

Audit Committee Agenda

20 March 2019 at 2pm

**Crompton Room, Civic Centre,
Duke Street, Chelmsford**

Membership

Councillor M.D. Watson (Chairman)
Councillor S.J. Robinson (Vice-Chairman)

and Councillors

A. Chambers, J.E. Chandler J. Galley, C. Garrett,
G.B.R. Knight and R.A. Ride

Local people are welcome to attend this meeting, where your elected Councillors take decisions affecting YOU and your City. There will also be an opportunity to ask your Councillors questions or make a statement. If you would like to find out more, please telephone Daniel Bird in the Democracy Team on Chelmsford (01245) 606523 email daniel.bird@chelmsford.gov.uk, call in at the Civic Centre, or write to the address above.

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AUDIT COMMITTEE

20 March 2019

AGENDA

PART I

1. **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

2. **MINUTES**

To consider the minutes of the meeting held on 12 December 2018.

3. **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 Chairman 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.

4. **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.

5. **ANNOUNCEMENTS**

6. **ANNUAL AUDIT PLAN 2018/19**

7. **DIGITAL PROGRAMME BUDGET**

8. **REVENUE BUDGET MONITORING**

9. **DRAFT INTERNAL AUDIT PLAN 2019/20**

10. **INTERNAL AUDIT CHARTER 2019**

11. **RISK MANAGEMENT UPDATE**

12. **ANNUAL INVESTIGATIONS REPORT**

13. **ACCOUNTING POLICIES FOR THE 2018/19 STATEMENT OF ACCOUNTS**

14. **REVIEW OF TRAINING TOPICS AND ROLLING PROGRAMME OF WORK**

15. **URGENT BUSINESS**

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

PART II (EXEMPT ITEMS)

To consider whether the public (including the press) should be excluded from the meeting during consideration of the following matter, which contains exempt information within the category of Part 1 of Schedule 12A to the Act indicated

MINUTES

of the

AUDIT COMMITTEE

held on 12 December 2018 at 2.30pm

Present:

Councillor M.D. Watson (Chairman)

Councillors

A. Chambers, N. Chambers, J.E. Chandler, J. Galley, G.B.R. Knight, R.A. Ride and S.J. Robinson

1. **Apologies for Absence and Substitutions**

Apologies for absence were received from Councillor C. Garrett. Councillor N. Chambers was appointed as the substitute for Councillor Garrett.

2. **Minutes**

The minutes of the meeting held on 26 September 2018 were agreed as a correct record and signed by the Chairman.

3. **Public Question Time**

The following questions were asked by members of the public:

- a) The Capital Monitoring report appeared to detail a further overspend on the Riverside Capital project of another £4 Million, had this been understood correctly.

The Chairman informed the member of the public that this would be discussed during Item 8 and this would clarify the matter.

- b) Why had there been another Capital programme overspend on the Modular Housing units, that it was not the first scheme in the country and that there had been a catalogue of errors and poor management. The member of the public also stated that the cost increases were higher than detailed in the report and that the scheme had not provided value for money. The member of the public also stated that the figures detailed in the report were not in line with those provided at the September Cabinet meeting.

In response to the question the Chairman stated that all members had been concerned with the delays to the project and that was why a report had been requested by the Audit Committee. He stated that many of the issues had been outside of the Council's control but that the scheme had delivered a significant number of new units on land that had not been generating any revenue. He also stated that the units had been significantly cheaper than building traditional houses and would provide an ongoing benefit to vulnerable residents.

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. **Announcements**

The Chairman passed on the Council's thanks to Ernst and Young for their hard work and help as the Council's external auditors over the past few years.

6. **Digital Transformation Budget Report**

The Committee received a report which updated them on the digital transformation spend and budgeting through to the 2019/20 financial year. The Committee was informed that at a very high level there was a variation of £361,455 on the total budget but that this had been funded from existing budgets with the majority coming from underspend within the wider digital services revenue budget. The Committee heard that in 2016/17 the money had been used to bring in a digital strategist and to start procuring licences for Office 365. It was noted that in 2017/18 there had been a realignment of the team and the roll out of major Office 365 components including email and OneDrive was started. It was also noted that a full recut of the CRM programme had been undertaken in January 2018 to ensure that the team were able to deliver in a way that supported the whole council. In 2017/18 there had been an underspend due to lower than expected staffing costs and also an underspend on licensing due to the advantage of just in time purchasing.

The Committee heard that in the current financial year SharePoint and Skype for Business had been introduced to finalise the rollout of major Office 365 components. It was also noted that the service was moving away from short term contractors into recruiting longer term fixed term appointments instead. The Committee heard that there would be another review of the CRM project in June 2019 to coincide with the completion of the new devices, windows 10 and other Office 365 projects to review the whole service.

Members thanked the Digital Services Group Manager for the report and the information provided.

In response to questions from Members it was confirmed that;

- A future report would detail a specific breakdown of spending on staffing, hardware and licences.
- External consultants had been used to help start the project but there was now a move towards longer term or permanent staff.

The Committee was also informed by a member that funding had been allocated to allow external consultants to analyse the project so far and what benefits it will be providing to residents, staff and members. This should make it clearer what the benefits are and what the opportunities are for the project moving forward. It was also noted that the transformation would allow staff to work in much more flexible ways allowing homeworking and hotdesking for example. It was confirmed to the Committee that they would receive updates on this work.

The Committee heard that the digital transformation would lead to a cultural change and the report from the external consultants would demonstrate how the Council can make the most out of the investment in the digital transformation programme. The Committee also heard that some teams were already using parts of Office 365 that they had started to use by themselves rather than being introduced to by Digital Services. This demonstrated the capabilities of Office 365 and that staff had been using it to create innovative methods.

The Chairman agreed that a report detailing a further breakdown of spending so far would be provided at the March meeting and it was also agreed that the Cabinet Member for Corporate Services and IT be asked to attend the meeting.

RESOLVED that;

1. the report be noted and;
2. a report is provided at the March meeting regarding a specific breakdown of spending on staff, hardware and licences and;
3. the Cabinet Member for Corporate Services and IT be asked to attend the March meeting.

(2.40pm to 3.05pm)

7. **Housing Services Transformation and Modular Housing Project Review**

The Committee received a report detailing a number of initiatives designed to improve the quality of its Strategic Housing Function and reduce the financial impact of the service on the Council's revenue budget, following a rapid growth in the number of households in temporary accommodation since 2010. Members were informed that the report was effectively split into two parts, one on the transformation of the service and the other on the modular housing project. Members were invited to ask any questions on the report.

In response to questions from members it was confirmed that;

- The modular units did not have fixed length tenancies and were designed as a halfway step before more permanent accommodation became available. It was noted that the average stay was expected to be around 250 days.
- A competitive process had been undertaken to deliver modular units that would provide a long-life expectancy. It was noted that officers had been quoted that the structures should last between 40 and 60 years but that officers were working on a 30-year basis. It was also noted that due to the modular design, individual components could be easily replaced. The Committee heard that the major costs of the project were the initial works in developing the site and connecting to energy suppliers.
- The units had been purchased at £36,700 for a one bed unit and £57,600 for a two bed unit.
- There was a projected yield of 4.8% on the units. This was very high for a housing scheme and was of low risk compared to higher risk investments in other areas. It was also noted that this was helping to fulfil a statutory service and added quality accommodation for vulnerable residents.
- Maintenance costs had been built into the projected 4.8% yield.
- As with all of the Council's temporary accommodation basic management was provided by the Chelmer Housing Partnership but the Council were still the body collecting rent for the modular units. It was also noted that CHP were responsible for maintenance and repairs to the units.
- It would have been too difficult to find a suitable site for all 18 units, it may have saved some costs but there was no site suitable. Building regulations also limited how many of the units could be stacked and this led to the use of two sites.
- Quotes had been received from other European suppliers but due to transport costs these were not feasible.
- Chelmsford had been the first local authority in the UK to start a scheme using the modular pod style units but others had now followed.

Members thanked officers for an excellent and very clear report on the project. Members stated that the report was honest and provided explanations for the delays and higher costs incurred during the modular housing project. Members also expressed a wish that if similar opportunities were available in the future that they were pursued. It was noted that they had provided quality accommodation that would help vulnerable residents.

RESOLVED that the report be noted.

(3.06pm to 3.30pm)

8. **Capital Programme Update and Monitoring**

The Committee considered a report which compared the latest spending forecast by Directors on Capital Schemes with the approved estimates and a report on the progress of schemes. The report also compared the latest spending forecast by Directors on the Asset Replacement Programme with the approved estimates for 2018/19 and 2019/20.

Members were informed that pages 17 to 40 of the report detailed the spending on capital programmes and that page 4 onwards detailed each scheme with a text update. Overall it was forecast that spending on capital schemes would be £272k more than the latest approved budget or 0.4%.

Members of the Committee stated this was a clear report and that 0.4% was within acceptable margins of error. A member of the Committee also stated that despite the overspends during the Riverside capital project it will be equipping the city with a state of the art leisure centre which will benefit residents and lead to increased revenue streams.

In response to questions from members it was confirmed that;

- Some of the increased costs at Riverside were still under negotiation with the contractors and therefore the increased figure was an estimate.
- Some issues at the Riverside site including undocumented piping and asbestos removal were difficult to quantify before work begun on the site. This was therefore why additional costs were being incurred during the capital project.

RESOLVED that the report be noted.

(3.31pm to 3.52pm)

9. **Certification of Clams and Returns Annual Report 2017-18**

The Committee considered a report presenting the certification of grant claims for the year ending March 2018 written by Ernst & Young and summarising the main issues arising from the certification of grant claims for that financial year.

The Committee was informed that no high-level errors had been identified.

RESOLVED that the report be noted.

(3.53pm to 3.56pm)

10. **Risk Management Update**

Members received a presentation on risk management and the future plans for its use by the Council. The Committee was informed that via a secondment from Internal Audit resources for this had now been allocated. It was noted that initial discussion had been undertaken with management team and the Cabinet Member for Finance in addition to scoping meetings with the audit and risk teams. The Committee heard that the Chief Executive was keen to refresh the way risks were managed and utilised by the Council and that this project would work towards those goals. The Committee was informed that monthly live risk information had been requested by management team.

The Committee heard that a three line of defence approach was going to be utilised which would include a new Risk and Assurance board being set up. It was noted that there was not a coherent approach to risk across the Council and that the refreshed approach would look to bring services in line with a corporate system. It was noted that valuable data needed to be explored and that this would strengthen and assist governance and decision making. The Committee heard that of three approaches management team had decided to adopt the middle approach titled 'risk managed' as it was felt this suited the organisation currently.

The Committee was informed that officers would now be developing the system based on feedback received and would be exploring how the Audit Committee can be utilised in governing risk. It was noted that the Committee would play a key role and over time reporting would be tailored and developed to the Committee's needs.

RESOLVED that the report be noted.

(3.57pm to 4.19pm)

11. **Internal Audit Interim Report 2018/19**

The Committee received a report which summarised the work that Internal Audit had undertaken from 1st April 2018 to 30th September 2018. Members were informed that Internal Audit were on track to complete the audit plan as agreed by the end of March 2019. The Committee was also informed that the new terminology agreed at the last meeting would not be implemented until the next financial year, to allow this year's reports to follow a standard format. Members were informed that the report detailed the progress on implementing recommendations, service summaries and a review of the effectiveness of Internal Audit.

The Chairman stated that the report did not highlight any major areas of concern. In response to a question from a Member it was stated that the audit being undertaken by PWC of the digital transformation programme had been seen by management team and a workshop was due to be scheduled for January 2019 to help improve communication around the programme.

RESOLVED that the report be noted.

(4.20pm to 4.24pm)

12. **Review of Training Topics and Rolling Programme of Work**

The Committee considered a report regarding training for its members and the updated proposed rolling programme of work.

RESOLVED that the report be noted.

(4.25pm to 4.26pm)

13. **Music Festival at Hylands Park**

The Committee received a report which updated them on the financial position of the annual music festival held at Hylands Park.

The Committee were informed that a much smaller scale event had been held in 2018 including significant infrastructure changes. The Committee was informed that the financial information in appendix 1 would be discussed under item 15 in part two of the agenda.

RESOLVED that the report be noted.

(4.27pm to 4.28pm)

14. **Urgent Business**

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

Exclusion of the Public

RESOLVED that under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for Item 15 on the grounds that they involve the likely disclosure of exempt information falling within paragraph 3 of Part 1 of Schedule 12A to the Act.

15. **Music Festival at Hylands Park (Appendix 1)**

The Committee discussed the financial information provided in Appendix 1 of the report.

RESOLVED that the report be noted.

(4.29pm to 4.40pm)

The meeting closed at 4.40pm.

Chairman

AUDIT COMMITTEE
20 MARCH 2019

AGENDA ITEM 6

Subject	ANNUAL AUDIT PLAN 2018/19
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: BDO

Purpose

This report presents the Annual Audit Plan 2018/19 written by the External Auditors BDO.

Recommendation(s)

- Members note the content of the Annual Audit Plan 2018/19 attached as an Appendix to this report.

Corporate Implications

Legal:	None
Financial:	Yes
Personnel:	None
Risk Management:	Yes
Equalities and Diversity:	None
Health and Safety:	None
IT:	None
Other:	None

Consultees	Director of Financial Services
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Policies and Strategies

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

Corporate Plan Priorities

The report relates to the following priorities in the Corporate Plan:

Promoting sustainable growth to stimulate a vibrant balanced economy and provide more housing of all types	
Making Chelmsford an even more attractive place, promoting Chelmsford's green credentials and creating a distinctive sense of place	
Promoting healthy, active lifestyles and encouraging people to live well, making Chelmsford an even more enjoyable place in which to live, work and visit	
Being outward looking, willing and committed to work in partnership to secure investment in the City, deliver key infrastructure projects and build community capacity	
Investing in the organisation, its people and the working environment to ensure that the City Council is effective, high performing and successful in delivering its goals.	

1. Introduction

- 1.1 The attached report has been prepared by the External Auditors BDO.
- 1.2 The 2018-19 Annual Audit Plan summarises BDO's assessment of the key risks driving the development of an effective audit for Chelmsford City Council and outlines their planned audit strategy in response to those risks.
- 1.3 The planned audit fee for 2018/19 is £46,985 for Audit Code work and £12,800 for certification of claims and returns based on the indicative scale fee set by the PSAA (Public Sector Audit Appointments Ltd).

2. Conclusion

- 2.1 Members are asked to note the content of the Annual Audit Plan 2018/19 attached as an Appendix to this report.

List of Appendices

Annual Audit Plan 2018/19

Background Papers

Nil



Report to the Audit Committee

CHELMSFORD CITY COUNCIL

Audit Planning: year ending 31 March 2019

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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit 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 2019 in respect of our audit of the financial statements of the Council and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

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

We look forward to discussing this plan with you at the Audit Committee meeting on 20 March 2019 and to receiving your input on the scope and approach.

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



Zoe Thompson

6 March 2019



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This report has been prepared solely for the use of the Audit 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

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

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

Audit scope

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

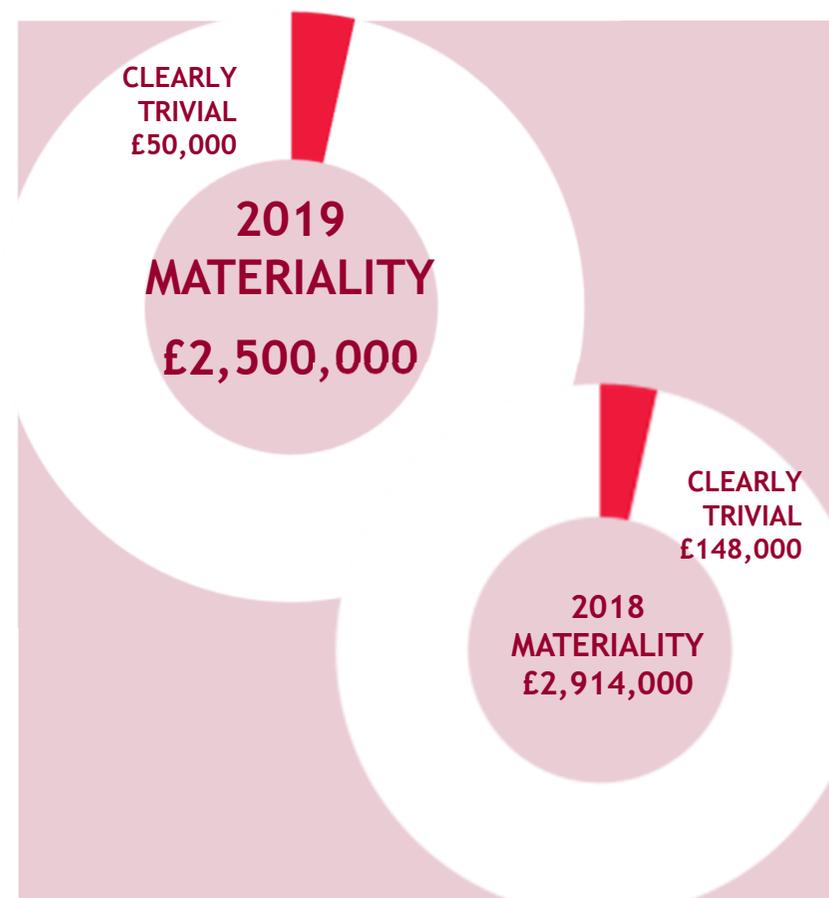
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

Materiality

Planning materiality for the Council will be set at 1.75% of gross expenditure for the year using the prior year gross expenditure figure. This will be revisited when the draft financial statements are received for audit.

Prior year materiality is shown for reference. This is as reported by the predecessor auditor in their Audit Results Report for the year ended 31 March 2018.

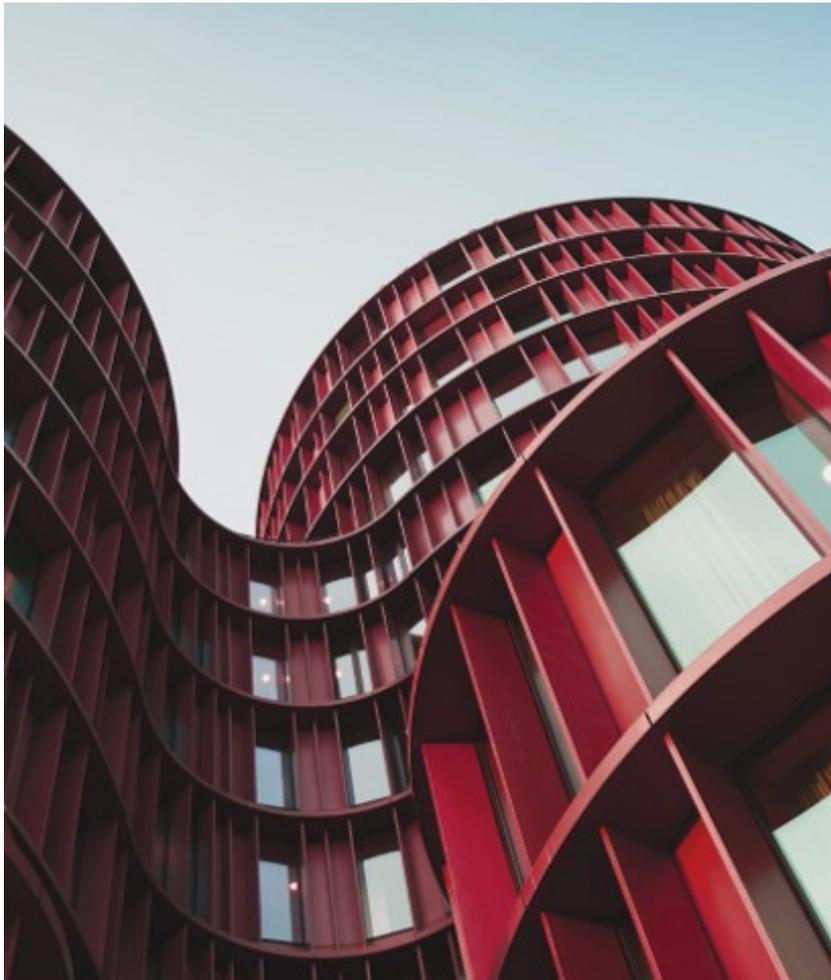
Although materiality is the judgement of the engagement lead, the Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



AUDIT STRATEGY

Executive summary

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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.

