

A meeting of the **CORPORATE GOVERNANCE COMMITTEE** will be held in **CIVIC SUITE 0.1A, PATHFINDER HOUSE, ST MARY'S STREET, HUNTINGDON PE29 3TN** on **WEDNESDAY, 28 MARCH 2018** at **7:00 PM** and you are requested to attend for the transaction of the following business:-

**Contact
(01480)**

APOLOGIES

1. MINUTES (Pages 5 - 10)

To approve as a correct record the Minutes of the meeting held on 17th January 2018.

**A Roberts
388015**

2. MEMBERS' INTERESTS

To receive from Members declarations as to disclosable pecuniary and other interests in relation to any Agenda Item.

3. GRANT CERTIFICATION 2016/17 (Pages 11 - 22)

To consider a report by the Benefits Systems and Development Team Manager to which is attached the External Auditor's Annual Certification Report 2016/17.

**B Huggins
388479
A Burns
388122**

4. CODE OF CONDUCT COMPLAINTS - UPDATE (Pages 23 - 26)

To consider a report by the Elections and Democratic Services Manager and Deputy Monitoring Officer on cases of alleged breaches of the Code of Conduct.

**L Jabklonska
388004**

5. ANTI-FRAUD AND CORRUPTION STRATEGY 2018-2012 (Pages 27 - 36)

To consider a report by the Internal Audit and Risk Manager on the outcome of a review of the Anti-Fraud and Corruption Strategy.

**D Harwood
388115**

6. EXTERNAL AUDIT PLAN (Pages 37 - 78)

To consider a report by the Head of Resources on the External Audit Plan for 2017/18.

**C Mason
388157**

7. ANNUAL GOVERNANCE STATEMENT: SIGNIFICANT ISSUES
(Pages 79 - 82)

To consider a report by the Internal Audit and Risk Manager, which identifies issues for inclusion in the 2017/18 Annual Governance Statement.

**D Harwood
388115**

8. **INTERNAL AUDIT CHARTER AND 2018/19 AUDIT PLAN** (Pages 83 - 98)

To consider a report by the Audit and Risk Manager seeking approval for the Internal Audit Charter and the Internal Audit Plan for quarter 1, 2018/19.

D Harwood
388115

9. **ANNUAL REVIEW OF ACCOUNTING POLICIES AND OTHER CHANGES ON THE ANNUAL FINANCIAL REPORT 2017/18 AS A CONSEQUENCE OF THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UK 2017/18.** (Pages 99 - 110)

To consider a report by the Head of Resources recommending changes to the Council's adopted accounting policies.

C Mason
388157

10. **CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT** (Pages 111 - 114)

To receive the Corporate Governance Committee Progress Report.

A Roberts
388015

Dated this 20 day of March 2018



Head of Paid Service

Notes

1. Disclosable Pecuniary Interests

(1) *Members are required to declare any disclosable pecuniary interests and unless you have obtained dispensation, cannot discuss or vote on the matter at the meeting and must also leave the room whilst the matter is being debated or voted on.*

(2) *A Member has a disclosable pecuniary interest if it -*

(a) relates to you, or

(b) is an interest of -

(i) your spouse or civil partner; or

(ii) a person with whom you are living as husband and wife; or

(iii) a person with whom you are living as if you were civil partners

and you are aware that the other person has the interest.

(3) *Disclosable pecuniary interests includes -*

(a) any employment or profession carried out for profit or gain;

(b) any financial benefit received by the Member in respect of expenses incurred carrying out his or her duties as a Member (except from the Council);

(c) any current contracts with the Council;

(d) any beneficial interest in land/property within the Council's area;

(e) any licence for a month or longer to occupy land in the Council's area;

(f) any tenancy where the Council is landlord and the Member (or person in (2)(b) above) has a beneficial interest; or

(g) a beneficial interest (above the specified level) in the shares of any body which has a place of business or land in the Council's area.

Non-Statutory Disclosable Interests

- (4) *If a Member has a non-statutory disclosable interest then you are required to declare that interest, but may remain to discuss and vote providing you do not breach the overall Nolan principles.*
- (5) *A Member has a non-statutory disclosable interest where -*
- (a) a decision in relation to the business being considered might reasonably be regarded as affecting the well-being or financial standing of you or a member of your family or a person with whom you have a close association to a greater extent than it would affect the majority of the council tax payers, rate payers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the authority's administrative area, or*
 - (b) it relates to or is likely to affect a disclosable pecuniary interest, but in respect of a member of your family (other than specified in (2)(b) above) or a person with whom you have a close association, or*
 - (c) it relates to or is likely to affect any body –*
 - (i) exercising functions of a public nature; or*
 - (ii) directed to charitable purposes; or*
 - (iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union) of which you are a Member or in a position of control or management.*

and that interest is not a disclosable pecuniary interest.

2. Filming, Photography and Recording at Council Meetings

The District Council supports the principles of openness and transparency in its decision making and permits filming, recording and the taking of photographs at its meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening at meetings. Arrangements for these activities should operate in accordance with guidelines agreed by the Council and available via the following link [filming, photography and recording at council meetings.pdf](#) or on request from the Democratic Services Team. The Council understands that some members of the public attending its meetings may not wish to be filmed. The Chairman of the meeting will facilitate this preference by ensuring that any such request not to be recorded is respected.

Please contact Anthony Roberts, Democratic Services, Tel: 01480 388015 / email Anthony.Roberts@huntingdonshire.gov.uk if you have a general query on any Agenda Item, wish to tender your apologies for absence from the meeting, or would like information on any decision taken by the Committee/Panel.

Specific enquiries with regard to items on the Agenda should be directed towards the Contact Officer.

Members of the public are welcome to attend this meeting as observers except during consideration of confidential or exempt items of business.

[Agenda and enclosures can be viewed on the District Council's website – \[www.huntingdonshire.gov.uk\]\(http://www.huntingdonshire.gov.uk\) \(under Councils and Democracy\).](#)

If you would like a translation of Agenda/Minutes/Reports or would like a large text version or an audio version please contact the Elections & Democratic Services Manager and we will try to accommodate your needs.

Emergency Procedure

In the event of the fire alarm being sounded and on the instruction of the Meeting Administrator, all attendees are requested to vacate the building via the closest emergency exit.

HUNTINGDONSHIRE DISTRICT COUNCIL

MINUTES of the meeting of the CORPORATE GOVERNANCE COMMITTEE held in Civic Suite 0.1B, Pathfinder House, St Mary's Street, Huntingdon PE29 3TN on Wednesday, 17 January 2018.

PRESENT: Councillor M Francis – Chairman.
Councillors Mrs S Conboy, T Hayward, P Kadewere, R J West, J M Palmer and D A Giles.

APOLOGIES: Apologies for absence from the meeting were submitted on behalf of Councillors E R Butler, D B Dew, Mrs L A Duffy, Mrs R E Mathews and D M Tysoe.

38. MINUTES

The Minutes of the meeting of the Committee held on 29th November 2017 were approved as a correct record and signed by the Chairman.

39. MEMBERS' INTERESTS

No declarations of interests were received.

40. COMMUNITY GOVERNANCE REVIEW - GREAT AND LITTLE GIDDING PARISH COUNCIL

The Committee received and noted a report by the Elections and Democratic Services Manager (a copy of which is appended in the Minute Book) on a decision by Great and Little Gidding Parish Council to withdraw its request to hold a Community Governance Review. The decision had been taken following a number of recent changes at the Parish Council.

RESOLVED

that the request to cancel the Community Governance Review for Great and Little Gidding parish Council be noted.

41. LEAD AND DEPUTY INDEPENDENT PERSONS

Consideration was given to a report by the Elections and Democratic Services Manager and Deputy Monitoring Officer (a copy of which is appended in the Minute Book) recommending the re-appointment of the Lead and Deputy Independent Persons for a further two-year period. The Localism Act 2011 required councils to appoint one or more Independent Persons and the current post-holders' terms of office were due to expire on 30th April 2018.

The Committee discussed the Independent Persons' role, qualifications and remuneration. Further information was requested on the activities of the Independent Persons.

Members were informed that the existing post-holders had indicated they were willing to continue in their respective roles. On the basis that they had made valuable contributions by providing impartial advice and had excellent working relationships with Monitoring Officer and Deputy Monitoring Officer, it was

RESOLVED

the Council be recommended to re-appoint Mrs Gillian Holmes and Mr Peter Baker to the posts of Lead and Deputy Independent Persons respectively for a further two-year period to 30th April 2020 without the need for further ratification in each year by the Council at its Annual Meeting.

42. UPDATE ON CODE OF CONDUCT AND REGISTER OF DISCLOSABLE PECUNIARY INTERESTS

By means of a report by the Member Support Assistant (a copy of which is appended in the Minute Book) the Committee was updated on the adoption of Codes of Conduct by Town and Parish Councils and the receipt and publication of register of interests forms on behalf of District, Town and Parish Councillors. All of the 71 Town and Parish Councils had adopted a Code of Conduct, with 57 based on that adopted by the District Council, twelve had opted for the Code promoted by the National Association of Local Councils and the remaining two Councils had adopted their own version of the Code. A previous action to carry out an audit of the Codes of those Councils that had their own version (Minute No. 16/10 refers) had been completed and they had been found to be compliant with the relevant legislative requirements.

46 Town and Parish Councils had published their full Register, which comprised the Disclosable Pecuniary Interests (DPI) forms of all Councillors. The remaining 25 Councils had vacancies in their Memberships. In terms of individual DPIs, 610 of a total of 650 had been received from Parish Councillors and 40 were vacancies. The forms of all District Councillors had been published.

RESOLVED

that the contents of the report be noted.

43. ANNUAL REPORT ON COMPLIANCE WITH FREEDOM OF INFORMATION AND ENVIRONMENTAL INFORMATION REGULATIONS ACTS

With the assistance of a report by the Information Governance Manager (a copy of which is appended in the Minute Book), the Committee was acquainted with the number of requests received by the Council under the Freedom of Information (FOI) Act and Environmental Information Regulations (EIR), the issues encountered and actions taken to improve performance.

The numbers of requests received by the Council in 2016 (780) represented an increase compared with the previous year (704 requests were received in 2015). The reporting period was longer

than usual and 908 requests had been received in that time. 78% of requests were completed without withholding information in the whole period; however, since July 2017 the Council had continually exceeded its target of 90%. The improvement in performance was explained by the introduction of a new shared management system whereby the Information Governance Officer co-ordinated all formal requests and allocated specialist support when required. In addition, more information was generally made available, which reduced the burden of responding to requests through the FOI arrangements. In future the Information Governance section would be carrying out more work on transparency and working with partners on matching information.

The Committee discussed in detail the process of responding to requests for information. If the information was already available, it was provided but the request was not recorded. The Information Governance Manager took decisions on whether to deal with requests through the FOI process. Information could be withheld for various reasons, including the fact that it was provided in confidence or it contained commercial or personal information. Requestors had a right of appeal against decisions under the FOI scheme. There was a further option to appeal to the Information Commissioner.

While the introduction of the new scheme meant that only formal FOI requests were logged, it meant that the report was more accurate. Members commented that this meant the Council had fewer FOI requests to which to respond, but noted that future reports would provide a true representation of the degree to which the Council complied with FOI and EIR requirements and would enable trends to be monitored.

RESOLVED

that the contents of the report be received and noted.

44. REVIEW OF CODE OF FINANCIAL MANAGEMENT AND CODE OF PROCUREMENT

By way of a report by the Head of Resources (a copy of which is appended in the Minute Book) the Committee was presented with the outcome of reviews of the Codes of Financial Management and of Procurement. The Codes were reviewed regularly to ensure they reflected current legislation and the changing needs of the Council.

In addition to the recent introduction of new policies and changes to existing policies, which were endorsed by the Committee, a primary source of changes to the Codes was the establishment of HDC Ventures. The latter would need to be included within the Council's Statement of Accounts and required the Council to refer to it in its advertisements and notices.

In response to questions by Members, the Committee was informed of the e-tendering process, of the fact that the Council benefitted from nationally negotiated procurement systems and of the existence of requirements to obtain competitive quotations for contracts. It was confirmed that, for larger contracts, the Council carried out due diligence assessments.

Following a further question, Members received an explanation of the circumstances in which additional spending might be incurred for the immediate alleviation of hardship or suffering in the case of peacetime emergency in the District or which was urgent and demonstrably in the Council's best interests. It was then

RESOLVED

that the Council be recommended to approve the Code of Financial Management and the Code of Procurement as appended to the report now submitted.

45. PROGRESS ON ISSUES ARISING FROM THE 2016/17 ANNUAL GOVERNANCE STATEMENT

The Committee gave consideration to a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) on work in the four areas for improvement, which were identified in the 2016/17 Annual Governance Statement (AGS). The Management Team was of the view that satisfactory progress had been made in all the areas. This was endorsed by the Internal Audit and Risk Manager and while they might not all have been resolved by the end of the Municipal Year, it was not likely that they would need to appear in the next AGS.

The Committee was informed of the latest position in respect of the governance and reporting arrangements for Shared Services. Having noted that it had been unrealistic to expect the savings identified in the Business Case for the ICT service to be delivered immediately, particularly given the number of temporary contracts within the service and the lack of experience in implementing new ways of working, Members commented on the need to learn lessons from this process.

With regard to the replacement of the financial management system, it was confirmed that the new system would run in parallel with the old one to ensure there was no risk to the Council. The date on which this would commence had been brought forward to February.

