of overpayments. The net impact of all misclassifications identified are detailed below:

Cell 027 overstated: £1,657.50

Cell 014 understated: £135.00

Cell 026 understated: £635.00

Cell 028 understated: £887.50

This is reflected in the amendment made to Form MPF720a dated 19 December 2019

Appendix D: Additional issues

There are no additional issues that require reporting.

Chelmsford City Council Audit and Risk Committee

20th May 2020

Internal Audit Plan – Covid-19 Response Phase

Report by:

Director of Financial Services

Officer Contact:

Elizabeth Brooks, Audit Services Manager – elizabeth.brooks@chelmsford.gov.uk

Purpose

Due to the impact of Covid-19, it is not appropriate or prudent to commence delivery of the 2020-21 Audit Plan from April 2020 as intended. This report sets out the approach instead proposed by Internal Audit to support the Council during its Covid-19 Response Phase.

Recommendations

Audit and Risk Committee are requested to note the content of this report and support the Internal Audit approach during the Council's Covid-19 Response Phase.

1. Introduction

- 1.1. Due to the impact of Covid-19, it is not appropriate or prudent to commence delivery of the 2020-21 Audit Plan from April 2020 as intended.
- 1.2. Our immediate priority is to work closely with Services and Risk Management to contribute to a coordinated Council response to the Covid-19 pandemic. Therefore, our focus will be to provide assurance regarding the Council's control framework in this response phase, in the following high-risk areas:
 - Where there have been any changes to operational (particularly financial) processes and procedures, which may increase the Council's exposure to loss or fraud and/or reputational damage due to inconsistent application, e.g. Small Business Grants, Purchasing and Payments, Refunds etc.

- Technology e.g. cyber security and data security
- Workforce e.g. redeployment, volunteers
- Supply e.g. wider impact of Covid-19 on Council suppliers
- Governance e.g. transparency of decision making and supporting documentation

1.3. We will look to practically assist in the following ways:

- Following work already completed relating to control design advice for Small Business Grants and new processes being implemented at the Chelmsford Community Response Hub, we will continue to provide support as these processes embed, offering further design advice or assurance over controls operating in practice, as required.
- All relevant service managers have been contacted, where services are still operating and where processes may have had to change due to Covid-19 (e.g. due to remote working), to offer our review of these changes, to monitor where usual/expected controls may have had to change, offer advice accordingly and document these key changes, in order to assess the Council's current risk exposure, inform future workplans and/or to ensure that the usual controls are reinstated once full service has resumed.
- Provide general advice and guidance on key risks and controls through the GEM/Sharepoint so that all services have access to the key things to consider during this response phase and which they may want to implement accordingly, also providing a route for requests for audit advice and an opportunity for raising any concerns relating to fraud.
- Any specific requests from Audit and Risk Committee.

2. 2020/21 Audit Plan

2.1. As business as usual is restored, our priority for the remainder of the financial year 2020-21 will be to deliver a revised Audit Plan, focussing on the highest risks to the Council. We will continue to work closely with Risk Management to ensure that any emerging risks from Covid-19 are included within our plan where appropriate. We will monitor the response phase closely, and time the development of the plan accordingly, and will liaise with service managers, Management Team and Audit and Risk Committee in line with our usual processes.

2.2. We are also continuing to provide support to the T1 implementation programme.

3. Annual Report and Opinion 2019/20

3.1. We will continue to produce our Annual Report and Annual Opinion for 2019/20 as expected, for delivery to the summer Audit and Risk Committee and to inform the Council's Annual Governance Statement.

4. Delivery

- 4.1. We are able to effectively operate remotely as a team and adapt our audit approach accordingly using the technology we have available. Should we find any impact on our ability to provide assurance e.g. through staff availability/technology difficulties, we will reassess and report any wider impact this may have on our audit opinion.

5. Conclusion

- 5.1. This report indicates the level of work that will be undertaken by Internal Audit during the Council's Covid-19 Response Phase in order to provide assurance over the overall adequacy and effectiveness of Chelmsford City Council's framework of governance, risk management and control

List of appendices: None

Background papers: None

Corporate Implications

Legal/Constitutional: The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015).

Financial: The programme of audit work will be met from the Internal Audit Revenue budget

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: Delivery of the response plan will be resourced by in-house staff, with the potential to use external contractors for specialist pieces of work as required.

Risk Management: The Response Plan has been based on a Covid-19 risk-based methodology and has been discussed with the Council's Risk Manager and Procurement and Risk Services Manager.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: Risk Manager and Procurement and Risk Services Manager; Management Team approved the approach on 22nd April 2020.

Relevant Policies and Strategies:

Internal Audit Charter 2020

Chelmsford City Council Audit and Risk Committee

20th May 2020

Internal Audit Charter 2020

Report by:

Director of Financial Services

Officer Contact:

Elizabeth Brooks, Audit Services Manager, elizabeth.brooks@chelmsford.gov.uk

Purpose

This report seeks endorsement from the Audit & Risk Committee for the Internal Audit Charter 2020.

Recommendations

The Committee are requested to note the content of this report and endorse the Internal Audit Charter 2020.

1. Introduction

- 1.1. The purpose, authority, and responsibility of the Internal Audit activity must be formally defined in an Internal Audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- 1.2. The Internal Audit Charter establishes Internal Audit's position within Chelmsford City Council, including the Audit Service Manager's reporting lines, authorisation to access to records, staff and physical properties relevant to the performance of engagements, and also defines the scope of Internal Audit activities. It is also a reference point for measuring the effectiveness of Internal Audit.

1.3. Alongside other statutory requirements set out in the Charter, Internal Audit is required to meet the mandatory requirements of the International Professional Practices Framework (IPPF) i.e.:

- The Mission of Internal Audit
- The Definition of Internal Audit
- The Core Principles
- The Code of Ethics
- The Standards – which provide a framework for performing and promoting a broad range of value-added internal auditing services, establish the basis for the evaluation of internal audit performance and foster improved organisational processes and operations.

2. Conclusion

The Internal Audit Charter 2020 is attached for Audit & Risk Committee to note and endorse.

List of appendices: Internal Audit Charter 2020

Background papers: None

Corporate Implications

Legal/Constitutional: The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015).

As well as Public Sector Internal Audit Standards (PSIAS), the Internal Audit section will govern itself by adherence to mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of Internal Audit's performance.

Financial: None

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Risk Committee, management and outside parties (e.g. External Audit) on the adequacy and effectiveness of governance, risk management, and control process for Chelmsford City Council.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: Management Team noted and endorsed the Internal Audit Charter on 4th December 2019

Relevant Policies and Strategies: None

INTERNAL AUDIT CHARTER 2020

Introduction

The purpose, authority, and responsibility of the Internal Audit activity must be formally defined in an Internal Audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

The Internal Audit Charter establishes Internal Audit's position within Chelmsford City Council, including the Audit Services Manager's reporting lines, authorisation to access to records, staff and physical properties relevant to the performance of engagements, and also defines the scope of Internal Audit activities. It is also a reference point for measuring the effectiveness of Internal Audit.

Definitions

For the purposes of this Charter, the following definitions apply:

| | |
|-------------------------------|---|
| The Board: | The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At Chelmsford City Council this shall mean the Audit & Risk Committee. |
| Consulting Activities: | Internal Audit advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary. |
| Senior Management: | Those responsible for the leadership and direction of the Council. At Chelmsford City Council this shall mean the Chief Executive and the Management Team |
| Standards: | Public Sector Internal Audit Standards (PSIAS), as well as mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing. |

Purpose and Mission

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of Chelmsford City Council's Internal Audit section is to provide independent, objective assurance and consulting services to the Council (via the Audit & Risk Committee, Chief Executive, Section 151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations.

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps Chelmsford City Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. The Council's response to Internal Audit activity should also lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

Standards and Statutory Requirements

The Council has a statutory duty to maintain an adequate and effective Internal Audit function in accordance with proper Internal Audit practices (Regulation 6 (Part 2) of the Accounts and Audit Regulations 2015).

Section 151 of the Local Government Act 1972 also states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

The CIPFA Statement of the Role of Chief Financial Officer in Local Government also states that the Chief Financial Officer must:

- Ensure an effective Internal Audit function is resourced and maintained
- Ensure that the authority has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

As well as Public Sector Internal Audit Standards (PSIAS), the Internal Audit section will govern itself by adherence to mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of Internal Audit's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable. In addition, Internal Audit will adhere to Chelmsford City Council's relevant policies and procedures as well as Internal Audit's own methodology/standard operating procedures manual.