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

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

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

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

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

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Risk identified - Financial statements	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue recognition	Significant	Yes	Substantive	Medium
Property, Plant & Equipment and Investment Property valuation	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Related party transactions	Normal	No	Substantive	Low
Risk identified - Use of resources				
Digital Transformation	Significant		Detailed review	N/A



INDEPENDENCE AND FEES

Executive summary



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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

	2018/19
	£
Code audit fees	46,985
Total audit fees	46,985
Non audit fees	
- Housing Benefit Subsidy certification	12,800
Non audit fees	12,800
Total fees	59,785

Amendments to the proposed fees

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

Where this requires a variation to the scale fee set by PSAA we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

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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.

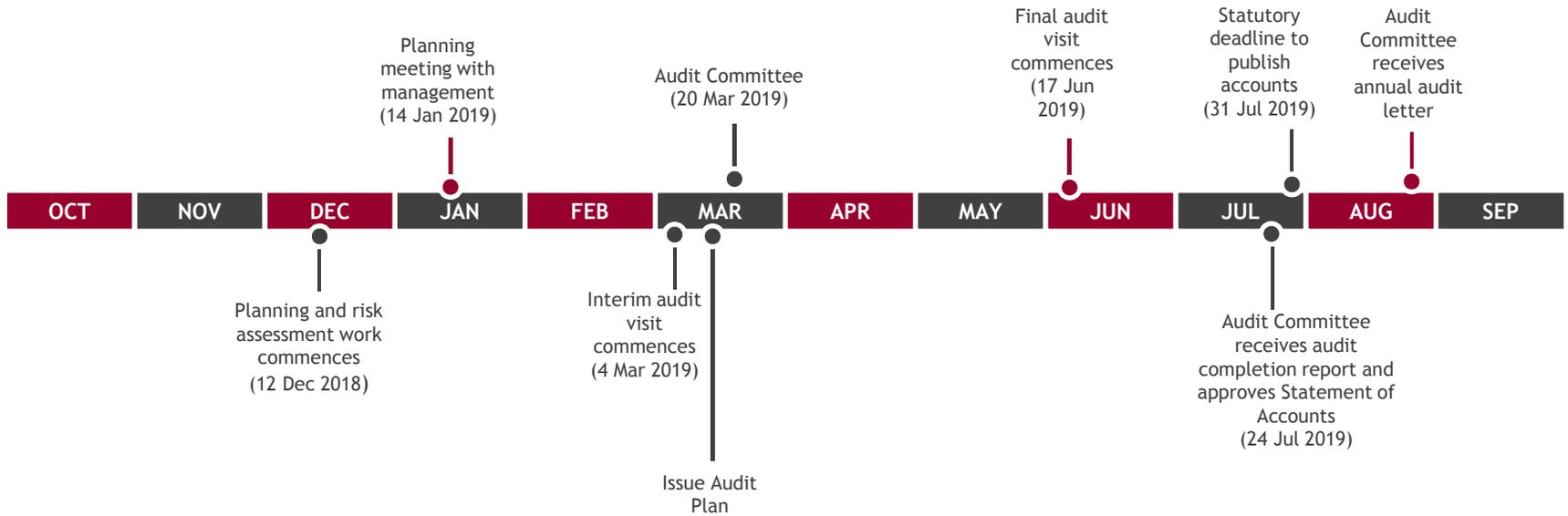
We will communicate any significant changes to our audit strategy, should the need for such change arise.

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



AUDIT TIMELINE

An overview of the key dates



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BDO TEAM

Team responsibilities



Zoe Thompson
Director

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

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



Barry Pryke
Senior Audit Manager

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I will lead on the audit of the Council.

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

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OVERVIEW

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

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Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue recognition			Auditing standards presumes that revenue recognition presents a fraud risk. This risk is in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). In relation to public sector entities, this risk is also considered relevant to expenditure.
3. Property, Plant & Equipment and Investment Property valuation			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. 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 requirements.

MANAGEMENT OVERRIDE OF CONTROLS

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

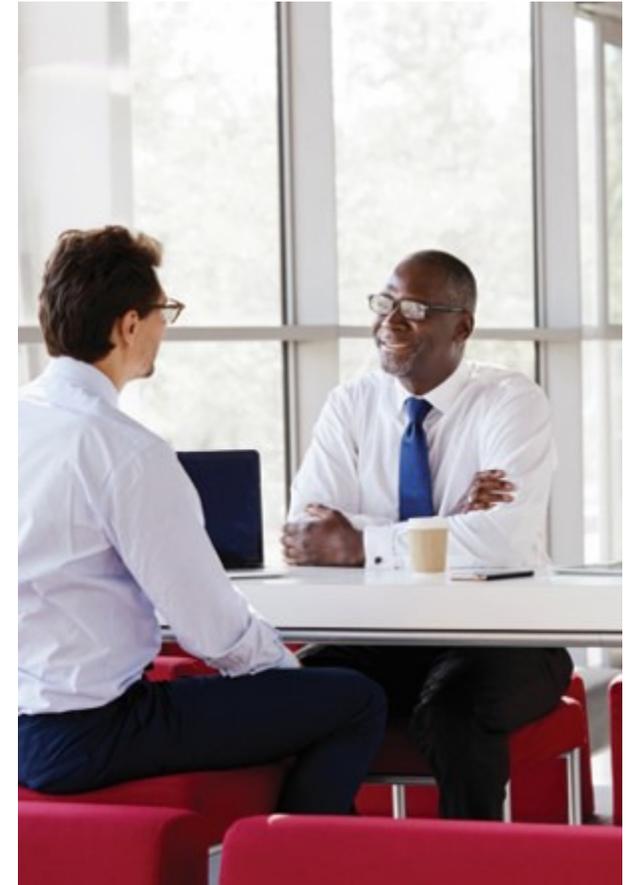
Risk detail

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

Planned audit approach

Our audit procedures will include the following:

- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.



Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

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REVENUE RECOGNITION

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

Risk detail

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

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

Planned audit approach

Our audit procedures will include the following:

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

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

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

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

Risk detail

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

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

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.

Planned audit approach

Our audit procedures will include the following:

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

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

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

Risk detail

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

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

Planned audit approach

Our audit procedures will include the following:

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

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There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.

- 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

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 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.

OVERVIEW

We have assessed the following as a use of resources audit risk and is the matter most likely to impact on our use of resources conclusion.

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Description of risk	Significant risk	Normal risk	Overview of risk
6. Digital transformation			The predecessor auditor identified a number of weaknesses in the governance and management of the digital transformation programme in 2017/18 and issue a qualified use of resources conclusion.

DIGITAL TRANSFORMATION PROGRAMME

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The predecessor auditor identified a number of weaknesses in the governance and management of the DTP programme in 2017/18 and issue a qualified use of resources conclusion.

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

Risk detail

In the prior year the Council commenced its Digital Transformation Programme (DTP). The purpose of this programme was to replace the Council’s current suite of IT software with bespoke applications built internally.

The predecessor auditor identified management of contracts as a significant risk in 2017/18 and included the DTP within this risk. In their use of resources conclusion, the predecessor auditor reported weaknesses in the Council’s arrangements to support implementation of the DTP. Key findings highlighted were: a lack of robust business case for the project; a lack of clear milestones and outputs to demonstrate desired outcomes had been achieved; and a lack of documented evidence of compliance with governance arrangements. The predecessor auditor issued a qualified use of resources conclusion as a result of the weaknesses identified.

Planned audit approach

Our audit procedures will include the following:

- Review the steps taken by the Council to address the weaknesses identified by the predecessor auditor in the following areas:
 - Options appraisal and scenario planning
 - Governance framework supporting implementation, scrutiny and monitoring of the DTP
 - Compliance with agreed procurement procedures
- Confirm that procedures implemented to address the above matters have operated effectively
- Interviews with key officers.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

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Fraud

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

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

Predecessor auditors

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

Significant estimates

We will report to you on significant estimates.

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

Internal audit

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

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

Laws and regulations

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

Accounting policies

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

Financial statement disclosures

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

Any other matters

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

CHANGES TO ACCOUNTING STANDARDS

Classification and measurement of financial instruments (IFRS 9)

- IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.
- CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.
- The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

Revenue from contracts with customers (IFRS 15)

- IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.
- CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.
- The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.

Impact on our audit

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

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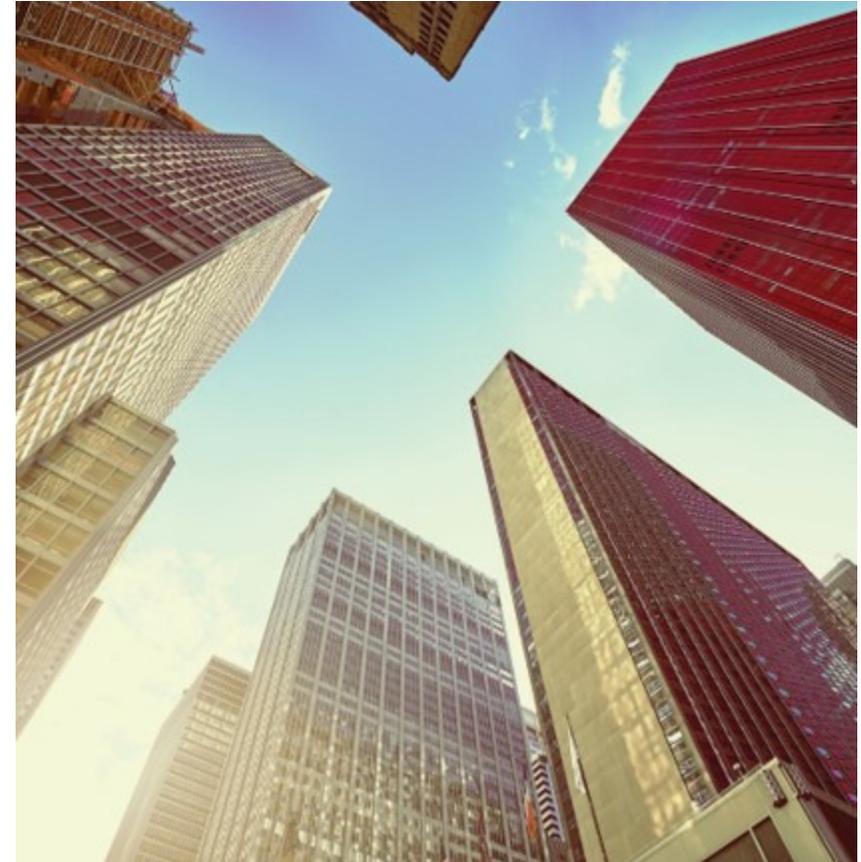
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IT GENERAL CONTROLS

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 centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

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

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



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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 Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2019.

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

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 of independence external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

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

Non-audit services

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

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

SUMMARY

Fees summary for year ending 31 March 2019

	2018/19 £
Code audit fees	46,985
Total audit fees	46,985
Non audit fees	
- Housing Benefit Subsidy certification	12,800
Non audit fees	12,800
Total fees	59,785

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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 shows a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

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

Use of resources

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

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

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

OUR RESPONSIBILITIES

Responsibilities and reporting

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Our responsibilities and reporting - financial statements

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

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

Our responsibilities and reporting - use of resources

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

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

What we don't report

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



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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 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.

Planning Report

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

Internal Controls

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

Audit Completion Report

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

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

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

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

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Zoe Thompson Engagement Lead	1	5 years (last year will be 2023/24)
Barry Pryke Audit Manager	1	7 years

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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
- Instances when greater precision is required (e.g. senior managers remuneration and related party transactions).

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

Calculation and determination

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

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the 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 Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

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

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Audit quality

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

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

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

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



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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 COMMITTEE

20 March 2019

AGENDA ITEM 7

Subject	Digital Programme Budget
Report by	Director of Corporate Services

Enquiries contact: Louise Goodwin 01245 606802 louise.goodwin@chelmsford.gov.uk

Purpose

Audit Committee on 12 December 2018 requested that a further, more detailed report, on the budget for the digital programme be provided to this meeting. This short report sets out reasons why this has not been possible.

Recommendation(s)

1. That Members note the contents of this report and;
2. that a further, more detailed report is presented to the next meeting of Audit Committee.

Corporate Implications

Legal:	
Financial:	
Personnel:	
Risk Management:	
Equalities and Diversity:	
Health and Safety:	
IT:	
Other:	

Consultees	Director of Financial Services Chairman of Audit Committee
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Policies and Strategies

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

Corporate Plan Priorities

The report relates to the following priorities in the Corporate Plan

Promoting sustainable growth to stimulate a vibrant balanced economy and provide more housing of all types	
Making Chelmsford an even more attractive place, promoting Chelmsford's green credentials and creating a distinctive sense of place	
Promoting healthy, active lifestyles and encouraging people to live well, making Chelmsford an even more enjoyable place in which to live, work and visit	
Being outward looking, willing and committed to work in partnership to secure investment in the City, deliver key infrastructure projects and build community capacity	
Investing in the organisation, its people and the working environment to ensure that the City Council is effective, high performing and successful in delivering its goals.	

1. Introduction

- 1.1 At the meeting of this Committee on 12 December 2018 it was agreed that 'a report is provided at the March meeting regarding a specific breakdown of spending on staff, hardware and licences and that the Cabinet Member for Corporate Services and IT be asked to attend the March meeting'.

2. Update

- 2.2 Since this meeting a huge amount of work has taken place between Digital and Financial Services to bring a much more detailed and clearly understandable report to Members of this Committee. This work is not yet complete because of the complexity of the task, and following a discussion with the Chairman it has been agreed that this report, and attendance by the Cabinet Member, be deferred to the next meeting.

- 2.3 In addition, it is considered important to include in this future report the findings of the consultant who has been engaged to examine aspects of the programme to date, as discussed at the last meeting of this committee. The objectives for this piece of work, which was commissioned by the Chief Executive, were:

- 2.4
- Analyse and document the digital readiness and maturity of Chelmsford Council across 5 key areas of the organisation
 - Enable the Council to gain an understanding of the support for digital transformation across the organisation
 - Win support for further transformation
 - Align the Digital Programme to the new Chelmsford City Values and devise opportunities and communications plan for this delivery

- Deliver detailed analysis around the existing digital initiatives within the council, including the benefits that these initiatives are expected to deliver
- Uncover the opportunities for further digital initiatives where a significant benefit in terms of cost saving or better service delivery exists
- Analyse current and future digital initiatives using appropriate techniques
- Define a high-level business case for Digital Transformation since the Feb 2018 Re cut to enable the Council to understand the likely commercial benefits, impact and timescales of digital transformation and to take an informed decision around its continuance.

2.5 This first phase of this work is near to completion and the findings will provide Members of this Committee with useful information to complement the budgetary analysis at its next meeting.

3. Conclusion

3.1 It is recognised that the Digital Programme is a major project for the Council and that the Audit Committee have an important role in monitoring the project and its spend. A great deal of work has already taken place to prepare the information requested. However, it would be beneficial to combine the financial analysis with some additional context from the work of the external consultant, in order to provide a comprehensive picture for consideration by Members at the Committee's next meeting.

List of Appendices

Nil.

Background Papers

Nil.

AUDIT COMMITTEE
20 MARCH 2019

AGENDA ITEM 8

Subject:	REVENUE BUDGET MONITORING
Report by:	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Phil Reeves, Tel (01245) 606562, Fax (01245) 606476
Email phil.reeves@chelmsford.gov.uk

Purpose

To compare the latest budget forecast by Directors as at February 2019 with the Original budget for 2018/19

Recommendation(s)

1. It is recommended that the report be noted.

Corporate Implications

Legal:	None
Financial:	None
Personnel:	None
Risk Management:	None
Equalities and Diversity:	None
Health and Safety:	None
IT:	None
Other:	None

Consultees: All directors and cost centre managers

Policies and Strategies

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

Revenue budget guidelines

Corporate Plan Priorities

The report relates to the following priorities in the Corporate Plan

Attracting investment and delivering infrastructure	
Facilitating suitable housing for local needs	
Providing high quality public spaces	
Promoting a more sustainable environment	
Promoting healthier and more active lives	
Enhancing participation in cultural activities	

1. Background

- 1.1 The Council has a long-established process of preparing monitoring reports for Management Team which compare forecast expenditure and income with the approved estimates. These reports are also supplied to all Cabinet Members.
- 1.2 The reports produced have evolved over several years and are designed to aid understanding and interpretation of the main financial information presented to the Organisation. The reports enable each Cabinet Member to view their areas of responsibility and to gain explanations of any variances from their Directors. The information provided to Cabinet Members and Directors on Revenue Monitoring is shown in summary form on the attached statements.

2. Revenue Monitoring

- 2.1 The statement shows the Original budget as agreed by Council in February 2018 followed by the current projection. The final column shows the variance between the current projection and the Original budget, as amended by approved variations for 2018/19.
- 2.2 Each service line on the summary is supported by further analysis on the variations on the following sheet.
- 2.3 The projections in the statement are as at February 2019 and show that there is currently a potential reduction in contribution of £144k to the general fund balance as a result of the projected adverse variances. This represents only 0.92% at the Net Expenditure level against the original budget, as amended by approved variations for 2018/19.
- 2.4 The overall controllable service expenditure is forecast to be £92k above the approved budget, however, there are a number of significant adverse variations which are offset by smaller favourable gains across services. Below is a summary of the larger anticipated service budget variation:
 - Housing Services underwent a major restructure last autumn and implemented a new housing rent system in April 2018. It has not been possible in that time to resolve all the issues the restructure was intended to achieve, so there are several adverse variations (overall £223k); rent collections are below target and the Private Sector Leasing (PSL) properties have longer than expected void (not occupied) periods. Actions have been taken to alleviate these issues; the transfer from accountancy of a highly experienced debt collection/recovery officer and new arrangements with CHP who manage the PSL properties to improve the management of void periods. The Business Improvement Manager left the Council for a promotion in January, and while this key post is now being covered by an experienced interim, it is expected that the changes being made and the permanent recruitment to the Business Improvement post will reduce the risk of future overspends. It should be noted that that numbers in Temporary accommodation have fallen from 313 in April 2018 to 278 in January and is expected to fall further, however the budget assumed a faster decline which is discussed below in paragraph 2.5 under Temporary Accommodation Subsidy Loss.
 - Rental Income from a new Property acquisition (Visteon -£148k benefit) has reduced the potential net adverse variation. The full year gain is built into the 2019/20 budget.