In response to comments by Members on the need to complete the review of the complaints system to enable the Council to use feedback to improve services and increase performance, it was reported that this had been identified in an Audit but that problems also were being experienced through a lack of Officers' understanding and use of the process. The new arrangements should resolve these problems.

The position in respect of the introduction of robust safeguarding procedures was noted.

The Committee expressed the view that owing to the fact that the four improvement areas were of sufficient significance to be included in the AGS, it was important that the planned dates for completion of the necessary actions were achieved. Consequently, it was decided that if the actions had not been completed, the relevant Head of Service should attend the next meeting to discuss progress. This also would

inform their deliberations on the 2017/18 governance review. Whereupon, it was

RESOLVED

that the contents of the report be noted.

46. NON-IMPLEMENTATION OF AUDIT ACTIONS

The Committee gave consideration to a report by the Head of Resources (a copy of which is appended in the Minute Book) containing the first update following the introduction of a new framework for reporting on the non-implementation of audit actions. As at the year ending 30th November 2017, five red and eight amber actions were outstanding out of 108 to be implemented.

Members discussed the length of the extension for the completion of cyber security actions. They were informed that the extension was justified because new IT systems first had to be introduced at the three Shared Services Councils. They also were assured that existing cyber security systems remained in place and no breaches had been experienced in the past. As no further extensions would be granted, the Committee discussed its options for action should the new deadline not be met. These included writing to the relevant Head of Service and Director. Whereupon it was

RESOLVED

that the contents of the report be received and noted.

47. INTERNAL AUDIT SERVICE INTERIM PROGRESS REPORT

By means of a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) the Committee received details on the work completed by the Internal Audit Service during the period April to October 2017 together with associated performance issues. The Committee was informed that the Internal Audit and Risk Manager's opinion on the Council's internal control environment and systems of internal control as at 31 March 2017 was that it provided adequate assurance over key business processes and financial systems. From work completed since then, the opinion remained unchanged. However, the Committee was alerted to the fact that in May the opinion might be downgraded to 'limited'.

Members noted that during the reporting period one 'substantial', four 'adequate' and three 'little' assurance opinions were issued. No matters of significant concern arising from these reports needed to be brought to the Committee's attention. One audit had been removed from the agreed Plan and while 24 audits had still to be completed, it was expected that the Plan would be delivered by or shortly after 31st March 2018.

The Committee discussed the decision following a resignation to identify the resulting vacant post as a potential saving in the 2018/19 budget. In response to questions by Members, it was reported that the decision had been taken by the Corporate Management Team and that as the funding was to be deleted, fewer audit days would be

available. In the circumstances alternative ways of carrying out audits would be introduced. They also were informed of historical changes in organizational responsibility for Internal Audit and that the S151 Officer's view was that the required work on financial control systems would be undertaken.

Members expressed concern that the reduction in resources risked failure to uncover governance issues that needed to be addressed and could mean that audit independence would be lost. They decided to express to the Managing Director and Executive Leader their disquiet about such serious risks going forward and suggested that the decision should be reviewed. It was then

RESOLVED

- a) that the Internal Audit and Risk Manager's unchanged opinion of 'adequate assurance' over the internal control environment and system of internal control be noted; and
- b) that the Committee's views on the decision not to replace an Auditor be conveyed to the Managing Director and Executive Leader.

48. CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT

The Committee received and noted a report (a copy of which is appended in the Minute Book) on progress of actions in response to decisions taken at previous meetings. It was agreed that further training should be undertaken in the new Municipal Year. Confirmation that the action under the item on the Code of Conduct and Register of Disclosable Interests had been completed had been received earlier in the meeting at Minute No. 17/42 ante.

RESOLVED

that the contents of the report be noted.

Chairman

**Public
Key Decision No**

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Grant Certification 2016/17

Meeting/Date: Corporate Governance Committee – 28th March 2018

Executive Portfolio: Strategic Resources: Councillor J A Gray

Report by: Benefits Systems & Development Team Manager

Ward(s) affected: All Wards

Executive Summary:

In 2016/17, the Council received over £34m in Housing Benefit (HB) grant from central government. This grant is subject to external audit as part of the control framework. The Council's auditors, Ernst & Young, complete this work.

The auditors are required to report their findings to 'those charged with governance' through the Annual Certification Report. This report is attached at Appendix 1.

Minor errors were identified which resulted in some additional testing and a qualification letter was subsequently produced for the Department for Work and Pensions (DWP). The errors identified resulted in minor amendments to the amount of grant due.

Recommendation(s):

It is recommended that the Committee comment on the content of the external auditor's Annual Certification Report 2016/17.

1. PURPOSE OF THE REPORT

- 1.1 To report to the Committee, as those charged with governance, the conclusions and recommendations of the Annual Certification Report 2016/17.

2. BACKGROUND

- 2.1 In 2016/17, the Council received £34.3m of Housing Benefit grant. This grant is subject to external audit by the Council's appointed external auditor – Ernst & Young. The findings are required to be reported to 'those charged with governance', which is the Corporate Governance Committee. The report from Ernst & Young is attached as Appendix 1.

3. ANALYSIS

- 3.1 The testing performed by the Council's external auditor identified several errors which are detailed below:

- i. Rent allowance testing identified one case from a total of 60 tested where assessors had incorrectly calculated the number of miles used for travelling when working out a claimant's self-employed expenses. This resulted in a Housing Benefit underpayment of £31.97. However, although this underpayment was reported in the qualification letter to the Department for Work and Pensions, it was not recorded as an error as the underpayment had not been paid to the claimant and therefore had no impact on subsidy.
- ii. Further rent allowance testing resulted in qualification as two overpayments of Housing Benefit had been incorrectly classified. Overpayments are classified in terms of which person is deemed to have made the error or delayed in notifying a change in a claimant's circumstances, and this can impact the amount of subsidy due.

Two cases from a total of 60 tested had been incorrectly classified as claimant error instead of Council error. The two errors amounted to a total overpayment of £393 and extrapolating these across the claim resulted in a subsidy adjustment of £21,885.

The total financial impact on the claim as a result of the errors set out in points i and ii above was an increase in subsidy due to HDC of £13,131 although we are still awaiting official confirmation of this amount. (This is calculated as £21,885 x 60% additional subsidy = £13,131).

The total value of the 2016/17 errors is £424.97 (£31.97 + £393). When compared to:

- the total benefits budget of £34.3m, the error is minimal.
- the preceding year (the total error was £205), the 2016/17 error is not out of line.

4. KEY IMPACTS

- 4.1 Members should note that there is no materiality on external audit grant certification work for the DWP. If an error is identified, the audit instructions require that additional testing must be undertaken.

- 4.2 However, the additional testing carried out this year did not result in an increase in charges to HDC. The actual fee for 2016/17 amounted to £17,522 which agreed to the indicative figure quoted. The actual fee for 2015/16 was £18,136 meaning 2016/17 charges were £614 lower.
- 4.3 Members should also note that HB subsidy audit arrangements are changing from 2018/19 onwards. Following the abolition of the Audit Commission since March 2015, responsibility for the certification of HB subsidy claims was given to Public Sector Audit Appointments Ltd (PSAA Ltd) for a temporary period. The DWP have confirmed the current arrangement with PSAA Ltd will expire in March 2018 and that, from that time onwards, local authorities will be responsible for appointing their own auditors for HB grant certification.
- 4.4 The DWP have been consulting on the new arrangements for 2018/19 and have recently written to all local authorities advising that details of the outcome will be released soon. Once these details are received, officers can review the requirements and then undertake a procurement exercise to appoint auditors for 2018/19 and onwards.

5. WHAT ACTIONS WILL BE TAKEN

- 5.1 The Benefits Section undertakes on-going accuracy checks and carries out regular training sessions for the team in order to minimise the number of errors and this process will continue. Within the context of the overall claim, the number and value of the errors identified are minimal.

The Benefit Section has noted the comments by Ernst & Young indicating the main reason for amendments to the final claim resulted from manual adjustments being made post submission of the form to the DWP. Manual adjustments are necessary where the Council's benefit software is unable to automate a few types of transaction and consequently, a manual adjustment is required and needs to be accounted for before the audited claim can be agreed. Every attempt is made to complete the manual adjustment work prior to the claim submission but, due to the extremely tight deadlines, this is not always possible.

6. LINK TO THE CORPORATE PLAN

- 6.1 The Annual Certification Report is a regulatory requirement. By maximising the amount of subsidy HDC is able to claim links to the Council's objective of 'becoming more efficient and effective in the way we deliver services'.

7. RESOURCE IMPLICATIONS

- 7.1 As the actual audit fees are the same as the indicative figures provided, there are no additional resource implications.

8. REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 The findings from the Annual Certification Report are required to be reported to those "charged with governance", which is the Corporate Governance Committee.

9. LIST OF APPENDICES INCLUDED

Appendix 1 – Annual Certification Report 2016/17

CONTACT OFFICER

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Certification of claims and returns annual report 2016-17

Huntingdonshire District Council

January 2018

Ernst & Young LLP



Building a better
working world

The Members of the Corporate Governance Committee
Huntingdonshire District Council
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26 January 2018

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Dear Members

Certification of claims and returns annual report 2016-17 Huntingdonshire District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Huntingdonshire District Council's 2016-17 claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £34,337,092. We met the submission deadline and issued a qualification letter on 27 November 2017. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification work is summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Corporate Governance Committee on 28 March 2018.

Yours faithfully

Neil Harris
Associate Partner
Ernst & Young LLP
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£34,307,250
Amended/Not amended	Amended – subsidy increased by £29,842
Qualification letter	Yes
Fee – 2016-17	£17,522
Fee – 2015-16	£18,136
Recommendations from 2015-16	Findings in 2016-17
The main reason for the amendments to the value of claim presented for certification is the delay in determining required manual adjustments. We would recommend that manual adjustments are incorporated in the value of the claim presented for submission.	This has remained the case for 2016/17, with the majority of the amendments to the claim being related to manual adjustments. We continue to recommend that manual adjustments are incorporated in the value of the claim presented for submission.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Rent Allowance

We identified one case (total value £4,009.34) out of 60 cases tested where claimant income was incorrectly calculated due to incorrect calculation of number of miles used for travelling expenditure. In this case the error led to an underpayment of £31.97 of the claimant's benefit entitlement. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified has no impact on the subsidy and has not, therefore, been classified as error for subsidy purposes. Similar findings were issued in the qualification letter issued last year.

Overpaid rent allowance

Testing of the initial sample did not identify any errors. In 2015/16 we reported errors due to incorrect classification of eligible overpayment. We determined given the number of errors found in 2015/16 we would undertake 40+ testing irrespective of the results from our initial sample. Testing of the additional sample of 40 cases identified two cases (total value £588) where the authority misclassified LA error as eligible error by £393. The extrapolated error, representing the estimated misclassification between LA error and eligible error totalled £21,885. Similar findings were included in qualification letters issued in the last year.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	17,522	17,522	18,136

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £18,136. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

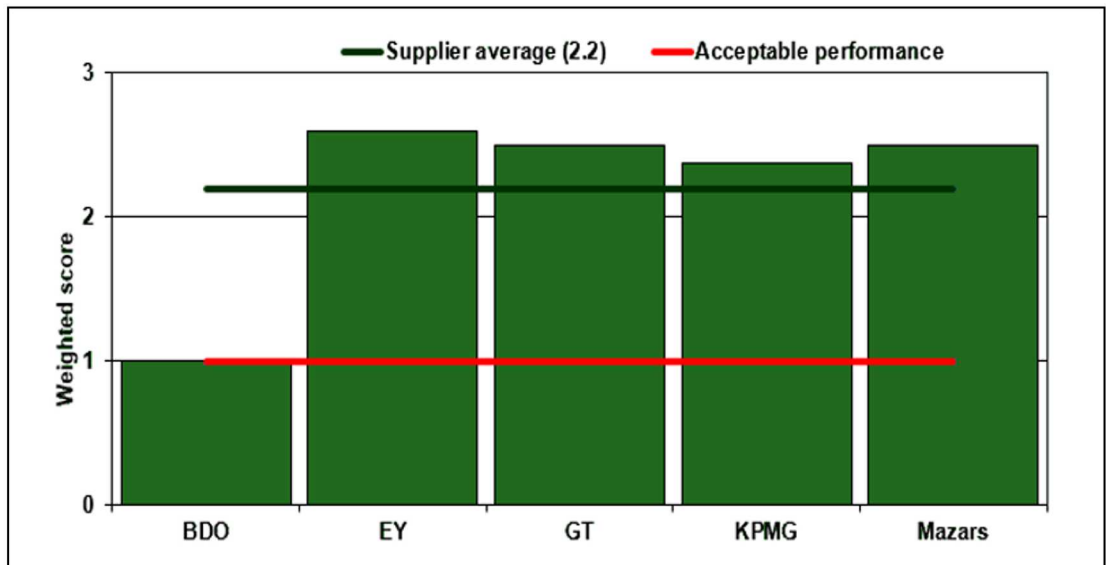
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Resources before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect to be appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

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Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Code of Conduct Complaints - Update

Meeting/Date: Corporate Governance Committee – 28th March 2018

Executive Portfolio: Councillor G J Bull, Executive Leader

Report by: Elections and Democratic Services Manager & Deputy Monitoring Officer

Ward(s) affected: All

Executive Summary:

This report provides Members with an update on complaints cases regarding alleged breaches of the Code of Conduct. The Committee is responsible for maintaining high standards of conduct by Members of the District and Town and Parish Councils, for monitoring operation of the Code of Conduct and for considering the outcome of investigations in the event of breaches of the Code.