The Audit Services Manager will report periodically to senior management and the Audit & Risk Committee regarding Internal Audit's conformance to the above.

Authority

While the Audit Services Manager reports functionally to the Audit & Risk Committee, they report organisationally to the Director of Finance, who has responsibility for maintaining an adequate and effective system of Internal Audit within Chelmsford City Council, as the authority's Chief Finance Officer (S151 Officer).

The Audit Services Manager also has direct access to the Chief Executive who carries the responsibility for the proper management of their Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Where it is considered necessary to the proper discharge of Internal Audit function, the Audit Services Manager has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit & Risk Committee).

The Audit Services Manager will communicate and interact directly with the Audit & Risk Committee (and Governance Committee where applicable), including in executive sessions between Audit & Risk Committee meetings as appropriate.

To establish, maintain and assure that Chelmsford City Council's Internal Audit section has sufficient authority to fulfil its duties, the Audit & Risk Committee will:

- Approve Internal Audit's charter
- Approve the risk-based audit plan
- Approve Internal Audit's budget and resource plan
- Receive communications from the Audit Services Manager on Internal Audit's performance relative to its plan and other matters, such as significant findings and/or emerging risks.
- Approve decisions regarding the appointment and removal of the Audit Services Manager
- Make appropriate enquiries of management and the Audit Services Manager to determine whether there is inappropriate scope or resource limitations.

The Audit & Risk Committee authorises Internal Audit to:

- Have full, free and unrestricted access to all functions, records, property and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives and issue reports.
- Obtain assistance from the necessary personnel of Chelmsford City Council as well as other specialised services from within or outside of the Council in order to complete the engagement.

Independence and objectivity

The Audit Services Manager will ensure that Internal Audit remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Services Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year (with the exception of follow ups)
- Performing any operational duties for Chelmsford City Council or its affiliates.
- Initiating or approving transactions external to Internal Audit
- Directing the activities of any Chelmsford City Council employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.

Where the Audit Services Manager has, or is expected to have, roles and/or responsibilities that fall outside of Internal Audit, safeguards will be established to limit impairments to independence or objectivity.

Internal Auditors, including the Audit Services Manager, will:

- Disclose any impairment of independence or objectivity in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Audit Services Manager will confirm to the Audit & Risk Committee, at least annually, the organisational independence of Internal Audit.

The Audit Services Manager will disclose to the Audit & Risk Committee any interference and related implications in determining the scope of Internal Auditing, performing work and/or communicating results.

Scope of Internal Audit Activities

The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Risk Committee, management and outside parties (e.g. External Audit) on the adequacy

and effectiveness of governance, risk management, and control process for Chelmsford City Council. The Audit Services Manager is also responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on this overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, based upon:

- A summary of internal audit work carried out
- Follow up on the implementation of recommendations
- Any significant governance issues as reported within the Council's Annual Governance Statement
- The annual review of the effectiveness of Internal Audit (see QAIP)

A range of Internal Audit services are provided to form the annual opinion. The approach is determined by the Audit Services Manager and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of Chelmsford City Council's strategic objectives are appropriately identified and managed
- The actions of Chelmsford City Council's employees, senior management and contractors are in compliance with the Council's policies, procedures and applicable laws, regulations and governance standards
- The results of operations or programme are consistent with established goals and objectives
- Operations or programmes are being carried out effectively and efficiently
- Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact Chelmsford City Council
- Information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity
- Resources and assets are acquired economically, used efficiently and protected adequately.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. These will be reported immediately to the Investigations team and Procurement and Risk Services Manager.

Internal Audit may perform consulting activities (that is, provide independent advice and guidance to management on governance, risk management and control issues) as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit & Risk Committee or management, as appropriate.

The Audit Services Manager will report periodically to senior management and the Audit & Risk Committee regarding:

- Internal Audit's purpose, authority and responsibility

- Internal Audit's plan and performance relative to its plan
- Internal Audit's conformance with the IIA's Code of Ethics and Standards and action plans to address any significant conformance issues
- Significant risk exposure and control issues including fraud risks, governance issues, and other matters requiring the attention of, or requested by the Audit & Risk Committee.
- Results of audit engagements or other activities
- Resource requirements
- Any response to risk by management that may be unacceptable to Chelmsford City Council.

The Audit Services Manager also co-ordinates activities where possible and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Internal Audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided Internal Audit does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Audit Services Manager has the responsibility to:

- Submit at least annually, to senior management and Audit & Risk Committee a risk based Internal Audit plan for review and approval.
- Communicate to senior management and the Audit & Risk Committee the impact of resource limitations on the Internal Audit plan.
- Review and adjust the Internal Audit plan, as necessary, in response to changes to Chelmsford City Council's operations, risks, programmes, systems and controls.
- Communicate to Senior Management and the Audit & Risk Committee any significant interim changes to the Internal Audit plan
- Ensure each engagement of the Internal Audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective action, and report periodically to senior management and the Audit & Risk Committee any corrective actions not effectively implemented.
- Deliver an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management

and control.

- Ensure the principle of integrity, objectivity, confidentiality and competency are applied and upheld.
- Ensure Internal Audit collectively possesses or obtain the knowledge, skills and other competencies needed to meet the requirements of the Internal Audit charter.
- Ensure trends and emerging issues that could impact Chelmsford City Council are considered and communicated to senior management and the Audit & Risk Committee as appropriate.
- Establish and ensure adherence to Chelmsford City Council's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit & Risk Committee
- Ensure conformance of Internal Audit with the Standards.

Internal Audit Plan and Resources

Internal Audit services are provided by internal council employees and through a partnership arrangement with an external consultant and/or contractor, led by the Audit Services Manager.

The Director of Finance will provide the Audit Services Manager with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the Internal Audit opinion.

At least annually, the Audit Services Manager will submit to senior management and the Audit & Risk Committee an Internal Audit plan for review and approval, including risk assessment criteria. The Internal Audit plan will include timing as well as budget and resource requirements for the next financial year. The Audit Services Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit & Risk Committee. Senior Management and the Audit & Risk Committee will be advised where, for whatever reason, Internal Audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The Internal Audit plan will be developed based on a prioritisation of the potential audit activities across the Council using a risk-based methodology, including input of senior management and the Audit & Risk Committee. Prior to submission to the Audit & Risk Committee for approval, the plan will be discussed with appropriate senior management. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to senior management and the Audit & Risk Committee. The risk-based plan must take in to account the requirement to produce an annual Internal Audit opinion and the assurance framework.

The Audit Services Manager will be responsible for delivery of the plan and will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

If the Audit Services Manager, the Audit & Risk Committee or Senior Management considers that the scope or coverage of Internal Audit is limited in any way, or the ability of Internal Audit to deliver a service consistent with the Standards is prejudiced, they will advise the Director of Finance accordingly.

The Audit Services Manager must seek approval from the Audit & Risk Committee for any significant additional consulting activities not already included in the audit plan, prior to accepting the engagement.

Reporting and monitoring

For each audit assignment, terms of reference are developed and agreed with the client setting out the scope of the audit. At the completion of the audit, a written report is produced which provides an audit opinion/assurance statement on the control environment in place. The Internal Audit report will include management's response and corrective action to be taken regarding the specific findings and recommendations. Management's response will also include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Internal Audit may also undertake work which does not contribute explicitly to the overall audit opinion. These may include certification of grant claims or consulting activities where Internal Audit provide independent and objective advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary. Where such work is undertaken, this will be set out as part of Internal Audit's annual report. In order to protect Internal Audit's independence and minimise the impact on the delivery of the overall plan, the Audit Services Manager will give due consideration to the appropriateness of undertaking such work.

Internal Audit will also be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain open until cleared.

A summary of Internal Audit findings, as well as follow ups will be communicated to senior management and the Audit & Risk Committee via interim and annual audit reports. Any significant emerging risks which arise in year will be reported as they occur.

Quality Assurance and Improvement Programme (QAIP)

The Chartered Institute of Internal Auditors (IIA) sets out mandatory Core Principles, which taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective and achieve its mission, all Principles must be present and operating effectively:

1. Demonstrates integrity
2. Demonstrates competence and due professional care
3. Is objective and free from undue influence
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

Internal Audit will maintain a QAIP that covers all aspects of the Internal Audit activity. The program will include an evaluation of Internal Audit's conformance with the above Principles, the Standards and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

In addition, the Audit Services Manager will communicate to senior management and the Audit & Risk Committee on Internal Audit's (QAIP), including results of ongoing internal self-assessments and external assessments conducted at least every five years by a qualified, independent assessor from outside of Chelmsford City Council.