- The costs of Recycling and Waste Service staffing are higher than the budget set, which reflects the growth in the city and improvements in recycling rates. However, the overall cost of the service is forecast to be below budget as a result of a temporary arrangement to process recycling materials on behalf of another authority and higher income from trade waste and recycling credits.
- Leisure Service income is forecast to be significantly below the budget at outturn (£273k). Of this, some £46k for Hylands' hires and Riverside fee income of £125k is expected to be one off in 2018/19. Less certain of recovery is the level of future income relating to the Hylands festival and other sports centres.

2.5 The forecast in Appendix 1 shows a number of variances which are not categorised as controllable service expenditure, the significant items are discussed below

- Temporary Accommodation Subsidy Loss is the cost to the Council of housing households in temporary accommodation as the Government only partially funds the households housing benefit. A mix of a slower reduction than expected in households in temporary accommodation and a number of large households being difficult to rehouse has led to a projected £109k adverse variance being projected.
- A £106k variance on other budgets is solely a result of variations in Housing Benefit funding from Government (not related to Temporary accommodation). In broad terms the process of paying Housing Benefit to residents inevitably leads to times when claimants have not updated their information with the Council and benefit may be overpaid. The Government funding scheme can reward or penalise local authorities for overpayment recovery from claimants. The budget includes income from the rewards, however this year the level of overpayments made is less than previously experienced and as a result a loss of income to the Council. Clearly this a volatile and difficult activity to predict.
- Currently the Council is forecast to gain £2.324m from the Business Rate Retention scheme in 2018/19 of which £2.032m is built into the budget. The additional £292k of forecast income is from; £82k of scheme related grant relating to 2017/18 but paid in 2018/19 and a potential £210k of Business Rate income for 2018/19. Of note is that the £2.324m forecast gain assumes £1,006k from the Council's membership of an Essex wide business rates pool. Membership of the pool increases the size of potential gains but also increases risk of an error in the forecast as it is dependent on performance of other local authorities.
- Given the uncertainty regarding the level of gain from Business Rate Retention, the additional £210k forecast is assumed to be transferred into the Business Rate Retention Reserve and is therefore not used to support 2018/19 forecast expenditure.

2.6 If subsequent monitoring information is available, the Director of Financial Services will give a verbal update at the meeting.

3. Conclusion

3.1 The revenue outturn is projected to be a slight overspend for 2018/19 but has been reliant on significant gains from the business rates retention scheme, which have offset unfavourable variances in service budgets.

- 3.2 There are several service budgets which require careful monitoring, as they are difficult to predict and are demand led which leaves little opportunity to correct through Council action. However, the risks of these can be managed through prudent levels and use of reserves. The more fundamental financial risks the Council faces are likely to be from changes to future Government funding in 2020 and beyond, which has been discussed in the February Council report.

List of Appendices

Nil.

Background Papers

Nil.

Revenue Monitoring **(February 2019)**

	Original Budget	Original Budget incl. Approved Variations	Projection	Variation to Original Budget incl. approved variations
	£'000	£'000	£'000	£'000
Chief Executive	272	388	388	0
Corporate Management & DRM	-460	-329	-349	-20
Corporate Services				
Corporate Services & Information Technology	6,876	7,735	7,713	-22
Theatres & Special Events	192	406	351	-55
Museums & Cultural Partnership	637	688	682	-6
Financial Services				
Financial Services(HB, Revenues,Property and Financial Support Services)	-1,201	-1,062	-1,081	-19
Strategic Housing	1,177	1,680	1,903	223
Sustainable Communities				
Planning & Building Control Services	1,496	1,830	1,762	-68
Parking Services	-4,939	-5,090	-5,084	6
Public Places				
Parks & Cemetery Services	1,366	1,457	1,450	-7
Recycling & Waste Services	4,988	5,082	5,039	-43
Public Health & Protection Services	1,627	1,567	1,510	-57
Building Services	1,879	1,963	1,861	-102
Leisure Services	677	1,525	1,787	262
Controllable Service Expenditure	14,587	17,840	17,932	92
Other General Fund Items				
- Temporary Accommodation Subsidy Loss	1,252	750	859	109
- Other budgets	-481	-430	-324	106
- Interest Income	-539	-699	-780	-81
- Revenue Funding of Capital	14,217	14,217	14,217	0
- Other Grants (including New Homes Bonus)	-3,156	-3,156	-3,156	0
- Business Rate Retention Scheme	-1,169	-2,032	-2,324	-292
- Use of Carry Forward Reserves	-114	-1,034	-1,034	0
Earmarked Reserves				
- Business Rates Retention Scheme Reserve	843	343	553	210
- Contributions to / -use of Other Earmarked reserves	-9,648	-10,224	-10,224	0
Net Expenditure	15,792	15,575	15,719	144
Contribution to / -from Balances	76	293	149	-144
Budget Requirement	15,868	15,868	15,868	0
Baseline Retained Business Rates	-3,278	-3,278	-3,278	0
Business Rate Section 31 Grant	-68	-68	-68	0
Council Tax Surplus	-138	-138	-138	0
Income from Council Tax	12,384	12,384	12,384	0

	Live Budget	Projection	Variation
	£'000	£'000	£'000
Business Rates Retention Memorandum			
Business Rates Retention Scheme Income	2,032	2,324	292
<u>Transfer to Reserves of Business Rate Retention Income</u>			
Contingency Reserve	326	326	0
Business Rates Retention Reserve	343	553	210
General Fund	1,363	1,445	82
	2,032	2,324	292

"n...acc revenue.../Revenue Monitoring Variance Summary.xls/Rev Mon Var	08/03/2019																		
	Corporate Services					Financial Services			Sustainable			Public Places							
Variation statement - Projection Vs Live Budget	Chief Executive	CM & DRM	Corporate Services & IT Services	Theatres & Special Events	Museums & Cultural Partnership	Financial Services	Strategic Housing	Planning & Building Control Services	Parking Services	Parks & Cemetary Services	Recycling & Waste Services	Public Health & Protection Services	Building Services	Leisure Service	NDR Retention Income	Interest Income	TOTAL	Related Variances	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Employee Variations																			
Digital Programme staffing variations			-86															-86	
Employees Variation (Vacancies, Agency etc)	-1	0	54	21	-23	-33	-13	-61	10	-39	138	-37	21	-28	0	0		9	
Total Employees Variation	-1	0	-32	21	-23	-33	-13	-61	10	-39	138	-37	21	-28	0	0		-77	
Other Expenditure Variations																			
NNDR						31			52									83	
Maintenance				6	-6	51			-6	8	-9	-3	-88	43				-4	
Utilities										4	6		14	-60				-36	
Grounds Maintenance Materials & Contractors										20								20	
Hylands events costs														22				22	
DWP grant funded Software expenditure						11												11	
Recycling & Waste new equipment											45							45	
Diversion costs to Recycling sorter											200							200 (1)	
Car parking income costs									-17									-17	
Third Party Agency												-24						-24	
Crime & Disorder expenditure due to less contributions												-12						-12 (2)	
Temporary Accommodation & Homelessness Prevention							370											370	
Digital Programme Expenditure			23															23	
Tree felling & Maintenance										30								30	
Other	1		11	-9	-8	23	2	-33	-40	14	20	4	-15	12				-18	
Other Total Controllable Expenditure Variance	1	0	34	-3	-14	116	372	-33	-11	76	262	-35	-89	17	0	0		693	
Income Variations																			
Theatres Income				-64														-64	
Museum Income					31													31	
Meeting Rooms													-37					-37	
Property Income from new property acquisition						-148												-148	
Other Property Rental Income						46												46	
Temporary Accommodation & Homelessness Prevention							-121											-121	
Planning Income								-44										-44	
Land Charges								18										18	
Building Control Income								50										50	
Parks Rental Income										-15								-15	
Other Income from Sport Centres														49				49	
Riverside Income lower than expected														125				125	
Reimbursement of diversion costs to Recycling sorter											-262							-262 (1)	
Council Tax Sharing Agreement Income		-20																-20	
Effect of lower attendance at Hylands Festival														43				43	
Hylands Weddings / Corporate / Private & Sales														46				46	
Crime & Disorder contribution												12						12 (2)	
Trade Waste income better than budgeted											-110							-110	
Recycling Credits & Sales											-48							-48	
Other			-24	-9			-15	2	7	-29	-23	3	3	10				-75	
Income Variation Total	0	-20	-24	-73	31	-102	-136	26	7	-44	-443	15	-34	273	0	0		-524	
Total Controllable Expenditure Variance	0	-20	-22	-55	-6	-19	223	-68	6	-7	-43	-57	-102	262	0	0		92	
Other Variations																			
HB Subsidy Temporary Accommodation Loss								109										109	
Other - Hb Subsidy - Overpayments Subsidy Received & other HB						106												106	
Higher yield on Investment leading to higher expected interest income																	-81	-81	
Projected additional uncertain Business Rates income & associated grant															-292			-292	
Transfer of uncertain forecasted additional income to Business Rates Retention Scheme Reserve															210			210	
Other Variations	0	0	0	0	0	106	109	0	0	0	0	0	0	0	-82	-81		52	
Net Variations (+adverse/-beneficial)	0	-20	-22	-55	-6	87	332	-68	6	-7	-43	-57	-102	262	-82	-81		144	
		Partial Contra																	
		Full Contra																	
		* Related Contra's are listed in the related variances column																	

AUDIT COMMITTEE

20th March 2019

AGENDA ITEM 9

Subject	Draft Internal Audit Plan 2019/20
Report by	Chief Assurance Executive

Enquiries contact:

Elizabeth Brooks, Chief Assurance Executive

elizabeth.brooks@chelmsford.gov.uk

Purpose

This report seeks approval from the Audit Committee for the Annual Internal Audit Plan for 2019/20.

Recommendation(s)

1. Audit Committee are requested to note the content of this report and approve the Annual Internal Audit Plan for 2019/20.

Corporate Implications

Legal:	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, as outlined in the report.

Personnel:	Delivery of the plan for 2019/20 will be resourced by a co-sourced mix of in-house staff and external contractors as outlined in the report.
Risk Management:	The 2019/20 Annual Audit Plan has been based on a prioritisation of potential audit activities across the Council, using a risk-based methodology and has been discussed with the Chief Procurement and Risk Officer.
Equalities and Diversity:	N/a
Health and Safety:	N/a
IT:	N/a
Other:	n/a

Consultees	Directorate Management Teams were visited and/or consulted by the Chief Assurance Executive during January 2019, with comments reflected in the attached plan. Management Team approved the plan on 13 th February 2019.
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<p>Policies and Strategies</p> <p>The report takes into account the following policies and strategies of the Council:</p> <ul style="list-style-type: none"> Internal Audit Charter 2019
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Corporate Plan Priorities	
The report relates to the following priorities in the Corporate Plan:	
Promoting sustainable growth to stimulate a vibrant balanced economy and provide more housing of all types	x
Making Chelmsford an even more attractive place, promoting Chelmsford's green credentials and creating a distinctive sense of place	x
Promoting healthy, active lifestyles and encouraging people to live well, making Chelmsford an even more enjoyable place in which to live, work and visit	x
Being outward looking, willing and committed to work in partnership to secure investment in the City, deliver key infrastructure projects and build community capacity	x
Investing in the organisation, its people and the working environment to ensure that the City Council is effective, high performing and successful in delivering its goals.	x

1. Background

- 1.1. 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 Committee, Chief Executive, S151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations.
- 1.2. The Chief Assurance Executive is also responsible for the delivery of an annual audit opinion that can be used by the Council to inform its governance statement. The annual opinion will also conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.3. In order to achieve this, Internal Audit have developed the attached internal audit plan for 2019/20 which is based on a prioritisation of the potential audit activities across the Council using a risk-based methodology, including input from Council staff, senior management and the Audit Committee, as well as consideration of local and national issues and risks.
- 1.4. The Chief Assurance Executive will be responsible for delivery of this plan and will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver it. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.
- 1.5. In addition to planned work, Internal Audit can also provide advice and guidance to management on risk and control issues within individual systems.

2. Preparation and consultation

- 2.1. The 2019/20 plan has been prepared taking the following steps:
 - A list of all auditable systems was identified;
 - Auditable areas were evaluated and then ranked against:
 - Audit risk criteria,
 - Consideration of local and national issues and risks,
 - Consideration of the IIA Publication - Risk in Focus (Hot Topics for Internal Audit 2019)
- 2.2. Directorate management teams were visited by the Chief Assurance Executive during January 2019, with comments reflected in the attached plan. Following Management Team consideration and approval, the plan will be put forward for approval by Audit Committee on 20th March 2019.

3. Internal Audit Budget and Resources

- 3.1. The annual plan has been drawn up to address the key risks for the Council, taking into account available resources.
- 3.2. In order to ensure Internal Audit have an appropriate range of knowledge, skills, qualifications and experience that is required to deliver the audit plan, the Chief

Assurance Executive proposes that we continue to engage with PWC via the Audit, Assurance and Advisory Framework to deliver areas where specialist input would be beneficial, and to provide contingency in the event of any gaps in in-house staffing.

- 3.3. The total audit budget for this work will not exceed £50,000 and the delivery will be closely monitored by the Chief Assurance Executive in line with our established protocols and templates.
- 3.4. The remainder of the delivery will be in-house (1.8 FTE Senior Auditor).
- 3.5. Changes to the annual plan may be necessary during the year to reflect changing priorities and risk environment. A contingency has therefore been set aside to cover requests from management for ad hoc, advisory type work on risk identification and subsequent control design (as well as urgent, unplanned reviews arising during the year).

4. Follow-up audits

- 4.1. Follow-up procedures provide management with updated information about whether key risks have been properly mitigated through remedial actions.
- 4.2. All planned audit work undertaken is subject to a formal follow up to ensure that all agreed actions have been implemented. A budget for follow ups has been accounted for in the annual plan.

5. Assurance Levels/Basis of Opinion

- 5.1. Internal Audit may undertake work which does not contribute explicitly to the overall audit opinion and/or deliver an assurance statement. 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.
- 5.2. 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 Chief Assurance Executive will give due consideration to the appropriateness of undertaking such work.
- 5.3. As requested by Audit Committee, for 2019/20 audit reports onwards, we will utilise the gradings of: fundamental risk, significant risk, and merits attention in replace of high, medium and low for individual audit findings. Our overall assurance opinions will continue to be graded from substantial assurance – moderate – limited – no assurance, based on the significance and priority of issues identified.
- 5.4. Management Team and the Audit Committee will continue to receive details of fundamental/significant priority issues raised in audit reviews which result in 'limited' or 'no' assurance statements, as part of the bi-annual reporting process.

6. Key Financial Systems (KFS)

- 6.1. The annual audit plan includes resource allocated to Key Financial Systems (KFS) work. This includes monitoring of key controls within finance systems to assess whether they are operating effectively and to flag areas and report transactions that appear to circumvent control parameters.

7. Liaison with Risk Management and Investigations

- 7.1. In accordance with the annual audit plan, internal audit will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls and emerging risks. These will be reported immediately to the Investigations team and Chief Procurement and Risk Officer and handled accordingly.
- 7.2. The Chief Assurance Executive will also continue to work closely with the Chief Procurement and Risk Officer to support the Council's new Risk Management Framework and feed in to the process where needed.

8. Conclusion and Reason for Recommendation

- 8.1. This report indicates the level of work that will be undertaken by Internal Audit during 2019/20 in order to provide assurance over the overall adequacy and effectiveness of Chelmsford City Council's framework of governance, risk management and control.

9. List of Appendices

- Internal Audit Draft Audit Plan 2019/20

Internal Audit Draft Annual Plan 2019-20

Ref	Audit Title	Indicative Scope	Planned Quarter	Planned Days
CROSS-CUTTING				
CC19_1	GDPR Governance Review	Review of the Council's GDPR roadmap and ascertain the level of compliance achieved. To consider the effectiveness of Council's data strategy and information governance controls across the Council.	1	15
CC19_2	Contractors and Contract Management	Review of the Council's procedures for processing, recording and monitoring of contractors and Supplier Management. To consider Brexit Risks.	1	15
CC19_3	Anti-Fraud/Bribery/Corruption	Cross-cutting review of the Council's response to Anti-Bribery and Anti-Corruption legislation and best practice, and to evaluate the Council's bribery and corruption risk mitigation efforts.	2	15
CC19_4	Fleet Management	Review of the arrangements in place for the management of Council fleet, including Freighter House, Parks/Ground Maintenance as well as SEPP and Car Parks fleet.	2	15
CC19_5	Trading Accounts	Review of the governance arrangements for when the Council trades commercially.	3	15
CC19_6	Digital Strategy & Cyber Security	Days allocated to cover follow ups of 2018/19 reviews to determine the extent to which original risks have been mitigated and to consider any emerging risks in year. To include Council-wide review of IT access controls for all Council systems including starters/leavers/movers and admin permission changes	3	20
CC19_7	Equality Impact Assessments	Review of the processing, recording and monitoring of Equality Impact Assessments in line with the Public Sector Equality Duty and to examine the key controls in place to ensure that the Council meets its legal Gender Pay Gap reporting obligations.	4	15
				110

Ref	Audit Title	Indicative Scope	Planned Quarter	Planned Days
FINANCE AND HOUSING				
FIN19_1	BACS	Review of the key controls in place across the Council in relation to BACS payments.	1	15
FIN19_2	Housing Allocations	Review of the controls in place surrounding the assessment of applications for housing support and allocations. To include reviewing anti-fraud measures to prevent and deter tenancy fraud in this process.	2	15
FIN19_3	Capital Expenditure	Review of the Council's management of its Capital Expenditure programme, including post project review.	3	15
FIN19_4	Homelessness	Review of the Council's management of its homeless provision and strategy in line with the implementation of the Homelessness Reduction Act 2017.	3	15
FIN19_5	Key Financial Systems 2019/20	<p>Key Financial Systems Review:</p> <ul style="list-style-type: none"> • Accounts Receivable incl Cash and Bank (to include post implementation review of Civica Pay) • Housing Benefits • Housing Rents (including follow up of 18/19 review) • Council Tax • plus follow up of 2018/19 recommendations 	3	40
				100

Ref	Audit Title	Indicative Scope	Planned Quarter	Planned Days
CORPORATE SERVICES				
CORP19_1	Museum	Review of the processes and procedures following the re-opening of Museum in 2019.	1	15
CORP19_2	Mobile Working/SMART technology	Review of Council's policies and procedures relating to mobile working including IT and data security, following the move to an increased number of mobile devices in 2018/19. To consider the risks and controls around information management following the Council's move to O365.	2	15
CORP19_3	Post-Election Review	Follow on from control advice provided pre-May 2019 elections.	2	15
CORP19_4	Theatres	Review of the arrangements for Theatre operations following its restructure to ensure it is line with Cultural Development Trust and Arts Culture Strategies.	3	15
				60

Ref	Audit Title	Indicative Scope	Planned Quarter	Planned Days
PUBLIC PLACES				
PP19_1	Riverside	Review of the processes and procedures following opening of the new complex in 2019.	2	15
PP19_2	Cemetery & Crematorium	Review of refreshed Cemetery and Crematorium operations.	2	15
PP19_3	Community Safety Partnership	Review of the Safer Chelmsford Partnership, reviewing the Council's involvement in the management and monitoring of crime and ASB to ensure that intelligence and information is shared, and processes are streamlined to avoid duplication of effort and to ensure that communications with third/external parties is effective.	3	15
PP19_4	Housing Grants and Loans	Review of Disabled Facilities Grant and Private Sector Renovation Grant to ensure compliance with grant terms and conditions.	4	15
	<i>Recycling</i>	<i>Review of the Council's recycling strategy to determine its compliance with the Waste Framework Directive and Landfill Directive, as well as its plastic reduction strategy to meet the Government's 25 Year Environment Plan.</i>	<i>TBC – depending on Government Strategy</i>	
				60

Ref	Audit Title	Indicative Scope	Planned Quarter	Planned Days
SUSTAINABLE COMMUNITIES				
SC19_1	SEPP	Review of the SEPP partnership arrangement including governance, reporting and management of the partnership.	1	15
SC19_2	Community Infrastructure Levy	Extended follow up of 2018/19 CIL control advice work	3 to 4	10
SC19_3	S106 contributions	Review of the Council's compliance with S106 Planning obligations to ensure all funds are received and spent in line with policy and legal requirements.	3 to 4	15
				40

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AUDIT COMMITTEE

20th March 2019

AGENDA ITEM 10

Subject	Internal Audit Charter 2019
Report by	Chief Assurance Executive

Enquiries contact:

Elizabeth Brooks, Chief Assurance Executive

elizabeth.brooks@chelmsford.gov.uk

Purpose

This report seeks endorsement from the Audit Committee for the Internal Audit Charter 2019.