Recommendation:

The Committee is requested to note the progress of any outstanding complaints and the conclusion of cases resolved since the last meeting.

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to provide a summary and update of completed or ongoing complaints received regarding alleged breaches of the Code of Conduct under the Localism Act 2011 since the start of the year.

2. BACKGROUND

- 2.1 In accordance with the functions of the Committee, this report seeks to provide a summary of the current position in relation to the Code of Conduct complaints since the last meeting.
- 2.2 At the meeting of the Committee on 13th September 2017, Members requested that this report be submitted on a quarterly basis and to include categories of the Code of Conduct cases to enable feedback to be given to Town and Parish Councils should similar themes emerge on the nature of the complaints to enable further training to be arranged.

3. ANALYSIS

- 3.1 Details of allegations/complaints in relation to the Code of Conduct have been outlined in the table below. Specific detailed information regarding the complaint has not been provided as this may be prejudicial to the conduct of the ongoing complaints process and to protect the identity of councillors who may not have breached the Code of Conduct.

Case Number	District/Town/Parish Council	Allegation/complaint	Outcome
17/3	Huntingdon Town Council (HTC)	Allegations that a Councillor breached the Code through bullying, used position for personal advantage and inappropriate use of public resources	Hearing held on 28 November 2017. Found in breach of paragraph 3(2) and 3(4) of HTC Code of Conduct. Recommendations made to HTC and Group Leader
17/9	St Neots Town Council (SNTC)	Complaint by a Town Councillor against another Town Councillor	Hearing held on 6 December 2017. Found in breach of paragraph 3(8) of SNTC Code of Conduct. No sanctions imposed.
17/10,11 & 12	HDC	Allegations that a councillor has breached the following parts of the Code – 3.4 not conduct yourself in a manner which is likely to bring the Authority into disrepute 3.7.3 not stating the real reasons for their	Formal investigation undertaken by Investigating Officer (IO). Hearing to be scheduled to consider the IO's report.

		decision where those reasons are not otherwise apparent	
17/13	St Ives Town Council (SITC)	Complaint by a Town Councillor against another Town Councillor alleging that a councillor has breached 3.2 and 3.4 of the Code	Matter investigated and concluded by SITC as a breach. Referred by SITC as complainant not accepting the local resolution and appealing against the ruling. Currently under investigation.

4. LEGAL IMPLICATIONS

4.1 There are no significant implications to report.

5. REASONS FOR THE RECOMMENDED DECISIONS

5.1 This is an opportunity for Members of the Committee to be appraised of details of completed complaints and any outstanding complaints alleged against the Code of Conduct. This is in accordance with the functions of the Committee and its duty to discharge functions in relation to the promotion and maintenance of high standards of conduct within the Council and amongst Town and Parish Councils within the District.

BACKGROUND PAPERS

None

CONTACT OFFICER

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**Public
Key Decision - No**

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Anti-Fraud and Corruption Strategy 2018-2021
Meeting/Date:	Corporate Governance Committee – 28 March 2018
Executive Portfolio:	Strategic Resources: Councillor J A Gray
Report by:	Internal Audit & Risk Manager
Wards affected:	All Wards

Executive Summary

The Committee is responsible for approving the Council's Anti-Fraud & Corruption Strategy. The Strategy was last approved in June 2015 when it was re-written to take account of the 2014 CIPFA Code of Practice on managing the risk of fraud corruption and the associated guidance notes.

The Strategy has been updated to reflect:

- the requirements of the Local Government Counter Fraud & Corruption Strategy 2016-2019 (LGCFCS) published by the CIPFA Counter Fraud Centre; and
- the June 2017 briefing from the Internal Audit Standards Advisory Board (IASAB) on the Internal Audit role in Counter Fraud.

The main changes, which do not alter the overall purpose or direction of the 2015 strategy, are:

- Including the seven principles of public life within Section 3, Principles of Conduct.
- Referencing that the programme of counter fraud work maintained by the Corporate Fraud Manager shall be consistent with the Acknowledge, Prevent and Pursue principles contained in the LGCFCS (paragraph 4.1).
- Clarification of Internal Audits role in countering fraud and corruption in line with the IASAB guidance (paragraph 4.4).

Recommendation

It is recommended that the Committee:

1. Approve the anti-fraud and corruption strategy 2018-2021.

1. PURPOSE OF THE REPORT

- 1.1 This report is recommending that the Committee approve the countering fraud and corruption strategy 2018-2021.

2. BACKGROUND

- 2.1 The Council has maintained an anti-fraud and corruption strategy since 2005. The last strategy was approved in June 2015 for the three year period ending March 2018.
- 2.2 The strategy sets out the overarching principles that the Council will follow when considering its response to fraud and corruption risks and issues.

3. ANALYSIS

- 3.1 The Codes of Conduct for Members and Employees both encompass the seven principles of public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). The Employment Committee in November 2017 adopted a new set of values for the Council - icare (inspirational, collaborative, accountable, respectful, enterprising).
- 3.2 It is anticipated that the employees code of conduct will be reviewed during the currency of the 2018-2021 Strategy so that it reflects the icare values. To ensure that a strong link is maintained between employee responsibilities and the seven public life principles they have been expressly included in the Strategy.
- 3.3 The 2015 Strategy included reference to the programme of work that the Counter Fraud Team would deliver in response to the fraud risks facing the Council. Whilst a programme of work is still required, the detailed information explaining what the programme will cover has been removed and replaced with the principles of Acknowledge, Prevent and Pursue as contained in the Local Government Counter Fraud & Corruption Strategy 2016-2019 published by the CIPFA Counter Fraud Centre.

Acknowledge: acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

Prevent: preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Pursue: punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

- 3.4 The 2015 Strategy included Internal Audit's role in contributing to the improvement of governance and risk management by reviewing and evaluating the potential for the occurrence of fraud.
- 3.5 The June 2017 briefing from the Internal Audit Standards Advisory Board (IASAB) on the Internal Audit role in Counter Fraud has split the internal audit role in countering fraud into four distinct areas:

1. Core Internal Audit role	<ul style="list-style-type: none"> • providing assurance on adequacy of arrangements • evaluating counter fraud reporting • reviewing the implementation of the strategy • evaluating preventative and detective controls • reviewing the control weaknesses that led to fraud
2. Counter fraud roles that do not compromise audit independence	<ul style="list-style-type: none"> • reviewing a fraud risk assessment • supporting the ethical and anti-fraud and corruption culture • sharing of learning
3. Counter fraud advisory roles where safeguards needed	<ul style="list-style-type: none"> • championing the development of counter fraud capability • receiving whistleblowing referrals • data analytics to identify fraud • reviewing preliminary NFI matches • leading a fraud and corruption risk assessment process • helping to develop the counter fraud and anti-corruption strategy
4. Counter fraud roles beyond internal audit where safeguards likely.	<ul style="list-style-type: none"> • undertaking an investigation • sanctions and asset recovery • prioritising fraud referrals • proposing the counter fraud and anti-corruption strategy • being accountable for counter fraud and anti-corruption activities and resources.

The Strategy has been updated so that it reflects points 1 and 2 above. In addition one area from area 3 has been included – receiving whistleblowing referrals. Internal audit has taken the lead on this area since whistleblowing was first introduced into the Council in 2000. Internal Audit are to be included in the Resources reorganisation planned for 2018-19 and a decision will be taken at that time as to which Service is best placed to receive whistleblowing referrals in the future.

4. RISKS

- 4.1 The risk register contains two fraud related risks, one relating to the loss to the public purse (external facing) the other dealing with internal fraud.
- 4.2 With both Members and employees involved in making decisions that can have a significant effect upon the livelihood of members of the public or service users (e.g. licencing, food safety or planning decisions) or through their actions on a 'business as usual' basis (e.g. issue of enforcement notices, cash handling or procurement decisions) the Council needs to be aware of the risk that may occur due to fraud and corruption
- 4.3 Financial loss is the most obvious key risk but the undermining of public confidence that can result from the discovery of an internal fraud or corrupt act would likely have greater impact.
- 4.4 The basic control procedures of up to date and clear procedure notes, separation of duties, internal check and reconciliation and compliance with agreed policies and procedures all ensure that the risk of financial

loss is mitigated. When systems and procedures are being redefined or reworked as part of service restructures or lean reviews, it is important that the risks associated with the loss of any of these controls is identified and agreed.

5. LINK TO CORPORATE PLAN

- 5.1 Implementation of the Strategy will ensure that the Council maintains good standards of governance. Good governance underpins the delivery of all of the Corporate Plan objectives.

6. LEGAL IMPLICATIONS

- 6.1 The Council has a statutory duty to make arrangements for the proper administration of their financial affairs. This strategy assists the Council in achieving that requirement.

7. RESOURCE IMPLICATIONS

- 7.1 There are no direct resource implications arising from this report.

8. REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 The Council should maintain robust arrangements to counter the threat of fraud and corruption. The strategy takes account of the latest best practice guidance and should ensure that the Council's arrangements are appropriate and proportionate to the risks that it faces.

BACKGROUND PAPERS

1. <http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>
2. Briefing from the Internal Audit Standards Advisory Board - [The Internal Audit Role in Counter Fraud.](#)

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HUNTINGDONSHIRE DISTRICT COUNCIL

Anti-Fraud and Corruption Strategy 2018 - 2021

Anti-Fraud and Corruption Statement

Huntingdonshire District Council is committed to the highest possible standards of honesty, openness and accountability.

It will ensure that internal procedures are in place to identify, deter and prevent the risk of fraud and corruption and maintain clear and well publicised arrangements for receiving and investigating complaints.

The Council will pursue appropriate action, including the recovery of any losses it has suffered, in every case where fraud and corruption has been found.

1 Introduction

- 1.1 Huntingdonshire District Council has in place effective systems to monitor, identify and investigate cases of fraud and corruption. It is aware that the incidents of fraud are increasing across the public sector and that it needs to continue to be both proactive and innovative in the fight against fraud.
- 1.2 The Council is determined that a culture of honesty, openness and accountability will always be promoted. The risk of dishonest acts being committed against the Council, no matter who by, undermine the high standards of conduct and public service that it aims to achieve.

This Strategy describes how the Council will respond to that risk.

2 Definitions

- 2.1 The Council defines fraud and corruption in the following ways:

Fraud is an act of dishonesty, by which a person obtains a benefit or causes the Council a loss, by deception or other means (e.g. false representation, failing to disclose information or through abuse of position).

Corruption is the abuse of public office for private gain (e.g. offering, giving, soliciting or acceptance of an inducement, reward or bribe which may improperly influence the action of any person).

2. Responsibility

- 2.1 The Code of Financial Management states that Directors and Heads of Service are responsible for the prevention of fraud and corruption within the services and functions under their control. They are required to establish, maintain and document their systems of internal control and ensure that relevant employees or Members are familiar with these systems.
- 2.2 Heads of Service shall be responsible for identifying, assessing and recording all significant fraud and corruption risks within the Council's risk register.
- 2.3 All policies, procedures or documents that support this Strategy shall be reviewed annually by the appropriate Head of Service.
- 2.4 To ensure this Strategy remains effective, the S151 Officer and the Corporate Director (Services) shall review it at least once every three years. Changes to the Strategy shall be agreed by the Corporate Governance Committee.

3. The Principles of Conduct

- 3.1 The culture of the Council is a key control measure, shaped by a consistent 'tone from the top' and an underlying ethos of strong governance, professional standards, checking and compliance.
- 3.2 Every Member and employee is responsible for playing their part in ensuring that public confidence in the services provided by the Council is maintained and they will promote a culture of honesty and the opposition to fraud and corruption based on the seven principles of public life.

Selflessness Act solely in terms of the public interest.

Integrity Avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity Act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability Be accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness Act and take decisions in an open and transparent

manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty Be truthful.

Leadership Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

4. Reducing the risk of fraud and corruption

4.1 The Corporate Fraud Manager will maintain a programme of counter fraud and corruption work that is proportionate to the fraud and corruption risks that the Council faces.

The programme will be consistent with the principles of Acknowledge, Prevent and Pursue as contained in the Local Government Counter Fraud & Corruption Strategy 2016-2019.

Acknowledge	Acknowledging and understanding fraud risks	Assessing and understanding fraud risks. Committing support and resource to tackling fraud Maintaining a robust anti-fraud response.
Prevent	Preventing and detecting fraud	Making better use of information and technology. Enhancing fraud controls and processes. Developing a more effective anti-fraud culture.
Pursue	Pursuing those who commit fraud and recovering losses	Prioritising fraud recovery and the use of civil sanctions. Developing capability and capacity to punish fraudsters. Collaborating with law enforcement.

The programme of work will be reviewed annually and approved by the Corporate Management Team.

4.2 The Corporate Management Team shall consider on an annual basis whether the level of resources invested in the programme of work is proportionate to the level of risk identified. They shall also determine how the success of the programme of work is to be measured.

4.3 The Corporate Fraud Manager shall submit an annual report to the Corporate Governance Committee that details the work that has been

undertaken in the previous financial year against the programme of work and highlight all proven case of fraud and corruption by value and number.

- 4.4 The Internal Audit Service shall support the anti-fraud and corruption strategy by:
- Reviewing the implementation of this strategy and providing assurance on the adequacy of the Councils anti-fraud and corruption arrangements;
 - Evaluating the Council's reporting on counter fraud activities;
 - Evaluating the robustness of internal controls designed to prevent or detect fraud and corruption;
 - Reviewing the control weaknesses that contributed to a case of fraud, making recommendations for improvement;
 - Reviewing the fraud risk assessment and programme of counter fraud and corruption work;
 - Supporting the ethical and anti-fraud and corruption culture; and
 - Receiving whistleblowing referrals.