Any instances of non-conformance with the Standards will be included in the annual Internal Audit report. If there is significant non-conformance, this will be included in the Council's Annual Governance Statement.

Signatures:

Audit Services Manager:

Chief Executive:

Chair of Audit & Risk Committee:

Chelmsford City Council Audit and Risk Committee

20 May 2020

Risk Management Report - Spring 2020

Report by:

Director of Financial Services

Officer Contact:

Alison Chessell, Procurement and Risk Services Manager, alison.chessell@chelmsford.gov.uk

Purpose

This report:

- outlines the progress made to date in refreshing the Council's risk management framework
- set out immediate priorities for 2020-21
- provides a summary of the Council's Principal Risks, revised to take account of the Covid-19 pandemic

Recommendation

Audit and Risk Committee are requested to note the report, including the Principal Risk Summary as at 6 May 2020.

1. Background

1.1. It is the Council's policy to proactively identify, understand and manage the risks inherent in our services and associated with our plans and strategies, so as to:

- encourage responsible, informed risk taking
- reduce exposure to a tolerable level using a justifiable level of resources

1.2. An effective risk management framework should:

- provide risk information to support decision-making and resource allocation
- improve compliance with policies, procedures, laws and regulations and stakeholder expectations; and
- provide assurance to internal and external stakeholders that the Council is well-managed

1.3. The risk management function assists the Council to identify, understand and manage its risks. It also reports twice a year to the Audit and Risk Committee to enable the Committee to:

- monitor the effective development and operation of risk management in the Council
- monitor progress in addressing risk-related issues reported to the Committee
- provide independent assurance to Members of the adequacy of the risk management framework

2. Implementing the risk management framework during 2019-20

2.1 A comprehensive refresh of the risk management framework began in early 2019 with a view to ensuring risk management becomes fully embedded across the Council.

2.2 **Appendix 1** sets out a summary of the progress made to date in implementing the new framework measured against the original objectives set out in the 2019-20 Risk Management Strategy (agreed by Management Team in April 2019 and approved by Audit and Risk Committee in September).

2.3 Members will note that the key outcomes to date include:

- Identification, analysis and regular reporting on the treatment of the Council's Principal Risks for Management Team and Audit and Risk Committee
- Revised risk criteria, aligned to Internal Audit definitions, which the Council is using to score its Principal Risks
- Comprehensive review of the data held within the existing risk management information system (RMIS), Pentana Risk
- Early development of risk indicators from available data

3. Immediate priorities for 2020-21

3.1 Due to the impact of Covid-19, it is not appropriate at this time to issue a full Risk Management Strategy for 2020-21 as originally intended. This section sets out the proposed priorities for Risk Management during the Covid-19 Response and Recovery Phases:

- **Priority 1:** We will provide risk reporting to Management Team in the format and frequency required to meet their needs in managing Covid-19 related business risks (including the impact on the Council's Principal Risks). In doing so, we will work

closely with the business continuity function and Internal Audit to ensure a coordinated approach.

- **Priority 2:** Subject to resource requirements for Priority 1, we will work remotely with software provider, TechnologyOne, to progress the Council's new Performance Planning module, which is set to replace Pentana Risk as the Council's new risk management information system (RMIS).
- **Priority 3:** In conjunction with, and subject to the resource requirements for Priorities 1 and 2, we will look to review our risk criteria after the first full year of operation to ensure that they are fit for purpose.

3.2 The TechnologyOne Performance Planning module will, along with the Council's new finance system, form part of the Council's Enterprise Resource Planning (ERP) suite, which is central to the Council's Digital Strategy. While the overall aim of ERP is to improve Council efficiency by integrating as many back office systems as possible, benefits particular to the Performance module include:

- more effective tracking of strategic action plans (including 'Our Plan')
- more efficient reporting of risk and performance, enabling further development of the Council's risk and performance indicators
- improved integration of financial and non-financial risk and performance information (giving users a 'single view of the truth')

4. Principal Risk Summary as at 6 May 2020

4.1 The Principal Risk Register is central to the risk management framework. Principal Risks are those which require regular oversight from Management Team and may include:

- strategic risks arising from the Corporate Plan and/or external factors
- operational, compliance and project risks which, due to their nature or severity, require oversight at senior level

4.2 Management Team receive detailed quarterly reports on the Council's Principal Risks to inform decision making and ensure that, where necessary, prompt and effective action can be taken to further mitigate risks that the Council is not prepared to tolerate.

4.3 In line with Priority 1 above, the Council's Principal Risk Register has been comprehensively reviewed to take account of the Covid-19 pandemic. A summary of the Council's Principal Risks can be found in **Appendix 2**. Much of the detailed information contained within the underlying risk register is operational and may, in some cases, be sensitive. Audit and Risk Committee is, therefore, invited to request further detail on risks of particular interest or concern to them for circulation after the meeting.

4.4 Due to the pervasive nature of the Covid-19 threat, its implications for the Council are considered throughout the Principal Risk Register, rather than identifying a separate risk in isolation. The most significant changes to risk ratings due to Covid-19 are as follows:

- **Income and Financial Position (PRR 016)** – given the unprecedented drop in income experienced by the Council, the uncertainty over the timing and nature of the Covid-19 recovery, and the ongoing uncertainty over short and medium-term government funding strategy the likelihood of occurrence is raised from ‘Unlikely’ to ‘Likely’. The Council continues to forecast weekly and will present a Medium Term Financial Strategy and Budget Update to Cabinet and Full Council in due course.
- **Serious Fraudulent Activity (PRR 005)** – given the increased inherent risk which is widely acknowledged across the sector (increased motivation and increased opportunity e.g. urgent distribution of central government grants) the likelihood of occurrence has been increased from ‘Possible’ to ‘Likely’. The Council has been directed to take a retrospective approach to grant fraud by central government.
- **Business Continuity Response (PRR 003)** – failure of business continuity arrangements now considered ‘Unlikely’ given their successful, extended application to date during the Covid-19 response; however current impact of organisational failure is raised to ‘Major’ while the Council is playing an essential role in the wider Essex Emergency Response (see also PRR 004).

4.5 Other significant changes are as follows:

- **Beaulieu Station & Chelmsford NE Bypass (PRR 020)** - Network Rail’s timetable for completion of the Station (2025) will exceed the current deadline set by Homes England for use of related HIF funding, therefore the likelihood of claw back and non-delivery is increased from ‘Unlikely’ to ‘Possible’ until funding conditions are formally resolved. Negotiations with Homes England will continue through the ECC Programme Board, which is now operating virtually.
- **Digital Strategy Programme (PRR 009)** – has been removed following realisation of the benefit of existing investment during the Covid-19 response. A new risk ‘Technological Development’, to include the Council’s new Digital Portfolio Office, will be presented as part of the next submission.
- **Climate and Ecological Emergency (PRR 021)** - with the introduction of the Council’s Climate Change and Ecological Emergency Action Plan, the risk of non-delivery has been included for the first time.
- **‘No Deal’ UK Exit (PRR 002)** - has been removed. The emerging risk of failure to secure a trade agreement with the EU by 31 December 2020 is currently being considered as part of PRR 004 Emergency Planning Response and will be analysed in greater depth as negotiations progress.

4.7 Any apparent lack of change in other risk scores is not a direct reflection of the level of work carried out in these areas by Services or the organisation as a whole, as:

- Significant work to strengthen internal controls may be ongoing or controls may have been designed but not yet fully embedded (e.g. PRR 001 Cyber Security)
- Measures to mitigate some risks are, by necessity, medium or long-term in nature, and may, in the interim, be heavily influenced by external factors (e.g. PRR 006 Homelessness).

5. Conclusion

- 5.1 Members are invited to note the ongoing work by Directors and Service Managers to manage the Council's Principal Risks, including the impacts of Covid-19, while recognising that further work is necessary for the risk management framework to become fully embedded within the Council.

List of appendices:

Appendix 1 – Review of Management Activity 2019-20

Appendix 2 – Principal Risk Summary as at 6 May 2020

Background papers:

None

Corporate Implications

Legal/Constitutional: The Council has a legal duty to ensure that it has a sound system of internal control, which includes effective arrangements for the management of risk (Regulation 3 (Part 2) of the Audit and Accounts Regulations 2015). Compliance (with laws, regulations and Council policy) is considered as a separate risk category within the Principal Risk Register.

Financial: Income and Financial Position is recognised as a Principal Risk (PRR019).

Potential impact on climate change and the environment/ Contribution toward achieving a net zero carbon position by 2030: Climate and Ecological Emergency is recognised as a Principal Risk (PRR021).

Personnel: Cultural Change is recognised as a Principal Risk (PRR 007).