Recommendation(s)

1. Audit Committee are requested to note the content of this report and endorse the Internal Audit Charter 2019.

Corporate Implications

Legal:

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:	N/a
Personnel:	N/a
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 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.
Equalities and Diversity:	N/a
Health and Safety:	N/a
IT:	N/a
Other:	n/a

Consultees	Management Team noted and endorsed the Internal Audit Charter on 13 th February 2019.
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Policies and Strategies	
<ul style="list-style-type: none"> N/a 	
Corporate Plan Priorities	
The report relates to the following priorities in the Corporate Plan:	
Promoting sustainable growth to stimulate a vibrant balanced economy and provide more housing of all types	
Making Chelmsford an even more attractive place, promoting Chelmsford's green credentials and creating a distinctive sense of place	
Promoting healthy, active lifestyles and encouraging people to live well, making Chelmsford an even more enjoyable place in which to live, work and visit	
Being outward looking, willing and committed to work in partnership to secure investment in the City, deliver key infrastructure projects and build community capacity	
Investing in the organisation, its people and the working environment to ensure that the City Council is effective, high performing and successful in delivering its goals.	x

1. Background

- 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 Chief Assurance Executive'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 and Reason for Recommendation

- 2.1. The Internal Audit Charter 2019 is attached for Audit Committee to note and endorse.

3. List of Appendices

- Internal Audit Charter 2019

Internal Audit Charter

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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 Chief Assurance Executive'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 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 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 Chief Assurance Executive will report periodically to senior management and the Audit Committee regarding Internal Audit's conformance to the above.

Authority

While the Chief Assurance Executive reports functionally to the Audit 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 Chief Assurance Executive 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 Chief Assurance Executive has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee, the Governance Committee).

The Chief Assurance Executive will communicate and interact directly with the Audit Committee (and Governance Committee where applicable), including in executive sessions between Audit 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 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 Chief Assurance Executive 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 Chief Assurance Executive
- Make appropriate enquiries of management and the Chief Assurance Executive to determine whether there is inappropriate scope or resource limitations.

The Audit 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 Chief Assurance Executive 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 Chief Assurance Executive 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 Chief Assurance Executive 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 Chief Assurance Executive, 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 Chief Assurance Executive will confirm to the Audit Committee, at least annually, the organisational independence of Internal Audit.

The Chief Assurance Executive will disclose to the Audit 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 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 Chief Assurance Executive 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 Chief Assurance Executive and will depend on the level of assurance required, the significance of the objectives under review to the organisations 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 Chief Procurement and Risk Officer.

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 Committee or management, as appropriate.

The Chief Assurance Executive will report periodically to senior management and the Audit 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 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 Chief Assurance Executive 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 Chief Assurance Executive has the responsibility to:

- Submit at least annually, to senior management and Audit Committee a risk based Internal Audit plan for review and approval.
- Communicate to senior management and the Audit 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 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 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 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 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 Chief Assurance Executive.

The Director of Finance will provide the Chief Assurance Executive 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 Chief Assurance Executive will submit to senior management and the Audit 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 Chief Assurance Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee. Senior Management and the Audit 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 Committee. Prior to submission to the Audit 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 Committee. The risk-based plan must take in to account the requirement to produce an annual Internal Audit opinion and the assurance framework.

The Chief Assurance Executive 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 Chief Assurance Executive, the Audit 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 Chief Assurance Executive must seek approval from the Audit 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 Chief Assurance Executive 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, the Strategic Risk Board and the Audit 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 Chief Assurance Executive will communicate to senior management and the Audit 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:

Chief Assurance Executive

Date:

Chief Executive

Date:

Chair of Audit Committee:

Date:

AUDIT COMMITTEE
20 MARCH 2019

AGENDA ITEM 11

Subject	Risk Management Update to February 2019
Report by	Chief Procurement and Risk Officer

Enquiries contact:

Alison Chessell, Chief Procurement and Risk Officer

alison.chessell@chelmsford.gov.uk

Purpose

This report summarises the progress and outcomes from the Risk Management Refresh Project in the first two months to 28 February 2019.

Recommendation(s)

- | | |
|----|---|
| 1. | Audit Committee are requested to note the progress to date in refreshing the Council's risk management framework. |
|----|---|

Corporate Implications

Legal:	The Council has a 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).
Financial:	n/a
Personnel:	n/a
Risk Management:	The role of the risk management function is to assist the Council to identify, understand and manage its risks (and opportunities). 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.
Equalities and Diversity:	n/a
Health and Safety:	n/a

IT:	n/a
Other:	n/a

Consultees	Head of Internal Audit Director of Financial Services
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Policies and Strategies
<ul style="list-style-type: none"> Chelmsford City Council Corporate Plan

Corporate Plan Priorities	
The report relates to the following priorities in the Corporate Plan:	
Promoting sustainable growth to stimulate a vibrant balanced economy and provide more housing of all types	✓
Making Chelmsford an even more attractive place, promoting Chelmsford's green credentials and creating a distinctive sense of place	✓
Promoting healthy, active lifestyles and encouraging people to live well, making Chelmsford an even more enjoyable place in which to live, work and visit	✓
Being outward looking, willing and committed to work in partnership to secure investment in the City, deliver key infrastructure projects and build community capacity	✓
Investing in the organisation, its people and the working environment to ensure that the City Council is effective, high performing and successful in delivering its goals.	✓

1. Overview

- 1.1 In December 2018, the Chief Executive, Management Team and the Leader approved the Risk Management Refresh Project with a view to re-designing and relaunching the Council's risk management framework. The project, which will run from January to December 2019, is being carried out by the Risk Manager (0.8 FTE - seconded from the Internal Audit Team), supported by the Procurement Assistant (0.2 FTE assigned to risk duties) and overseen by the Chief Procurement and Risk Officer.
- 1.2 The initial phase of the project has focussed on: project planning and resources; familiarisation with and housekeeping on Pentana, the Council's risk and performance management system; consultation with current Pentana users; consultation with Internal Audit and specialist risk functions across the Council (including Information Governance and Business Continuity Planning); and development of a revised Risk Management Strategy for the Council for 2019-20.
- 1.3 Additional (originally unplanned) duties have included: development and maintenance of the Council's UK Exit Impact Log (referred to in the Cabinet report of 5 March); and involvement in the early scoping for the Council's forthcoming Cyber Risk Management Strategy.
- 1.4 Further activities scheduled until the end of the first project quarter (to 31 March 2019) include further consultation with Management Team on a revised Risk Management Strategy and the form and content of the Council's new Principal Risk Register.

2 Project Governance

- 2.1 The Risk Manager, in conjunction with the Chief Procurement and Risk Officer, has devised a project plan which sets out the key milestones for the project, arranged by quarter, taking account of available staff resources. The plan is divided into three workstreams – ‘Risk Assessment’, ‘Systems Development’ and ‘Culture, Strategy and Performance Management’. Further detail on the key outcomes and key dependencies for the project can be found in Appendix A, along with an indication of the progress achieved to the end of February 2019. Further project highlights are summarised in Appendix B.
- 2.2 In summary, the project is on track, with the exception of Pentana SuperUser training for the project team, which has been delayed by the training provider, Ideagen.
- 2.3 Progress against the project plan is monitored by the Chief Procurement and Risk Officer and subject to periodic oversight from the Director of Finance. Progress will be reported quarterly to Management Team and a further update will be supplied to Audit Committee as part of the September Risk Management Update.

3 UK Exit Impact Log

- 3.1 The Chief Executive requested that a risk assessment be performed to consider the potential impacts on the Council of the UK’s forthcoming exit from the European Union (‘UK Exit’) to supplement the work being carried out by the Business Continuity function.
- 3.2 Appendix C summarises the scope of the assessment and explains the methodology adopted. The full assessment is reported to Management Team on a fortnightly basis.

4 Draft Risk Management Strategy 2019-20

- 4.1 The need for a revised Risk Management Strategy was identified in the original project brief. The main aims of such a document are to: define the Council’s policy on risk; explain what the Council’s risk management framework is seeking to achieve; clarify roles and responsibilities; determine priorities for the financial year to 31 March 2020; and set expectations for risk reporting.
- 4.2 The draft strategy is currently under consultation with Management Team and further consultation with Members is expected before submission for final approval by Audit Committee as part of the September Risk Management Update.

5 Principal Risk Register

- 5.1 The Principal Risk Register will be central to the revised risk management framework. Principal Risks are those risks which require regular oversight from Management Team and may include: strategic risks arising from, and aligned to, the Corporate Plan; and operational, compliance and project risks which, due to their nature or severity, require oversight at senior level.
- 5.2 Consultation on the form and content of the register will take place from March 2019.

6 Conclusion and Reason for Recommendation

6.1 The progress to date, detailed above and in the attached appendices, is presented for the Committee to note.

List of Appendices

- Appendix A – Risk Project 2019 Overview
- Appendix B – Risk Project 2019 Highlights
- Appendix C – UK Exit Impact Log (scope and methodology)

Background Papers

- None

Risk Management Update - Appendix A – Risk Project 2019 Overview

Progress to 28 February 2019

Workstream	Area	Outcome	Progress	Status	On track?	Expected	
PROJECT GOVERNANCE	Planning	Project proposal accepted and staffing secured	100%	Complete	Yes	Q1	!
		Project plan complete	100%	Complete	Yes	Q1	✓
	Implementation	Pentana Risk Project Portal created for Director oversight	75%	Testing phase	Yes	Q1	✓
		Quarterly updates to Management Team/ 6-monthly to Members	25%	Q1 drafted	Yes	Q1-Q4	✓
	Review	Future of Risk Management function to determine	0%	Not due	Not due	Q4	
RISK ASSESSMENT (#1)	Risk Management Strategy	Risk Management Strategy devised, consulted on, finalised and approved	50%	Under consultation	Yes	Q1-Q3	✓
	Risk Toolkit for Staff	Devised, consulted on, reviewed in use, finalised and circulated	10%	Draft in progress	Yes	Q1-Q3	✓
	Principal Risks	Devised, consulted on, finalised and approved	10%	Draft in progress	Yes	Q1-Q2	✓
		Updated quarterly for Management Team/ 6 monthly for Members	0%	Not due	Not due	Q2-Q4	✓
	Directorate Risks	Format devised, trialled by agreed method, finalised and approved	0%	Not due	Not due	Q2	✓
		Rolled out to other Directorates in turn	0%	Not due	Not due	Q3-Q4	✓
		Reviewed quarterly with escalation to Principal Risk Register (as required)	0%	Not due	Not due	Q3-Q4	✓
	Project Risks	Corporate standard devised, consulted on, finalised and approved	0%	Not due	Not due	Q3	✓
		Corporate standard promoted	0%	Not due	Not due	Q4	✓
	Specific Risks	Specialist risk registers according to need/priority (H&S, Cyber, Fraud etc.)	0%	Not due	Not due	Q2-Q3	✓
		Consultation on local risk registers offered to interested teams (voluntary only)	0%	Not due	Not due	Q4	
	New and Emerging Risks	No Deal Brexit Impact Log devised, populated, consulted on and reported	100%	Complete	Yes	Q1	✓
		No Deal Brexit Impact Log updated fortnightly for Management Team	33%	1 of 3 complete	Yes	Q1	✓
Carry out similar bespoke assignments (as required)		0%	As required	As required	Q2-Q4		

! = Key dependency

✓ = Key outcome

Workstream	Area	Outcome	Progress	Status	On track?	Expected	
SYSTEM DEVELOPMENT (#2)	Project Team training	Team factfinding visit Southend Borough Council	100%	Complete	Yes	Q1	
		Team receive Pentana SuperUser training from Ideagen	50%	Rebooked for Q2	Delayed by Ideagen	Q1	!
	Internal Audit Liaison	Internal Audit legacy data consulted on and removed as directed by HIA	90%	Largely complete	Yes	Q1	
		New Internal Audit portal format agreed, built, and linked to other Pentana features	33%	Format agreed	Yes	Q1-Q2	✓
		Protocol on risk information agreed with Internal Audit	0%	Not due	Not due	Q2	
	User Accounts	Active user accounts reviewed and amended/deactivated/deleted (as required)	100%	Complete	Yes	Q1	✓
		Roles and permissions reviewed and risk module users trained	0%	Not due	Not due	Q2-Q4	
	Data Consultation	Regular System Users canvassed and data/portals in use safeguarded	50%	In progress	Yes	Q1-Q2	
		Obsolete data and templates deleted or archived (as required)	50%	In progress	Yes	Q1-Q2	
	Specialist Risk Functions	Risk information from Specialist Risk functions consulted upon	50%	In progress	Yes	Q1-Q2	
		Key Risk Indicators developed from consultation outcomes	0%	Not due	Not due	Q2-Q3	✓
		Risk Champions group reinstated to exchange risk information	0%	Not due	Not due	Q2-Q3	
Self-Service Portals	Built and/or revised and relaunched in order of priority (MT, Service Mgrs, Other)	0%	Not due	Not due	Q2-Q4	✓	
Risk Reports	Standard reports built and/or revised and relaunched in order of priority (Principal, Directorate, Other)	0%	Not due	Not due	Q2-Q4	✓	
CULTURE, STRATEGIC PLANNING & PERFORMANCE (#3)	Risk Culture	Formally analyse Council risk culture and devise Action Plan	0%	Not due	Not due	Q2	✓
	Risk Awareness	Awareness programme to implement	0%	Not due	Not due	Q3-Q4	✓
	Measures to Embed	Consult on Committee paper format	0%	Not due	Not due	Q2-Q3	
		Engage with Constitution Working Group	0%	Not due	Not due	Q2-Q3	
		Issue key comms via the Chief Executive's office	0%	Not due	Not due	Q2-Q4	!
		Engage with Executive Members (via MT) and Audit Committee on remit	0%	Not due	Not due	Q2-Q3	
		Engage with HR re: staff induction and manager training	0%	Not due	Not due	Q4	
	Strategic Planning	Corporate Plan content uploaded to Pentana for monitoring (if appropriate)	0%	Not due	Not due	Q2	!
		Service Planning content uploaded to Pentana for monitoring (if appropriate)	0%	Not due	Not due	Q3-Q4	!
	Performance	Corporate Performance measures - way forward to be determined following Corporate Plan rollout	0%	Not due	Not due	Q3-Q4	!

! = Key dependency

✓ = Key outcome

Risk Management Update – Appendix B – Risk Project 2019 Highlights

Progress to 28 February 2019

<p style="text-align: center;">Resources</p> <p style="text-align: center;">36 days in = 16% of staff resources used to date</p>	<p style="text-align: center;">Project Planning</p> <ul style="list-style-type: none"> • Project proposal accepted • Staffing secured • Job description confirmed • Detailed project plan created • Project overview template devised • Pentana Risk Project portal built for Director oversight
<p style="text-align: center;">Pentana Data</p> <ul style="list-style-type: none"> • 219 active user accounts reviewed, 49 deactivated, a further 90 updated • 33 of 58 browser portals and 12 of 18 classic dashboards deactivated • 15 internal audit files, 840 obsolete recommendations and >1000 obsolete supporting documents deleted • 173 incident logs reviewed, 19 deleted • 37 business continuity records archived • > 200 individual reporting templates filed or deleted 	<p style="text-align: center;">Risk Documentation</p> <ul style="list-style-type: none"> • ‘No Deal’ UK Exit impact log devised and reported to Management Team on fortnightly basis • Draft Risk Management Policy Statement and Strategy devised • Risk Toolkit and Principal Risk Register under development • Audit Committee Risk Update format devised and reported
<p style="text-align: center;">Internal Consultation</p> <ul style="list-style-type: none"> • 25 potential ‘No Deal’ UK Exit impacts identified by consulting 12 Risk Leads • 9 members of staff consulted on specialist risk information (e.g. H&S) • A further 6 key (current or future) Pentana users interviewed • 4 key Pentana users identified to join Ideagen SuperUser training in April • Risk Project briefing held with Internal Audit Team 	<p style="text-align: center;">External Consultation</p> <ul style="list-style-type: none"> • 2 external contacts established at other Councils with Pentana expertise • IRM Innovation Special Interest Group joined • Project Team to be represented at Alarm (public sector risk management association) Conference in July

Risk Management Update – Appendix C – UK Exit Impact Log

For emerging risks, a tailored approach must sometimes be taken where traditional risk assessment may not add value. In this case, likelihood and impact scales were not used, as the likelihood of the UK exiting the EU without a deal could not be reasonably estimated at the time and would, in any case, be due to frequent change due to the speed of events.

The Council’s approach focussed, therefore, on the potential impacts of a ‘No Deal’ Brexit. Each potential impact was graded, with the assistance of the Risk Leads and moderated by Management Team, according to a bespoke scale to determine its priority for Council planning prior to 29 March.

'NO DEAL' PLANNING PRIORITY		Planning Approach
High	Very likely/Almost certain should 'no deal' come into effect; OR potential impact could be so severe and/or immediate that failing to prepare would have adverse consequences for the Council.	Prepare
Medium	Possible scenario (with significant impact) should 'no deal' come into effect; OR probable scenario but with lesser impact on the Council overall. Worth more detailed investigation.	Investigate
Low	Unlikely (but still possible) should 'no deal' come into effect; OR may have greater impact in the medium to long term, but the effect is not immediate and may be subject to significant change over time (due to speed of events) so therefore not an immediate priority. Consider over time through mainstream risk management arrangements.	Consider

The log initially showed 23 impacts (now 25) across five main areas – Frontline Services, Community & Resilience, Workforce, Finance and Procurement & Supply. An updated log has been reported to Management Team on a fortnightly basis, along with detail of the Council’s steps in place and planned to mitigate the potential impact, graded as follows:

CURRENT RAG STATUS		CHANGES TO RAG STATUS	
Immediate action required - the Council is not ready.	Attention required		Status has worsened since previous update (e.g due to increase in likely impact requiring further action)
Preparations/ investigations are underway but not yet complete/cannot yet be completed.	In progress		Same status as previous update (no further action needed/possible, or action continues)
The Council is ready and/or further action is not considered prudent/necessary by Service Managers at this stage.	Managed		Status has improved since previous update (progress warrants this, or situation is now clarified)

While proving a useful tool for Management Team, this exercise will also inform the Council’s future risk reporting.

