

AGENDA

CORPORATE GOVERNANCE COMMITTEE

TUESDAY, 17 MARCH 2020

2.30 PM

**COUNCIL CHAMBER, FENLAND HALL,
MARCH**

Committee Officer: Joanne Goodrum
Tel: 01354 622285
e-mail: memberservices@fenland.gov.uk

- 1 To receive apologies for absence
- 2 Previous Minutes. (Pages 3 - 8)

To confirm and sign the minutes of 4 February 2020.
- 3 To report additional items for consideration which the Chairman deems urgent by virtue of special circumstances to be now specified.
- 4 Members to declare any interests under the Local Code of Conduct in respect of any item to be discussed at the meeting.
- 5 External Audit Plan 2019/2020 (Pages 9 - 50)
- 6 Internal Audit Progress Report Q3 2019/20 (Pages 51 - 60)

To report progress against the Internal Audit Plan 2019-20 for the period 01 April 2019 including planned work until 31 December 2019 and the resulting level of assurance.
- 7 Risk based Internal Audit Plan 2020/21 (Pages 61 - 74)

In accordance with the Public Sector Internal Audit Standards the Internal Audit

Manager has prepared the attached Internal Audit Plan. It considers the areas for audit review and the availability of internal audit resources.

8 Items which the Chairman has under item 3 deemed urgent.

9 Items of Topical Interest

Friday, 6 March 2020

Members: Councillor J Clark (Chairman), Councillor K French (Vice-Chairman), Councillor I Benney, Councillor G Booth, Councillor S Clark, Councillor D Divine, Councillor Mrs J French, Councillor M Purser, Councillor D Topgood, Councillor Wicks and Councillor Wilkes

CORPORATE GOVERNANCE COMMITTEE

TUESDAY, 4 FEBRUARY 2020 - 2.30 PM



PRESENT: Councillor J Clark (Chairman), Councillor I Benney, Councillor G Booth, Councillor S Clark, Councillor D Divine, Councillor Mrs J French, Councillor M Purser, Councillor Wicks and Councillor Wilkes

APOLOGIES: Councillor K French (Vice-Chairman) and Councillor D Topgood

OFFICERS IN ATTENDANCE: Sam Anthony (Head of HR and OD), Peter Catchpole (Corporate Director and Chief Finance Officer), Anna Goodall (Head of Governance and Customer Services), Izzie Hurst (Member Services & Governance Officer) and Mark Saunders (Chief Accountant)

GUESTS: Mark Hodgson (Ernst & Young)

OBSERVING: Councillor C Boden and Councillor W Sutton

CGC23/19 PREVIOUS MINUTES.

The minutes of the meeting of 5 November 2019 were confirmed and signed.

CGC24/19 ANNUAL AUDIT LETTER 2018/19.

Members considered the Annual Audit Letter 2018/19 report presented by Mark Hodgson from Ernst & Young (EY).

Members asked questions, made comments and received responses as follows;

1. Councillor Booth asked for assurance that the delay experienced in this year's audit will not occur again. Mark Hodgson confirmed that there is no audit deadline contained within UK regulations. The only requirements are that local authorities must publish a draft set of accounts by 31 May and the final accounts by 31 July. If the audit report is not completed by 31 July, this must be stated. He confirmed that the Council had met these requirements and no further action was required. He added that Audit Regulators had informed EY that audits are to be carried out when resources are in place to deliver a quality audit and they have gained sufficient assurance to deliver an informed opinion. He confirmed that EY are liaising with their clients to agree a suitable date, when resources are available, to complete audits from May onwards.
2. Mark Hodgson informed members that the Ministry of Housing, Communities and Local Government (MHCLG) are considering deferring the 31 July deadline this year.
3. Peter Catchpole stated that it is anticipated that the Council's audit will be completed by September 2020. Mark Hodgson confirmed this and stated that on the basis of there being no deadline; EY will be conducting their audits over a longer period to ensure adequate resource to all of their clients.
4. Councillor Booth highlighted that whilst there may be no deadline, presumably accounts cannot be signed off years after being published. Mark Hodgson agreed and confirmed that the accounts are signed off as soon as EY have assurance. If EY cannot perform this during their allocated timescale, then he agreed that this should be raised as a concern.

5. Mark Hodgson assured members that EY's focus is on completing audits with the resource allocated in the timescale agreed.
6. Councillor Wicks asked what mitigation is in place if the audit is not completed by September. Mark Hodgson reiterated that there is no legislative requirement for audits to be completed within a certain timescale.
7. Councillor J Clark agreed but highlighted that officers are impacted by audit delays and asked that every effort is made to keep to the agreed timescale. Mark Hodgson agreed and added that delays impact not only the Council but staff at EY too.
8. Mark Hodgson confirmed that EY will be confirming audit dates with all of their clients by 14 February 2020. He informed members that EY will be holding a forum later this month and extended an invitation to all members of the committee.
9. Councillor Booth asked if Mark Hodgson had been briefed of the Council's new Commercial Investment Strategy (CIS) and asked what impact this would have on future audits. Mark Hodgson confirmed that he had been briefed on this and whilst it would not effect this year's audit, it will impact future audits

Councillor J Clark thanked Mark Hodgson for his attendance at today's meeting.

The Corporate Governance Committee noted the Annual Audit Letter 2018/19 report.

CGC25/19 TREASURY MANAGEMENT STRATEGY STATEMENT, CAPITAL STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21.

Members considered the Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2020/21 report presented by Mark Saunders.

Mark Saunders explained that any amendments to this report will be reported to Cabinet and Council on 20 February 2020.

Members asked questions, made comments and received responses as follows;

1. Councillor J Clark asked how much overview the Corporate Governance Committee will have in relation to the boards associated with the Commercial Investment Strategy (CIS). Mark Saunders explained that there will be separate governance arrangements in place for the investment board and decisions will be taken in accordance with the associated framework.
2. Councillor J Clark asked for further information on the local authority trading company (LATCO) which is associated with the CIS. Peter Catchpole explained that the LATCO will report directly to the investment board and follow their direction and policy. The investment board will decide how investments are spent based on very detailed business cases and specification.
3. Councillor Booth asked for assurance on the governance arrangements as neither of these entities will be required to report directly to the Corporate Governance Committee or a separate Audit Committee. He expressed concern in relation to the audit arrangements and asked if there were adequate skills and qualifications within the Council's internal audit team to undertake this work.
4. Councillor J Clark asked if the LATCO will be liable for tax and VAT and asked for assurance in relation to the decision making processes of both of these entities. Mark Hodgson explained that whilst there will be no officer involvement the Section 151 officer, Peter Catchpole, will have an overall responsibility for the governance and independence of the decision making process. He added that the LATCO will be subject to a separate audit of its financial statements and the terms of reference for the Corporate Governance Committee may need to be amended to reflect this.