Risk Management: Effective risk management is an essential part of good governance. An effective risk management framework should: provides risk information to support decision-making and resource allocation; improve compliance with policies, procedures, laws and regulations and stakeholder expectations; and provide assurance to internal and external stakeholders that the Council is well-managed.

Equality and Diversity: Equalities impacts of initiatives referred to in the Principal Risk Register should be considered at initiative-level, where appropriate.

Health and Safety: Serious Health & Safety Incident is recognised as a Principal Risk (PRR014).

Digital: Cyber Security is recognised as Principal Risk (PRR001).

Other: Where referenced above, inclusion in the Principal Risk Register demonstrates Management Team's commitment to proactively manage these risks on behalf of the Council and its stakeholders.

Consultees:

Management Team, Director of Financial Services, Audit Services Manager

Relevant Policies and Strategies:

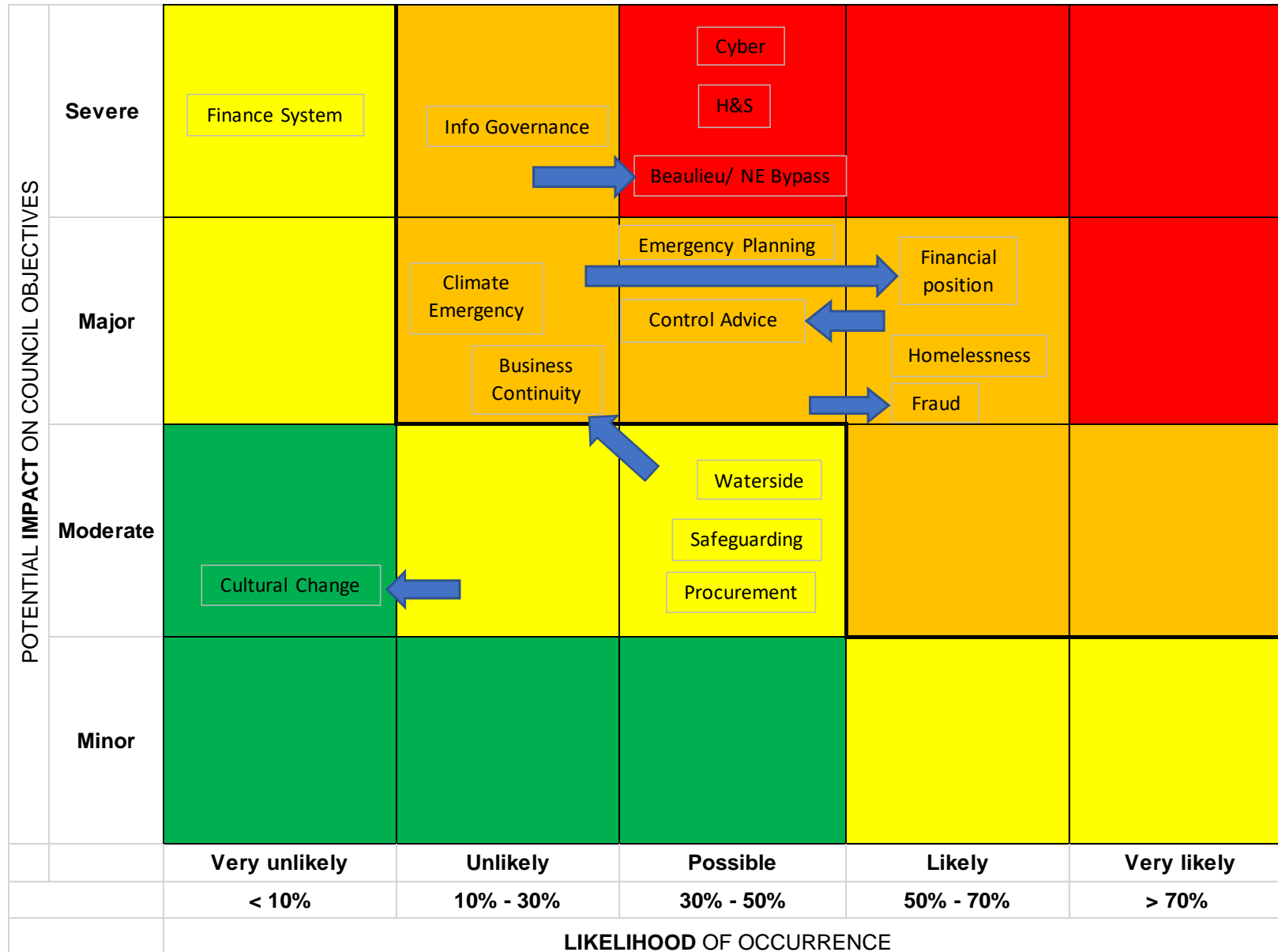
Our Chelmsford, Our Plan; Internal Audit Plan – Covid-19 Response Phase

Review of Risk Management Activity 2019-20

| <p>Our strategic aims Our risk management framework must be:</p> | <p>Our goals for 2019-20 In March 2019 we said that:</p> | <p>Our outcomes for 2019-20 We have delivered the following:</p> |
|--|--|--|
| <p>Proportionate</p> <p><i>Risk management is an essential part of general management; therefore, measures to identify, treat, monitor and report on risks should be proportionate to the risks faced by the Council</i></p> | <ul style="list-style-type: none"> Principal Risks will be prioritised, with the most important strategic, operational, project and compliance risks presented in a single document The Council will adapt suitable elements of ISO 31000:2018 to develop its own approach | <ul style="list-style-type: none"> ✓ Principal Risk reporting is now established ✓ Due regard was paid to ISO31000:2018 in developing the Council’s approach |
| <p>Aligned</p> <p><i>Risk management cannot take place in isolation and must be aligned with strategic planning to be effective</i></p> | <ul style="list-style-type: none"> The risk framework will be aligned to Our Plan, and, if deemed appropriate, business planning and performance management in due course Risk criteria will align with Internal Audit | <ul style="list-style-type: none"> ✓ Principal Risks are aligned to Our Plan ✓ The work of Internal Audit and Risk Management is aligned under a new joint protocol ✓ Risk criteria are in place which share common definitions with Internal Audit ratings • Alignment to business planning and performance was put on hold as the Council reconsidered its approach to these two areas |
| <p>Comprehensive</p> <p><i>Arrangements should capture the broad spectrum of risks faced by the Council, but be flexible enough to capture strategic, operational, project and compliance risks efficiently, without leading to ‘risk overkill’</i></p> | <ul style="list-style-type: none"> Subsidiary risk registers will be developed, where they add value Project risk management best practice will be shared Key Risk Indicators will be developed to inform risk scoring | <ul style="list-style-type: none"> ✓ Subsidiary risk registers were developed for some strategic (e.g. UK Exit), operational (e.g. Inherent Fraud Risk, Internal Audit), project (e.g. Finance System Replacement, Chelmer Waterside) and compliance risk areas (e.g. Information Governance). ✓ Key Risk Indicators are in place for 6 Principal Risks |

| <p>Our strategic aims</p> <p>Our risk management framework must be:</p> | <p>Our goals for 2019-20</p> <p>In March 2019 we said that:</p> | <p>Our outcomes for 2019-20</p> <p>We have delivered the following:</p> |
|---|---|--|
| | <ul style="list-style-type: none"> • Directorate/Service risks will be captured as business planning and performance management develops | <ul style="list-style-type: none"> ✓ Directorate/Service risk identification was put on hold until business planning arrangements are finalised |
| <p>Embedded</p> <p><i>Arrangements should be clearly communicated, integrated into existing management structures and activities, and enforced</i></p> | <ul style="list-style-type: none"> • The Risk Manager will facilitate risk identification • Quarterly updates will be provided to Management Team • Audit and Risk Committee will provide oversight • Training and written guidance will be developed | <ul style="list-style-type: none"> ✓ A business partnering approach has been taken with risk owners to facilitate: <ul style="list-style-type: none"> ○ identification, analysis and evaluation of the Council Principal Risks with Management Team and Service Managers ○ development of subsidiary risk registers ✓ Management Team has received the detailed Principal Risk Report quarterly since September 2019 ✓ Audit and Risk Committee have received two Risk Management Reports summarising the Council's Principal Risks ✓ A range of written guidance, including 'How To' guides for the current RMIS, is now available on the Council intranet |
| <p>Dynamic</p> <p><i>Risk information must be current to enable timely and effective decision-making by management and Members</i></p> | <ul style="list-style-type: none"> • Escalation will ensure that the most relevant risks are considered quarterly • Narrative updates will reflect the latest management initiatives to address each risk • New and emerging risks will be captured | <ul style="list-style-type: none"> ✓ Top subsidiary risks have been reported to Management Team through the Principal Risk Report ✓ Narrative summarising Principal Risk mitigation has been comprehensively revised each quarter ✓ Emerging risks have been identified as part of the quarterly submission to Management Team |