AUDIT COMMITTEE

20th March 2019

AGENDA ITEM 12

Subject:	ANNUAL INVESTIGATIONS REPORT
Report by:	SENIOR FINANCIAL INVESTIGATIONS OFFICER

Enquiries contact: Garry Chumbley (01245 606624)
Email: garry.chumbley@chelmsford.gov.uk

Purpose

- a. To update the Committee on the Council's anti-fraud, theft and corruption arrangements.
- b. To inform councilors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2019/0.

Recommendation

It is recommended to;

- a) Note and consider the Council's assessment against the "Fighting Fraud and Corruption Locally 2016-19" checklist and action plan.
- b) Note the work which has been undertaken to manage and mitigate the risk of fraud, theft and corruption within the Council's activities.

Corporate Implications

Legal:	None
Financial:	There are no additional financial implications.
Personnel:	No additional staffing requirements are envisaged above the current establishment
Risk Management:	The Investigation Team deter and investigate fraud and contribute to the effectiveness of the Council's operational risk management arrangements
Equalities and Diversity:	None
Health and Safety:	None
IT:	None
Other:	None

Consultees	Director of Financial Services
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1. Introduction

The Corporate Fraud Team (Senior Financial Investigation Officer) post was created in 2015. This followed the decision to transfer all benefit fraud work, and all benefit fraud investigators employed by local authorities, to the Department for Work and Pensions. The Senior Financial Investigation Officer was retained with the intention of bringing a uniform approach to fraud investigation work within CCC and ensures that the Council had adequate resources dedicated to anti-fraud activity.

This strategy summarises the key principles for combatting Fraud for the forthcoming 2019 / 2020 period along with some longer term aims.

The Senior Financial Investigation Officer sits alongside the Procurement, Risk and Insurance Team. These teams together support and contributes to the achievement of the Council's strategic aims. These have been considered when developing the Corporate Fraud Strategy and Plan being:

- To provide an efficient and effective Counter Fraud resource that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud and provide resources to investigate suspected fraud cases.
- The team provides resources for the prevention and detection of fraud across all areas of Council services. The Council believes that this level of staffing is commensurate with the levels of risk
- To contribute to the commitment of keeping Council Tax low by preventing and detecting frauds which deliberately target and affect the Authority's tax base.
- To ensure that the Council adopts an innovative approach to the delivery of its services and that they are not comprised by fraud and corruption.

2. Purpose

The purpose of the Investigation strategy is to document the Corporate Fraud Team's approach to:

- Providing independent and professional investigations into all aspects of fraud affecting the Council, preventing fraud and abuse and taking fair and consistent action against those committing offences.
- Supporting the Council's anti-fraud culture and framework.
- Deliver a corporate anti-fraud service that is innovative, professional and compliant with the relevant legislation.

3. The Corporate Fraud Team Approach

Local Authorities have a duty to safeguard public funds and take responsible steps to ensure that controls are in operation to mitigate, prevent, detect and prosecute fraudulent activity. All Councillors and officers are committed to a zero-tolerance approach towards fraud and corruption in the administration of its responsibilities, whether inside or outside the Council.

The Corporate Fraud Team at Chelmsford City Council undertakes dedicated fraud prevention, detection, investigation and intelligence gathering activities.

We continue to review areas of fraud risk and direct our work accordingly. This year the work has continued to focus on the prevention of fraud and raising the profile of the service internally and externally. There continues to be new work areas to explore and advice is often sought from the post holder. There is a close working relationship with CCC enforcement/licencing officers with assistance regularly being sought.

Reviews of the Council's counter fraud policies, including Anti Money Laundering / Anti Bribery & Corruption commenced in 2018 and all will be in place and available to staff by April 2019. Contained at **Appendix C**.

AIMS & OBJECTIVES

The Corporate Fraud Team at Chelmsford City Council is committed to:

- Raising awareness of the importance of tackling fraud;
- Focussing on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources;
- Investigate potential fraudulent or corrupt activity and take appropriate action;
- Recovering losses from fraud, using legislation such as the Proceeds of Crime Act (POCA);
- Working with other organisations to prevent, deter and detect fraud and reduce loss through fraud and error.

KEY ACTIVITIES 2018-19

Workstreams for the Corporate Fraud team during 2018-19 have been aligned to common themes set out within the Council's Anti-Fraud and Corruption Strategy, CIPFA Fighting Fraud and Corruption Locally 2016-2019 and the Governments UK Anti-Corruption Strategy 2017-2022.

Fraud investigations conducted fall within any of the following key areas (as identified within Protecting the Public Purse 2016):

- Tenancy fraud
- Right to Buy (includes continuing due diligence support) to be commenced with CHP 2019/20
- Council Tax Reduction Scheme
- Council Tax – Single Person Discount
- National Non-Domestic Rates (Business Rates evasion)
- Procurement
- Abuse of position
- Insurance claims

- Economic and third sector supporting, including grants
- National Fraud Initiative Matches (statutory national exercise)
- Whistleblowing
- Payroll and Expenses
- Recruitment

Due to the emerging risks highlighted within Protecting the English Public Purse 2016, the Corporate Fraud team will continue to focus work within Housing Services.

In support of the UK Anti-Corruption Strategy 2017-2022, Fraud Services plans of work for 2018-19 onwards will dedicate resource to specifically consider the risk of Procurement fraud to reduce corruption in public procurement and grants.

4. Proactive Work

In line with the strategy of reviewing other areas of high fraud risk within the Council especially those areas where fraud and / or abuse represents a significant risk to the Council's financial position, the Investigation Team plan to embark on a proactive exercise targeting revenue such as Non-Domestic Rates fraud and fraud within Council Tax discounts. This area is already subject to scrutiny by the Revenues team using methods such as data matching, however, the investigation team will work alongside the department to identify cases of more serious, persistent or organised fraud within the schemes. This will be undertaken with a view, where it is deemed appropriate, to prosecute more serious cases rather than rely on sanctions.

The senior Financial Investigation Officer will continue to build on the good working relationship it already has with the Housing team. This is with a view to encourage and build on closer working arrangements between investigations and housing officer colleagues when dealing with issues surrounding suspected social housing fraud.

During the past year, the Senior Financial Investigation Officer has continued to work closely with several external bodies including DWP, HMRC, Essex Police, National Crime Agency, other Local Authorities and Registered Housing Providers, as well as in-house teams. Strong partnerships continue with CHP as the largest housing provider in the city with an agreement to undertake joint investigations, a similar agreement is in place with MOAT.

Most recently an agreement has been signed with Clarion Housing Group who are the country's largest housing association with 125,000 homes nationwide. They are also a leading developer, with an aim to build 50,000 homes over the next ten years.

These joint investigations are carried out utilising the Prevention of Social Housing Fraud Act 2013 (PoSHFA) which gives local authorities the powers to investigate and prosecute tenancy fraud on behalf of housing providers. Local authorities may prosecute an offence under the act whether or not the dwelling is in the local authority's area. We will continue to roll this out to other providers during 2019-20.

The Senior Financial Investigation Officer along with CHP officers will explore the possibility of implementing a process of vetting 100% Right to Buy Applications due to the high levels of success already experienced by other Local Authorities in this area. This was delayed from last year due to CHP undertaking a review of their structures.

In addition to the above, the longer-term process of engaging key stakeholders across the Council will continue to raise awareness and encourage the reporting of suspicions. Furthermore, this will enable the Investigations Team to have a better understanding of the various processes employed within each service area to identify potential areas of fraud risk with input into policy revisions where appropriate.

The Senior Financial Investigation Officer continued to work with colleagues in Customer Services/Benefits to counter benefit fraud, but this is in the context of a formal Service Level Agreement (SLA) with DWP for the joint management of HB fraud cases. The major work on each HB case is the responsibility of SFIS. CCC retains a liaison role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases.

Investigation of Housing Benefit Fraud transferred to the Department of Work and Pensions (DWP) in September 2015 however the DWP have now requested that Local Authorities work with them to jointly investigate cases where claimants are in receipt of both Housing Benefit and Council Tax Reduction; this was implemented in January 2019 and could increase the number of investigations undertaken. The impact of this will be closely monitored.

5. Reactive Work

The team receives referrals from internal staff, external agencies and departments along with anonymous referrals from members of the public we will continue to review, and risk assess 100% of the referrals it receives to ensure efficient allocation of resources and ensure the highest risk referrals are prioritised.

The team will be continuing with its programme of engaging with other teams within the Council to provide advice and training etc.

In addition to the above, the Investigation Team also plans to undertake the following areas of work in the forthcoming year.

6. National Fraud Initiative Exercise 2018 / 2019

The Council is required to participate in the National Fraud Initiative (NFI), a national data-matching exercise organised by the Cabinet Office that matches data within and between audited bodies to prevent and detect fraud. This includes police authorities, fire & rescue authorities as well as other councils and Housing Associations.

The NFI is a wide-ranging exercise and has used the following datasets:

- Housing Benefits
- Payroll
- Housing Rents
- Insurance claims
- Creditors
- Market Trader licences
- Taxi-Driver licences
- Personal licences to supply alcohol
- Housing Waiting List

- Council Tax Reduction Scheme

All data for the biennial (2 years) NFI national exercise and annual council tax exercise has been verified and uploaded for the 2018/19 mandatory data matching exercise. A review of the data matches that form part of the most recent National Fraud Initiative exercise will be undertaken over the coming months (there are approximately 1555 matches). Any matches that potentially involve staff will be given priority closely followed by the remaining matches that are qualified as “high risk”.

Where a match is found it does not necessarily indicate a fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.

A review of CCC processes is planned to be undertaken into the way the NFI matches are dealt with within the organisation and where NFI should sit as in the majority of LA's this is a function controlled/undertaken by internal audit.

7. Joint working / shared service arrangements

Senior Financial Investigation Officer operates a joint working initiative with the Corporate-Fraud team at Epping Forest District Council. It is operated on an informal basis, the working relationship focuses on the sharing of investigative resources, exploring the potential for joint proactive initiatives and providing a “peer support” service for investigators.

The team continues to provide training and advice to external organisations, however in addition to this; work has commenced to identify areas where potential exists to engage in joint working and / or shared service protocols, with such agreements giving the possibility of revenue raising opportunities.

8. The use and promotion of Accredited Financial Investigator Services

This provides a significant advantage to the Council as it enables us to recover financial losses due to criminal activity, as well as the ability to tackle broader criminal conduct.

The team's Proceeds of Crime capabilities will continue to be marketed to other authorities with Memorandum of Understanding (MoU) in place with three neighbouring Councils. There is one ongoing planning PoCA investigation with a neighbouring Authority.

Financial Investigators are empowered to apply for various investigative powers pursuant to a court order agreed by a Crown Court judge. The most common applications made by the council are:

- Production orders. The purpose of a production order is to obtain material relating to a known person or business, such as bank statements, conveyance files etc.
- Restraint orders. The order has the effect of freezing property, including money and assets anywhere in the world that may be liable to confiscation following the trial. The aim of the order is to strike a balance between keeping the defendant's assets available to satisfy any confiscation order which may be made in the event of conviction and meeting the defendant's reasonable requirements in the meantime. In these

cases, if there is a successful prosecution then a portion of these restrained assets will be passed over to the Council.

9. To promote best practice, information sharing and support to the wider anti - fraud community

The Senior Financial Investigation Officer continues to be actively involved with The Eastern Corporate Fraud Group, which meets quarterly. The group aims to bring together counter fraud professionals from local authorities in Essex and Suffolk in a meaningful forum to discuss and promote best practice, form agreements and partnerships for information sharing and offer support and resources to carry out investigations etc. The Senior Financial Investigator continues their active role within the Local Authority Financial Investigators Forum sharing information and intelligence and training opportunities.

10. Risk Management:

The occurrence of fraud may expose the Council to financial loss and the substantive risks associated with an inadequate control framework. The Corporate Fraud Team assists the Council in managing the risk of fraud both internally and externally.

11. Fighting Fraud Locally

In 2018, we reported on the Government's Anti-Fraud Strategy – "Fighting Fraud Locally 2016-19" and that an assessment against the Council's position had been undertaken. This continues to be monitored.

Fighting fraud and corruption locally is a strategy for English local authorities' that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. The strategy and associated Companion document can be viewed by the following link: -

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>

Tackling fraud in Local Government continues to remain high profile; driven by the duty to ensure public stewardship of Council resources and to enable Council's to provide services to those in need whilst facing significant reductions in funding.

The loss and harm caused by fraud in the public sector is significant. The National Fraud Authority Annual Fraud Indicator showed an estimated annual loss of £2.1 billion to fraud in local government. This loss excludes business rates which is a main area of income generation. This also does not take in to consideration the social harm caused by fraud.

Protecting the English Public Purse 2016 has been issued by The European Institute for Combatting Corruption and Fraud (TEICCAF) to continue the national series of Protecting the public purse reports previously published by the Audit Commission. The report specifically identified:

- Right to Buy (RTB) is documented as one of the largest emerging threats in the Country.
- Procurement fraud is continuing to rise, with the number of cases increasing by over 90%.
- Insurance fraud is continuing to rise, with the number of cases doubling.

CIPFA (Chartered Institute of Public Finance & Accountancy) continues to lead and support the fight against fraud and corruption across local and central government; including publication of the Fighting Fraud and Corruption Locally 2016-2019 strategy.

HM Government has reinforced its commitment to tackling corruption by issuing a UK Anti-Corruption Strategy 2017-2022.

The strategy states that fraudsters cost the local tax payer millions of pounds each year and places the emphasis on council leaders and senior staff to provide the local leadership to act to protect the public purse. Council's must ensure that they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.

The strategy recommends that each local authority is to perform its own risk assessment and fraud resilience check. Our assessment against the Fighting Fraud and Corruption 2016-19 checklist has been completed and is contained at [Appendix A](#).

When completing the checklist and identifying potential areas for further action, responses have been kept proportionate to the perceived risk and resources available. An action plan has been developed to address any issues arising, [Appendix B](#). The checklist shows that the Council can demonstrate that it has a good anti- fraud culture and that there are proportionate measures in place to prevent and detect fraud in risk areas of Housing Benefit/Council Tax, Procurement, Payroll and Cash Collection.

Additionally, to ensure these measures are kept at the forefront of employees' minds, it is intended to raise fraud awareness across the Authority via a refresh and reminder of the Council's Anti-Fraud, Theft and Corruption and associated policies.

Annually, C.I.P.F.A gives a national picture of fraud, bribery and corruption in the UK's public sector and actions being taken to prevent it. The survey conducted by the CIPFA Counter Fraud Centre looks at trends and emerging threats in the sector. The results of the 2018 survey will be due out shortly and we will review and incorporate the findings within our planning.

The Council aims to provide excellent public services and needs to ensure propriety and accountability in all matters; it is determined to protect itself, its employees and the public from fraud, theft and corruption and is committed to the rigorous maintenance of a strategy for its prevention and detection.

12. Conclusion

Overall, the council continues to operate within a robust framework of policies and procedures. This is intended to direct the activity of the council and ensure transparency and accountability. Responsible officers are expected to ensure that effective internal control arrangements are in place. Internal Audit is responsible for providing an annual opinion on the adequacy and effectiveness of governance, risk management, and control process for Chelmsford City Council, including planning and evaluating their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. The Senior Financial Investigation Officer is responsible for investigating and reporting on any offences against or within the council.

This report aims to give assurance on the arrangements in place for the prevention and detection of fraud within the council.

That there are adequate resources available to carry out all investigations and identify risk of potential fraud in all services throughout the council.

The Council remains committed to providing services carried out in accordance with the highest ethical standards and takes steps to investigate all concerns arising.

Appendix A

Fighting Fraud and Corruption Locally 2016 – 2019 **Checklist**

A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.

You are encouraged to use this checklist to measure your counter fraud and corruption culture and response.

	Issue	Status	Comments/Observations
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	Partial	The Council's risk-based approach to audit planning and its Internal Audit Plan recognises areas of significant risk and targets audit resources accordingly. This process also highlights areas of Council activity where risk of fraud may be higher, and the audit plan reflects these areas. Examples of significant areas reviewed in 2018/19 include Bribery and Corruption, Cash Collection and Procurement. To further enhance this process a risk register will be compiled by the newly appointed Risk Manager, in liaison with Service Managers.
2	The local authority has undertaken an assessment against the risks in Protecting the Public Purse: Fighting Fraud Against Local Government (2014) and has also undertaken horizon scanning of future potential fraud and corruption risks.	Yes	Yes. Future potential fraud and corruption risks considered as part the annual audit planning process.
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against Fighting Fraud and Corruption Locally (FFCL) 2016 and this checklist.	Yes	The C.I.P.F.A. Counter Fraud Centre's Checklist for "Fighting Fraud Locally" was attached for Members' information (Sept 16). The FFL checklist, reported annually should ensure that this requirement is fully met.
4	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those	Yes	There is Anti- fraud, Theft and Corruption Strategy which has previously been presented to the Audit Committee for approval.

	charged with governance.		The Strategy is communicated throughout the local authority and acknowledged by those charged with governance. The Strategy is presently being updated and will be circulated to all staff members.
5	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes	Internal control arrangements throughout the council are assessed by internal audit. There are Employee and Members Codes of Conducts in place, registers of gifts and hospitality and a requirement to declare any business interests. The Council's constitution sets out how it operates, how decisions are made and the procedures which are followed to ensure that decision making is transparent.
6	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	Yes	The Council has in place robust arrangements for identifying and responding to the risk of fraud. This includes a number of related policies and strategies including; for example, an Anti-fraud, Theft and Corruption Policy; Whistleblowing Policy; Bribery Policy; Money Laundering Policy; a Fraud Response Plan and process for dealing with Benefit Fraud. Work carried out of the above is reported to the Audit Committee.
7	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Partial	Consultation takes place on fraud policy changes with Service Managers. This is to include Senior Financial Investigator and Chief Assurance Executive (CEA).
8	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Yes	The investigation of benefit fraud has moved to the DWP (SFIS). We continue to receive information on successful fraud investigations. All fraud prosecutions information is passed to the Marketing, Engagement & Events team.
9	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	Yes	Management are responsible for ensuring that there are adequate systems in place to prevent fraud and corruption in their respective service areas. Internal Audit plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in

			internal controls. The Chief Assurance Executive then provides an annual opinion on the adequacy and effectiveness of governance, risk management, and control process for Chelmsford City Council.
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10	<p>The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:</p> <ul style="list-style-type: none"> - codes of conduct including behavior for counter fraud, anti-bribery and corruption. - register of interests. - register of gifts and hospitality. 	Yes	<p>Codes of conduct are included within the Constitution. Officers are required to declare any interests.</p> <p>There is an Anti- fraud, Theft and Corruption Strategy. Updated at appendix C</p> <p>There is also a Gifts and Hospitality Policy and Officers are required to declare and record any offers of gifts and hospitality and if they were accepted or not.</p>
11	<p>The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2016 to prevent potentially dishonest employees from being appointed.</p>	Yes	<p>Standard recruitment procedures are in place to vet staff prior to them being employed including: -</p> <ul style="list-style-type: none"> • Taking up references • DBS checks where appropriate • Verification of qualifications • Right to work checks
12	<p>Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.</p>	Yes	<p>Staff are reminded in annually of the need to declare any offers of gifts and hospitality.</p> <p>Internal Audit periodically reviews gifts and hospitality procedures.</p>
13	<p>There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.</p>	Yes	<p>Senior Financial Investigation Officer and Internal Audit cover the whole of the organisation and this is considered proportionate to the size of the organisation.</p> <p>Fraud surveys and online training has been carried out in the past.</p>

14	There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	Yes	<p>There is a whistle blowing (Confidentiality Reporting) policy in place and published on the Council's website.</p> <p>All whistle blower complaints are treated seriously and investigated in line with the Whistleblowing (Confidentiality Reporting) policy.</p> <p>The Council's Monitoring Officer is responsible for ensuring that this takes place. The operation of the Council's Whistleblowing Policy is promoted to staff annually.</p>
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15	Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	Yes	The risks associated with the procurement of contracts are evaluated in accordance with the Council's Risk Management Framework and the likely consequences assessed accordingly. Whistleblowing forms part of standard contract conditions and all staff engaged in procurement are trained in the process. The whistle-blowing policy applies to all.
16	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	Yes	Senior Financial Investigation Officer and internal audit plan covers all the Council's activities. In addition, there is a good awareness amongst staff of the importance of preventing, detecting and reporting fraud.
17	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	Yes	There is not a specific fraud plan, but the annual audit plan covers all the Council's activities based on a risk assessment. This is considered proportionate to the risk.
18	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	Yes	A Managing the risk of fraud report is provided to the Audit Committee which includes information of investigations and NFI work and internal fraud. There is also a TEICCAFF and CIPFA annual survey which are completed
19	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	Yes	Senior Financial Investigation Officer and Internal audit have those rights of access if required.
20	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	Yes	Benefits cases are referred to the DWP. Other instances of fraud and corruption would be reported as appropriate.