5. Disclosure, investigation and prosecution policies

- 6.1 The Council has a principle of zero tolerance to fraud and corruption. Everyone shall be dealt with equally and without favour.
- 6.2 Specific policies or procedures that deal with the issues of disclosure, investigation and prosecution shall be maintained and reviewed annually to ensure they reflect current best practice and legislative requirements, including the Regulation of Investigatory Powers Act 2000, Prevention of Social Housing Fraud Act 2013, Proceeds of Crime Act 2002, the Bribery Act 2010 and Money Laundering Regulations 2017.
- 6.3 Investigations into possible fraud and corrupt practices will be undertaken by the Corporate Fraud Team, who for investigatory purposes will have the right of access to all Members and employees and any information held by the Council. Members and employees will be required to co-operate fully with any investigation and appropriate disciplinary action will be taken if it is found that this is not the case. This requirement will be reflected in the Code of Financial Management.
- 6.4 Irrespective of who is involved, all matters of significant fraud or corruption identified or perpetrated against the Council, will be referred to the Police or any other regulatory body authorised to investigate such matters. The decision as to whether a matter is significant shall be determined by either the S151 Officer or the Monitoring Officer.
- 6.5 The Chairman of the Corporate Governance Committee and the Council's external auditors shall also be informed of all matters of significant fraud and corruption.
- 6.6 If an employee has been involved in perpetrating a fraudulent or corrupt act, they shall be subject to the Council's disciplinary procedure. Where

the allegation of an offence is proven then appropriate action shall be taken as set out in the disciplinary procedures.

- 6.7 If an employee has been involved in a significant fraud or corruption (see 6.4 above) the Council may continue to undertake disciplinary action against them, irrespective of any decision reached as to whether or not there is to be a criminal prosecution. The Monitoring Officer shall make this decision.
- 6.8 The Council will aim to recover (from the perpetrators or its insurers) all losses that it sustains as a result of fraud and corruption.

6. Lessons to be Learnt

- 6.1 The Section 151 Officer and/or the Corporate Director(Service) are responsible for ensuring that lessons learnt from any investigation undertaken are considered and that internal control systems are amended accordingly. They shall also consider whether it would be of benefit to the Council to publicise the outcome of the investigation as a deterrent to others.

7. Publicising the Strategy

- 7.1 The Council will publicise the Anti -Fraud and Corruption Strategy both within and outside the Council.
- 7.2 The Council shall also comply with the requirements to publish information the relates to the delivery of this strategy in accordance with the Local Government Transparency Code.

End

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Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	External Audit Plan 2017/18
Meeting/Date:	Corporate Governance Committee – 28 th March 2018
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

Ernst and Young are the appointed external auditors and this will be their third year of auditing the Council's accounts.

In preparation for the 2017/18 audit, Ernst and Young are required to inform those charged with governance, how they plan to undertake the audit. The plan is attached as **Appendix 1**, and outlines:

- Overview of the 2017/18 audit strategy.
- Audit risks.
- Value for Money Risks.
- Audit materiality.
- Scope of the audit.
- Audit team.
- Audit timeline.
- Independence.

Recommendation(s):

It is recommended that the Committee reviews the attached External Audit Plan 2017/18 (**Appendix 1**) and:

- Comments on the plan in general.
- With the expected number of external audit updates expected to be received by the Committee between now and the end of the audit, that the Committee comments on the level of comfort that the frequency of reporting will award (para 4.6).

1. PURPOSE

- 1.1 This is the third year that Ernst and Young will be the Council's auditor.
- 1.2 Ernst and Young are required to detail how the audit will be carried out and this is detailed in Ernst and Young's Audit Plan at **Appendix 1**. The audit plan includes;
- Overview of the 2017/18 audit strategy.
 - Audit risks.
 - Value for Money Risks.
 - Audit materiality.
 - Scope of the audit.
 - Audit team.
 - Audit timeline.
 - Independence.
- 1.3 The audit plan has been designed to 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.
 - The management's view on all of the above.
- 1.4 At the completion of the audit, Ernst and Young will issue an audit report giving their opinion on whether the Council's financial statements give a true and fair view of the Council's financial position as at the 31st March 2017.

2. BACKGROUND

- 2.1 In order for Ernst and Young to get to an opinion on whether the financial statements give a true and fair view, the scope of the work they will complete is:
- Review and report on the Council's financial statements.
 - Review and report on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources.
- 2.2 The review will take place under the International Standards on Auditing (UK and Ireland).

3. RISKS

- 3.1 Ernst and Young have assessed the risks that the Council is subject to, through discussion with those charged with governance and council officers. The risks can be broken down into three categories:
- financial statement risks, including fraud and error
 - value for money risks.
- 3.2 The financial statement risks that the Council is subject to include:
- Misstatements due to fraud or error
 - Risk of fraud in revenue and expenditure recognition
 - Valuation of Investment Property

- Valuation of Land and Buildings
- Pension Liability Valuation

3.3 Value for Money risks

When assessing the value for money risks Ernst and Young will determine whether the Council has in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. Proper arrangements comprise:

- Take informed decisions.
- Deploy resources in a sustainable manner.

3.4 When considering the arrangements Ernst and Young will also draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that their assessment is made against a framework that should already be in place.

4. AUDIT APPROACH 2016/17

4.1 The audit will cover the following:

- *Analytics* - Ernst and Young will use computer-based analytics tools to capture whole populations of financial data, the data will then be subject to testing to identify exceptions and anomalies. This type of analysis will give an increased likelihood of identifying errors over random sampling.
- *Internal Audit* - Internal Audit's work in documenting the financial systems and controls, will be used to update Ernst and Young's understanding, and to carry out walk-throughs of those systems.
- *Use of Specialists* - When auditing key judgements, reliance will be placed on specialists, who have expertise not possessed by the core audit team. The specialists will be used to, analyse source data, assess assumptions, and judge whether the findings are reflected in the accounts.
- *Mandatory Audit Procedures* - Ernst and Young will also address the risk of fraud and error, review significant disclosures and corporate controls, report on inconsistencies in the financial statements and address auditor independence.

4.2 In this way the auditors will be able to assess key controls, identify significant risks and carry out substantive testing on transactions and balances.

Materiality

4.3 The level of materiality is defined as the magnitude of an omission or misstatement that individually or in aggregate could be expected to influence users of the accounts.

4.4 The planning materiality level for 2017/18 has been set at £1.8m based on 2% of gross revenue expenditure, with performance materiality set at £0.9m (50% of the planning materiality). In addition misstatements greater than £90,400 will be reported. It is possible that the level of materiality may change during the audit.

- 4.5 At the end of the audit Ernst and Young will form an audit opinion by reference to all matters that could be significant to users of the accounts, including the effect of misstatements.

Timetable

- 4.6 The timetable below show the key dates for the audit and also the dates at which Corporate Governance Committee (CGC) will receive reports and updates. The full details of the required communications to those charged with governance are shown in Appendix B of the Audit Plan.

Audit Phase	Timetable	CGC Update	Deliverables
High level planning	November/December 2017	28 March 2018	Audit Plan
Risk assessment and scope setting	February/March 2018	13 June 2018	Progress Report
Interim Audit: Testing procedures	February/March 2018	13 June 2018	Progress Report
Year-end audit	June/July 2018	26 July 2018	
Completion of audit	July 2018	26 July 2018	Report to those charged with governance Audit Report Audit Completion Certificate Report to NAO on WGA
Conclusion of reporting	September 2017	10 October 2018	Annual Audit Letter

Auditor Independence

- 4.7 The Ethical Standards require that Ernst and Young communicate with the Council on a timely basis on all significant matters that bear on their independence and objectivity. The aim of this is to ensure full and fair disclosure to those charged with governance.

- 4.8 Ernst and Young have highlighted within the Audit Plan threats to their independence and how they expect to mitigate these. The threats include:

- Self-interest threats – other on-going relationships.
- Self-review threats – fees payable to Ernst and Young are disclosed in the financial statements.
- Management threats – making decisions for the Council.
- Other threats – advocacy or intimidation.

5.0 AUDIT FEES

- 5.1 The total audit scale fee for 2017/18 is £71,736 which is marginally more than 2016/17 (£978).

5.2 It is possible the fee may change if additional work is required because misstatements lead to extra testing, any changes to fees will be discussed with the Council in advance. The fee levels are based on the following assumptions:

- Officers meeting agreed timetable of deliverables.
- Accounts and value for money conclusions are unqualified.
- Appropriate quality of documentation is provided by the Council, and.
- The Council has an effective control environment.

5.3 Fees for consideration of correspondence from public and formal objections will be an additional charge.

6. KEY IMPACTS/RISKS

6.1 The risks associated with the actions in this report are financial statement risks and value for money risks, these risks are addressed in section 3.

7. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

7.1 The plan including key dates and milestones that are necessary in order to complete the audit successfully are included in paragraph 5.4.

8. LINK TO CORPORATE PLAN

8.1 Empower local communities – by providing an Annual Financial Report that provides accurate information on the Council's finances.

8.2 Become more business-like and efficient in the way we deliver services – by ensuring that the audit is well planned and executed.

9. LEGAL IMPLICATIONS

9.1 There are no direct legal implications arising from this report.

10. RESOURCE IMPLICATIONS

10.1 The 2017/18 budget for External Audit Fees is £71,000.

11. OTHER IMPLICATIONS

11.1 No other implications.

12 REASONS FOR THE RECOMMENDED DECISIONS

12.1 It is recommended that the Panel reviews the attached External Audit Plan 2017/18 (**Appendix 1**) so members can consider the audit process to be followed.

13. LIST OF APPENDICES INCLUDED

13.1 **Appendix 1** – Huntingdonshire District Council Audit Plan 2016/17

BACKGROUND PAPERS

Ernst and Young Audit Plan

CONTACT OFFICERS

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01480 388157

Huntingdonshire District Council Audit planning report

Year ended 31 March 2018

14 March 2018

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Private and Confidential
Huntingdonshire District Council
Corporate Governance Committee
Pathfinder House
St Mary's street
Huntingdon
PE29 3TN

14 March 2018

Dear Corporate Governance Committee Members

Audit planning report

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

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

This report is intended solely for the information and use of the 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 28 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

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Contents



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Corporate Governance Committee and management of Huntingdonshire 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 Huntingdonshire 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 Huntingdonshire 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.



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01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk	No change in risk	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.
47 Valuation of investment property	Significant risk	Increase in risk or focus	The valuation of investment property was designated as an area of audit focus last year with a higher inherent risk due to the assumptions/judgement and estimation used in calculating the valuation of the property. This risk continues to remain. However, we understand that one asset within the portfolio, which is highly material, requires extensive repair and renovation. The council has involved a third part contractor to estimate the value of the work that the property requires. This adds an additional layer of complexity to the valuation approach and therefore the risk has been increased to a significant risk.
Property, Plant and Equipment Valuation	Other financial statement risk	No change in Risk or focus	Property, Plant and Equipment, specifically other land and buildings, represents a significant balance in the Council's accounts which are subject to valuation changes, impairment reviews and depreciation charges. Land and buildings are initially measured at cost and then revalued to fair value. The Council will engage an external expert valuer who will apply a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. 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.
Pensions Liability - IAS19	Other financial statement risk	No change in risk or focus	The Council operates a defined benefit pension scheme. Accounting for this scheme involves estimation and judgement. The Pension liability is the largest balance on the balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. 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.

In addition to the above there have been changes to the materiality used in the performance of our audit procedures that impact the level of work required. More information on this has been set out on the following page.

Overview of our 2017/18 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 Huntingdonshire District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

48 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.

Materiality

Planning materiality

£1.8m

Materiality has been set at £1.808m, which represents 2% of the prior years gross expenditure on net cost of services, plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs.

Performance materiality

£0.9m

Performance materiality has been set at £0.904m, which represents 50% of materiality. This compares to 75% which was used in the prior year. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the difficulties experienced in the prior year, including the number of errors identified in the financial statements we have determined that performance materiality needs to be set at 50% of planning materiality. This also takes into consideration the circumstances since the prior year audit, such as the changes in the senior finance team, the impact of the condensed close down timetable for the preparation of the financial statements and the our ability to fully assess improvements in the process. This decrease has an impact on the level of work we are required to perform, and therefore the audit fee.

Audit differences

£0.09m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £0.09m. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Governance Committee.

Overview of our 2017/18 audit strategy

Other matters impacting 2017/18

Faster closure of accounts, earlier publication and audit

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

Given the difficulties experienced in the prior year and the changes in the finance team in the current year we have rated the Council as Amber in terms of meeting this deadline. This means that we consider there to be a heightened risk of achievement of the 31 July deadline not being met.

We have been engaging with the Section 151 officer and the finance team since the prior year on a range of activities to support in facilitating adequate planning for the preparation of the financial statements and audit working papers, these include:

- ▶ Inviting finance staff to a workshop on faster close along with colleagues from other authorities
- ▶ Introducing the Client Portal, an online tool enabling information to be exchanged securely and efficiently, reducing email traffic and time spent by finance officers dealing with audit queries
- ▶ Agreeing aspects of the council's transactions that we can test as part of the interim visit
- ▶ Early discussion on key areas of judgement and estimation.