Principal Risk Summary - Heat Map as at 6 May 2020 (current risk with direction of travel)



Principal Risk Summary as at 6 May 2020 (current risk from highest to lowest)

| Ref | Risk Title | Risk Type | Corporate Priority | Risk Lead(s) | Current Risk Rating | Risk Score | Short Risk Description |
|---------|---|------------|---------------------------------|-------------------------------|---------------------|------------|--|
| PRR 014 | Serious Health & Safety Incident | Compliance | Safer and Greener Place | Keith NICHOLSON | Very High | 16 | A serious health and safety incident could result in death or serious injury, regulatory investigation and associated financial, legal and reputational consequences. |
| PRR 001 | Cyber Security | Operations | All Priorities | Louise GOODWIN | Very High | 16 | A successful cyber attack could result in severe disruption to core services and/or data theft, with financial, legal and reputational impacts for the Council, and potentially significant harm caused to residents. |
| PRR 020 | Beaulieu Station & Chelmsford NE Bypass | Strategic | Fairer and Inclusive Chelmsford | Nick EVELEIGH; David GREEN | Very High | 16 | If the external partners are unable to meet the Government deadline for use of funding (March 2024), potential clawback could threaten delivery of key infrastructure and wider Council objectives. |
| PRR 019 | Income and Financial Position | Strategic | All Priorities | Amanda FAHEY | High | 15 | Due to the impact of COVID- 19 the Council's income has been significantly affected. The financial situation is in the process of being reviewed. |
| PRR 006 | Homelessness | Operations | Fairer and Inclusive Chelmsford | Amanda FAHEY | High | 15 | The demand for Housing Services has increased due to the COVID -19 situation and this will also have a negative effect in suitable housing supply in both the short and medium term. |
| PRR 005 | Serious Fraudulent Activity | Operations | All Priorities | Amanda FAHEY | High | 15 | An increase in attempted frauds due to the COVID - 19 economic situation is predicted which may result in financial losses which individually, or cumulatively, could impact on service delivery, as well as cause reputational damage to the Council. |

Principal Risk Summary as at 6 May 2020 (current risk from highest to lowest)

| Ref | Risk Title | Risk Type | Corporate Priority | Risk Lead(s) | Current Risk Rating | Risk Score | Short Risk Description |
|---------|----------------------------------|------------|-------------------------|--------------------------------|---------------------|------------|---|
| PRR 016 | Information Governance | Compliance | All Priorities | Louise GOODWIN | High | 12 | A significant data breach and/or other instance of non-compliance with data protection legislation may cause harm to data subjects and/or lead to regulatory enforcement, with financial and reputational consequences. |
| PRR 018 | Independent Control Advice | Compliance | All Priorities | Nick EVELEIGH; Amanda FAHEY | High | 12 | If the Council does not implement control improvements identified by independent assurance providers promptly and in full, weaknesses will persist in some areas. An adverse Internal Audit opinion may result. |
| PRR 004 | Emergency Planning Response | Operations | Safer and Greener Place | Keith NICHOLSON | High | 12 | An inadequate emergency response (as Category 1 responder under the Civil Contingencies Act) may lead or contribute to hardship, serious injury or loss of life among residents and visitors to the area. |
| PRR 003 | Business Continuity Response | Operations | Safer and Greener Place | Keith NICHOLSON | High | 9 | Extended disruption to core services will inconvenience service users, may cause hardship to some, may be more costly to recover from, and could undermine the Council's statutory emergency response (PRR 004). |
| PRR 021 | Climate and Ecological Emergency | Strategic | Safer and Greener Place | Keith NICHOLSON | High | 9 | If the Council does not effectively engage with the environmental agenda, reputational damage may result. Opportunities to seek efficiencies in delivery and improve residents' lives may also be lost. |
| PRR 010 | Finance System Replacement | Projects | All Priorities | Amanda FAHEY | Medium | 8 | If the new finance system is significantly delayed, the existing system could fail resulting in significant disruption to core services. |

Principal Risk Summary as at 6 May 2020 (current risk from highest to lowest)

| Ref | Risk Title | Risk Type | Corporate Priority | Risk Lead(s) | Current Risk Rating | Risk Score | Short Risk Description |
|---------|-------------------------------|------------|-------------------------|----------------------------------|---------------------|------------|---|
| PRR 012 | Chelmer Waterside Development | Projects | Safer and Greener Place | Amanda FAHEY; David GREEN | Medium | 8 | If site development constraints are not removed with available funding, housing/other development potential may not be realised, at financial and reputational cost to the Council and opportunity cost to the city. |
| PRR 015 | Safeguarding Incident | Compliance | Safer and Greener Place | Keith NICHOLSON | Medium | 8 | If a safeguarding incident occurs which, through action or omission by the Council, might otherwise have been prevented, this could result in serious harm to the victim, loss of trust in the Council as community leader, and associated financial and regulatory consequences. |
| PRR 017 | Procurement Strategy | Compliance | All Priorities | Amanda FAHEY | Medium | 8 | Procurement activity which is non-compliant, poor value for money and/or inappropriately administered centrally or at local level may result in legal challenge, financial loss and/or reputational damage |
| PRR 007 | Cultural Change | Strategic | All Priorities | Nick EVELEIGH; Louise GOODWIN | Low | 4 | If cultural change is not embedded, an opportunity will be missed to further improve the working effectiveness of the Council and optimise service delivery, which may result in dissatisfaction amongst staff, Members and service users. |

Principal Risk Summary as at 6 May 2020 - Key to impact scores

| | FINANCIAL | OPERATIONS | PEOPLE | REPUTATION | LEGAL & REGULATORY | PROJECTS | AUDIT |
|-----------------|---|---|--|--|---|---|-------------------|
| SEVERE | Severe financial loss (>£1 million *) | Cessation of core activities. | Life-threatening or multiple serious injuries (to staff or service users) or prolonged workplace stress. Severe impact on morale and service performance. Mass strike actions etc. | Critical impact on the reputation or brand of the organisation which could threaten future viability. Intense political and media scrutiny i.e. national front-page headlines, TV. | Possible criminal, or high-profile civil action against the Council, Members or officers. Statutory intervention triggered with impact across the whole Council. Critical breach in laws and regulations that could result in severe fines or consequences. | Failure of major projects and/or politically unacceptable increase on project budget/cost. Elected Members are required to intervene. | Critical Priority |
| MAJOR | Major financial loss. Service budgets exceeded (£200k to £1 million*) | Major disruption of core activities. Some services compromised. Management Team action required to overcome medium-term difficulties. | Serious injuries or stressful experience (for staff member or service user) requiring medical attention/ many workdays lost. Major impact on morale and performance of staff. | Major impact on the reputation or brand of the organisation. Unfavourable media coverage. Noticeable impact on public opinion. | Major breach in laws and regulations resulting in major fines and consequences. Scrutiny required by external agencies. | Key targets missed. Major increase on project budget/ cost. Major reduction to project scope or quality. | High Priority |
| MODERATE | Moderate financial loss. Handled within the team (£50k to £200k*) | Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service Manager action will be required. | Injuries (to staff member or service user) or stress levels requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance or staff. | Moderate impact on the reputation or brand of the organisation. Limited unfavourable media coverage. | Moderate breach in laws and regulations resulting in fines and consequences. Scrutiny required by internal committees or internal audit to prevent escalation. | Delays may impact project scope or quality (or overall project must be re-scheduled). Small increase on project budget/cost. Handled within the project team. | Medium Priority |
| MINOR | Minor financial loss (< £50k*) | Minor errors in systems/ operations or processes requiring Service Manager or Team Leader action. Little or no impact on service users. | Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale. | Minor impact on the reputation of the organisation. | Minor breach in laws and regulations with limited consequences. | Minor delay without impact on overall schedule. Minimal effect on project budget/cost or quality. | Low Priority |

Note (*): Financial criteria (in particular) are a guide only and may be overridden by other concerns. For example, a significant loss on a small, but high-profile project may be 'minor' financially according to this scale but may have a major reputational impact on the Council. Equally, a reasoned and justifiable £2million overspend on a major capital project may not be considered critical to the Council, provided that the project is successful and is delivered on time. These initial criteria are based on existing financial limits and the level of scrutiny decisions receive (Service Manager, Director, Cabinet, Full Council) and will periodically reviewed to ensure that they are fit for purpose.