21	All allegations of fraud and corruption are risk assessed.	Yes	Any reports of fraud and corruption allegations are thoroughly investigated, and the police consulted at an early stage where appropriate.
22	The fraud and corruption response plan cover all areas of counter fraud work: <ul style="list-style-type: none"> - prevention - detection - investigation - sanctions - redress 	Yes	There is a Fraud Response plan in place. Internal Audit or Senior Investigations Officer would investigate appropriately.
23	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	Yes	There is a Fraud Response plan. Internal audit and Investigations work is reported to Members. Senior Financial Investigation Officer is the key contact for NFI and ensures that matches are appropriately investigated.
24	Asset recovery and civil recovery is considered in all cases.	Yes	This would be considered if the situation arose
25	There is a zero-tolerance approach to fraud and corruption which is always reported to committee.	Yes	This is specified in the Anti- Fraud, Theft and Corruption policy. Any identified incidences would be reported to the Audit Committee.
26	There is a programme of proactive counter fraud work which covers risks identified in assessment.	Yes	The internal audit plan is risk based which takes in to account the risk of fraud. Internal Audit plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls
27	The local authority shares data across its own departments and between other enforcement agencies.	Yes	Senior Financial Investigation Officer ensures any concerns are reported to the appropriate agencies, they are also members of the Essex Investigators Forum and key contact to the DWP Internal audit is a member of Essex audit group where issues are discussed.
28	The local authority shares data across its own departments and between other enforcement agencies.	Yes	The Council actively participates in the NFI work and will notify other agencies of concerns where appropriate. SFIO liaises with Essex Police and all other LEA's
29	Prevention measures and projects are undertaken using data analytics where possible.	Yes	The results of completed C.I.P.F.A. fraud surveys (last done in April 2016) are used to identify emerging fraud areas and to verify if appropriate internal controls are in place. Awaiting results of the 2017 survey to inform future planning.

30	The local authority actively takes part in the National Fraud Initiative (NFI) and promptly takes action arising from it.	Yes	NFI results are investigated and acted upon by the Senior Financial Investigation Officer.
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31	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work, they too must be trained in this area.	Yes	The Council has one professionally trained and accredited counter fraud Officer. Who is also a National Crime Agency accredited Financial Investigator/Confiscator Internal Audit staff have in the past had the experience to investigate allegations of fraud and corruption.
32	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.	Yes	The internal audit team and Senior Financial Investigation Officer has knowledge of all the Council's operations and will investigate allegations.
33	The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for: <ul style="list-style-type: none"> - surveillance - computer forensics - asset recovery - financial investigations 	Yes	The Councils investigator is a NCA accredited Financial investigator / Confiscator. Specialist knowledge would be bought in where appropriate i.e. Computer forensics.
34	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.	Yes	This would occur if the situation arose

Appendix B

Fighting Fraud Local Checklist - Action Plan

Issue	Requirement	Further Action required	By Whom
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members	A specific fraud and corruption risk register will be compiled by the Risk Manager in conjunction with Service Managers.	Risk Manager Chief Procurement, Risk & Insurance Officer
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against Fighting Fraud and Corruption Locally (FFCL) 2016 and this checklist.	Completion and presentation of a report based on the checklist and our own internal assessment on an annual basis.	Chief Procurement, Risk & Insurance Officer Senior Financial Investigation Officer
4	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	To review and update (if required) the Anti- Fraud, Theft and Corruption policy and associated policies to ensure that these remain current and meet the Council's requirements.	Chief Procurement, Risk & Insurance Officer Senior Financial Investigation Officer
7	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Currently Consultation takes place on policy changes with Service Managers. This is to include Chief Procurement, Risk & Insurance Officer, Senior Financial Investigator and Chief Assurance Executive (CEA) to review and fraud proof all new and existing policies.	Chief Procurement, Risk & Insurance Officer Chief Assurance Executive Senior Financial Investigation Officer

Anti-Fraud and Corruption Strategy

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Anti-Fraud Policy

Chelmsford City Council (CCC) is committed to high legal, ethical and moral standards, and the proper accountability of public funds. In the current climate of reduced funding and financial hardship it is more important than ever that losses to the Council because of fraud and corruption are kept to a minimum to ensure that our limited resources are used for their intended purpose.

The Authority will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Authority.

The Authority's expectation of propriety and accountability is that Members and staff at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices.

The Authority also expects that individuals and organisations with which it comes into contact will act towards the Authority with integrity.

The key controls in place to reduce the likelihood of fraud are:

- The Authority has an effective anti-fraud and corruption policy and maintains a culture that will not tolerate fraud or corruption.
- All Members and staff act with integrity and lead by example.
- Senior managers are required to deal swiftly and firmly with those who defraud or attempt to defraud the authority or who are corrupt.
- High standards of conduct are promoted amongst Members by the standards committee.
- The maintenance of a register of interests in which any hospitality or gifts accepted must be recorded.
- Confidential reporting procedures are in place and operate effectively.
- Legislation including the Public Interest Disclosure Act 1998 is adhered to.
- Standard contract clauses prohibit fraud and corruption.

Additionally, the Authority:

- Maintains a Corporate Fraud presence who play a key role in both the prevention and investigation of matters relating to suspected fraud, corruption and abuse of council services and property.
- Uses the Internal Audit Service as an independent appraisal function for the review of the Council's internal control system as a contribution to the proper, economic, efficient and effective use of resources.
- Recognises the importance of criminal prosecution in deterring fraud and will seek to prosecute offenders where appropriate.

- Supports the work of the police and other external agencies in fighting fraud and corruption in the public sector.
- Is a member of the National Anti-Fraud Network (NAFN), and Participates in the National Fraud Initiative, which is the Cabinet Office's biennial data matching exercise designed to combat fraud?

This policy applies to suspected fraud and corruption, which concerns CCC, involving employees, Members and/or external parties unless the matter is more properly a matter for the Police. Any investigation required will be conducted without regard to any person's relationship to CCC, position or length of service.

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Section One

Introduction

Chelmsford City Council aims to provide community leadership and quality services. This strategy document embodies a series of measures designed to frustrate any attempted fraudulent or corrupt act and the steps to be taken if such an act occurs.

In applying this strategy regard will be had to all relevant CCC policies and any obligations as an employer and the requirements of the Code of Conduct for Local Government Employees.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud and corruption as:

Fraud – *“the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”*.

In addition, fraud can be defined as *“the intentional distortion of financial statements or other records by persons internal or external to the authority, which is carried out to mislead or misrepresent”*.

Corruption – *“the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”*.

The passing of The Fraud Act 2006 into legislation created specific criminal offences surrounding fraud.

They are:

- Fraud by False Representation
- Fraud by Failing to disclose Information (where there is a legal duty to do so)
- Fraud by Abuse of Position
- Possession of Articles for use in a fraud
- Making or Supplying articles for use in Fraud

This policy strongly advocates the following 4 key principles in the Council’s approach to combatting fraud and corruption, namely:

- **Culture** – The ongoing process of maintaining and developing a “top to bottom” anti-fraud and corruption culture throughout the organisation focusing not just on employees, but members, suppliers, contractors and the public also.
- **Prevention** – Ensuring that a range of anti-fraud measures are deployed throughout the Council such as internal audits, fraud awareness sessions etc.
- **Detection and Investigation** – Where fraud and / or corruption is suspected, the Council must ensure that investigations are carried out by professional and qualified investigators to the highest standards of fairness and probity, having due regard to the appropriate legislation at all times.
- **Deterrence** – In the event of fraud and / or corruption being discovered, the Council must take appropriate steps to ensure that further instances do not occur by utilising

methods such as criminal prosecution, disciplinary action, etc. The Council will also seek to obtain financial redress where public money has been lost by utilising The Proceeds of Crime Act 2002 wherever appropriate.

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Section Two

Culture

CCC will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the authority. Fraud risk is considered as part of the Authority's overall risk management strategy.

The prevention and detection of fraud and corruption, and the protection of the public purse is everyone's responsibility.

The Members and employees play an important role in creating and maintaining this culture. They are positively encouraged to raise concerns regarding fraud and corruption, irrespective of seniority, rank or status, in the knowledge that such concerns will, wherever possible, be treated in confidence.

To make sure this occurs; the Council has and maintains a separate Whistleblowing Policy.

Members, employees or contractors are encouraged to raise concerns if they reasonably believe that one or more of the following has occurred, is in the process of occurring or is likely to occur:

- a criminal offence
- a failure to comply with a statutory or legal obligation
- improper unauthorised use of public or other funds
- improper use or misappropriation of assets
- a miscarriage of justice
- maladministration, misconduct or malpractice
- any other similar occurrences
- deliberate concealment of any of the above.

Management Board will ensure that any allegations received in any way, including anonymous letters or phone calls, will be taken seriously and investigated in an appropriate manner, subject to legislative requirements.

The Council has agreed the provision of a Corporate Fraud presence to bring a uniform approach to fraud investigation and to adequately resource the detection and prevention of fraud.

The Corporate Fraud Team (CFT) has the remit to investigate matters of suspected fraud, theft and corruption within CCC (except for Housing Benefit fraud investigation which transferred to the Department for Work and Pensions). The CFT will, as one of its key operating principles also seek to maintain an anti-fraud and corruption culture by engaging staff, members and the public.

CCC will deal firmly with those who defraud the Authority, or who are corrupt, or who are responsible for financial malpractice.

When fraud or corruption has occurred because of a breakdown in the authority's systems or procedures, the Corporate Fraud Team and Internal Audit will ensure that appropriate improvements in systems of control are implemented to prevent a recurrence.

Section Three

Prevention

It is important that the Council recognises and manages the risks relating to fraud and corruption to prevent them from occurring. Furthermore, it is imperative that these risks are routinely considered as part of the Council's overall approach to risk management. To understand the nature of these risks, the following have been identified as key issues that are relevant to CCC:

- Council Tax – fraudulently claimed discounts (including Local Council Tax Support), refund scams.
- Non-Domestic Rates – fraudulent applications for exemptions, unlisted properties.
- Grants (including Disabled Facilities Grants) – false eligibility and applications, diverted funds, works not carried out.
- Insurance Fraud – suspected false claims particularly those relating to personal injury.
- No recourse to public funds – fraudulent eligibility for Council services such as Social Housing.
- Payroll Fraud – false and “ghost” employees, overtime and mileage claims, expenses.
- Internal Frauds – such as fund diversion, accepting bribes, stealing monies and / or Council property, social housing misallocations for personal gain, working elsewhere whilst off sick, abuse of position such as misuse of assets / resources.
- Procurement Fraud – tendering issues, split contracts, double invoicing.
- Cyber Crime / Fraud – frauds such as false applications for services, fund diversion.
- Social Housing Tenancy Fraud – this includes risks such as fraudulent housing applications, mutual exchanges, illegal subletting etc.
- The Right to Buy scheme – fraudulent applications and suspected money laundering.
- Money Laundering – Exposure to suspect transactions.

It is important to note that the above represents the key fraud risk areas and examples of each. It is not intended to be an exhaustive list. As with the culture, the concept of fraud prevention applies to the organisation from top to bottom.

Members

As elected representatives, all Members of the Authority must act in accordance with statutory requirements and the Members' Code of Conduct.

These matters and other guidance are specifically brought to the attention of Members at their induction and include rules on the declaration and registration of potential areas of conflict between Members' Council duties and responsibilities, and any other areas of their personal or professional lives.

Members sign to the effect that they have read, understood and will comply with the Member's Code of Conduct when they take office.

The Monitoring Officer advises Members of new legislative or procedural requirements.

Managers

Managers at all levels are responsible for the communication and implementation of this policy in their work area.

They are also responsible for ensuring that staff are aware of the Authority's Financial Regulations and Standing Orders, and that the requirements of each are being met in their everyday business activities. In addition, managers must make sure their staff are aware of the requirements of the Officers' Code of Conduct through the induction process.

Managers are expected to strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. Where they are unsure of the procedures, they must refer to the information regarding Confidential Reporting.

Special arrangements will apply where employees are responsible for cash handling or oversee financial systems and systems that generate payments, for example payroll, the integrated benefits computer system or council tax. Managers must ensure that relevant training is provided for staff. Checks must be carried out at least annually to ensure that proper procedures are being followed.

The Authority recognises that a key preventative measure in dealing with fraud and corruption is for managers to take effective steps at the recruitment stage to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts.

The Authority has a formal recruitment procedure, which contains appropriate safeguards on matters such as written references and verifying qualifications held.

As with other public bodies, police checks are undertaken on employees working with children.

Further checks will be introduced in areas where an increased risk of potential fraud and corruption has been identified (for example, positions whereby a professional qualification is essential).

Employees

Each employee is governed in their work by the Authority's Procurement Rules and Financial Regulations, the Officer Code of Conduct and various policies.

Guidelines on gifts and hospitality, and codes of conduct associated with professional and personal conduct and disclosure of interests are contained within the relevant Staff Policies, which are available to all staff via the corporate intranet.

Employees are responsible for ensuring that they follow the instructions given to them by management, particularly in relation to the safekeeping of the assets of the Authority. These will be included in induction training and procedure manuals.

Employees are expected always to be aware of the possibility that fraud, corruption or theft may exist in the workplace and be able to share their concerns with management. If for any reason, they feel unable to speak to their manager, they can relay their suspicions to either the Senior Financial Investigation Officer the Chief Procurement & Risk Officer or in their absence the Chief Assurance Executive. Employees can also avail themselves of the Confidential Reporting Policy (Whistleblowing).

Conflicts of Interest

Both Members and employees must ensure that they avoid situations where there is a potential for a conflict of interests.

Such situations can arise with externalisation of services, partnering arrangements, internal tendering, planning and land issues, etc.

Effective role separation will ensure decisions made are, and are seen to be made, based upon impartial advice thereby avoiding improper disclosure of confidential information. CCC employees are required to confirm annually their position regarding any potential conflicts of interest.

Official Guidance

In addition to Financial Regulations and Standing Orders, Services will have their own procedures to prevent and detect fraud. There may also be audit reports that recommend methods to minimise losses to the Authority. Staff must be made aware of these various sources of guidance and alter their working practices accordingly.

Role of the Corporate Fraud Team

The Corporate Fraud Team role in both the prevention and investigation of instances of suspected fraud against the Council.

Training is given to officers within the authority to assist in ensuring that any cases referred to the team contain good quality information to assist with the investigation.

All investigations are carried out in accordance with the respective legislation.

In cases where the offence is deliberate and serious enough to warrant prosecution, consideration will be given to the Council's fraud prosecution / sanction policy. If deemed appropriate legal proceedings will be undertaken in conjunction with Legal Services and / or other bodies such as the Police.

Utilising the provisions of Section 222 of The Local Government Act 1972, the Corporate Fraud Team in conjunction with Legal Services are appropriately authorised to undertake investigations and criminal prosecutions into cases of fraud and corruption that involve the Council.

The Role of Internal Audit

Internal Audit plays a vital preventative role in trying to ensure that systems and procedures are in place to prevent and detect fraud and corruption. They liaise with management to

recommend changes in procedures to prevent potential or further losses to the Authority. Internal Audit will also work closely in conjunction with the Corporate Fraud Team.

The Role of External Audit

Independent external audit is an essential safeguard in the stewardship of public money.

This role is delivered through the carrying out of specific reviews that are designed to test (amongst other things) the adequacy of the Authority's financial systems, and arrangements for preventing and detecting fraud and corruption.

It is not the external auditor's function to prevent fraud and irregularity, but the integrity of public funds are always a matter of general concern. External auditors are always alert to the possibility of fraud and irregularity, and will act without undue delay if grounds for suspicion come to their notice. The external auditor has a responsibility to review the Authority's arrangements to prevent and detect fraud and irregularity, and arrangements designed to limit the opportunity for corrupt practices.

Co-operation with Others

The Corporate Fraud Team and Internal Audit have arranged (subject to legislative requirements regarding data sharing) and will keep under review procedures and arrangements to develop and encourage the exchange of information on national and local fraud and corruption activity in relation to local authorities with external agencies such as:

- Police
- County, Unitary and District groups
- External Audit
- Government departments
- National bodies such as The National Fraud Intelligence Bureau, Action Fraud etc.

Section Four

Detection and Investigation

The Corporate Fraud Team and Internal Audit play an important role in the detection of fraud and corruption. Included in their respective business plans are reviews of system financial controls and specific fraud and corruption tests, spot checks and unannounced visits.

In addition to Internal Audit, there are numerous systems control in place to deter fraud and corruption, but it is often the vigilance of employees and members of the public that aids detection.

In some cases, frauds are discovered by chance or 'tip-off' and arrangements are in place to deal with such information properly.

All suspected irregularities are required to be reported (orally or in writing) either by the person with whom the initial concern was raised or by the originator, as detailed in the Authority's Confidential Reporting Policy. This will:

- ensure the consistent treatment of information regarding fraud and corruption.
- facilitate a proper and thorough investigation by the Corporate Fraud Team in accordance with the requirements of current legislation. Should a member of the Corporate Fraud Team be implicated or the subject of an investigation, either the Chief Assurance Executive or Monitoring Officer will provide a suitable, qualified investigator.