The recent changes in the finance team, including the appointment of an interim Chief Accountant to manage the accounts closure process continues to contribute to the risk of achievement.

We have agreed a timetable with the Council for our interim audit testing and our year end visit. There is little room for slippage so we are monitoring adherence to the timetable and the standard of information and query resolution.

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.

The issues experienced in the prior year have also impacted on our risk assessment process for the current year for areas such as value for money and materiality. These have been set out in more detail in sections 3 and 4 respectively.



02 Audit risks



Our response to significant risks

We have obtained an understanding of your strategy, reviewed your principal risks and combined it with our understanding of the sector to identify key risks that impact our audit. 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.

Misstatements due to fraud or error*

What is the risk?

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

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

Specifically, as the Council is more focussed on its financial position over the medium term we have focussed this risk on the capitalisation of revenue expenditure on Property, Plant and Equipment.

We will also considered other areas where management can apply judgement and estimation, including the valuation of the NNDR appeals provision, the calculation of statutory adjustments impacting the general fund such as the minimum revenue provision (MRP) and revenue expenditure financed from capital under statute (REFCUS).

What will we do?

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

- ▶ 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.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Reviewing accounting estimates for evidence of management bias.
- ▶ 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;
- ▶ Testing the assumptions and data used in the calculation of the NNDR appeals provision; and
- ▶ Evaluating the business rationale for any significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

52 Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2016/17 financial statements:

Income Account: £97.601m

Expenditure Account: £94.036m

There could also be a resulting impact on balance sheet accounts and the overall reserves position.

What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The Council has historically performed well in relation to their outturn position for the year. In 2016/17 the Council incurred a surplus of £0.1 million chargeable to the General Fund. As the Council is more focussed on its financial position over the medium term we do not consider the Council's standard in year income and expenditure streams to have any heightened risk.

We consider the area most susceptible to management bias and misreporting to be the most relevant and have therefore linked to our work over management override of controls (see above). In relation to expenditure we have focussed this risk on the capitalisation of revenue expenditure on Property, Plant and Equipment and the valuation of the NNDR appeals provision.

What will we do?

As the risk areas identified also link to our risk over management override of control we will consider the results of our work over the inappropriate capitalisation of expenditure and the calculation of the NNDR appeals provision, as set out in the management override of control section above, for inappropriate expenditure recognition.

Although we do not consider there to be a heightened risk in the remainder of revenue and expenditure we will also consider the results of our standard procedures over the following:

- ▶ Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing;
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (see also the management override of control section below);
- ▶ Reviewing income and expenditure accounting estimates for evidence of management bias;
- ▶ Review audit findings from our work on management override of control and consider any factors that highlight the need for additional considerations/audit work on revenue and expenditure recognition;
- ▶ Evaluating the business rationale for any significant unusual transactions.

Our response to significant risks (continued)

Valuation of investment property

What is the risk?

The fair value of Investment Properties (IP) represent significant balances 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.

There is one IP asset with a net book value of £7 million (as at 31 March 2017) representing c.23% of the IP portfolio which has been identified as requiring extensive repair and renovation. The exact quantum of work is unknown but the Council has involved a third part contractor to estimate the value of the work that the property requires.

This adds an additional layer of complexity to the valuation approach and as a result there is a risk that the financial statements could be materially misstated at year-end.

The overall valuation of investment property was designated as an area of audit focus last year with a higher inherent risk due to the assumptions/judgement and estimation used in calculating the valuation of the property. This risk continues to remain.

What will we do?

In relation to the asset to which the significant risk relates, we will:

- ▶ Consider the work performed by the Council's valuer, including the judgements and assumptions made in assessing the impact the capital works have on the property's value;
- ▶ Engage an EY estates specialist to consider the valuation of the property to ensure that the asset has been materially stated; and
- ▶ Test the base data used in performing the valuation (e.g. floor plans, structural repairs works schedules and costings).

More generally, to address our inherent risks over the investment property as a whole we will:

- ▶ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Confirm that all investment properties have been subject to annual valuation as at 31 March as required by the Code.
- ▶ Considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- ▶ Test accounting entries have been correctly processed in 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) represent significant balances 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.

The Council will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually, assets are assessed to identify whether there is any indication of impairment.

54 As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. 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.

Pension Liability Valuation

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 deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £72.161 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuer 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 2017/18 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.

We will:

- ▶ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Huntingdonshire 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 Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



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

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

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

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

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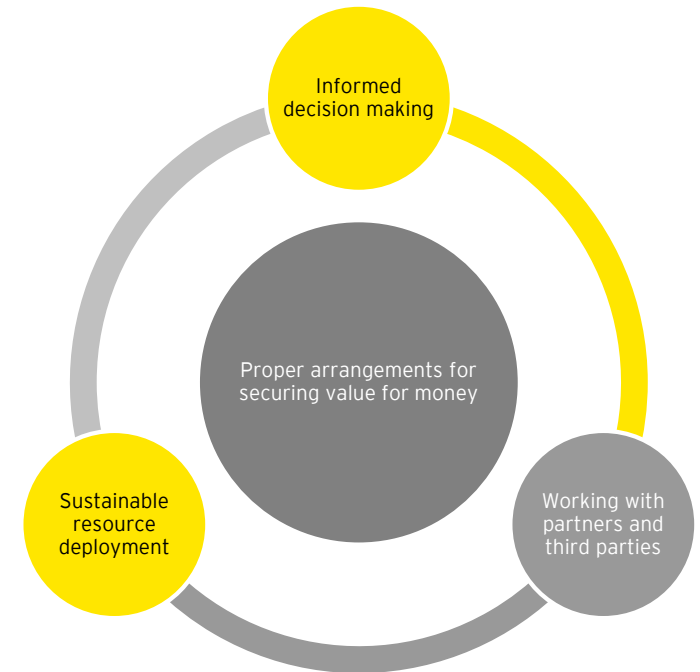
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion. We have also included an additional area of audit focus, though we do not consider this to be a significant risk.





Value for Money Risks

What is the significant value for money risk?

In the prior year we experienced significant difficulties in completing our audit. This included the adequacy of working papers and their reconciliation to the financial statements, the timeliness of deliverables and responses to auditor queries, over reliance on key individuals, and a number of adjustments being amended in the financial statements.

All of the above has had an impact on the efficiency of the accounts and audit process for both the Council and us as your auditors.

Following the prior year audit there have then been changes in the finance team resulting in a strain on resources and work on areas such as the budget. An interim Chief Accountant has recently been engaged to manage the finance team and lead on the preparation of the 2017/18 financial statements.

The faster close timetable in 2017/18, as well as the pressure of implementing a new finance system ready for 2018/19 will put considerable strain on the finance team's ability to deliver conflicting priorities.

Whilst our risk assessment for the financial statements audit has not identified a heightened risk in any particular area, we do consider that there is a risk to demonstrating that there have been effective arrangements in place to demonstrate the Council has planned, organised and developed the workforce (namely the finance team) to deliver the financial statements. The additional time and costs incurred by the Council during the accounts and audit process, risks distracting staff from the ongoing delivery of strategic priorities and should be avoidable with effective planning and resource deployment.

The risks to not being able to prepare and sign off on the financial results for the year also raises risks around the Council's ability to take informed decisions, where decisions are made on draft information which is then subject to significant amendment.

What arrangements does the risk affect?

Take informed decisions / Deploy resources in a sustainable manner

What will we do?

Our approach will focus on:

- ▶ Reviewing the changes made to the financial reporting process to address the issues identified in the prior year;
- ▶ Reviewing the accounts closedown timetable, including the timescales for the preparation of the financial statements and supporting working papers ready for audit;
- ▶ Considering the Council's allocation of tasks to individuals in the finance team for both preparation and review to ensure these are reasonable;
- ▶ Assessing the results of the interim audit for improvements in the process;
- ▶ Considering the adequacy of the draft financial statements and working papers, as well as the finance teams ability to respond to additional queries in a timely manner;
- ▶ Consider the overall accounts and audit experience as we complete the audit, seeking validation that changes have been made to address the issues identified in the prior year;
- ▶ Reviewing internal audit reports to identify any significant issues identified during finance related reviews and consider the impact on the overall control environment;
- ▶ Reviewing the monitoring of the significant findings arising from our audit in 2016/17 as part of the Corporate Governance Committee; and
- ▶ Testing for any significant impact resource capacity has had on the Council's in year financial reporting and budget setting. This will include comparing forecast vs actual outturns, assessing appropriate segregation of duties in the preparation and review/sign off of quarterly reporting and budget setting during 2017/18. We will also assess the significant assumptions used in the budget setting process for appropriateness.

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Value for Money Risks

What is the area of focus associated with value for money?

The Council has been actively pursuing its commercial investment strategy over the past few years, and 2017/18 has included the purchase of an additional out of area property.

As government funding continues to come under pressure, the reliance on commercial revenue streams becomes heightened. The nature of commercialisation exposes the Council to additional risks around property values, achievement of investment yields and more volatility in the preparation of budgets.

Where the Council is borrowing to invest in its strategy it is also important the Council considers all costs associated with the related investment, to confirm that the overall net return is consistent with the assumptions being included in the medium term financial strategy.

What arrangements does this affect?

Take informed decisions / Deploy resources in a sustainable manner

What will we do?

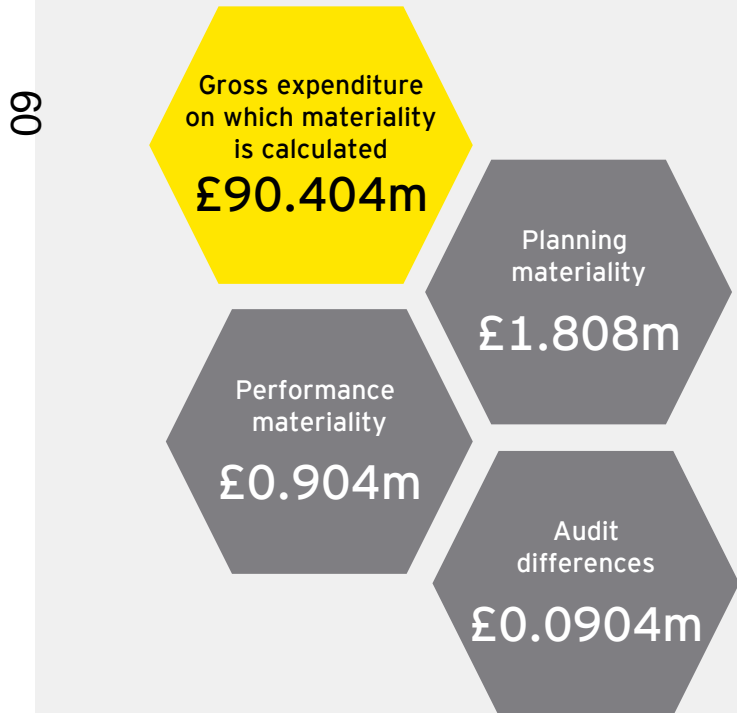
We will:

- ▶ Review the decision making process for the acquisition of the out of area property purchased during the financial year, including any associated due diligence, and at a high level the factors taken into account in calculating the investment yield;
- ▶ Review the assumptions on commercialisation included in the 2017/18 budget and compare these against the actuals achieved, seeking explanation for any significant variance;
- ▶ Review the process for ongoing monitoring and reporting of the commercial investment strategy;
- ▶ Review the assumptions included in the medium term financial strategy and consider them for appropriateness; and
- ▶ Consider any recent case law and how the Council has taken this into account when reviewing their commercial investment strategy.

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.808 million. This represents 2% of the Council's prior year gross expenditure on net cost of services, plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs. It will be reassessed throughout the audit process. The main function of the entity is to provide services to the local community and as such the income statement is considered to be the most appropriate basis for determining materiality. We have provided supplemental information about audit materiality in Appendix D.



We request that the Corporate Governance 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 £0.904m which represents 50% of planning materiality. This compares to 75% which was used in the prior year. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the difficulties experienced in the prior year, including the number of errors identified in the financial statements we have determined that performance materiality needs to be set at 50% of planning materiality. This also takes into consideration the circumstances since the prior year audit, such as the changes in the senior finance team, the impact of the condensed close down timetable for the preparation of the financial statements and the our ability to fully assess improvements in the process. This decrease has an impact on the level of work we are required to perform, and therefore the audit fee.

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

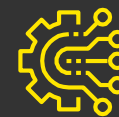
Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Corporate Governance Committee, or are important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

Specific materiality - We have set a specific materiality for the areas below which reflects our understanding that an amount less than our materiality may influence the economic decisions of users of the financial statements:

- Remuneration disclosures, related party transactions and councillor allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



05 Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

2 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.

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.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:



We will use our 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 Corporate Governance Committee.

Internal audit:

We will review internal audit plans and the results of any relevant work. We will consider the findings from these reports, together with reports from any other work completed in the year, as part of our detailed audit planning, where they raise issues that could have an impact on the financial statements.



06

Audit team and use of specialists



Audit team and use of specialists

Audit team

The engagement team is led by Neil Harris, who has significant experience on council audits. Neil is supported by Hayley Clark, an experienced Senior Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Accountant. The day to day audit team will be lead by Sadaf Zahid, an experience senior within our government and public sector team. There have been no changes in your senior audit team compared to the prior year.

Specialists

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

Area	Specialists
Property, Plant and Equipment, and Investment Properties	Management specialist - Barker Storey Matthews (external valuer) EY specialist - EY real estates (in relation to investment property and where required)
Pension valuations and disclosures	Management actuarial specialist - Hymans Robertson EY specialists - EY Pensions Advisory, PwC (Consulting Actuary to the PSAA)
Fair value of financial instrument disclosure	Management specialist - for the provision of fair value information in respect of financial instruments (Arlingclose)
NNDR appeals provision	Management specialist - Pixels financial management

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.