Chelmsford City Council Audit and risk Committee

20th May 2020

Accounting policies for the 2019/20 Statement of accounts

Report by:

Director of Financial services

Officer Contact:

Zuzana Clarke, Principal accountant, Email: zuzana.clarke@chelmsford.gov.uk, Tel: (01245) 606324

Purpose

This report requires Members to confirm that they are satisfied with the accounting policies to be used in the preparation of the 2019/20 accounts.

Recommendations

1. That the Audit Committee approve the accounting policies to be used in the preparation of the accounts.
-

1. Background or Introduction

- 1.1. The Council's accounting policies represent specific principles that are applied in the production of the annual Statement of accounts. We are required to disclose these policies in the notes to the accounts.

- 1.2. It is considered best practice that Members consider the accounting policies upon which the accounts are prepared prior to the meeting at which the Statement of accounts will be approved.

2. Updates to Accounting Policies

- 2.1. The accounting policies were reviewed to comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and are set out in **Appendix A**.
- 2.2. There have been no significant updates to the 2019/20 code and the review did not identify need for any changes to the existing Council's accounting policies. In an effort to streamline the accounts, we remove any notes that relate to non-material items and consequently we have removed some accounting policies where they related to such items in the accounts.

3. Impact of the Corona Virus outbreak

- 3.1. The Government is taking unprecedented measures to mitigate the impact of the Corona virus outbreak within the UK. Compulsory temporary closures of businesses and lockdown on movement for the residents are likely to greatly impact financially on the city's businesses, it's residents as well as the Council itself.
- 3.2. Following a short review, the Chartered Institute of Public Finance and Accountancy (CIPFA) /LASAAC Local Authority code board responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom decided that despite the difficult circumstances, it will expect Councils to produce a complete statement of accounts that fully complies with the 2019/20 code. To allow additional time for the officers to collect necessary data and prepare a full statement of accounts the Government amended the Accounts and Audit regulations 2015 for 2019/20 only, extending the legal deadline for the publication of the draft statement of accounts by 3 months to 31st August 2020. The deadline for the publication of the final audited statement of accounts was moved to 30th November 2020.
- 3.3. The current environment is changing daily and consequently there are uncertainties in estimating the full impact of the Government's measures on the wider economy, on Council's financial position, valuation of it's assets or the extent of the Council's provision for non-collection of outstanding debt.

List of appendices:

Appendix A – The Council’s accounting policies

Background papers:

Nil

Corporate Implications

Legal/Constitutional:

The report needs to be presented to comply with the Accounts and Audit Regulations 2015

Financial:

None

Potential impact on climate change and the environment:

None

Contribution toward achieving a net zero carbon position by 2030:

None

Personnel:

None

Risk Management:

None

Equality and Diversity:

None

Health and Safety:

None

Digital:

None

Other:

None

Consultees:

None

Relevant Policies and Strategies:

None directly relevant.

Accounting policies used in the preparation of the accounts

1. Accounting policies

The Statement of accounts is a summary of our transactions for the financial year 2019/20 and our position at the year-end, 31 March 2020. The content, layout and general rules we have used to prepare this Statement of accounts are stated in the Accounts and Audit (England) Regulations 2015. These regulations are embodied in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 a statement of recommended practice ('the Code'), supported by International Financial Reporting Standards.

We use the following accounting policies in preparing the accounts. In order to streamline the accounts and make them simpler and clearer for the reader, we will only include in the published statement of accounts policies that relate to material items in the accounts.

Cash and cash equivalents

Cash is represented by cash in hand and balances with banks where we can access the money within a day. Cash equivalents are investments that when made, last no longer than 100 days and where the amount we will receive is not subject to any material change in value.

Changes to accounting policies and estimates

We only change accounting policies when the accounting standards require us to do so, or when we think a change in policy will improve the presentation of the accounts and the way we manage our finances. When we do change a policy, we restate the amounts we presented in previous years so that all of the amounts in these accounts can be compared.

If we have made a material error in an amount we estimated in previous years, we will correct this by restating the previous year's amount.

Charges to revenue for assets

We charge service revenue accounts, central support services and trading undertakings for all the fixed assets they use to provide their services. There are depreciation charges that cover the estimated loss in value over time of physical assets that each service has used which are spread on a straight-line basis over the asset's life.

Contingent assets

A contingent asset arises where an event gives rise to a possible asset that will only be confirmed by a possible future event outside our control.

Contingent assets are not recorded in the Balance sheet but are instead recognised in a note to the accounts.

Contingent liabilities

A contingent liability arises where an event gives rise to a possible obligation that will only be confirmed by a possible future event outside our control. A contingent liability can also arise where we would need to raise a provision but we cannot determine the amount of that provision. Contingent liabilities are not recorded in the Balance sheet but are instead recognised in a note to the accounts.

Council Tax and Non-domestic Rates

The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates (NDR).

We recognise in our Comprehensive Income and Expenditure Statement our share of the NDR and Council Tax transaction on accrual basis, with the timing difference being adjusted through Council Tax and NDR adjustment account, reported on in the Movement in Reserves Statement.

Employee benefits

Our employees have the right to join the Local Government Pension Scheme. The scheme provides defined benefits to its members (retirement lump sums and pensions) when they retire. Charges and balances included in the Comprehensive income and expenditure statement and the Balance sheet are based on actuarial assessments of the current costs of the pension scheme. For a full explanation of the rules, see the Pensions note in the notes to the main financial statements. However, statutory rules stop us charging these amounts to council tax. Instead, we have to charge the actual amounts we pay to the pension fund, which is a different figure to the actuarial valuations.

Where we decide to terminate an officer's employment before their normal retirement age, or where the officer decides to accept voluntary redundancy, they may be entitled to a termination benefit. We charge these to the Comprehensive income and expenditure statement in the year that we become committed to the termination.

Exceptional items

Where an exceptional item is material, we will show it separately in the Comprehensive income and expenditure statement. If it is not material, we will show it in a note to the accounts.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation always assumes any assets is in its most profitable use. The Council measures some of its non-financial assets such as investment properties, surplus assets and some of its financial instruments such as pooled funds. The Council's assets and liabilities for its employee pension scheme are also measured at fair value.

Financial instruments

We record our investments and borrowings in the following ways:

- Most of our investments are deposits with banks, building societies or other UK local authorities. These assets generate payments solely of principal and interest. We must show their value on the balance sheet, including interest yet to be paid to the Council. Any interest received or due at the balance sheet date is shown in the Comprehensive income and expenditure statement. These types of investment are measured at amortised cost in accordance with IFRS9.
- We also invest some money in Pooled Investment Funds. Payments from these funds are not solely principal and interest as they are equity instruments with the Council earning dividends and redeeming shares at the prevailing market rate. The Council accounts for these as Fair Value through Profit and Loss (FVPL) in accordance with IFRS9.
- The income from the “FVPL” investments is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable.
- If the value of an FVPL asset changes from the price that it was originally invested at then the balance sheet shows the investment at its valuation at the balance sheet date. The difference between these values, being an unrealised gain or loss is charged to revenue and reversed out to the Pooled Funds Adjustment Account before it has impact on Council Tax. The cumulative gain or loss held in the Pooled Funds Adjustment Account is charged to Comprehensive Income and Expenditure Statement when the investment is sold.
- All our borrowing is shown on the balance sheet, including any interest owed by the Council. Interest payable for the accounting period is charged to the Comprehensive income and expenditure statement.
- On recognition Council makes a provision for 12 month expected credit losses on all of its financial assets held at amortised cost, excluding investments in the UK Government and other local authorities. Should the risk of loss increase significantly for a specific asset or category of assets then the provision will be increased to represent lifetime credit losses. This provision is charged to the Comprehensive income and expenditure statement and reduces the carrying value of the financial assets on the balance sheet.

Going concern

The 'going concern' concept means that we prepare the financial statements on the assumption that our business is financially sound and not about to be liquidated.

As there is no evidence to the contrary, we have based the valuations and financial data on the assumption that the business will remain in existence for an indefinite period.

An indefinite period means the foreseeable future or long enough for us to meet our objectives and to fulfil our commitments. It is important to note that the 'going concern' concept assumes that the business will remain in existence long enough for all its assets to be fully used.

Grants and other contributions

If we receive a grant or contribution that does not have any conditions, or we have met the conditions, we credit the amount to the Comprehensive income and expenditure statement on the relevant service line. If we have not met the conditions, we show the amount as a creditor on the Balance sheet until the conditions are met.