5. Councillor J Clark stated that the membership of the investment board proposes a quorate of only two members with one being the Leader of the Council. He added that decisions could therefore be made using the provision of the Chairman's 'casting vote' with little member involvement or agreement. Mark Saunders confirmed this but reminded members that the investment board will need to ensure that detailed criteria has been satisfied prior to transacting any investments. There are many stages that must be completed prior to this and all decisions must be signed off by the Section 151 officer and be subject to audit.
6. Councillor J Clark asked for further information on the shareholders of the LATCO and the arrangements surrounding this company. Peter Catchpole explained that the company will be wholly owned by the Council and subject to all legislation relating to Limited Companies. He reiterated that the investment board will appoint its own auditors for the LATCO and if this is not EY, both auditors will have to work closely with one another to consolidate both the Council and LATCO's separate accounts.
7. Councillor J Clark asked if the LATCO will fund its associated costs and charges. Peter Catchpole confirmed this. Mark Saunders added that the associated costs will be included in each investment's potential yield.
8. Peter Catchpole reiterated to members that not every project will be delivered via the LATCO and a detailed assessment will be undertaken to ensure the most appropriate delivery vehicle is being used.
9. Councillor J Clark said he was sceptical about the overall arrangements and due diligence and highlighted the failings of other local authorities high risk investments. He stated that members represent the public and they must have assurance that the appropriate measures are in place. Mark Saunders agreed and stated that many local authorities have had investment strategies in place for a number of years and therefore the Council can assess their successes and failings. He assured members that officers have a professional duty to ensure that the Council is not putting tax-payers money at risk and every project will be assessed carefully before making any decisions.
10. Peter Catchpole explained that the key to the CIS is not being risk adverse but instead managing risks appropriately.
11. Councillor Wicks asked what the associated costs will be in relation to the LATCO. Councillor Benney highlighted that this will not be known until a full assessment has taken place in relation to specific investment opportunities.
12. Councillor Benney reiterated that the security of Council funds will be of paramount importance and he supports the strategy as additional income will lead to an improvement of Council services for the public.
13. Councillor Booth stated that he has endorsed this type of strategy for a number of years however the correct governance arrangements and controls must be in place to ensure the risks are minimised.
14. Members asked that the Corporate Governance Committee's terms of reference are amended to reflect the overall governance and audit responsibility of the CIS.
15. Councillor Boden thanked members for the opportunity to speak and said he was pleased with member's comments on this. He stated that this is a new direction for the Council and he is confident that the appropriate controls are in place as each transaction will be scrutinised and assessed throughout the process. He understands members concerns in relation to this and hopes their confidence in the CIS will improve as it progresses and generates positive results. He stated that in his opinion, any tax paid via the LATCO will be seen as a success as it will indicate good performance.
16. Councillor Booth referenced 3.3 of the report and the Council's creditworthiness policy. He stated that the Council must consider any direct investments into commercial properties and retail premises as there are no mechanisms in place to assess the creditworthiness of these direct investments and therefore they can bring risk.
17. Councillor Booth highlighted that the CIS proposes a budget of £25 million and asked if the Council would be using their own reserves in the first instance before borrowing additional funds. Mark Saunders explained that each project will be assessed to determine the most appropriate funding for the investment. He reminded members that the majority of the

Council's own funds are used to finance the capital programme and therefore borrowing will be necessary. He added that the investment board have member approval to borrow up to £25 million but there is no guarantee this level of funding will be required.

18. Councillor J Clark asked for confirmation that £25 million is the maximum borrowing facility for the CIS. Mark Saunders confirmed this and stated that borrowing will only take place as and when required. Peter Catchpole reiterated that individual business cases will include financing option and a balance will be considered between borrowing and internal resources.
19. Councillor Booth asked for confirmation that if additional borrowing is required above the £25 million limit this will be reconsidered by Full Council. Officers confirmed this.
20. Councillor Booth asked where the figure of £25 million had derived from. Councillor Benney explained that it is sensible of the Council to have this maximum borrowing facility in place as it will allow the CIS to have a fluid approach to borrowing as and when required.
21. Councillor Wicks asked why figures have been provided in the report showing the interest payment for £25 million of borrowing. Mark Saunders stated that this is purely an illustration to show the interest payments if the Council did borrow the maximum amount.
22. Councillor Booth raised concern that the rates of return shown in the report are lower than neighbouring authorities and suggested that the report needs to clearly show the projected rates of return dependent on the investment vehicle. Mark Saunders clarified that different investments do generate different returns and these will be assessed individually. He added that the overall level of returns is shown in the CIS.
23. Peter Catchpole agreed to incorporate a matrix into the report which shows the expected rate of return for each type of investment.
24. Councillor Wicks asked if the proposed borrowing as part of the CIS will be taken out on a fixed term basis with an early redemption clause. Mark Saunders confirmed that there are a variety of loans available via the Public Works Loan Board (PWLB) and the most appropriate one will be chosen.
25. Councillor Booth referenced 8.10 of the report and asked if these limits are set by Government. Mark Saunders confirmed this.
26. Councillor Booth referenced 8.10 of the report and expressed concern that the proposed borrowing is high compared to the Council's current level of debt.
27. Councillor Booth highlighted that the report does not contain any information on the concentration risk of investments and recommended that this is included. Officers agreed to this.
28. Councillor J Clark queried the figures displayed in 10.5 of the report. Mark Saunders explained that the PWLB report and our treasury advisors display their figures in this way. Councillor Booth added that this is purely banking terminology.
29. Councillor Booth recommended that the report clarifies the difference between treasury investments and commercial investments to avoid confusion. Officers agreed.
30. Councillor Booth asked why the Council have reduced their credit rating criteria. Mark Saunders explained that the Council's treasury advisors had recommended this.
31. Councillor Booth asked why the Council do not consider investments in Building Societies as they often offer less risk than banks and asked if consideration is given to whether organisations are domiciled in the UK. Mark Saunders explained that the Council receive a document which provides them with criteria and ratings of potential investment companies and confirmed that there are currently 5 building societies on this list.
32. Councillor Booth stated that the report does not accurately capture the purpose of the Council's Business Centres and recommended that further explanation is required in relation to their commercial return.
33. Councillor J Clark asked for clarification in relation to 4.20 of the report (page 68 of the agenda pack). Mark Saunders explained that following an expansion of Council activities, new guidance has been issued.
34. Councillor J Clark asked for confirmation on the decision making process in relation to borrowing funds for the CIS. Mark Saunders confirmed that the investment board will be responsible for this. Councillor Booth highlighted that the policy allows the investment board

to borrow up to £25 million.

(Councillor Booth declared an interest by virtue of the fact that he is a former employee of Yorkshire Building Society).

The Corporate Governance Committee AGREED to endorse the strategy detailed in the report, to be included in the final budget report for 2020/21.

CGC26/19 DATA PROTECTION POLICY UPDATE.

Members considered the Data Protection Policy Update presented by Anna Goodall.

Anna Goodall explained that following an internal audit, there had been a number of enhancements to the policy.

Members asked questions, made comments and received responses as follows;

1. Councillor J Clark recommended that the updated policy is communicated effectively to both staff and members to ensure they are aware of their individual responsibilities in relation to Data Protection.
2. Councillor Booth asked for confirmation that members are still responsible for their individual registration as data controllers. Anna Goodall confirmed that members are now encompassed under the Council's own registration as data controllers.
3. Councillor Booth recommended that the report is amended to provide further information on the roles of specific officers and contact details for these officers. Anna Goodall agreed to consider this.
4. Councillor Booth recommended that a schedule of training is included in 6.9 of the report.
5. Councillor Booth asked how regularly the Data Protection Policy will be reviewed. Anna Goodall stated that the internal audit had recommended that the Council develop a 'policy on policy' which will collate all of the Council's policies to ensure they are being updated and reviewed accordingly.

The Corporate Governance Committee AGREED the revised Data Protection Policy.

CGC27/19 CORPORATE RISK REGISTER QUARTERLY REVIEW.

Members considered the Corporate Risk Register quarterly review report presented by Sam Anthony.

Sam Anthony drew member's attention to the amendments shown in the report.

Members asked questions, made comments and received responses as follows;

1. Councillor Booth asked if the Council have officers on standby in case of a natural disaster (page 106 of the agenda pack). Sam Anthony confirmed that there will be a rota of emergency on-call officers that cover throughout the year. This rota also ensures that officers are within a commutable distance to the district at all times.
2. Councillor Wicks asked if there was a minimum response time for these officers. Sam Anthony explained that officers are required to mobilise immediately in the instance of a natural disaster, subject to their commute.
3. Councillor J Clark highlighted that the register does not include information about the work the Council undertakes with other partners in relation to natural disasters. Sam Anthony explained that 'blue light services' tend to lead on the immediate emergency response however local authorities are responsible for community recovery. Peter Catchpole added that the Council is a member of the Local Resilience Forum which includes all external

organisations.