This process will apply to all the following areas:

- a) fraud/corruption by Members
- b) fraud/corruption by Authority employees
- c) fraud/corruption by contractors' employees
- d) fraud/corruption by the public/ external parties

In most cases of reported fraud and / or corruption, any allegation or suspicion will, in the first instance be investigated by the Corporate Fraud Team. Depending on the nature of the case, the CFT may consider undertaking joint investigations with other relevant parties (such as other Local Authorities, Government Departments, the Police etc.).

Alternatively, the CFT may, in some cases, refer the investigation on to another investigating body if more appropriate to do so.

Any decision to refer a matter to the police will be taken by the Chief Executive in consultation with the Monitoring Officer, the s151 Officer, the Director of the responsible service and the Senior Financial Investigation Officer the Chief Procurement & Risk Officer or in their absence the Chief Assurance Executive however, any investigation whereby financial impropriety is discovered, will be dealt with, normally, in the first instance by the Corporate Fraud Team.

However, the mere fact that a Corporate Fraud Team and / or police investigation leads to them taking no further action will not compromise any private action / procedure or investigation that the Council may pursue.

The Authority's disciplinary procedure will be used to facilitate a thorough investigation of any allegation of improper behaviour by employees.

Decisions to refer potential criminal activity by a Member to the Police will be taken by the Monitoring Officer in consultation with the Chief Executive and s151 Officer.

If a Member is suspected of the specific offence of failing to disclose a Disclosable Pecuniary Interest as defined by the Localism Act 2011 the decision to refer the matter to the Police will be taken by the Monitoring Officer following an initial report by the Deputy Monitoring Officer.

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Section Five

Deterrence

Criminal Prosecution

To strike the correct balance considering punishment and deterrence, the Council will undertake criminal prosecutions where it is considered evidentially appropriate and in the public interest.

A corporate policy will be developed taking account of legal guidelines, to encompass the public, Members, contractors and employees. It is designed to clarify the Authority's action in specific cases and to deter others from committing offences against the authority. However, it also recognises that it may not always be in the public interest to refer cases for criminal proceedings and will seek to always take a fair and balanced view on each matter according to each case's merits.

Disciplinary Action

Theft, fraud and corruption are serious offences against the Authority and employees will face disciplinary action if there is evidence that they have been involved in these activities.

Disciplinary action may be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner.

Members will face appropriate action under this strategy if they are found to have been involved in theft, fraud or corruption against the Authority.

Action may be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner.

This aspect of the policy is to be read in conjunction with the powers of the Standards Committee, the delegated powers of the Monitoring Officer and deputy Monitoring Officer and the adopted Code of Conduct.

Publicity

The Council will optimise the publicity opportunities associated with anti-fraud and corruption activity within the Authority.

As a matter of course, a press release will be drafted following any successful criminal prosecution and passed to PR for them to ensure that the results of any action taken, are reported positively in the media. This will be particularly relevant where a financial loss to the Council has occurred and any action taken to recover any such losses will also be promoted.

Provision will also be made for publicity to be taken for any such cases whereby details cannot be made public (for example: where Formal Cautions and / or financial penalties are utilised). In these cases, any press release will contain the pertinent details but will not identify individuals by name.

From time to time, the Council may be approached by the media such as television, radio etc. to provide content regarding anti-fraud and corruption activities. It is acknowledged that this type of media publicity can be extremely useful in promoting anti-fraud activities and as a tool for deterrence.

Should such approaches be received, they are to be considered on a case by case basis with the involvement of both PR and relevant Directors at the earliest opportunity.

All anti-fraud and corruption activities, including the update of this strategy, will be publicised to make employees and the public aware of the Authority's commitment to acting on fraud and corruption when it occurs.

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Section Six

Bribery Act Policy

Introduction

The Bribery Act 2010 became law on 1st July 2011 and has been enacted to enable robust action to be taken against such activity. Chelmsford City Council is committed to protecting the public purse and the services it provides from being abused. We have a zero-tolerance approach towards bribery and promote the prevention, deterrence and detection of bribery.

What is bribery?

Bribery is defined as the offering, giving, receiving or soliciting of any item of value to influence the actions of an official or other person in charge of a public or legal duty. The act of bribery is the intention to gain a personal, commercial, regulatory or contractual advantage.

Objective of this policy

This policy provides a coherent and consistent framework to enable Chelmsford City Council (CCC) Members and employees to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable Members and employees to identify and effectively report a potential breach.

We require that Members and all staff, including those permanently employed, temporary agency staff and contractors:

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

Scope of this policy

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

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

This policy covers all staff, including all levels and grades, those permanently employed, temporary agency staff, contractors, agents, elected Councillors, co-opted members of the public, volunteers and consultants.

HM Government published the UK Anti-Corruption Plan in December 2014, putting in place new arrangements requiring local authorities in England to adopt a Code of Conduct compliant with the seven 'Nolan' principles of standards of public life; selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

All local authorities are also required by the Localism Act 2011 to put in place arrangements for investigating allegations that Members have failed to comply with the CCC Member Code. Failure to comply with the code could lead to the Member being censured.

For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

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

We require that all employees and members:

- read, understand and comply with this policy
- raise concerns as soon as possible if it is believed or suspected that a conflict with this policy has occurred or may occur in the future.
- act honestly and with integrity at all times and safeguard Chelmsford City Council's resources for which they are responsible.
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Chelmsford City Council operates, in respect of the lawful and responsible conduct of activities.

The Council's commitment to action

The Council commits to:

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

Facilitation payments

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials to secure or expedite actions.

Gifts and hospitality

This policy does not change the requirements of our gifts and hospitality policy. This makes it clear that:

Sample tokens of modest value bearing the name or insignia of the organisation giving them (for example, pens, diaries or calendars) whether given personally, or received in the post, may be retained unless they could be regarded as an inducement or reward.

You should refuse the offer or invitation (or return the gift) unless your Service Director has advised you that it may be accepted or retained.

Member and Staff responsibilities

All Members and staff are required to avoid activity that breaches this policy.

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control.

Members and staff must:

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

Staff

As well as the possibility of civil action and criminal prosecution, staff that breach this policy may face disciplinary action, which could result in summary dismissal for gross misconduct. Dismissal can still be an outcome with or without civil action or criminal prosecution.

Members

The Member Code of Conduct requires that where a Member acts as a representative of the authority he or she must not use or attempt to use their position as a Member, improperly to confer on or secure for themselves or any other person, an advantage or disadvantage.

Allegations against a Member for breach will be routed through the Standards complaints process administered by the Monitoring Officer and Deputy Monitoring Officer.

Key points of the Bribery Act 2010

There are four key offences under the Act:

Section 1 Offence of bribing another person:

This section makes it an offence when a person:

- Offers, promises or gives a financial or other advantage to another person and intends the advantage to induce a person to perform improperly a relevant function or activity
- or to reward a person for the improper performance of such a function or activity; or
- Offers, promises or gives a financial or other advantage to another person and knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity

Section 2 Being bribed:

This section makes it an offence when a person:

- Requests, agrees to receive or accepts a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly
- Requests, agrees to receive or accepts a financial or other advantage and the request, agreement or acceptance itself constitutes the improper performance of the person of a relevant function or activity
- Requests, agrees to receive or accepts a financial or other advantage as a reward for the improper performance of a relevant function or activity; or
- In anticipation of or in consequence of the person requesting, agreeing to receive or accepting a financial or other advantage, a relevant function or activity is performed improperly

Section 6 Bribery of foreign public officials:

Under this section an offence is committed where a person:

- Intends to influence a foreign official in their official capacity and intends to obtain or retain business or an advantage in the conduct of business; or
- Offers, promises or gives any financial or other advantage to a foreign public official

Section 7 Failure of commercial organisation to prevent bribery:

A relevant commercial organisation is guilty of an offence:

- If a person associated with the organisation bribes another person intending to obtain or retain business for the organisation or to obtain or retain an advantage in the conduct of business for the organisation and the organisation fails to take reasonable steps to implement adequate procedures to prevent such activity

Are we a “commercial organisation”?

Chelmsford City Council is a commercial organisation for the purposes of the Bribery Act 2010.

What are ‘adequate procedures’?

In the first instance it is for each organisation to determine procedures which it considers proportionate. Ultimately, if bribery occurs, a court will decide whether the procedures are adequate.

In determining procedures, we need to have regard to the following six principles which are set out in guidance produced by the Department of Justice:

Proportionate procedures

An organisation's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the organisation's activities. They are also clear, practical, accessible, effectively implemented and enforced.

Top level commitment

The top-level management (be it a board of directors, the owners or any other equivalent body or person) are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

Risk assessment

The organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented.

Due diligence

The organisation applies due diligence procedures, taking a proportionate and risk-based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

Communication (including training)

The organisation seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

Monitoring and review

The organisation monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

Chelmsford City Council is committed to proportional implementation of these principles.

Public contracts and failure to prevent bribery

Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK), a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts.

However, Chelmsford City Council has the discretion to exclude organisations convicted of this offence.

Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrate's court, to imprisonment for a maximum term of 12 months (six months in Northern Ireland), or to a fine not exceeding £5,000, or to both
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

A person guilty of an offence under section 7 is liable on conviction on indictment to a fine.

Raising a concern

This Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity. We want Members and every member of staff to know how they can raise concerns.

We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner you act, the sooner it can be resolved.

Preferably the disclosure will be made and resolved internally (e.g. to your Section Manager/Manager/Director). Secondly, where internal disclosure proves inappropriate, concerns can be raised with the External Auditor or relevant professional bodies or regulatory organisations.

Concerns can be reported anonymously. If an incident of bribery is reported, we will act as soon as possible to evaluate the situation. We have a clearly defined Anti-Fraud Strategy which sets out procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind.

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

The Council is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery, or because of reporting a concern in good faith.

Section Seven

Anti-Money Laundering Policy

Introduction

The Proceeds of Crime Act 2002, the Terrorism Act 2000 and Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering and the prevention of terrorist financing. The Council must also appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity.

We are committed to *robust arrangements* to identify and prevent any attempts to use Chelmsford City Council to launder money.

What is Money Laundering?

The introduction of the Proceeds of Crime Act 2002 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 has broadened the definition of money laundering and has widened the range of activities controlled by the statutory framework. Money laundering has been defined as:

- concealing, disguising, converting, transferring or removing criminal property from the UK;
- entering into or becoming concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property;
- acquiring criminal property, using criminal property; or possession of criminal property.

When a person knows or suspects that money laundering activity is taking place (or has taken place) or becomes concerned that their involvement in a matter may amount to a prohibited act under the legislation, **they must report this as soon as practicable to the Money Laundering Responsible Officer (MLRO) or risk prosecution**. Offences under the Proceeds of Crime Act and Money Laundering Regulations can attract penalties of unlimited fines and up to 14 years imprisonment.

Money laundering is the process of channelling 'bad' money into 'good' money in order to hide the fact that the money originated from criminal activity, and often involves three steps:

- **Placement** - cash is introduced into the financial system by some means;
- **Layering** - a financial transaction to camouflage the illegal source;
- **Integration** - acquisition of financial wealth from the transaction of the illicit funds.

The Council's Financial Regulations have been amended to prevent the acceptance of cash payments greater than £10,000 (including notes, coins or traveller's cheques in any currency). This does not mean that cash transactions below this value will be valid and legal and professional scepticism is encouraged at all times. Any suspicions should be reported to the MLRO (see below) and any advice followed.

Scope of the Policy

This Policy applies to all employees of Chelmsford City Council and sets out the procedures which must be followed (for example the reporting of any suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

Not all staff will need a detailed knowledge of the types of criminal offences covered by the legislation. However, some staff will require additional guidance to raise their awareness of the possibility of money laundering.

Failure by any member of staff to comply with these procedures may lead to disciplinary action being taken against them.

Aims

The policy outlines the Council's arrangements:

- To nominate a Money Laundering Reporting Officer:
- To make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports where necessary, to the National Crime Agency (NCA);
- To make those staff most likely to be exposed to or suspicious of money laundering situations aware of the requirements and obligations placed on the organisation, and on them as individuals, by the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017;
- To give targeted training to those considered to be the most likely to encounter money laundering;
- To establish internal procedures to help forestall and prevent money laundering.

The Money Laundering Reporting Officer

The nominated officer at Chelmsford City Council to receive disclosures about money laundering activity is the Senior Financial Investigation officer, who can be contacted as follows:

Garry Chumbley, Senior Financial Investigation Officer
Tel: 01245 606624
E-mail: garry.chumbley@chelmsford.gov.uk

If the MLRO is not available, any suspicion of money laundering should be reported to: Phil Reeves, Chief Accountant, who is the Deputy MLRO,

Tel: 01245 606562

Email: phil.reeves@chelmsford.gov.uk

Reporting a Concern to the MLRO

Staff who know or suspect that they may have encountered criminal activity and that they may be at risk of contravening the money laundering legislation, should contact the MLRO to advise him of their concerns. **The disclosure should be at the earliest opportunity of the information coming to your attention, not weeks or months later.**

Reporting to the National Crime Agency

The initial discussion / disclosure will be noted by the MLRO, and he will promptly evaluate this and determine whether it is appropriate to report it to the National Crime Agency (NCA).

If a report is made, then the relevant NCA forms must be completed by the MLRO.

Up to date 'Suspicious Activity Report' forms can be downloaded from the NCA website at:

[https://www.ukciu.gov.uk/\(d5metm55s41ncf55jnjnk5iu\)/saronline.aspx](https://www.ukciu.gov.uk/(d5metm55s41ncf55jnjnk5iu)/saronline.aspx)

In the event that a report is not submitted online, a form can be downloaded from the following website:

<http://www.nationalcrimeagency.gov.uk/about-us/what-we-do/economic-crime/ukfiu/how-to-report-sars>

If no report is made, the reason must be recorded by the MLRO.

All disclosure reports referred to the MLRO and reports made to the NCA must be retained by the MLRO in a confidential file for a minimum of 5 years. The Money Laundering Disclosure Form at Appendix 1 should be used to facilitate the recording of any action taken.

The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

Record Keeping

The MLRO will keep a record of all referrals received and any action taken to ensure an audit trail is maintained.

All information obtained for the purposes of money laundering checks and referrals must be kept up-to-date and will be held and processed in compliance with relevant Data Protection legislation.

Staff training and awareness

All staff are required to read this policy which outlines money laundering offences (providing examples) and the protocol for referral.

However, there are some areas of the Council's activities that may be more vulnerable to attempts to launder money. The Internal Audit Team will assess the risk and where appropriate will source appropriate awareness training.

Internal procedures to help forestall and prevent money laundering

In addition to introducing procedures to address specifically the requirements of the money laundering regulations, there are also robust strategies and procedures already in place to fight fraud and corruption that also apply to money laundering.

These are available on the Intranet.

The regulations require a risk-based approach. Chelmsford City Council will focus its resources on the areas of greatest risk within each function. This helps a more efficient and effective use of resources proportionate to the risks faced. This also minimises compliance costs and provides a greater flexibility to respond to emerging risks as laundering and terrorist financing methods change.

Chelmsford City Council will need to consider higher risk transactions based on:

- The origin or destination of the funds,
- Complicated financial or property transactions,
- Transactions that have no apparent economic or legal purpose,
- Where the beneficial owner is a legal person (other than a company listed on a regulated market), trust, company, foundation or similar legal arrangement;
- Providing assistance in setting up trusts or company structures, which could be used to obscure ownership of property,
- Payments that are made or received from third parties,
- Payments made by cash,
- Transactions with a cross-border element,
- A Politically Exposed Person (see definition below),
- where false or stolen identification documentation or information has been provided to the Council on establishing the relationship,

Involving countries identified as high risk by the Financial Action Taskforce (FATF).

There will be circumstances where simplified due diligence is permitted. After consideration, if the transaction does not fall under the conditions for high risk transaction and the transaction presents a low degree of risk as determined by CCC, a simple customer due diligence is permitted to be undertaken.

Internal audit will monitor compliance by the Authority.

Politically Exposed Person (“PEP”)

In considering higher risk transactions, one of the criteria the council has to consider is whether the transaction(s) relate to Politically Exposed Persons (PEP). Set out below is the definition of PEP.

A PEP under the Money Laundering, Terrorist Financing and Transfer of Functions Regulations 2017 now extends to persons who fall under the definition of ‘Politically Exposed Persons’ in the UK, as well as abroad.

A politically exposed person is considered any individual who is entrusted with prominent public functions (as set out in Regulation 35(12) of the Money Laundering, Terrorist Financing and Transfer of Functions Regulations 2017, including:

- A foreign person who has held any time in the preceding year a prominent public function outside the United Kingdom, in a state or international institution
- Members of courts of auditors or of the boards of central banks
- Ambassadors, chargés d’affaires and high-ranking officers in the armed forces
- Members of the administrative, management or supervisory bodies of state-owned enterprises
- Heads of state, heads of government, ministers and deputy or assistant ministers
- Members of parliaments or of similar legislative bodies
- Members of the governing bodies of political parties
- Members of supreme courts, constitutional courts or of other high-level judicial bodies the decisions of which are not subject to further appeal except in exceptional circumstances
- Member of the administrative, management or supervisory bodies of State-owned enterprises
- directors, deputy directors and members of the board or equivalent function of an international organisation

The definition explicitly excludes middle-ranking or more junior officials.

PEP status also extends to relatives and close associates.

Relatives are set out in the Regulations as a spouse or civil partner of the PEP; children of the PEP and the spouses or civil partners of the PEP’s children; and parents of the PEP.

Close associates include any individual who is known to have joint beneficial ownership of a legal entity or legal arrangement, or any other close business relations. It also includes any individual who has sole beneficial ownership of a legal entity or legal arrangement which is known to have been set up for the benefit of a person referred to in regulation.

The Council will take a risk sensitive approach to identifying PEPs. It will undertake a risk assessment with regards to each individual PEP on a case by case basis.

If you suspect that money laundering activity is taking place (or has taken place), or think that your involvement in a matter may amount to a prohibited act under the legislation, you must disclose this as soon as possible to the MLRO

You should contact the MLRO as soon as is practicable – certainly not weeks or months later, or you may become liable to prosecution. Considerations of confidentiality do not apply if money laundering is at issue.

In the first instance, the report may be made informally to allow the MLRO to assess the information and decide whether a Suspicious Activity Report (SAR) should be made to the National Crime Agency (NCA). You should include as much detail as possible, for example:

- Details of the people involved – name, date of birth, address, company names, directorships, phone numbers etc;
- Full details of the nature of the involvement;
- The dates of activities;
- Where they took place;
- How they were undertaken;
- Likely amounts of money or assets involved;
- Why you are suspicious.

This will assist the MLRO to make a judgement as to whether there are reasonable grounds for assuming knowledge or suspicion of money laundering. The MLRO may initiate an investigation to enable him to decide whether a report should be made to the NCA.

In cases where legal professional privilege may apply, the MLRO must decide (taking legal advice if required) whether there is a reasonable excuse for not reporting the matter.

If a decision is made that a report should be made, the NCA provide forms for completion, to facilitate processing the information. It is recommended that for reasons of confidentiality, Chelmsford City Council's name should only be included once on the front sheet of the reporting form as the source ID and not anywhere else in the report. It is also recommended that the name or names of those making the report to the MLRO are not included in the report, and that the MLRO is given as contact for queries on the report.