If the grant is a capital grant that does not affect the balance on the General fund, we reverse the grant out of the Comprehensive income and expenditure statement in the Movement of reserves statement to the Capital grants unapplied account.

Heritage assets

Heritage assets are items the Council owns that have historic importance. These may be on display in the Council's museums or in safe storage. The Council has, since 2011/12, been required to include valuations of its heritage assets in its accounts.

The Council reviews its Heritage assets every year as part of its insurance valuation process. Details on the methods used are shown below.

The Council records its heritage assets under the following headings:

1. Archaeology and Numismatics
2. Pottery, drinking glasses and pewter
3. Works of art
4. Natural History taxidermy, botanical and geological specimens
5. Social, agricultural and industrial history, including costume
6. Statues
7. Mayor's office
8. Small-value items

Valuations have been made using a range of methods; external valuers, in house experts, indexation and average valuations for groups of items.

The Council adds to its collection regularly. However, these are not expensive or numerous purchases of heritage assets. We occasionally receive donated items, usually for Hylands House, and these will be recorded at valuation on their acceptance by the Council. Hylands House is not a heritage asset as it is used as a venue for weddings and corporate meetings, for which the Council charges fees.

We revalue any heritage assets that suffer damage. We do not normally dispose of, or sell heritage assets.

The collections of the Essex Regiment Museum are owned by separate Trustees, under a 25-year management agreement with the Council signed in March 1999. It stipulates that the Council will insure the regimental collections in the same way as it insures its own Chelmsford Museum collections. However, we do not include regimental collections in our Balance sheet valuations.

Heritage Valuers

We have used the following external valuers to value our heritage assets.

- o David S. Moulson, MBE, BSc (pewter valuations)
- o Sotheby's the auction house, Seabys (international coin sellers) and J & S Rogers (silversmiths)
- o Robert Dalgety

Investment properties

Investment properties are those we use solely to earn rentals or hold in the expectation that they will increase in value. The property cannot be used to deliver Council services.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

We credit rental income from the properties to the Financing and investment income line in the accounts. We add any revaluation gains to the Financing and investment income and expenditure line in the Comprehensive income and expenditure statement but reverse them out before they affect council tax.

Joint projects

We are holding money as the main authority for a joint project with several other local authorities to improve houses in Essex. Until the money is used, we show it as 'not spent' in our Balance sheet. As the money is spent this amount gets smaller. If we spend our share of the money in the Chelmsford area, we show the amount spent in our Comprehensive income and expenditure statement. The amounts other authorities spend are not shown in our Comprehensive income and expenditure statement because it is not our money.

Leases we get from other organisations

Leases are classified as finance leases where the risks and rewards attached to the asset are mostly transferred to us. All other leases are operational leases. Where a lease is for both land and buildings, we separate the two elements into different leases.

For finance leases we include the depreciated fair value of the asset in the Balance sheet, which is matched by a liability of the amount we have to pay the landlord. We are not allowed to charge the depreciation on the asset to council tax, so we reverse this out of the Comprehensive income and expenditure statement. The Comprehensive income and expenditure account is charged the cost of a finance lease as if it were a loan, that is the cost of interest and a minimum revenue provision.

The rentals paid under operating leases are charged directly to the appropriate service line in the Comprehensive income and expenditure statement.

Leases we give to other organisations

When we give a finance lease to an organisation or individual, we are handing over ownership of that asset, so we remove the asset's value from our Balance sheet. The value of the lease payments are then split using a calculation into interest paid to the Council and payment for the sale of the asset. A long-term debtor is created in our Balance sheet and when we receive a payment for the lease it reduces the value of the debtor and recognises a capital receipt. Interest income is then credited to the Comprehensive income and expenditure statement.

Where we grant an operational lease for land or equipment, we keep ownership of the asset. The income from the lease is credited to the Comprehensive income and expenditure statement.

Overheads

To present the information on the same basis as our management reporting we do not reallocate the cost of support services to other service lines of the Comprehensive income and expenditure statement.

Property, plant and equipment

Physical assets are used in providing Council services. They must provide benefit for more than one financial year.

Spending on capital assets is recorded in our accounts when the work has been done, or when the asset has been delivered to us, rather than when we actually pay for it.

Different types of asset are valued as follows:

- Vehicles and equipment such as lorries, computers or lawnmowers are valued at cost of buying them.
- Community assets such as parks are valued at cost, unless the external valuers identify a more appropriate value.
- Other assets such as land and buildings are valued at price that would be paid for the asset in its existing use. Where there is no market-based evidence because the asset is so specialist they are valued at depreciated replacement cost.
- Assets Held for Sale, when it becomes highly likely that an asset will be sold then the asset is revalued immediately before reclassification and then carried at the lower of this amount and its fair value less costs to sell.
- Surplus assets are those not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale. The fair value of surplus assets is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Around one third of our assets are revalued every year until the end of three years when we will have revalued all our land and buildings. However, if there is evidence of a big change in an asset's value in any year, we will revalue that asset immediately.

Increases in revaluations result in the property, plant and equipment values rising and a credit being made to the Revaluation reserve to recognise the unrealised gain. The unrealised gain means the asset is now worth more, but we have not sold it and realised that gain. Sometimes, if the asset had previously suffered a loss, the gain on revaluation will be credited to the Comprehensive income and expenditure statement, but the effect will be removed before it affects council tax.

We charge decreases in valuations as follows:

- If there is a balance on the Revaluation reserve from previous gains, we charge decreases against those gains.
- If there is no balance on the Revaluation reserve or if it is insufficient, we charge the shortfall to the Comprehensive income and expenditure statement. This is reversed out before it affects council tax.

Sometimes an asset falls in value because part of it has broken or worn out (impairment), for example if a roof starts to leak and needs to be replaced. The Council reviews its assets annually for these impairments. When an impairment occurs, we charge it as follows:

- When there is a balance in the Revaluation reserve, the impairment will be charged there.
- Where there is no balance on the Revaluation reserve, we make a charge to the service that uses the asset. This is reversed out before it affects council tax.

When we are deciding whether to reduce the value of our assets, we use the following rules:

We reduce the value of most of our assets steadily throughout their useful lives from the time they are ready for use (depreciation). The exceptions to this are community assets, freehold investment properties and other assets held for sale (but only from the date we have decided to sell them).

If the Council still owns equipment and intangible assets where they are fully depreciated, we take a decision to revalue them only if their value is over £10,000. Otherwise the asset is written out of the Balance sheet on disposal.

The useful lives we have decided on for our assets are estimates and depend on the type of asset. We have set out below the shortest and longest time we expect each type of asset to be valuable:

- | | |
|-------------------------|-------------|
| •Buildings | 10-55 years |
| •Vehicles and equipment | 3-25 years |
| •Intangible assets | 2-10 years |

We decide each year whether the useful lives figures are still appropriate.

Any gain in the value of the asset recorded in the Revaluation reserve is reduced every year as the asset depreciates. This reflects the change in value as an asset wears out, or becomes less useful. It is generally the cost to buy the asset minus any money we expect to gain from selling the asset, divided by the number of years the asset will be useful. We show the falling value of assets through a charge to the Capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

Provisions

We put a certain amount of money aside to meet specific service payments we expect to make in the future, if we are not sure how much the payments will be or when we will have to pay them. The money in the provision is charged to the service when the provision is set up.

Impairment provisions for financial assets

Impairment provisions for trade receivables, lease receivables and contract assets follow the simplified method as set out in the CIPFA code, where lifetime expected credit losses are provided for. For trade receivables Council makes specific allowances for known assets facing increased credit risk and then makes further provision for its receivables on a collective basis using historical patterns experienced by the authority.

The Council also makes impairment provisions against non-trade receivable financial assets in line with IFRS9. 12 month expected credit losses are applied to all assets held at amortised cost, with reviews made for lifetime losses where credit risk has increased significantly.

In line with CIPFA guidance, investments with the UK Government and UK Local Authorities are exempted from loss provisions.

Loss provisions are not required for assets held at Fair Value through Profit and Loss (FVPL) because current market prices as recorded in the accounts reflects market expectations of credit risk.

Reserves

We set aside specific amounts as reserves for future purposes, or to cover contingencies, or to deal with the local authority legal requirements for capital and pension accounting. Reserves are created by moving amounts from the General fund in the Movement in reserves statement. When we incur expenditure that is due to be financed from a reserve, we charge it to the appropriate service in the Comprehensive income and expenditure statement. We credit the statement with an equal amount transferred from the reserve so that there is no charge to council tax.