4. Councillor Booth highlighted the reduction to risk 17 (page 109 of the agenda pack) and suggested this may need to be reassessed as a majority ruling party in Government may implement legislative changes which could impact the Council.
5. Councillor Booth suggested that risk 3 (page 110 of the agenda pack) is amended to show the reduction in the likelihood of the current risk as the inherent risk has not changed. Sam Anthony agreed.
6. Councillor Wicks asked how the Council mitigate in relation to IT and cyber security issues within partner organisations, such as Anglia Revenues Partnership (ARP). Sam Anthony confirmed that these are considered and partners have their own processes that feed into the Council's recovery plans and risk management assessments.
7. Councillor Booth recommended that the Council's process for organisational change is not clearly articulated in the report (page 111 of the agenda pack). Sam Anthony agreed to incorporate this.
8. Councillor Booth referenced risk 2 – Brexit (page 114 of the agenda pack) and stated that the wording needs to be amended in relation to the withdrawal agreement and a 'no deal' Brexit. Sam Anthony agreed to review this.
9. Councillor Booth referenced risk 20 (page 121 of the agenda pack) in relation to the Council's CIS. He stated that further information needs to be included in relation to the management of this risk and the governance arrangements. Sam Anthony agreed to review this.
10. Councillor J Clark referenced risk 7 (page 124 of the agenda pack) and asked if the Council have had any issues with unauthorised access into Council premises. Sam Anthony confirmed that procedures in place to mitigate this risk following the relocation of the March One Stop Shop to Fenland Hall.
11. Councillor J Clark asked that this is added and reflected in the appropriate Council risk registers.
12. Councillor Booth thanked Sam Anthony for her work on this report.

The Corporate Governance Committee AGREED Appendix A to the report.

CGC28/19 ITEMS OF TOPICAL INTEREST

1. Councillor Booth asked for further information in relation to a data breach which had recently been reported in the local press. Anna Goodall explained that the breach related to information that had been sent out to members of the public regarding the Local Plan review. Inadvertently, as a result of human error, the email addresses were included enabling all recipients to see all other consultee's email addresses. She confirmed that no other personal data had been compromised and therefore the personal risk to the individuals affected was minimal. She assured members that she had carried out a full risk assessment under her responsibility as Data Protection Officer and as a result, an apology had been issued to those individuals and further guidance had been provided to officers.

5.02 pm

Chairman

Fenland District Council

Audit Plan

Year ended 31 March 2020

26 February 2020



Building a better working world



Corporate Governance Committee Members
Fenland District Council
Fenland Hall, County Road,
March, Cambs,
PE15 8NQ

26 February 2020

Dear Committee Members

Provisional Audit Plan - 2019/20

We are pleased to attach our provisional Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Governance Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Corporate Governance Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

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

We welcome the opportunity to discuss this report with you on 17 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Governance Committee and management of Fenland District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Governance Committee, and management of Fenland District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Governance Committee, and management of Fenland District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2019/20 audit strategy





Overview of our 2019/20 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus, but shown separately for clarity	Linking to the risk above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) as a specific fraud risk, given the extent of the Council's capital programme.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are estimates which are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund liability (£64.401 million as at 31 March 2019) is a material estimated balance and the Code requires that the liability be disclosed on the Council's balance sheet.

Overview of our 2019/20 audit strategy

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

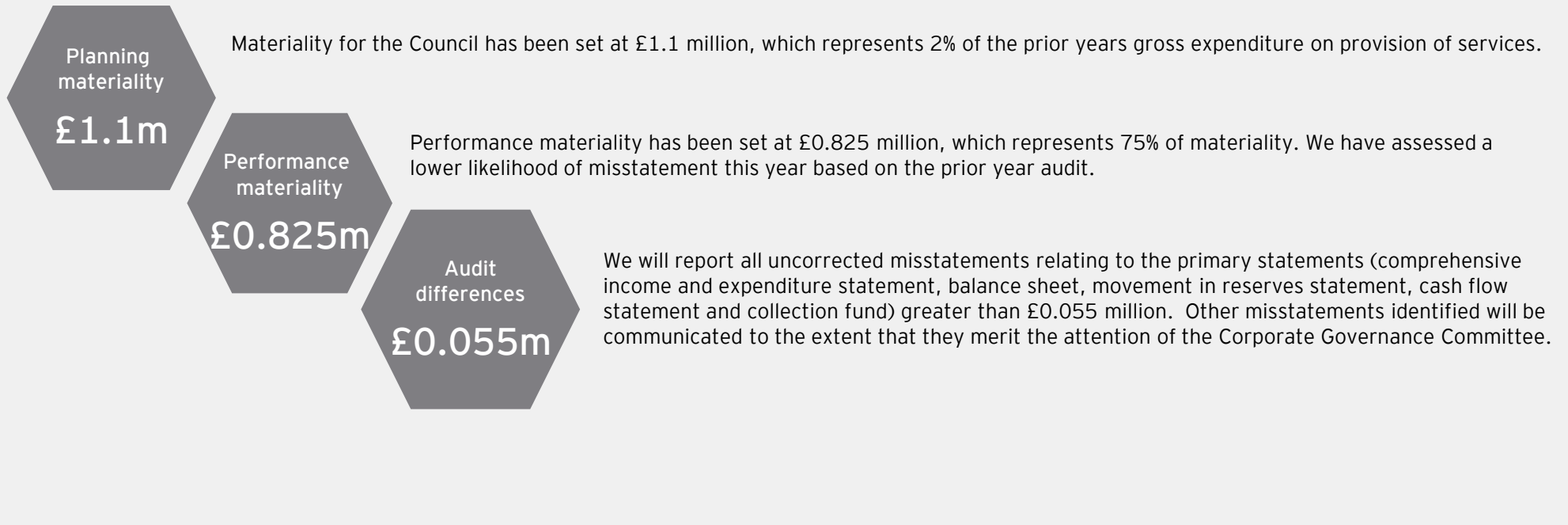
Audit risks and areas of focus

In addition to the risks outlined above we have identified an area of audit focus.

Area of focus	Change from PY	Details
Implementation of new auditing and accounting standards	New area of focus	<p>IFRS 16 Leases: Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. It is likely there will be some disclosure requirements for the 2019/20 statement of accounts.</p> <p>Going Concern Compliance with ISA 570: This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.</p>

Overview of our 2019/20 audit strategy

Materiality



Overview of our 2019/20 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Fenland District Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (Value for Money).

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

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

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Fenland District Council's audit, we will discuss these with management as to the impact on the scale fee.



02 Audit risks



Audit risks

Our response to significant risks

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

<p>Misstatements due to fraud or error*</p>	<p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <p>We will undertake our standard procedures to address fraud risk, which include:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages; ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks; ▶ Understanding the oversight given by those charged with governance of management’s processes over fraud; ▶ Consideration of the effectiveness of management’s controls designed to address the risk of fraud; ▶ Determining an appropriate strategy to address those identified risks of fraud; and ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
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 **Audit risks**

Our response to significant risks (continued)

<p>Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure *</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.</p> <p>We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the Comprehensive Income and Expenditure statement.</p>	<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above).</p> <p>As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council’s capital programme.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing; ▶ Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised; and ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. At 31 March 2019 the net book value of PPE totalled £49.1 million.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

 **Audit risks**

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>At 31 March 2019 this totalled £64.4 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Liaise with the auditors of the administering authority (Cambridgeshire County Council), to obtain assurances over the information supplied to the actuary in relation to Fenland District Council; ▶ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19, with a specific focus on McCloud related entries.



Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

IFRS16 - leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- ▶ the identification of leases
- ▶ the recognition of right-of-use assets and liabilities and their subsequent measurement
- ▶ treatment of gains and losses
- ▶ derecognition and presentation and disclosure in the financial statements,
- ▶ the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- ▶ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- ▶ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

What will we do?

IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020 and some narrative disclosures are likely to be required for 2019/20.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- ▶ all leases which need to be accounted for
- ▶ the costs and lease term which apply to the lease
- ▶ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

 **Audit risks**

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Going Concern Compliance with ISA 570</p> <p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p> <p>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Corporate Governance Committee.</p> <p>The CIPFA Guidance Notes for Practitioners 2019/20 accounts states ‘The concept of a going concern assumes that an authority’s functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.’</p> <p>‘If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.’</p>	<p>The revised standard requires:</p> <ul style="list-style-type: none"> ▶ auditor’s challenge of management’s identification of events or conditions impacting going concern, more specific requirements to test management’s resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▶ greater work for us to challenge management’s assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management’s assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern. <p>The revised standard extends requirements to report to regulators where we have concerns about going concern.</p> <p>We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.</p>



03

Value for Money Risks



Value for Money

Background

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

For 2019/20 this is based on the overall evaluation criterion:

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

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

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

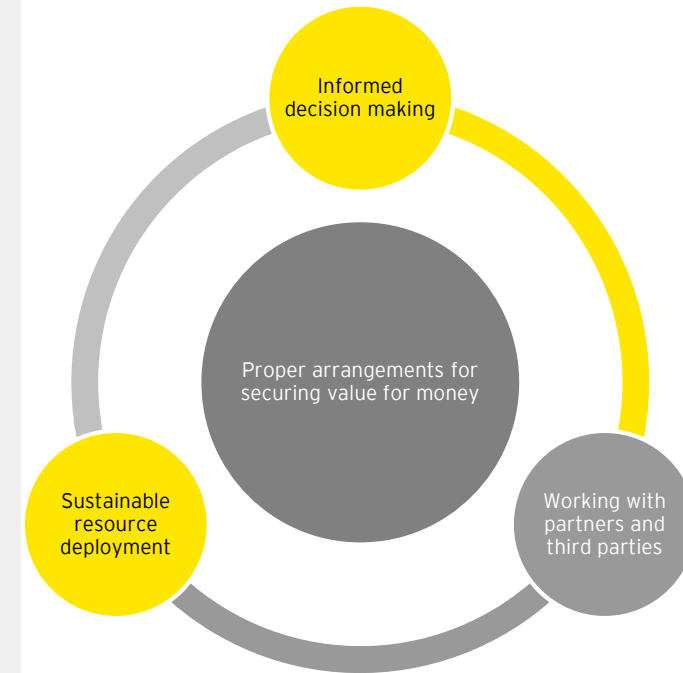
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

We have not yet completed our value for money planning risk assessment for 2019/20. As part of this we will consider the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we would expect that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers. Our risk assessment will consider both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.





04

Audit materiality

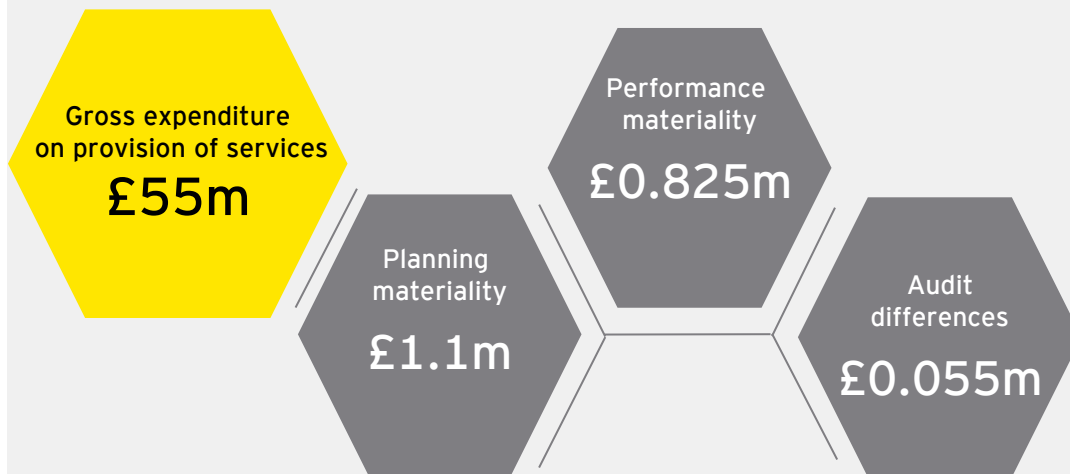


Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £1.1 million. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have used this basis primarily due to the fact that the main function of the entity is to provide services to the local community. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.825 million which represents 75% of planning materiality (2018/19: 75%). We maintained this level due to the low volume of errors identified in 2018/19 and the risk that a similar volume of errors will recur in 2019/20.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. A marginally higher threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund. The audit differences threshold has been set at £0.055 million.

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



05 Scope of our audit



Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

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

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



Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2019/20 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2019/20, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

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

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

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

Internal audit:

As in prior years we will review internal audit plans and the results of the works. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



Scope of our audit

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements, changes to finance team etc.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions using the EY Canvas Portal.

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

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- ▶ Work with the Authority and officers to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Authority's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate a closedown workshop with Statutory Finance Officers to agree an approach to enable us all to achieve a successful closure of accounts for the 2019/20 financial year.
- ▶ Work with the Authority to implement/ embed/ improve the use of EY Client Portal, this will:
 - ▶ Streamline our audit requests through a reduction of emails and improved means of communication;
 - ▶ Provide on -demand visibility into the status of audit requests and the overall audit status;
 - ▶ Reduce risk of duplicate requests; and
 - ▶ Provide better security of sensitive data.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.



06

Audit team



Audit team

Audit team

The engagement team is led by Mark Hodgson for his second year as Associate Partner on the audit. Mark has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

Mark is supported by Amalia Valdez Herrera, Assistant Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance manager. Amalia was the Assistant Manager for the execution and conclusion stage of the 2018/19 audit.

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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

Area	Specialists
Valuation of Land and Buildings	Fenland District Council's property valuer. We will also consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to PSAA) and Hymans Robertson (the Council's actuary)
NDR appeals provision	Fenland District Council's NDR appeals expert, WHE.
Fair Value Investment Measurement	Link Asset Services (the Council's Treasury Advisor)