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07

Audit timeline





Audit timeline

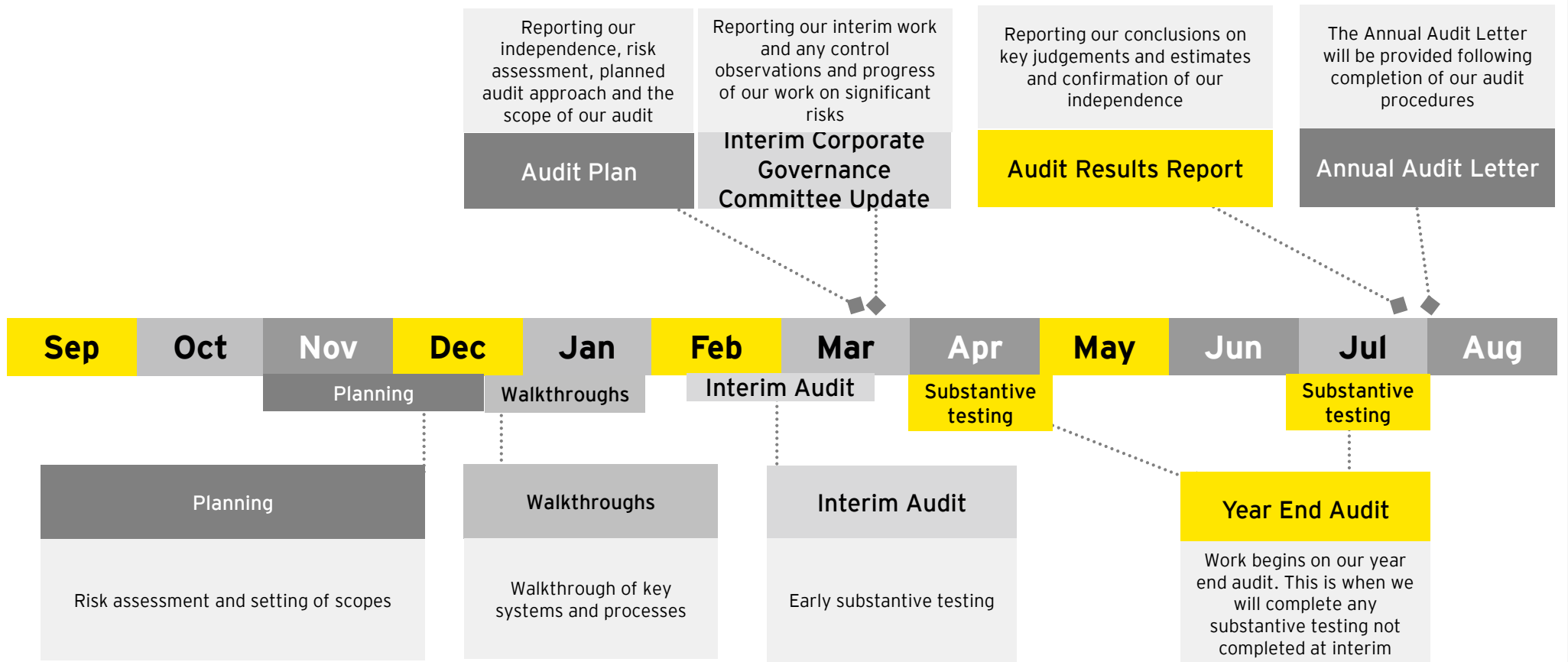
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the 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.

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08

Independence



Introduction

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

Required communications

Planning stage	Final stage
<p>69</p> <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 [note: additional wording should be included in the communication reflecting the client specific situation] 	<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.

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 Neil Harris, 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 0:1. 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 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.

Other communications

EY Transparency Report 2017

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

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

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



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Appendices



Appendix A

Fees

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

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

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
PSAA scale fee - Code work	53,236	53,236	53,236
Prior year overrun (note 1)	N/A	N/A	22,603
Impact of lower materiality thresholds	8,000 - 12,000	N/A	N/A
Investment property significant risk	2,500 - 3,000	N/A	N/A
Value for Money significant risk	2,000 - 3,500	N/A	N/A
Total audit	65,736 - 71,736		75,839
Other non-audit services not covered above (Housing Benefits)	18,136	18,136	17,522
Total other non-audit services	18,136		17,522
Total fees	83,872 - 89,872	71,372	93,361

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.

All fees exclude VAT

Note 1 - This amount is subject to approval by the PSAA and will be billed as soon as this is confirmed.

We have included a number of fee ranges above for the additional work we are required to complete as part of the current year audit. These relate to:

1. The impact of being required to undertake our audit to a lower materiality level as a result of the findings arising from the prior year audit. Details of this are included in section 4. The lower threshold against which our audit procedures are to be performed means that additional audit testing will be required. This also decreases our threshold for investigating variances where we performed procedures such as substantive analytical review.
2. The additional work required as a result of the increase risk associated with investment properties, primarily relating to the use of EY specialist to provide assurance over the valuation of one particular asset. Details of this can be seen in section 2.
3. The work required to address the significant value for money risk set out in section 3.

Due to the ongoing nature of the issues we are not yet in a position to give a definitive view on the extent of work required but will keep this under review with management and provide you with updates accordingly.

All scale fee variations will be subject to agreement with the PSAA.



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 planning report
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
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

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Appendix B

Required communications with the Corporate Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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
75 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
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
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report

Appendix B

Required communications with the Corporate Governance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
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 Corporate Governance Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
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	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Corporate Governance 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 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.

Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Annual Governance Statement: Significant Issues
Meeting/Date:	Corporate Governance Committee – 28 March 2018
Executive Portfolio:	Strategic Resources: Councillor J A Gray
Report by:	Internal Audit & Risk Manager
Wards affected:	All Wards

Executive Summary

The Annual Governance Statement (AGS) is required to include details of any significant governance issues that the Council is aware of. Corporate Management Team having considered this matter are of the opinion that the following five items are significant enough to be included in the 2017/18 AGS.

Housing Affordability *Leading to homelessness and constraining growth.*

Morbidity/Growing number of years of ill health *Impacting on people's ability to be self-reliant, and generating additional cost for us through support needs.*

Wider economic environment *Impact on CIS/Business Rates receipts, and level of need from residents.*

Skill levels and educational attainment *As a means by which residents are able to attract profitable work and in attracting employers to the area.*

Partner agency operational pressures *Financial challenges of partners impacting on demand for our services or reducing existing support.*

Following Committees decision as to which items are deemed significant, the AGS will be written and presented to the July meeting for approval.

Recommendation

It is recommended that the Committee:

1. Approve as significant governance issues for the 2017/18 AGS the following:
 - Housing Affordability
 - Morbidity/Growing number of years of ill health
 - Wider economic environment
 - Skill levels and educational attainment
 - Partner agency operational pressures
2. Determine if there are any other issues that warrant inclusion in the 2017/18 AGS.

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the significant issues identified for inclusion in the 2017/18 Annual Governance Statement (AGS).

2. BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require the Council to conduct a review of the effectiveness of its system of internal control and prepare an AGS each year. The Regulations also require the AGS to be approved by the Committee prior to its approval of the statement of accounts, the statutory deadline for which is the 30 September.

- 2.2 The Committee is being asked to consider those issues that it feels are significant enough to warrant inclusion in the AGS, so ensuring that there is no delay to its approval when presented to the Committee in September.

- 2.3 The Committee have previously considered an issue to be significant if it:
- seriously prejudiced or prevented the achievement of the Corporate Plan themes and aims;
 - resulted in the need to seek additional funding or the significant diversion of resources;
 - led to a material impact on the financial statements;
 - attracted or have the potential to attract significant public interest or have had an impact on the reputation of the Council;
 - resulted in formal action being undertaken by the Head of Resources or the Monitoring Officer.
 - had been identified by the External Auditor or the Committee as being significant;
 - had been reported by the Internal Audit & Risk Manager as significant in their annual internal audit opinion;
 - resulted in disclosures of serious incidents relating to information governance, including data loss or confidentiality breach;
 - put a major programme or project at risk.

3. ANALYSIS

- 3.1 Corporate Management Team have considered the Council's overall governance systems, structures and partnerships and are of the opinion that the following issues should be considered for inclusion in the AGS:

Housing affordability

- 3.2 This issue is one which impacts on the Council's ability to deliver the Corporate Plan primarily through the escalating financial consequences of homelessness and the ability to recruit suitably experienced and qualified staff. Furthermore it also has a bearing on the mobility of the local labour market and inward investment and business growth opportunities.

Morbidity/Growing number of years of ill health

- 3.3 Increasing pressures are being felt by many parts of the public sector, primarily through the growing demand on support costs, through such things as disabled facilities grants and personal care costs. This is not

something that any single agency has ownership of, but requires joint working to deliver effective solutions. For this reason it is considered appropriate that it be included in the AGS.

Wider economic environment

- 3.4 The Council is very much reliant on the private sector to deliver one of its key Corporate Plan strategic priorities – delivering sustainable growth across the District. Whilst the Council is able to assist the private sector in a number of ways, external factors such as a market volatility will have a greater impact, which in turn will have direct impacts on the Councils financial plans and forecasts for new homes bonus, council tax and business rates incomes.

Skill levels and educational attainment

- 3.5 Linked to the issues noted above, it is important that the workforce within the area not only becomes more self-reliant but also contributes to the areas ability to grow and thrive. A skilled and flexible workforce who possess digital skills will allow the Council to transform its current delivery models and offer new methods of service delivery.

Partner agency operational pressures

- 3.6 There is evidence to suggest that as parts of the public sector reduce their input into communities, that the demand merely transfers to other agencies. In Huntingdonshire whilst partners work well together there continues to be the challenge of controlling additional demand and the corresponding budget pressures that it brings.

4. RISKS

- 4.1 Where reviews of governance arrangements have revealed significant gaps which will impact on the authority achieving its objectives, the AGS is required to reflect this position and outline the action to be taken to ensure effective governance in the future. The external auditors in forming their Value for Money (VFM) opinion, will review the AGS as part of considering the Council's 'proper arrangements' to secure economy, efficiency and effectiveness on the use of resources. If they consider the AGS is not reflective of our governance arrangements a qualified VFM opinion may be issued.

- 4.2 The Accounts and Audit Regulations 2015 (Para 6, section 4a) require the AGS to be approved before the statement of accounts. The AGS will be presented to the Committee at its July meeting alongside the statement of accounts. To ensure that Committee raise no objections to the AGS at the July meeting, a copy of the draft AGS will be circulated to the Committee and External Audit for review and comment ahead of that meeting.

5. LINK TO CORPORATE PLAN

- 5.1 The Councils governance arrangements underpin the delivery of the Corporate Plan by ensuring good management, performance, financial stewardship, public engagement and ultimately the outcomes for local people and service users. The AGS details how the governance arrangements operate in practice.

6. LEGAL IMPLICATIONS

- 6.1 Whilst the AGS has to be approved by the 31 July, the legal implications from non-compliance are considered to be low. The external auditor would refer to the matter in their annual audit letter which may have an effect upon the Council's reputation.

7. RESOURCE IMPLICATIONS

- 7.1 There are no direct resource implications arising from this report.

8. REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 Committee are being asked to approve significant governance issues for inclusion in the 2017/18 AGS. The intention is that this will allow the AGS to be drafted and approved at their July meeting without further change or amendment.

BACKGROUND PAPERS

None

CONTACT OFFICER

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Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Internal Audit Charter and 2018/19 Audit Plan
Meeting/Date: Corporate Governance Committee – 28 March 2018
Executive Portfolio: Cllr J Gray (Resources)
Report by: Internal Audit & Risk Manager
Wards affected: All wards

Executive Summary:

The Committee's terms of reference make it responsible for ensuring effective internal audit is undertaken by the Council and in accordance with the Public Sector Internal Audit Standards (PSIAS). This report is asking for approval to a number of changes to the Internal Audit (IA) Charter and the IA plan for quarter 1, 2018/19.

The PSIAS requires IA to be independently, externally assessed at least once every five years to show whether or not it conforms with the PSIAS. The assessment is due to be completed by March 2019. In preparation for the external review, changes are required to the IA Charter to ensure that it reflects the most recent (2017) version of PSIAS. The key changes are the adoption of the requirement to meet the mandatory elements of the global Institute of Internal Auditors (IIA) International Professional Practices Framework, namely the:

1. Definition of Internal Auditing
2. Code of Ethics, and
3. International Standards for the Professional Practice of Internal Auditing.

In addition the opportunity has also been taken to clarify some areas of the Charter and for it to reflect the changes being introduced into the 2018/19 audit planning process.

The IA plan that Committee has previously been asked to approve has traditionally covered a 12 month period. A significant amount of time is spent preparing the annual plan only for it not to be fully delivered due to the need to reallocate time to other priorities through the year. A trial is being proposed for 2018/19 of moving to a three month plan, renewed quarterly following meetings with the Senior Management Team and their managers. This will allow IA to respond quickly to changing needs, ensures the plan stays focused on current or future risks and consider their impact on the delivery of Corporate and Service Plan aims and objectives.

Recommendation

That the Corporate Governance Committee:

1. Approve the Internal Audit Charter (Appendix 1); and
2. Approve the Internal Audit plan, for quarter 1, 2018/19 (Appendix 2).