The following are the main reserves we include in the Balance sheet.

| | |
|----------------------------|--|
| Capital adjustment account | Includes amounts we have set aside to pay for fixed assets. It also includes capital receipts we have set aside to repay loans and other capital financing transactions, and revaluation gains before 1 April 2007. This is an unusable reserve. |
| Capital receipts reserve | Represents the money we have received, but not yet spent, from selling assets. This is a usable reserve. |
| Earmarked reserves | These are usable reserves set aside for a specific purpose. |
| Pension reserve | Represents the shortfall on assets needed to cover our future pension costs. This is an unusable reserve. |
| Revaluation reserve | Shows changes in the value of our fixed assets caused by revaluing them. It only has revaluation gains recognised after 1 April 2007. Any gains before that date are shown in the Capital adjustment account. This is an unusable reserve. |

Restatements and prior period adjustments

Where our accounting policies change, or the rules we use to prepare these accounts change, or we have made a material error in a previous year's set of accounts, we show any changes to last year's figures in the Restatements section.

Revenue and capital transactions

Revenue and capital transactions are recorded on an income and expenditure (accruals) basis. This means we record income and grants, including government grants, in our accounts when we are owed it, rather than when we receive it. Likewise, we record spending in our accounts when we owe it, rather than when we actually make a payment. We do not accrue amounts under £1,000 where they would have no material impact.

Income from contracts with service recipients for goods and services is recorded in our income and expenditure statement when the goods or services are delivered to the service recipient, in accordance with the terms of the contract, rather than when we receive the payment.

We record revenue grants in the service they relate to. If a revenue grant does not relate to a specific service, we have shown it in the Comprehensive income and expenditure statement, below the total spending on services.

Where we are acting as an agent for another organisation (for example when collecting Council Tax and NDR) we only include income and expenditure and amounts owing that belong to us in the Comprehensive income and expenditure statement and Balance sheet. The Collection Fund includes all income and expenditure.

Where we have paid a full year's costs in the year, for example four quarterly electricity bills, we do not accrue amounts paid in advance or amounts owing at the year-end in the Balance sheet. The same applies for rents payable and rents received.

Revenue Expenditure Funded from Capital under Statute

Some items of expenditure can be funded by capital resources under Government Statute even though they do not create an asset owned by the Council. These items of expenditure are charged to the relevant service in Comprehensive Income and Expenditure Statement but funded by a transfer from the Capital Adjustment Account, so there is no impact on Council tax.

Value added tax

VAT is not shown as spending, unless we cannot claim it back.

2. Critical judgements in applying accounting policies

We have made a number of judgements in preparing these accounts and have listed the more important ones below.

The Corona virus outbreak is likely to have significant financial implication on the Council and its finances.

- There is a lot of uncertainty about the future level of Government grant funding. Prior to the outbreak, the Government was in the process of reviewing the basis of allocating funding to Local authorities, with the intention to announce a new funding distribution based on a revised formula for 2021/22. The New Homes Bonus grant scheme was also to be subject to review. Following the outbreak, there are likely to be delays in these reviews. It is unclear at this point what financial support Councils

will receive from the Government to help us cope with the financial impact of the outbreak.

- Following Britain's exit from the European Union, it is unclear how the new arrangements negotiated during the transitional period that is due to end 31 December 2020 will impact on the Council's or Local Government finances generally.
- The Council needs to make a judgment on how the current circumstances will affect our ability to collect outstanding debt and make a provision for estimated non-collection. During 2020/21, the Government will provide some businesses with support through additional reliefs from business rates payments and pay one-off grants to support the most vulnerable businesses as well as providing additional reliefs to some of our council taxpayers. Despite this aid, the lock-down on movement and temporary closure of businesses are likely to have significant financial impact on individual businesses and residents' financial position. It is difficult to predict the full scale of unprecedented measures the Government will take and what effect these measures will have on the local economy. Consequently, the estimation of non-collection of outstanding debt will contain a significant level of judgement and increased uncertainty.
- The valuation of property and financial assets have been made under exceptional conditions of economic shutdown. The valuations made by Council officers and external valuers are made in the context of little sustainable empirical evidence of the impact of Covid 19 on the property and to lesser extent financial markets. The valuations provided reflect the best information available at the time of the production of the accounts. There is a higher than normal risk of amendments to the valuations as part of the audit process. Changes to the valuations will have no impact on the ability of the Council to provide services.

Chelmsford City Council Audit and Risk Committee

20th May 2020

Audit and Risk Committee Work Programme

Report by:

Director of Financial Services

Officer Contact:

Elizabeth Brooks, Audit Services Manager, elizabeth.brooks@chelmsford.gov.uk

Purpose

This report updates the rolling programme of work for this Committee

Recommendations

That the rolling programme of work for the Committee is agreed

1. Introduction

- 1.1. It is important that the Audit & Risk Committee has sufficient skills to discharge its duties. The Council will provide training on a rolling basis to Audit & Risk Committee members on key topics that form part of the duties under their Terms of Reference.
- 1.2. The Audit & Risk Committee also works to a standard programme of work to ensure that their work is spread evenly across meetings, as far as possible, and to ensure that core reports are produced at the appropriate time within the Council's reporting timetable. Due to the Covid-19 pandemic and the impact on the timing of the Council's Annual Accounts, an additional meeting has been proposed for November 2020.

2. Rolling Programme of Work

2.1. Many of the reports submitted to this Committee are presented on a cyclical basis and can be timetabled for particular meetings. However, from time to time additional reports are requested which are presented to future meetings. The proposed rolling programme of work for this Committee for the next series of meetings is shown below.

17th June 2020

(Joint meeting with Governance Committee)

| Agenda Item | Report Owner |
|--|---|
| Review of the Local Code of Corporate Governance | Legal and Democratic Services Manager |
| Annual Governance Statement 2019/20 | Legal and Democratic Services Manager/ Director of Financial Services |

(Audit & Risk Committee)

| Agenda Item | Report Owner |
|---|------------------------------|
| Revenue (Provisional Outturn) | Accountancy Services Manager |
| Capital Monitoring (Provisional Outturn) | |
| Internal Audit Annual Report 2019/20 | Audit Services Manager |
| Audit & Risk Committee Annual Report 2019/20 | |
| Review of the Audit & Risk Committee's Terms of Reference | |
| Audit & Risk Committee Work Programme | Audit Services Manager |

29th July 2020

| Agenda Item | Report Owner |
|-------------------------------------|------------------------------|
| Training: Year End Accounts 2019/20 | Accountancy Services Manager |
| External Audit Update | BDO |
| Draft 2019/20 Accounts | Accountancy Services Manager |

23rd September 2020

| Agenda Item | Report Owner |
|---|---------------------------------------|
| Risk Management Report | Procurement and Risk Services Manager |
| Internal Audit Update – Corona Response Phase | Audit Services Manager |
| Internal Audit Revised Audit Plan 2020/21 | Audit Services Manager |
| Audit & Risk Committee Work Programme | Audit Services Manager |

November 2020 – Date TBC

| Training Topic | TBC |
|---|--------------------------------|
| External Audit Results Report | BDO |
| Sign-off 2019/20 Accounts/Audit Opinion and Completion Certificate | Director of Financial Services |
| International Standard on Auditing (ISA) 260 - requires the Council's External Auditors to report to those charged with governance those relevant matters arising from the audit prior to issuing the Statement of Accounts | BDO |

16th December 2020

| Training Topic | TBC |
|--|---------------------------------------|
| External Audit Annual Audit Letter | BDO |
| Certification of Claims Returns | |
| Internal Audit Interim Report 2020/21 | Audit Services Manager |
| Anti-Fraud and Investigations Annual Report 2020 | Procurement and Risk Services Manager |
| Procurement Update | Procurement and Risk Services Manager |
| Audit & Risk Committee Work Programme | Audit Services Manager |

17th March 2021

| Training Topic | TBC |
|--|---------------------------------------|
| External Audit Annual Audit Plan 2020/21 | BDO |
| Revenue Monitoring | Accountancy Services Manager |
| Internal Audit Plan 2021/22 | Audit Services Manager |
| Internal Audit Charter 2021 | |
| Risk Management Report | Procurement and Risk Services Manager |
| Approval of Accounting Policies | Accountancy Services Manager |
| Audit & Risk Committee Work Programme | Audit Services Manager |

List of appendices: None

Background papers: None

Corporate Implications

Legal/Constitutional: The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015). A number of recent legislative changes have emphasised the importance of the Audit & Risk Committee. Key developments include:

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

Financial: None

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: The role of the Audit & Risk Committee in relation to risk management covers: assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks; keeping up to date with the risk profile and the effectiveness of risk management actions and; monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: None

Relevant Policies and Strategies: None