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

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

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



07

Audit timeline



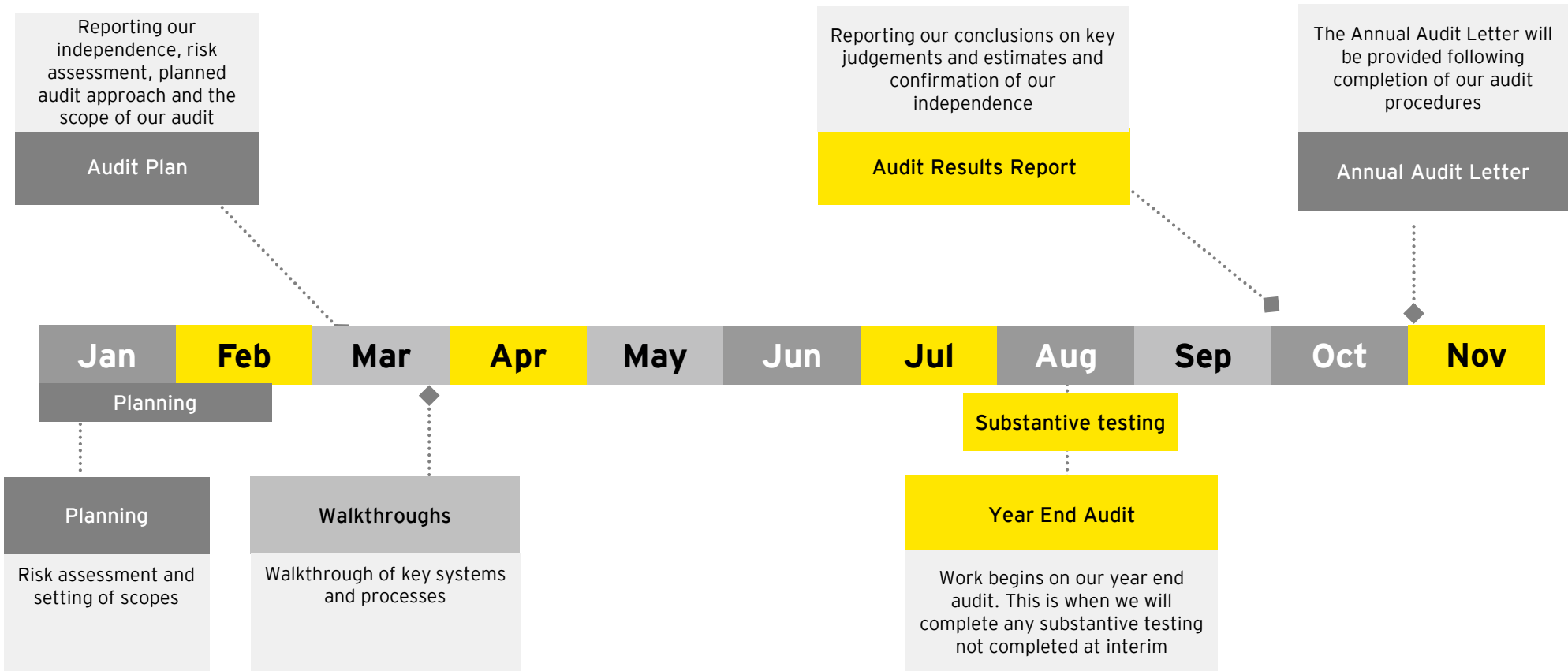
 **Audit timeline**

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Corporate Governance Committee and we will discuss them with the Corporate Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

Independence



Independence

Introduction

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

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

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

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

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



Independence

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 36.9%. This is based on the planned fee for the agreed upon procedures work for the Housing Benefits certification work. No additional safeguards are required.

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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



Independence

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Description of service	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2019/20. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £14,960 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2019/20 financial statements.	Relates to 2019/20 return for the period to 31 March 2020.	We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2019/20. The agreed upon procedures focus on the specific requirements of the certification arrangements and we place limited reliance on this work for the purposes of the financial statements audit. No other threats to independence have been identified.



Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Corporate Governance Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Corporate Governance Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)



09

Appendices



Appendix A

Fees

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

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Scale fee 2019/20	Final Fee 2018/19
	£	£
Total Fee - Code work	37,873 (Note 2)	37,873
Other - Port Authority Work	2,600 (Note 3)	2,600
Total Audit	40,473	40,473
Other non-audit services not covered above (Housing Benefits)	14,960 (Note 1)	14,960 (Note 1)
Total other non-audit services	14,960	14,960
Total Fees	55,433	55,433

All fees exclude VAT

Note 1 - The 2018/19 HB work has just been completed and the final fee will be based on the engagement letter issued on 26 June 2019. The planned fee is shown currently in respect of this. For 2019/20 the planned fee represents the same base fee and the expected number of extended testing samples based on 2018/19 testing.

Note 2 - For 2019/20, the scale fee will be impacted by a range of factors which will result in additional work (see Page 8). We will revisit the fee, in discussion with key officers, as the audit progresses.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

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

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



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

Note 3 - The fee is for additional work on the harbour accounts prepared annually by the Council. This is consistent with the fee for the same work in 2018/19 and 2017/18.

 Appendix B

Required communications with the Corporate Governance Committee

We have detailed the communications that we must provide to the Corporate Governance Committee .

		 Our Reporting to you
Required communications	What is reported?	 When and where
Terms of engagement	Confirmation by the Corporate Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan - 17 March 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - September/October 2020




 Appendix B

Required communications with the Corporate Governance Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - September/October 2020
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - September/October 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report - September/October 2020
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - September/October 2020





 Appendix B

Required communications with the Corporate Governance Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Results Report - September/October 2020</p> <p>Audit Plan - 17 March 2020</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - September/October 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit Results Report - September/October 2020
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - September/October 2020

 Appendix B

Required communications with the Corporate Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September/October 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - September/October 2020
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - September/October 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Results Report - September/October 2020 Audit Plan - 17 March 2020
Certification work	Housing Benefits Assurance Process (HBAP) report submitted to DWP and S151 officer	HBAP report - November 2020



Appendix C

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

 Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality


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

Materiality determines:

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

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

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Agenda Item No:	6	
Committee:	Corporate Governance	
Date:	17 March 2020	
Report Title:	Internal Audit Plan 2019-20 Progress Report Q3	

1 Purpose / Summary

To report progress against the Internal Audit Plan 2019-20 for the period 01 April 2019 including planned work until 31 December 2019 and the resulting level of assurance.

2 Key issues

- The Council's Internal Audit plan is produced on an annual basis. It is an estimate of the work that can be performed over the financial year. Potential areas of the Council for audit are prioritised based on a risk assessment, enabling the use of Internal Audit resources to be targeted at areas of emerging corporate importance and risk.
- The format of the plan reflects the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2016 and applicable from April 2017. It also incorporates the governance and strategic management arrangements of Internal Audit resources.
- Performance Standard 2060 of the PSIAS requires the Audit Manager to report to the Committee on the internal audit activity and performance relative to this plan.
- Corporate Governance Committee approved the Internal Audit Plan 2019-20 on 19th March 2019. A revised plan was presented to the Committee on 5th November 2019. Members of the Corporate Governance Committee are keen to receive proactive performance reporting in relation to progress against the Internal Audit plan on a quarterly basis.
- Proactive quarterly monitoring of the Internal Audit plan will enable the Committee to understand the audit activity which has successfully taken place and the associated assurance level.
- The plan is risk based and covers the organisation's existing operations, while adding value by responding to emerging risks and promoting good governance. Proactive monitoring of the Internal Audit plan will therefore enable the Corporate Governance Committee to understand any in year changes to the plan and the associated risk based rationale for any proposed changes.

3 Recommendations

- For Members of Corporate Governance Committee to consider and note the activity and performance of the internal audit function.