1. PURPOSE OF THE REPORT

- 1.1 To recommend to the Committee that the Internal Audit (IA) Charter and IA audit plan for Qtr1 2018/19 be approved.

2. BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require that the Council ‘...must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Audit Standards (PSIAS) or guidance’. The Council have adopted the PSIAS through the Committees Terms of Reference.
- 2.2 The Council requires the Internal Audit & Risk Manager (IARM) to “establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisations goals”. The risk based-plan must also:
- take into account the requirement to produce an annual internal audit opinion;
 - incorporate a strategic high-level statement of how the internal audit service will be delivered and developed and how it links to the Council’s objectives and priorities;
 - explain how internal audit’s resource requirements have been assessed; and
 - include the approach to using other sources of assurance and any work required to place reliance upon those other sources.

Furthermore, the IARM must review and adjust the plan as necessary, in responses to changes in risks, operations, programs, systems, and controls.

3. ANALYSIS

Internal Audit Charter

- 3.1 The Code of Financial Management requires that the Committee approve the IA Charter, which as required by the PSIAS sets out the purpose, authority and responsibility of the Council’s IA function.
- 3.2 Whilst minor changes were made to the PSIAS in April 2016 more substantial changes were introduced in April 2017. It is proposed that the Charter be amended to account for these and also reflect changes to the internal planning process for 2018/19. The amendments are summarised below.

	Section	Proposed amendment
1	Mandatory Guidance	Addition of the requirement to meet the mandatory elements of the Inst. of Internal Auditors (IIA) International Professional Practices Framework, namely the Definition of Internal Auditing Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.
2,3	Mission of Internal Audit & Definition of Internal Auditing	Remove the previous ‘Purpose of Internal Audit’ definition and replace in full with the PSIAS text for the Mission of Internal Audit & Definition of Internal Auditing.

4	Relationship with Members & Senior Management	Adding the requirement that the CGC reviews the Council's compliance with the governance requirements contained in the CIPFA Statement on the role of the Head of Internal Audit in public sector organisations.
5	Independence & Objectivity	Clarifying that when auditor conflicts of interests occur that appropriate safeguards should be introduced. Clarity on the IARM role in respect of risk management activities. Referring specifically to the IIA position paper, <i>The Role of Internal Audit in Enterprise Wide Risk Management</i> .
6	Authority & Confidentiality	Clarifying that the IA remit extends to the entire control organisation of the Council.
7	Internal Audit Management	Remove the requirement to prepare a strategic and annual audit plan and replace with a quarterly audit plan.
9	Role of Internal Audit in fraud and corruption	Removed the fraud and corruption references within section 7, Internal Audit Management, and replace with a new section that deals solely with fraud and corruption.
10	Reporting & Monitoring	Add that the CGC will be provided with periodic updates on the work of the IAS. The updates shall cover significant findings and actions and provide information on the status of the agreed audit work plan. Amendments and revisions to the audit plan shall also be reported and agreed by the CGC.
11	Quality Assurance & Improvement Programme	Add the requirement for external assessments to conclude whether IA is in conformance with PSIAS or not.

3.3 The IA Charter is included as Appendix 1.

Available resources

3.4 From April 2018 the Internal Audit Service will have an establishment of 2.1 full time equivalents(fte).

The 2.1fte's consists of:

1.00 fte: Internal Audit & Risk Manager

0.86 fte: Internal auditor (2 posts)

0.27 fte: Computer audit specialism

3.5 As the table below shows, it is anticipated that for 2018/19 the audit service will have 322 days available for completing the audit plan, a reduction of 90 days (21%) on 2017/18.

		17/18		18/19
Total days available		694		554
Less	Leave, sick, elections etc.	66		64
	Staff development & training	12		13
	Management	71		54
	PSIAS/Shared Service/Lean	11	160	5
		534		418
Less	Risk Management & Insurance	30		40
	General advice	38		20
	Corporate Governance Cttee	15		12
	Follow-up reviews	12		12
	Action – reporting	6		6
	Annual Governance Statement	6		6
	Contingency	15	122	0
				96
	Delivery of the audit plan	412		322

- 3.6 The PSIAS requires that the audit plan must explain how internal audit's resource requirements have been assessed. The Committee were informed at their January meeting that it was likely that an auditor post was to be deleted from the establishment with effect from April 2018. The Council endorsed that decision at their February meeting. At this time, it is anticipated that 322 days will be adequate to allow internal audit to undertake sufficient work so that the annual internal audit opinion (which must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control) will not require qualification regarding the breadth and depth of work performed. If during the year that does not appear to be the case, a further report will be provided to the Committee explaining the IARMs concerns.

Internal audit plan

- 3.7 Annual internal audit plans have been prepared for many years based on an audit universe that contained details of all systems and significant processes. For the last few years the audit universe has continued to be maintained and updated with risks recorded on the risk register. A significant amount of time is spent preparing the annual plan and scheduling audits across the year, only for the plan not to be fully delivered due to the need to advance, deter, add or remove audits throughout the year.
- 3.8 A trial is being proposed for 2018/19 that will see IA move away from preparing a traditional annual audit plan to one that covers a three month period only and be updated quarterly.

Each quarters plan will be prepared following meetings with Heads of Service and their managers and discussion with the Senior Management Team collectively. Furthermore, once the 2018/19 Corporate Plan and supporting Service Plans have been approved and appropriate updates made to the risk register, these documents will be considered when the Qtr.2 (and onward) plan is being prepared. At that time, the following issues will be taken into account when preparing the quarterly audit plan.

The risks identified in the corporate and operational risk registers.

Discussions with Directors, Heads of Service and other Managers regarding any further risks which threaten the achievement of corporate or service objectives (including changes to the current control environment, the introduction of new systems and process, and/or projects and corporate initiatives).

The results of previous internal audit reviews and the findings from any external reviews undertaken.

Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans

- 3.9 This change of approach aims to allow the plan to respond to changing circumstances and focus on current or future risks (rather than be backward looking) and their impact on the delivery of Corporate and Service Plan aims and objectives. This approach has the benefit of enabling greater flexibility and responsiveness.
- 3.10 The outcome of the new planning process will not lead to a reduction in the testing of the key controls associated with the main financial systems. With the planned introduction of the new financial management system (FMS) from April 2018, time has already been allocated in the Qtr.1 plan for IA to work with the relevant managers in order to identify the key FMS controls that will be used as the basis for the quarterly key control testing. The audit plan for Qtr.1 2018/19 is attached at Appendix 2.

Other sources of assurance

- 3.11 The PSIAS requires that the audit plan planning process takes into account other sources of assurance that will be available during the year. Managers have been requested to provide details of any planned external independent reviews from which assurance could be obtained so as to avoid/minimise duplication of effort.
- 3.12 In addition to any external assurance, the Transformation Team will also be undertaking a number of service reviews during the year. At the time of preparing this report, the reviews to be undertaken by the Transformation Team during Qtr.1 2018/19 have not been agreed. They are however likely to focus on reducing avoidable contact, with an aim of creating capacity within the Call Centre to meet current and predicted demand. Internal audit intend to liaise closely with the Transformation Team to both comment upon any changes proposed to the control framework arising from the reviews they complete and be able to use their work as an additional source of assurance that will assist in the preparation of the annual internal audit opinion.

4. LINK TO THE CORPORATE PLAN

- 4.1 The Internal Audit Service through the audit plan contributes to all the strategic themes and outcomes. Specifically it supports Corporate Management Team and Heads of Service by undertaking reviews that provide assurance that:
- significant risks identified in the risk register are managed effectively;
 - laws and regulations are being met,
 - business and financial processes and systems are managed effectively; and
 - assets are safeguarded.

It also improves the performance of the Council by assessing current risks, considering emerging risks, identifying efficiency gains and process improvements.

5. RESOURCE IMPLICATIONS

- 5.1 The 2018/19 service budget is sufficient to support the internal audit establishment detailed in paragraph 3.4.

6. REASONS FOR THE RECOMMENDED DECISIONS

- 6.1 The Committee's terms of reference require it to approve both the IA Charter and IA plan.

7. LIST OF APPENDICES INCLUDED

- Appendix 1 – Internal Audit Charter
Appendix 2 – 2018/19 Internal Audit plan - Qtr. 1.

BACKGROUND PAPERS

The Public Sector Internal Audit Standards

CONTACT OFFICER

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INTERNAL AUDIT CHARTER 2018

The Council considers its Internal Audit Services to be a key component of its governance framework. This Charter provides a framework for the conduct of Internal Audit in Huntingdonshire District Council and has been approved by the Council's Corporate Governance Committee.

The key provisions of this Charter are set out below.

Mission of Internal Audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight *and* to specifically support the Council successfully achieve its vision and priorities as set out in the Corporate Plan

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Independence & Objectivity

The internal audit service will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement).

The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

Authority

Internal auditors are authorised to have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Internal Audit & Risk Manager (IARM) considers necessary to enable the Internal Audit Service to meet its responsibilities.

Confidentiality

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The IARM and individual audit staff and any contractors performing internal audit work are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Reporting

The IARM shall submit to the Corporate Governance Committee, no later than the date at which the Council's annual governance statement is approved, an annual report and formal audit opinion.

Effective April 2018

1. Mandatory Guidance

The Internal Audit Service (IAS) will govern itself by adhering to the Public Sector Internal Audit Standards (PSIAS)¹ as required by regulation 5 of the Accounts and Audit (England) Regulations 2015.

The PSIAS encompass all three of the mandatory elements of the Institute of Internal Auditors International Professional Practice Framework, namely the:

1. Definition of Internal Auditing
2. Code of Ethics, and
3. International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

2. Mission Statement and Aims of Internal Audit

The Mission of IA is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight *and* to specifically support the Council successfully achieve its vision and priorities as set out in the Corporate Plan.

The aims of Internal Audit are:

- To provide a high quality and effective audit service that is responsive to the needs and requirements of Members and management.
- To add value to the Council systems by identifying areas for improvement and offering advice and assistance to Members and management to ensure effective systems of internal control.
- To assist the Council in meeting its corporate governance requirements.
- To operate in accordance with the PSIAS and guidance issued and endorsed by the Relevant Internal Audit Standard Setters as applying to local government and the internal audit manual.

3. Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4. Relationship with Members & Senior Management

Corporate Governance Committee

The Accounts & Audit (England) Regulations 2015 require the Council to “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”.

The Council has established a Corporate Governance Committee (CGC) and specifically delegated to it responsibility for “fulfilling the Board responsibilities of the PSIAS and

¹ The PSIAS are based upon The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.

ensuring effective internal audit is undertaken in accordance with the PSIAS”² The internal audit service shall report functionally to the Corporate Governance Committee.

The Internal Audit & Risk Manager (IARM) shall have:

- free and unrestricted access to the CGC and the right to attend all of its meetings, and
- the right to meet with the Chairman of the CGC and/or the relevant Cabinet Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

In addition to ensuring the IA service conforms with PSIAS, the CGC shall also ensure that the governance responsibilities listed against the five key principles for delivering an effective internal audit function contained within the CIPFA Statement on the role of the Head of Internal Audit in public sector organisations are delivered by the Council³.

Senior Management

The Managing Director and the Corporate Director (Services) and the Corporate Director (Delivery) together with the Head of Resources⁴ shall fulfil the role of senior management as defined by the PSIAS.

The Head of Resources shall support the CGC by ensuring that there are effective arrangements⁵ for the internal audit of the control environment.

The IARM shall:

- report administratively to the Head of Resources; and
- have free and unrestricted access to senior management.

5. Independence & Objectivity

Independence is essential to the effectiveness of the internal audit service; so it will remain free from all conditions or interference that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal audit staff with real or perceived conflicts of interests must inform the IARM as soon as these issues become apparent so that appropriate safeguards can be put in place.

The IARM will confirm to the CGC annually, the organisational independence of the internal audit service. They shall also disclose to the CGC any interference and its related implications in determining the scope of internal auditing, performing work and/or communicating results.

The IARM is responsible for the delivery of the Internal Audit, Insurance and Risk Management services. All three areas have a key part to play in mitigating the risks facing the Council. Responsibility for these operational areas is recognised by senior management and the CGC.

In respect of risk management activities the IARM shall be guided by the Institute of Internal Audits position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management*.

² Extract from Committee’s terms of reference approved by Council on 29 March 2017.

³ Published in December 2010 (and currently under review).

⁴ Fulfilling the duties of Section 151 of the 1972 Local Government Act.

⁵ As outlined in the CIPFA publication “The Role of the CFO in public sector organisations”.

The IARM will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. The position paper lists the following as legitimate roles (with safeguards):

- Co-ordination of risk management activities;
- Consolidating risk reporting;
- Developing a risk approach for approval and its subsequent maintenance;
- Facilitating identification and evaluation of risks; and
- Coaching management in responding to risks.

Internal audit staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. They shall also not assess specific operations for which they had responsibility in the previous 12 months. Internal audit reviews of insurance and risk management services shall not be undertaken by the IAS. Internal audit reviews will be commissioned by the Head of Resources.

6. Authority & Confidentiality

The IA remit extends to the entire control environment of the Council.

Internal auditors (including contractors and external service providers engaged to perform work on behalf of the IARM) shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the IARM considers necessary to enable the IAS to meet its responsibilities. All employees and members are required to assist the internal audit activity in fulfilling its roles and responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. Individual internal auditors are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

7. Internal Audit Management

The Council shall appoint an IARM who shall determine the priorities of, manage and deliver the internal audit service in accordance with this Charter.