Once the matter has been reported to the MLRO, you must follow any directions he may give you. ***You must not make any further enquiries into the matter yourself.*** Any investigations will be undertaken by the NCA.

If you are still involved with the situation that has given rise to suspicions of money laundering, you must not take any further action **that might constitute a money laundering offence** unless permission is given by the NCA to continue with the process. In these circumstances, permission should be sought from NCA when the report is made to continue with the process that may involve money laundering. Permission will be given (or withheld) within 7 working days and this may mean that work for a client has to stop until and unless consent is given.

However, there is no automatic need to stop work for a client when a report has been made, unless the business would commit to one of the main money laundering offences by continuing its work for the client.

Care should be taken that the client who is suspected of money laundering is not alerted that a report has been made to the NCA. 'Tipping off' is a specific offence under the Proceeds of Crime Act, covering situations where disclosures are made following a report to NCA that may prejudice an investigation.

If the NCA has any queries on the report, responses to those queries should be routed via the MLRO to ensure that any reply is covered by appropriate protection against claims for breaches of confidentiality.

You should not make any reference on a client file to a report having been made to the MLRO – the client might exercise their right to see the file, and such a note would tip them off to a report having been made and might make you liable to prosecution.

Appendix 1

Confidential Report to Money Laundering Reporting Officer	
Staff member's name	
Title / Department	
Phone	
Email	
Details of Suspected Offence	
Names and addresses of the persons involved (if a company the nature of their business)	

Nature, value, timing of activity	
Nature of suspicions	
Has any investigation been undertaken?	
Have you discussed your suspicions with someone else?	
Have you consulted any supervisory body e.g. The Law Society	
Do you have any good reason not to disclose the matter to the NCA?	
Signed and dated	
For Completion by the MLRO	
Date received	
Date acknowledged	
Unique case reference no.	
Are their reasonable grounds for suspecting money laundering?	
If yes, confirm date of report to NCA?	
Date consent given to employee for transaction to proceed	
Categories	1. Debt/charge 2. Overpayment 3. Refund 4. Cashier error 5. Land/building resale within 3-12 months 6. House or Asset resale within 3 months
Signed and dated	
THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS	

Section 8

Chelmsford City Council Fraud Response Plan Introduction

The Fraud Response Plan defines the way in which the Council applies its various policies and procedures to suspected instances of theft, fraud corruption and bribery both staff and non-staff related. It fits in with, and is designed to be read in conjunction with the Council's Anti-Fraud and Corruption Policy, Bribery Policy, Anti Money Laundering Policy and the Whistleblowing / Confidential Reporting Policy.

The aim of this plan is to provide clear guidance for dealing with these issues, access to rapid relevant advice and a guide for managers on how to react and deal with suspicions of fraud, theft, corruption and bribery.

Additionally, it seeks to give a brief outline on how investigations will be progressed (although no detail will be given regarding investigation techniques etc.).

The Fraud Response Plan is designed to ensure timely and effective action in the event of suspected fraud by:

- Seeking to minimise the extent of the fraud by taking prompt action
- Preventing further losses where fraud had occurred.
- Maximising the recovery (or the chances of recovering) any financial losses
- Ensuring the accuracy and integrity of evidence for successful criminal prosecution and / or disciplinary action
- The early identification of any system weaknesses and the lessons to be learnt for preventing them in the future
- Maximising positive publicity where frauds are discovered and dealt with.
- Deterring others from any illegal / inappropriate conduct they may be committing or contemplating.

The Manager's Role in dealing with suspected fraud

First Response

Where managers suspect a staff member of fraud or their involvement in a fraud is taking place, the first course of action **must** be to contact the Senior Financial Investigation Officer the Chief Procurement & Risk Officer or in their absence the Chief Assurance Executive who will ensure that the Section 151 Officer and the Chief Executive are informed.

Although, the Council no longer investigates Housing Benefit fraud, where a suspicion occurs of a staff member's involvement in a Housing Benefit (including Local Council Tax Support) fraud, the above steps must still be followed.

All other suspicions of fraud (including Local Council Tax Support) must be reported to the Senior Financial Investigations Officer. Suspicions involving State Benefits can be reported directly to The Department for Work and Pensions (DWP) via their website (www.gov.uk/report-benefit-fraud) or by calling the National Benefit Fraud Hotline on 0800 854440 or by text phone on 0800 328 0512.

It may be prudent to seek the advice of either Senior Financial Investigations Officer or The Revenue & Benefits Manager before contacting the DWP however, as Local Council Tax Support cannot be investigated by the DWP.

In usual circumstances, the suspicion will be passed to the Corporate Fraud Team to assess and undertake an investigation if appropriate. All Suspicions of any type of fraud (including those that do not involve staff members) can be forwarded to the Corporate Fraud Team.

The Senior Financial Investigation Officer the Chief Procurement & Risk Officer or in their absence the Chief Assurance Executive will retain overall responsibility for the conduct of the investigation, however it is probable that the matter will be allocated to a Corporate Fraud Investigator to undertake any investigation. The Corporate Fraud Team will be independent of any service area under investigation and all the officers comprising the Corporate Fraud Team currently are fully trained and accredited investigators holding the qualification of Accredited Counter Fraud Officer / Specialist.

There may be circumstances where it is appropriate for managers to undertake some preliminary enquiries to ascertain the validity of an allegation or irregularity (for example, to establish whether on the face of it, there is a case to be investigated), however before embarking on such action, advice should always be sought from The Senior Financial Investigation Officer the Chief Procurement & Risk Officer or in their absence the Chief Assurance Executive as such action may alert the fraudster and could result in the concealing or destroying of vital evidence or compromise the investigation and the collection of further evidence.

In cases of suspected fraud involving a staff member, the investigating officer will liaise and work with Human Resources at the earliest available opportunity on disciplinary matters such as suspending the staff member to enable further investigation and protect vital evidence.

Initial Enquiries

As stated above, the manager may make discreet initial enquiries to:

- Determine any facts that gave rise to the suspicion.
- Examine any factors to determine whether there has been a genuine mistake made or whether an irregularity has occurred.

Any actions and findings should be clearly recorded and documented ensuring that access is restricted (for example, not held on an “open” area of the computer network or in the case of paper notes, making sure they are securely locked away).

It is important that the suspected perpetrator is not interviewed at this stage nor any allegations / suspicions put to them. If in doubt at any point, the manager must seek the guidance of the Senior Financial Investigation Officer the Chief Procurement & Risk Officer or in their absence the Chief Assurance Executive.

Formal Investigation

If a formal investigation is required, it will be conducted by a qualified Investigator. The nature of the investigation, lines of enquiry followed and evidence obtained will vary depending on the irregularity being investigated and will, for the most part be fluid and reactive.

Generally, however, the investigating officer will be seeking to gather evidence by way of interviews, the taking of written witness statements and the obtaining of evidence be it physical, documentary etc.

In cases of suspected staff fraud, the investigating officer will consult and take advice from Human Resources particularly on matters regarding employment law, policies and procedural matters. It is imperative however, that a clear distinction must be made in these circumstances between those advising the investigating officer and those advising the staff member.

Legal Services will be consulted as appropriate to advise or seek external advice to support any investigation.

Any investigation will be conducted with full compliance with The Criminal Procedures and Investigations Act 1996 which governs the conduct of a criminal investigation (such as obtaining and recording evidence etc.) as well as any other legislation that may apply such as The Police and Criminal Evidence Act 1984 (PACE), The Regulation of Investigatory Powers Act 2000 (RIPA), The Human Rights Act 1998 and Data Protection Act etc. (this list is meant as an example and is not exhaustive).

In general terms however, the following principles will apply to the investigation:

- Any investigation will be conducted promptly (subject to evidence gathering activities) with periodic updates given as appropriate to the Chief Procurement & Risk Officer and / or the Director of the relevant service.
- All actions and evidence will be recorded either by written or electronic means and stored securely with access given purely on a “need to know” basis.
- Enquiries and evidence gathering activities will be undertaken as discreetly as possible with sensitivities observed where appropriate.
- Confidentiality will be maintained throughout with information only shared where circumstances and the law allows.

Where it is considered appropriate, the investigation may involve the input of other agencies such as local authorities as well as other law enforcement agencies such as the Police and HM Revenue & Customs. Liaison and / or joint working will be conducted in accordance with established guidelines and protocols.

The investigating officer must not and will not accept any offer of repayment of monies or resignation at any stage during the investigation, however any such offers will be noted and recorded on the investigation file and reported to the Chief Procurement & Risk Officer Executive / responsible Director.

The Council has a right to suspend any employee involved pending the outcome of an investigation. Any such suspension, is, in the opinion of the Council, a neutral act and does not imply any guilt on behalf of the suspended employee. The suspension of an employee can, in some circumstances aid the speed in which an investigation can be conducted and serve to preserve vital evidence.

When suspects are not suspended, supervision of the employee will usually need to be increased and any manager should seek the advice of Human Resources and ICT on how this can best be accomplished.

Actions following the completion of an investigation

Upon the completion of an investigation, the investigating officer will report their findings in the first instance to the Chief Procurement & Risk Officer, who will (in staff related cases) in turn, make the findings known to Human Resources, relevant Director or the Chief Executive.

Should any control weaknesses be identified, the Director and relevant manager will be informed and remedies actioned immediately. The Chief Assurance Executive / Internal Audit Unit will be able to provide advice and support regarding effective control mechanisms.

Should there be disciplinary issues identified as part of the investigation, a full report will be made to Human Resources who will work with the relevant Director and manager to decide what happens next. Should any course of action result in a disciplinary hearing, the investigating officer will (if required) make themselves available to give evidence at the hearing.

Although some organisations delay the bringing of any disciplinary action pending the outcome of any criminal prosecution, the Council will seek to deal with any disciplinary matters using the appropriate processes.

Should it be the case that criminal action presents itself as an option, this decision will be fully explored and subject to the Council's Fraud Prosecution Policy.

Should fraud be proven, the Council will make every effort to recover any monetary losses? The method of doing so may vary depending on the type of loss and relevant legislation, however all options will be explored including civil court proceedings and in the case of criminal prosecution, proceedings brought under The Proceeds of Crime Act 2002.

AUDIT COMMITTEE
20th March 2019

AGENDA ITEM 13

Subject	ACCOUNTING POLICIES FOR THE 2018/19 STATEMENT OF ACCOUNTS
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Zuzana Clarke Tel (01245) 606324, Fax (01245) 606476
Email zuzana.clarke@chelmsford.gov.uk

Purpose

This report requires Members to confirm that they are satisfied with the accounting policies to be used in the preparation of the 2018/19 accounts.

Recommendation(s)

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

Corporate Implications

Legal:	The report needs to be presented to comply with the Accounts and Audit Regulations 2015
Financial:	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
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Policies and Strategies

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

None directly relevant

Corporate Plan Priorities

The report relates to the following priorities in the Corporate Plan [tick the relevant box]

Attracting investment and delivering infrastructure
Facilitating suitable housing for local needs
Providing high quality public spaces
Promoting a more sustainable environment
Promoting healthier and more active lives
Enhancing participation in cultural activities

<input type="checkbox"/>

1. Background

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 2018/19 (the Code) and are set out in **Appendix A**.

The 2018/19 Code adopted two new significant accounting standards IFRS 9 and IFRS 15. IFRS 9 brings changes to the accounting principles for financial instruments and impairment of financial assets. IFRS15 specifies how we should account for revenue from contracts with customers. We amended our accounting policies to reflect how the changes for these two standards will impact on our 2018/19 accounts.

Following our review, we have also removed some accounting policies where they related to non-material items in the accounts.

2.2 Summary of the main updates to the accounting policies:

- Charges to revenue for assets
Updated with minor wording changes to make the policy more understandable to the reader.
- Financial instruments
Amended to reflect a new accounting standard (IFRS9)

- Impairment provisions for financial assets
Amended to reflect a new accounting standard (IFRS9)
- Fair Value
Updated with minor wording changes to make the policy more understandable to the reader.
- Property plant and equipment
Updated wording to make the policy more understandable to the reader.
- Revenue and capital transactions
Amended to reflect the changes in accounting principles following adoption of the IFRS 15 in the 2018/19 Code, for recognition of income from revenue from contracts with service recipients.

List of Appendices

Appendix A – The Council’s accounting policies

Background Papers

Nil.

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 2018/19 and our position at the year-end, 31 March 2019. 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 2018/19 a statement of recommended practice ('the Code'), supported by International Financial Reporting Standards.

We use the following accounting policies in preparing the accounts.

Assets held for sale

Any asset the Council thinks it can sell in its existing condition, is actively trying to sell, and will sell should be classified as 'held for sale'. We will record it as a surplus asset if that sale is likely to take longer than 12 months and it is no longer being used to deliver services, otherwise we will record it as a current asset – asset held for sale.

We revalue assets that we transferred into 'held for sale' before reclassifying them, based on their current use. If this amount is lower than the sale proceeds we expect, we revalue the asset again to a lower sale price. We charge this cost to Other Operating Expenditure in the Surplus or Deficit on the Provision of Services. It is reversed out before affecting council tax.

We do not charge depreciation on assets held for sale.

Once an asset is sold, we charge any gain or loss over the amount the Council has recorded in its accounts to the Surplus or Deficit on the Provision of Services. It is reversed out before affecting council tax.

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.

There are amortisation charges (depreciation) for intangible assets which are calculated on a straight-line basis. This means that if the asset is available all year for every year the Council will use an asset, the service charge would be the same amount each year.

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.

Effects of changes in estimates

We have not changed the way we estimate amounts to be included in the accounts.

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 authority 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.

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

Intangible assets

An intangible asset is created when we make a payment for something that we expect to benefit from for more than one year, but no physical asset is created (for example, computer software licences).

The asset is recorded at cost in the Council's accounts and is amortised (depreciated) annually based on its estimated life. The assets are reviewed for impairment annually and if found to be less productive, we charge losses to the service using it. The cost is reversed out before affecting council tax.

The useful lives of our intangible assets are finite; we normally expect to use them up over 3-10 years, depending on the type of software. Our main IT systems are expected to last up to 10 years from new. Other systems, such as website software, have shorter lives.

We charge the intangible asset amortisation to Digital Services, and then recharge them across all service headings, so we do not show this charge in one place in the accounts.

All our intangible assets have been bought and we only capitalise internal costs associated with the implementation of computer systems we have purchased. We have not made any intangible assets. There have been no impairments or revaluations.

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 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 explained in note 8 to the main financial statements. These are usable reserves.
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.

- There is a lot of uncertainty about the future level of Government grant funding. The Government is reviewing the basis of allocating funding to Local authorities, with new funding distribution based on revised formula to be announced for 2020/21. The New Homes Bonus grant may reduce or be removed in the future.
- It is unclear how Britain's decision to leave the European Union will impact on the Council's or Local Government finances generally. We believe that we will be able to produce a balanced budget despite this and that our asset values do not need to be impaired.

AUDIT COMMITTEE
20th March 2019
AGENDA ITEM 14

Subject:	REVIEW OF TRAINING TOPICS AND ROLLING PROGRAMME OF WORK
Report by:	Chief Assurance Executive
Enquiries contact: Elizabeth Brooks, Chief Assurance Executive elizabeth.brooks@chelmsford.gov.uk	
Purpose This report updates: <ul style="list-style-type: none"> • the training proposed for members of this Committee; and • the rolling programme of work for this Committee. 	
Recommendation	
That the proposed training for 2018/19 is noted That the Areas of Knowledge Member / Officer contact schedule is noted That the rolling programme of work for the Committee is noted.	

Corporate Implications	
Legal:	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:	There are no additional financial implications.
Personnel:	There are no additional staffing implications.
Risk Management:	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.
Equalities and Diversity:	None
Health and Safety:	None

IT:	None
Other:	None

Consultees	Chief Procurement and Risk Officer; Director of Financial Services
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Policies and Strategies

Corporate Plan Priorities	
The report relates to the following priorities in the Corporate Plan:	
Promoting sustainable growth to stimulate a vibrant balanced economy and provide more housing of all types	
Making Chelmsford an even more attractive place, promoting Chelmsford's green credentials and creating a distinctive sense of place	
Promoting healthy, active lifestyles and encouraging people to live well, making Chelmsford an even more enjoyable place in which to live, work and visit	
Being outward looking, willing and committed to work in partnership to secure investment in the City, deliver key infrastructure projects and build community capacity	
Investing in the organisation, its people and the working environment to ensure that the City Council is effective, high performing and successful in delivering its goals.	x

INTRODUCTION

1. It is important that the Audit Committee has sufficient skills to discharge its duties. The Audit Committee has analysed the Areas of Knowledge that the Audit Committee needs and linked a member of the Audit Committee to a council officer who would be considered the lead officer for that subject matter.
2. In addition, the Council provides training to Audit Committee members on key topics that form part of the duties under their Terms of Reference.
3. The Audit 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.

AUDIT COMMITTEE SKILLS AND TRAINING

4. In addition to normal Member involvement, Members have volunteered to specialise in particular activity areas. Given changes to the composition of the Audit Committee and changes to staff, it is suggested that the following be used going forward:

Area of knowledge	Member 2018/19	Officer Contact
Risk Management and Insurance	Councillor Chambers	Alison Chessell
Revenue Accounting	Councillor Knight	Phil Reeves
Capital Accounting	Councillor Knight	Sue Jones
Procurement	Councillor Chandler	Alison Chessell
Internal Audit	Councillor Watson	Elizabeth Brooks
Investigations	Councillor Watson	Alison Chessell
Financial Rules	Councillor Watson	Phil Reeves
Annual Accounts	Councillor Knight	Zuzana Clarke
Treasury Management	Councillor Galley	Phil Reeves
Financial Planning	Councillor Garrett	Amanda Fahey
External Audit	Councillor Galley	External Audit
Annual Governance Statement	Councillor Ride	Zuzana Clarke
Covalent/Pentana	Councillor Robinson	Alison Chessell

ROLLING PROGRAMME OF WORK

5. 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.

19th June 2019

Joint meeting with Governance Committee

Review of the Local Code of Corporate Governance	Legal and Democratic Services Manager
Annual Governance Statement	Legal and Democratic Services Manager/ Director of Financial Services

19th June 2019

Revenue (Outturn)	Director of Financial Services
Capital Monitoring (Outturn)	
Internal Audit Annual Report 2018/19	Chief Assurance Executive
Audit Committee Annual Report 2018/19	
Review of the Audit Committee's Terms of Reference	
Review of Training Session and Rolling Programme of Work	Chief Assurance Executive

24th July 2019

Sign-off 2018/19 Accounts	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

25th September 2019

Revenue Monitoring	Director of Financial Services
Annual Audit Letter	BDO
Risk Management Update	Chief Procurement and Risk Officer
Review of Training Session and Rolling Programme of Work	Chief Assurance Executive

18th December 2019

Certification of Claims Returns	BDO
Revenue Monitoring	Director of Financial Services
Capital Monitoring	
Internal Audit Interim Report 2019/20	Chief Assurance Executive
Anti-Fraud and Investigations Annual Report	Chief Procurement and Risk Officer
Review of Training Session and Rolling Programme of Work	Chief Assurance Executive