Wards Affected	All
Forward Plan Reference	N/A
Portfolio Holder(s)	Councillor John Clark-Corporate Governance Committee Chairman
Report Originator(s)	Kathy Woodward – Shared Internal Audit Manager
Contact Officer(s)	Kathy Woodward - Shared Internal Audit Manager kwoodward@fenland.gov.uk 01354 622230 Peter Catchpole - Corporate Director & CFO pcatchpole@fenland.gov.uk 01354 622201
Background Paper(s)	Annual Risk Based Internal Audit Plan 2019-20 Internal Audit Outturn and Quality Assurance Review 2018-19

1 Background / introduction

- 1.1 This report includes details of the audit activity undertaken for the period 01 April 2019 to 31 December 2019, as well as the resulting opinion regarding the associated levels of assurance.
- 1.2 The annual internal audit plan is formulated in advance, following an assessment of risks inherent to services and systems of the Council based on internal audit and management knowledge at that time. During the period that follows, changes in the control environment may occur due to, for example: -
- introduction of new legislation/regulations,
 - changes of staff,
 - changes in software,
 - changes in procedures and processes,
 - changes in service demand,
- 1.3 Following the resignation of the full time Internal Auditor in July temporary arrangements have been in place to provide support for delivery of the internal audit plan. The temporary resource has been sourced from the Borough Council of King's Lynn and West Norfolk (BCKLWN) who had been providing approximately 15 hours of cover each week. Due to some staffing issues at Kings Lynn, this has not been constant throughout the period.
- 1.4 To date the Internal Audit team have achieved a satisfactory level of planned audits that will enable the Internal Audit Manager to provide an informed opinion by the end of the year on the adequacy of the system of internal control, risk management and governance arrangements of the Council.
- 1.5 There are a number of audits that will not be complete at the end of the year. At this stage it is anticipated that will equate to approximately 15% of the plan. It is normal to carry forward some ongoing audits at the end of any audit year. This reduced level of performance will not affect the Audit Managers ability to provide an independent opinion on the system of Internal Control, Risk and Governance at the end of the year, as sufficient coverage has been given to priority audits, high risk areas and ensuring a balanced coverage of systems across the councils have been reviewed.
- 1.5 Audit work includes testing of system controls and management action plans that have been agreed with the system owners including timescales for improvement appropriate to the level of risk. These action plans will be followed up by Internal Audit with the appropriate service manager. The table outlined in **Appendix A** provides a generalised indication of the corporate themes identified as a result of the internal audit projects. To date 3 of the resulting recommendations have been categorised as a 'High' priority rating, but all have been actioned to an appropriate

standard to ensure no major weaknesses are currently outstanding in the organisations control systems.

- 1.6 A key performance objective of the team is to complete 'fundamental' audits, which are considered key financial systems. For 2019-20 there were 7 fundamental audits included in the plan. The internal audit team at Fenland has 4 'fundamental' audits to be reviewed as part of this year's cycle. Following the introduction of the new auditing arrangements with ARP we will also receive completed audit reviews on Housing Benefits, Council Tax, Business rates and Overpayments that have been completed by other partners in the ARP group. Housing Benefits, Council Tax and Business rates are 'fundamental' audits.

2 Monitoring

- 2.1 On completion of each audit a formal report is issued to the relevant Service Manager and Corporate Director. A copy is also sent to the Corporate Director – Finance (S151 Officer). Each report contains a management action plan, with target dates, that have been agreed with managers to address any observations and recommendations raised by the Internal Auditor. Progress on recommendations is monitored on a quarterly basis.

- 2.2 The following audits have been completed up to 31 December 2019.

- Customer Services – Contact Centre
- Transport – Commercial Fleet Management
- Licensing – Animal Welfare
- Cash Collection – Web Payments
- GIS / LLPG
- Budgetary Control
- Licences - Other
- Cemetery Income
- Property – Building Security
- Contract Monitoring - Freedom Leisure
- ICT – Cloud Storage
- ICT – Security and Network Controls
- ICT – Disaster Recovery
- Corporate Assurance – Risk Management
- Commercial Waste
- Post, Print and Scanning
- Emergency Planning
- ARP Performance Management
- Corporate Assurance – Information and Data Management (GDPR and Data Protection Act)

- 2.3 The following audits are currently ongoing and will be reported to the committee in the next progress report:

- Combined Authority Commissioned Work Projects
- Travellers Sites Rents and Repairs
- Trading Operations – Estates
- Licences - Environmental
- Income / Debt Management Review

- Trading Operations – Markets
- Payroll (Fundamental)
- Cash and Treasury Management (Fundamental)
- Corporate Finance – Management Accounting System (Fundamental)
- ARP Enforcement Fact - Validation of Processes

2.4 Follow up work has also been completed in relation to recommendations made from 2019-20 internal audit plan. Progress on these recommendations can be seen at Appendix B.

APPENDIX A - Audit Activity Successfully Completed between 01 April 2019 - to 31 December 2019

Audit	Overall opinion	Recommendation	Recommendation category	Recommendation theme	Fundamental
Customer Services – Contact Centre	Substantial	0	N/A		
Transport Commercial and Fleet Management	Substantial	0	N/A		
Licensing – Animal Welfare	Adequate	4	1 Low, 3 Medium	Procedural, Financial, Reputational	
Cash Collection – Web Payments	Substantial	0	N/A		
GIS / LLPG	Substantial	1	1 Medium,	Business Continuity	
Corporate Finance – Budgetary Control	Substantial	1	1 Medium	Reporting	
Licences – Other	Limited	3	2 High, 1 Medium	Procedural – Registration and Communication	
Cemetery Income	Adequate	4	1 High, 2 Medium, 1 Low	Financial Procedures, Business Continuity	
Property – Building Security	Substantial	3	3 Medium	Building Access, Policy	
Contract Monitoring – Freedom Leisure	Adequate	6	4 Medium, 2 Low	Procedural, Reporting	

Audit	Overall opinion	Recommendation	Recommendation category	Recommendation theme	Fundamental
ICT – Cloud Storage	Substantial	0			
ICT - Security and Network Controls	Substantial	0			
ICT – Disaster Recovery	Substantial	0			
Corporate Assurance – Risk Management	Substantial	16	7 Medium, 9 Low	Policy, Communication and Training	
Commercial Waste	Adequate	3	1 Medium, 2 Low	Procedural, Financial	
Post, Print and Scanning	Substantial	2	1 Medium, 1 Low	Efficiency / Income Generation	
Emergency Planning	Substantial	1	Low	Policy	
ARP Performance Management	Work undertaken by West Suffolk as a piece of audit added value work.				
Corporate Assurance – Information and Data Management (GDPR and DPA)	Substantial	12	4 Medium, 8 Low	Policy, Communication and Training	

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment. The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put the objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist.

Recommendations


- The report is completed with the action plan agreed with management. The observations and recommendations are allocated a grading of High, Medium or Low as defined below:

High	A fundamental control process, or statutory obligation, creating the risk that significant fraud, error or malpractice could go undetected. It is expected that correction action to resolve these will be commenced immediately.
Medium	A control process that contributes towards providing an adequate system of internal control. It is expected that correct action to resolve these will be implemented within three to six months.
Low	These issues would contribute towards improving the system under review. Action should be taken as resources permit.

Appendix B – Recommendation Progress

2019-20 Recommendations	HIGH	MEDIUM	LOW
Total number of recommendations made	3	28	25
Number of recommendations completed	3	9	12
Number of recommendations outstanding (not due)	0	19	13
Number of recommendations overdue	0	0	0

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Agenda Item No:	7	
Committee:	Corporate Governance	
Date:	17/03/2020	
Report Title:	Risk based Internal Audit Plan 2020/21	

1 Purpose / Summary

In accordance with the Public Sector Internal Audit Standards the Internal Audit Manager has prepared the attached Internal Audit Plan. It considers the areas for audit review and the availability of internal audit resources.

2 Key issues

- The Council's Internal Audit work plan is produced on an annual basis. It is an estimate of the work that can be performed over the financial year. Potential areas of the Council for audit are prioritised based on a risk assessment, enabling the use of Internal Audit resources to be targeted at areas of emerging corporate importance and risk.
- The format of the plan reflects the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013. The PSIAS were revised and came into effect in April 2017. It also incorporates the governance and strategic management arrangements of Internal Audit resources.
- Following on from the External Assessment completed in December 2017 the Audit plan now includes cross referencing to the Corporate Priorities, which was a suggested improvement made by the assessor.
- There are a total of 344 budgeted productive days for 2020/21.
 - 300 days are allocated to operational audit work. This resource is used to calculate the risk based audit plan. This work contributes to the annual opinion on the effectiveness of the system of internal control, which is reported to the Committee.
 - 44 days are allocated for other productive assurance work. This includes proactive anti-fraud and error work such as the National Fraud Initiative, project based assurance, a contingency for responsive work and following up previous recommendations.
- The risk based plan assumes that the team comprises 2.1 FTE. This level of capacity is sufficient to provide continued internal audit coverage of all key control systems over a 3 year cycle. Some low risk systems may be audited less frequently in favour of systems with new or changing risks, subject to an ongoing risk evaluation.
 - The audit plan for 2020/21 is attached at Appendix A.
 - The Assurance rating classification is included at Appendix B.
 - The 'fundamental systems' audit reviews over the next 5 years is included at Appendix C

- The Council has 10 key financial systems, known as ‘Fundamental’ systems, due to their significance and materiality. Detailed testing provides assurance to the Council’s External Auditors in preparation for final accounts compliance. Following repeated years of positive assurance the Committee and the External Auditors agreed an approach that would maximise assurance with the most effective use of resources. This approach will continue to be discussed with the External Auditors, reflecting any changes to the level of risk for these systems.
- This is illustrated in Appendix C which shows that the Payroll system is reviewed annually, and with the introduction of the new auditing arrangements with ARP, the Council Tax, Business Rates and Housing Benefits are also reviewed annually. The remaining systems will be audited over a three year cycle.

3 Recommendations

The Committee is asked to acknowledge the Internal Audit resources and to consider and note the attached Internal Audit Plan for 2020/21.

Wards Affected	All
Forward Plan Reference	N/A
Portfolio Holder(s)	Cllr Chris Boden
Report Originator(s)	Kathy Woodward – Shared Internal Audit Manager
Contact Officer(s)	Peter Catchpole – Corporate Director & Chief Finance Officer Kathy Woodward – Shared Internal Audit Manager
Background Paper(s)	Accounts and Audit Regulations 2015 Public Sector Internal Audit Standards 2016 CIPFA Local Government Application Note 2013 Fenland District Council Corporate Plan Internal Audit Charter

Risk based Internal Audit plan



1 Introduction

- 1.1 This document sets out the Internal Audit risk based plan. It is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council by:
- providing the Chief Executive, Section 151 Officer and Corporate Governance Committee with an overall opinion each year on the Council's control environment to support the Annual Governance Statement requirements;
 - preparing audit plans that give suitable priority to the Council's priorities and key risks and concentrate resources on areas that have been identified as being the most vulnerable;
 - providing suggested actions to line management at the conclusion of each piece of audit work that will assist in continuous service improvement and reduce the risks identified;
 - identifying the audit resources required to deliver an audit service that meets required professional standards; and
 - complying with professional standards.
- 1.2 The plan is risk based and covers the organisations existing operations, while adding value by responding to emerging risks and promoting good governance.
- 1.3 The plan will be reviewed at least annually to ensure its continued relevance, both in terms of supporting the council's aims and corporate objectives, and in achieving a professional, modern audit service.
- 1.4 The strategic aims for Internal Audit in 2020/21 are to:
- prepare, maintain and deliver the risk based internal audit plan;
 - proactively promote understanding of risk and control;
 - recommend actions that help systems meet at least adequate levels of control;
 - facilitate provision of assurance for the Annual Governance Statement;
- 1.5 The plan is supported by the teams Service Plan, which is aligned to the Council's Corporate Priorities, and is agreed with the Internal Audit team through the Council's Springboard process.

2 Role of Internal Audit

- 2.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 2.2 Fenland District Council has responsibility for ensuring that statutory internal audit arrangements are in place to the Corporate Director & Chief Finance Officer. These arrangements form a key element of the District Council's framework for corporate governance.
- 2.3 The Shared Internal Audit Manager oversees internal audit provision to the District Council on behalf of the Corporate Director & Chief Finance Officer.
- 2.4 The objectives, scope and definitions of Internal Audit are detailed in the Internal Audit Charter.

3 Risk assessment

3.1 The Council's audit plan is based on a risk assessment of all the Council's major systems and other auditable areas. This allows us to prioritise those areas and systems to be included within the plan. Key risk assessment factors include:

<u>Factor</u>	<u>Description</u>
Materiality – Value	The value of annual direct income / expenditure associated with the system / activities
Materiality – Volume	An estimate of the number of transactions processed by the systems / activities per annum
Significance / Profile	The significance of the system to the activities of the Council.
Complexity	The complexity of the systems / activities in terms of their operation and auditability
Change	Recent changes to the system or the likelihood of change to the systems in the audit period planned
Regulatory / Contractual	Extent to which the system / activity is subject to regulation or contractual obligation
External Monitoring	The extent to which a service / activity is monitored or audited by an external body
Prior Audits	Overall rating of last audit and result of follow up.
Susceptibility to fraud and corruption	Opportunity within the system / activity for fraud and corruption to occur.
Staff Turnover	The turnover of staff, especially with key skills.

3.2 The risk assessment, and update of the annual plan, is informed by consultation with key stakeholders, including:

- the Corporate Director & Chief Finance Officer;
- the Corporate Director & Monitoring Officer;
- the Corporate Management Team;
- the Council's team managers;
- the Council's external auditors;
- the Corporate Governance Committee.

3.3 Consultation helps ensure that stakeholder's views and risks are reasonably identified and reflected within the plan. Where possible External Audit will place reliance on the work of internal audit, and other external providers of assurance will be referred to help formulate the annual audit opinion. This helps ensure that resources are used to the best effect, and duplication is avoided.

3.4 The plan is also informed by key corporate documents such as:

- Business Plan;
- Medium Term Financial Strategy; and
- the Council's risk registers.

4 Key themes

The key themes, which have driven our assessment of risk and strategic aims are:

Area	Comment
Financial excellence	There is a continued need to ensure value for money is achieved, including financial resilience and the ability to prioritise resources within increasing financial constraints and a changing control environment.
Corporate Governance arrangements	The Internal Audit Manager will independently review and give an opinion on the Council's arrangements for both corporate governance and risk management, to support the production of an annual governance statement to accompany the statement of accounts. The team will maintain an awareness of emerging risks to help provide advice on effective internal controls.
Assurance mapping	Where other well-developed assurance processes exist (e.g. documented Control Risk Self-Assessment reviews, quality management audits, the work of other review or inspection teams) the internal audit team will quality assure these processes and consider how they can deliver a significant contribution to the overall audit opinion of internal control.
Improving information governance	As part of the planned audits the team will help to promote good information and data management practice throughout the organisation.
Risk management	Internal Audit will continue to assist teams identify business risks as part of audits. This will engage our customers in the management and maintenance of their risks and controls at an operational level, and also help identify and escalate concerns to the corporate risk register.
Minimising fraud and error	<p>The Internal Audit team will ensure that the Anti-fraud & corruption policy & strategy reflects best practice and will appraise fraud risks during audits.</p> <p>Internal controls will continue to be tested for effectiveness and the team will participate in data matching exercises, as provided by the National Fraud Initiative, to proactively identify fraud and error.</p>
Corporate priorities	The Corporate plan, and the Council priorities, informs the audit strategy. The annual plan is based on the risk profile of activities supporting the Corporate Plan, and will continuously be revised to reflect any emerging changes to corporate risk.

5 Audit needs and resources

- 5.1 The risk assessment process identifies auditable systems, and helps to prioritise the audit plan in consultation with key stakeholders.
- 5.2 Systems assessed as below adequate assurance, during the previous financial year, which are not subject to a planned audit will be considered for a follow up review to assess the effective implementation by management of agreed audit recommendations.
- 5.3 Where common areas of risk are identified across several teams then the use of corporate themed reviews is considered to ensure an approach which is both consistent and makes effective use of resources.
- 5.4 Both the resources and capacity of the Internal Audit Team is considered annually whilst setting the annual plan. The Internal Audit Team has 2.1 full time equivalents.
- 5.5 Unproductive days, such as training and annual leave, are deducted from the total resource to calculate the total number of planned productive days.
- 5.6 Internal Audit team resources will enable all services of the Council to receive audit coverage over a three year period, although realistically some may be considered of such low priority in relation to other areas that they may only be covered in five years.
- 5.7 This Internal Audit plan is produced and provides details for a 12 month period. The Shared Internal Audit Manager will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. Where work in progress occurs it will be carried forward for completion within resources available in the next year.

6 Audit delivery

- 6.1 The approach of internal audit is to use risk based reviews, supplemented in some areas by the use of system-based audits and themed reviews. All audits have regard to management's arrangements for: -
- securing the proper, economic, efficient and effective use of resources;
 - achieving key performance indicators, where appropriate;
 - preventing fraud and irregularity.
- 6.2 The internal control system contains 10 key systems known as 'Fundamental' audits. A compliance approach is applied, as there is pre-existing confidence that controls are well designed, but the effective operation of the controls is a material concern. Testing for the effective operation of these controls is completed over a planned three year cycle, although can be audited more frequently if assurance is required. The new ARP auditing arrangements have allowed us to gain assurances on an annual basis for Council Tax, Business rates and Housing Benefits. The 'Payroll' system will be reviewed annually to reflect the potential risk of the system. A continuous auditing approach is adopted that spreads the testing throughout the year. This helps to ensure that the work is delivered, and reduces the burden on the customer.
- 6.3 The remainder of the systems are prioritised by their risk based assessment. The approach to each audit is agreed, with the customer, during the planning stage of the audit.
- 6.4 In addition to these planned audits the team will complete other assurance work which adds value to the organisation. Examples include proactive anti-fraud and error work such as fraud risk education and data matching, project based assurance, contingency for responsive work, and following up previous audit recommendations
- 6.5 The PSIAS states that the Internal Audit Manager should consider accepting consulting engagements based on the potential to improve management of risks, add value and improve the organisation's operations. The team will participate in corporate projects that add value by improving governance and controls throughout the Council.
- 6.6 Requests for unplanned work will be considered against capacity to ensure internal audit's independence, and the resource required to provide the annual audit opinion, is not compromised. Any significant additional consulting activities, which impact delivery of the plan, will be communicated to the Committee.
- 6.7 The output of audits completed during the year will inform the annual audit opinion. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This will be reported through the annual Internal Audit Outturn report which is a key source of assurance for the Annual Governance Statement.

7 Quality and performance

- 7.1 The Internal Audit Service maintains a manual, which sets out the standards to which all audit assignments are completed. It is reviewed and updated to reflect the best practice and professional standards.
- 7.2 The performance of Internal Audit is measured against targets and objectives set out in the Team Service Plan.
- 7.3 At a detailed level each audit assignment is monitored and customer feedback sought.
- 7.4 There is ongoing performance appraisal and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.
- 7.5 The Corporate Director & Chief Finance Officer shall in accordance with the Accounts and Audit regulations 2015 arrange for an assessment of quality independently of the Internal Audit service. Additionally an external review of the Internal Audit Service is completed by external assessors every 5 years.
- 7.6 The Internal Audit Service will continue to liaise closely with other internal audit services through the shared Internal Audit Manager arrangements with Borough Council Kings Lynn and West Norfolk, Cambridgeshire Audit Group, the Chartered Institute of Public Finance Accountants, the Institute of Internal Auditors and the ARP shared audit partnership in order to share knowledge of best practice.

Appendix A: Internal Audit plan

Audit Title	Risk Rating	Last Audit	Last Audit results	2020/21 days
2019/20 carried forward audits				50
Communities				
Housing Standards	Medium	2017/18	Substantial	6
Housing Strategy	Medium	2017/18	Substantial	6
Housing Grants (PSR/DGF)	Medium	2017/18	Substantial	8
Contract Monitoring – Freedom Leisure	Medium	2019/20	Adequate	6
Safeguarding	Medium	2017/18	Adequate	10
Economy				
Business Unit Lettings	Medium	2017/18	Adequate	8
Contract Monitoring – Highways	Medium	2017/18	Substantial	8
Trading Operations – Port, Commercial and Marine	Medium	2016/17	Adequate	8
Trading Operations – Port Assets and Maintenance	Medium	2016/17	Adequate	6
Development – Planning Obligations (S106/CIL)	Medium	2015/16	Adequate	10
Garage Rents and arrears	Medium	2014/15	Substantial	6
Environment				
Health – Food Safety	Medium	2017/18	Substantial	8
Contract Monitoring – CCTV	Medium	2017/18	Substantial	12
Licences – Alcohol	Medium	2017/18	Substantial	8
Licences – Taxis	Medium	2017/18	Limited	8
Street Scene – Enforcement	Medium	2017/18	Adequate	8
Refuse – Waste and Recycling credits	High	2018/19	Substantial	10
Garden Waste	Medium	2016/17	Substantial	6
Quality Organisation				
Website and Intranet content management	Medium	2017/18	Substantial	8
Corporate Assurance – Ethical Controls	Medium	2016/17	Substantial	6
ARP Enforcement	Medium	2017/18	Adequate	12
Council Tax (Fundamental)	Medium	2017/18	Adequate	1*
Housing Benefits (Fundamental)	Medium	2017/18	Adequate	*
Housing Benefits – Overpayments	Medium	2017/18	Adequate	*
Business Rates (Fundamental)	Medium	2017/18	Adequate	*
Asset and Premises Management - Utility charges	Medium	2017/18	Adequate	8
Corporate Assurance – Anti Fraud and Corruption	Medium	2018/19	Ongoing	7
Property Maintenance	Medium	2017/18	Adequate	10
Stores – Works	Medium	2017/18	Adequate	6
Human Resources – Administration ad Policy	Medium	2017/18	Adequate	10

Petty Cash	Medium	2017/18	Adequate	8
Insurance Claims and Cover	Medium	2017/18	Substantial	6
Corporate Projects	Medium			12
Payroll (Fundamental)	High	2017/18	Substantial	10
Total Risk Based Audits				280
External Audits and Other Work				
FACT – Validation of Process	High	2019/20	Ongoing	5
Local Authority Trading Company	High	New		15
Fraud Work – Investigations and NFI				14
Follow ups				11
Contingency				19
Grand Total				344

* These audits are conducted by our ARP partner authorities, which are reviewed by the Shared Internal Audit Manager of FDC before final reports are issued.

Appendix B: Assurance Ratings:

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment. The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist

Appendix C: Fundamental audit plan

This is the proposed plan for internal audit reviews of controls considered fundamental to the Council

System Name	2020/21	2021/22	2022/23	2023/24	2024/25	Current Overall assurance rating
Housing Benefits *	✓	✓	✓	✓	✓	Adequate
Council Tax *	✓	✓	✓	✓	✓	Adequate
Business Rates *	✓	✓	✓	✓	✓	Adequate
Capital Finance Planning & Asset Register		✓			✓	Substantial
Debtors and Collection Agency		✓			✓	Substantial
Creditors		✓			✓	Substantial
Corporate Finance - Budgetary Control			✓			Substantial
Cash & Treasury Management			✓			Substantial
Corporate Finance - Management Accounting System			✓			Substantial
Payroll	✓	✓	✓	✓	✓	Substantial

* ARP Auditing arrangements in place allow for an audit to be undertaken every year on these services by our ARP Partner authorities.

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