The IARM shall:

- ensure they have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of a risk based audit plan each quarter that is closely aligned to the need to provide assurance against the Council's strategic priorities, key business objectives and risks, as contained or identified within its Corporate Plan, Service Plans, risk register and framework of assurance.
- review and adjust the audit plan as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.
- report annually the impact and consequence of any resource limitations to the CGC, who will then recommend to Cabinet whether or not to accept the consequence identified or seek an increase in internal audit resource.
- maintain a quality assurance and improvement programme to ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as set out in the internal audit manual .
- undertake an annual review of the development and training needs of internal audit staff and arrange for appropriate training to be provided so that they remain proficient.
- establish effective relationships with managers at all levels.

8. Role and responsibilities

Internal audit reviews shall examine and evaluate the adequacy and effectiveness of the Council's control environment comprising risk management, control and governance processes. This shall be achieved via:

Assurance activities: *results of which will influence the opinion on the adequacy and effectiveness of the control environment.*

Risk based system audit reviews. The documentation, evaluation and testing of financial, operational and management information systems.

Information technology reviews. Specialist evaluation of hardware, software and the IT environment.

Fundamental financial systems. Reviews focusing on agreed key controls.

Performance improvement. The economy, efficiency and effectiveness of business systems and processes.

Advisory activities: *results of which will contribute to the opinion on the adequacy and effectiveness of the control environment.*

Systems & processes. Control advice on new and developing systems.

Consulting services. Reviews at the request of management, that adds value and improve governance, risk management and control processes and support management in their work.

Shared services: Where the Council provides 'shared services' to, or receives 'shared services' from other organisations, the IARM shall liaise with the other organisations IAS and agree the scope of the assurance that is to be provided or received and take account of that requirement when preparing the annual audit plan.

9. Role of Internal Audit in Fraud and Corruption

It is part of management's responsibility to consider the risk and impact of fraud and to design and implement suitable safeguards to mitigate these risks.

IA will:

- support management in minimising fraud-related risks and act as a source of advice.
- put in place arrangements that ensure IA audit is notified of all suspected or detected instances of non-welfare fraud, corruption or impropriety and in conjunction with the Corporate Fraud Team Leader promote a counter-fraud culture within the Authority and determine the most appropriate method of investigating allegations.

IA does not responsibility for the prevention or detection of fraud and corruption. Internal auditors should be alert in all their work to risks and exposures that could allow fraud and corruption to take place and to any indicators that fraud and corruption may have occurred.

10. Reporting and Monitoring

Internal Audit Reports

At the conclusion of a review, a written report will be issued to the appropriate manager, that will

- include an overall assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail management's response and timescale for corrective action;
- identify issues of good practice

When corrective action has not been agreed, reporting will be escalated to a level consistent with the IARMs assessment of the risk.

The IARM shall regularly review and report to senior management, the progress made by managers in introducing the agreed corrective actions. Senior Management are responsible for ensuring that agreed corrective actions are introduced.

Reporting to the Corporate Governance Committee

The CGC will be provided with periodic updates on the work of the IAS. The updates shall cover significant findings and actions and provide information on the status of the agreed audit work plan. Amendments and revisions to the audit plan shall also be reported and agreed by the CGC.

Full copies of closed internal audit reports will be issued to CGC members on a quarterly basis.

The IARM shall present an annual report to the CGC that meets the requirements of the PSIAS. The annual report shall be timed to support the Council's annual statement of assurance on corporate governance and include an opinion on the overall adequacy and effectiveness of the control environment.

11. Quality and assurance programme

The IARM shall maintain a quality assurance and improvement programme that meets the requirements of the PSIAS. The results shall be reported to senior management and the CGC.

The IARM will arrange for an independent review of the efficiency and effectiveness of the internal audit service to be undertaken at least once every five years. The results of the review together with a statement as to whether conformance with PSIAS has been achieved or not will be reported to senior management and the CGC.

Improvement plans arising from periodic reviews of internal audit shall be prepared as appropriate, and reported to senior management and the CGC in the Internal Audit annual report.

12. Relationships with external audit and other assurance activities

Internal Audit will establish and maintain an open relationship with the external auditor and other assurance providers. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort. However the work of Internal Audit will not be driven by external audit's own priorities.

External audit will have full and free access to all internal audit strategies, plans, working papers and reports.

13. Review of the Charter

The IARM will review each year the Internal Audit Charter and report the outcome of that review to the CGC.

Approval of the Charter shall be the responsibility of the CGC. This version was approved on the 28 March 2018.

End



Internal Audit & Assurance Plan 2018 - 2019

In delivering the Internal Audit (IA) Mission Statement -

to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight and to specifically support the Council successfully achieve its vision and priorities as set out in the Corporate Plan -

it is important that IA engagements not only consider and review internal control, risk and governance issues but also:

- remain future focused,
- positively influence and contribute to service developments and initiatives,
- lead to a strengthening of the control environment, and
- are performed in accordance with professional standards.

Remain future focused

Traditionally IA have reviewed how risks and objectives have been delivered in the past, rather than consider how they are to be managed going forward. It is the intention that the audit plan becomes much more future focused, considering the risks that lie ahead of the Council, and so allow IA to provide advice and insight that will help Corporate and Service Plan objectives be achieved. This is a step-change in approach and is unlikely to happen over the short term, as Managers will need to understand the change of approach.

As a first step, the IA planning process has been amended this year to allow IA to become more future focussed and responsive to the needs of the organisation through the quarterly refresh of the audit plan. The move away from delivering an annually agreed audit plan will allow IA to consider and respond to, amongst others, new areas of activity, priorities and emerging risks, issues of local significance and importance and the impact of change to existing controls.

Auditors have already held meetings with the Directors and Heads of Service and their managers to explain the change in audit planning approach and obtain their initial thoughts on areas for inclusion in the audit plan. These meetings will be held regularly throughout the year. Time has also been allocated at Senior Management Team meetings to allow IA to 'sense-check' the proposed audit plan with them, to ensure that it remains focused on delivering assurance against both key and emerging objectives.

Cabinet and Corporate Governance Committee members have also been contacted and asked for their thoughts on areas for inclusion in the plan. They will also be contacted during the year so their concerns continue to be heard.

Positively influence and contribute to service developments and initiatives

Due to the many challenges facing the Council, change remains a constant and all Services either have reviewed or will be reviewing how they deliver their services.

IA is able to add value at an early stage of service or transformational developments through contributing advice and assistance that influences how risks can be reduced through introducing appropriate controls. Providing assurance at an early stage will also allow IA to gain a fuller understanding as to how the changes proposed will assist in delivering service objectives and their consequential impact elsewhere across the Council. This approach should lead to a strengthening of the overall control environment and time will be made available in the audit plan for IA to undertake this type of advisory work. IA strives to be trusted advisor to senior management and the Corporate Governance Committee (CGC). Contributing positively to service developments and initiatives is one way in which that trust can be gained.

Lead to a strengthening of the control environment

The results of IA work are communicated to Managers and Members via IA reports. Arising from the external LEAN review undertaken within IA in 2017, changes have been made to the audit 'wash-up' and reporting process. The aim being to improve the discussions and feedback provided to Managers and the speed by which they respond to IA reports. In addition the IA report template has been redesigned with the assistance of an independent expert so that issues identified are reported with greater clarity and impact.

Managers agree to implement actions that will strengthen the control environment and IA will continue to use the 4Action software to monitor and report upon their introduction. IA will undertake follow-up reviews at least twice a year on a sample of actions that managers have indicated as being fully introduced. The results of the follow-up work will be one of the factors that inform the annual IA opinion and time will be made available in the audit plan for follow-up reviews to be completed.

The change to the IA planning process will require CGC to approve the audit plan on a regular basis. Together with the audit plan, CGC will also receive a summary update on the delivery of the audit plans agreed, be informed of any issues of concern and the progress being made with the implementation of agreed audit actions. Such a summary will allow the CGC to receive timely and relevant information and allow them to question IA whilst issues remain relevant.

Performed in accordance with professional standards.

The Public Sector Internal Audit Standards (PSIAS) require an external independent review of the IA service to be completed at least once every five years. The next review is due to be completed by March 2019. IA has an internal audit manual and a comprehensive set of templates that aim to ensure that audit reviews are conducted in a consistent way.

The Internal Audit & Risk Manager reviews the work performed by internal auditors at key stages throughout the audit process and evidences the checks they have performed. The IA service aims to act in conformance with the PSIAS. The external review will confirm if that is the case or not. An informal assessment is currently being completed to identify any areas of non-conformance with the PSAIS. The results of the assessment will be reported to CGC alongside an improvement action plan if required.

Time will be made available in the audit plan for participation in the external review process.

Internal Audit performance measures

At the time of preparing the audit plan, performance measures for 2018/19 had not been agreed with the Head of Resources. The measures will be contained in the IA Service Plan and reported to the CGC when agreed.

Internal Audit & Assurance Plan 2018-2019

Quarter 1

Approximately 77 days will be available in Qtr. 1 2018/19 for delivery of the plan. This time has been provisionally allocated to the following areas:

Area	
Tech 1 - New FMS	Identifying key controls across all the Technology 1 modules ahead of quarterly assurance reviews.
Main financial systems : Qtly reviews	Creditors/Accounts Payable Debtors/Accounts Receivable Housing Benefit Council Tax / NNDR
3C IT procurement	To review the opportunities for improving the efficiency of IT procurement through the adoption of one Code of Procurement across the 3Cs.
Small works contracts	To review the contract management processes supporting the small works contracts and its use.
Energy costs	To review the process for the procurement of energy and water. Annual expenditure in this area is of the region of £850k.
Computer audit reviews	To review the IT policy management system including procedures for amending, the appropriateness of content and managing the roll-out to staff and their take-up of it.

In addition to reviewing the areas listed above, time has also been made available in the IA work plan to provide for the following:

- providing help and advice to managers;
- follow-up reviews of agreed audit actions introduced;
- attendance at quotation openings,
- managing whistleblowing allegations;
- reviewing and investigating National Fraud Initiative output;
- quality assessment of audit work undertaken and file review; and
- supporting the work of the Corporate Governance Committee through the delivery of training, preparation of the annual governance statement and its annual reporting.

David Harwood
Internal Audit & Risk Manager
March 2018

Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Annual Review of Accounting Policies and Other Changes on the Annual Financial Report 2017/18 as a consequence of the Code of Practice on Local Authority Accounting in the UK 2017/18.
Meeting:	Corporate Governance Committee – 28 th March 2018
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

This Code of Practice on Local Authority Accounting in the UK 2017/18 (the Code) is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

As a consequence of the Code, each Council is required to have a set of accounting policies which are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its statement of accounts.

Best practice requires the Council to regularly review the adopted accounting policies and other Code changes to ensure that the policies and relevant accounting disclosures remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods. Such review and approval should occur prior to the financial year-end, thus allowing officers to produce the statement of accounts based on the approved accounting policies.

It is noted in paragraph:

- 3.1, there are three accounting policies that only require minor amendment.
- 3.2, the external auditor has suggested that the Council may wish to consider a new accounting policy in respect of the Apprenticeship Levy. However as the Apprenticeship Levy at the Council is not a material amount no accounting policy is considered necessary.
- 3.3, the Code has recommended some changes to accounting practice. These changes are effectively clarifications of previous Code disclosures and practices and will be adopted.

Recommendation(s):

The Corporate Governance Committee is **RECOMMENDED:**
To approve the amendments to the accounting policies and other Code changes noted within **Appendix 1** and **2**

1. WHAT IS THIS REPORT ABOUT?

- 1.1 Each year the Council is required to produce a statement of account which is included in the Annual Financial Report. This has to be approved by the Council's Responsible Financial Officer by the 31 May and then approved by members and published by the 31 July. The accounts are required to be produced based on regulations prescribed by statute and relevant accounting standards.

2. BACKGROUND

- 2.1 Accounting policies are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its statement of accounts.
- 2.2 Except where specified in the "Code of Practice on Local Authority Accounting in the United Kingdom 2017/18" (the Code) or in specific legislative requirements, it is for a Council to select the accounting policies that are most appropriate to its particular circumstances. In addition, the Council is required to assess what other Code changes are required to be adopted.
- 2.3 Best practice requires the Council to regularly review the adopted accounting policies to ensure that they remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods. Such review and approval should occur prior to the financial year-end, thus allowing officers to produce the statement of accounts based on the approved accounting policies.
- 2.4 Consequently, the Committee are asked to approve the:
- accounting policies for 2017/18 (shown in **Appendix 1**); taking the 2016/17 accounting policies as the base.
 - Other changes as a consequence to the new Code of Practice (shown in **Appendix 2**).

3. ANALYSIS

Accounting Policies for 2017/18

- 3.1 Of the 24 accounting policies that were approved for 2016/17 (please refer to the final copy of the Annual Financial Report approved by the Panel last September), **Table 1** below shows that for 2017/18 three policies require amendment, all of which include only minor updates or clarifications.
- 3.2 In addition to the aforementioned considerations in respect of Accounting Policies, the council's external auditors have asked the Council to consider whether it should include a new accounting policy or other disclosure in respect of the Apprenticeship Levy. The reason for this is because this is a new 'tax' that has been applied to the organisation in 2017/18. The Councils total applicable 'levy' is £70k and therefore not material, consequently it is considered that a separate disclosure is not required.

Changes in Accounting Policy		Table 1
Reason for change in the accounting policy	Number of Accounting Policies categorised under the reason for change	Accounting Policy Affected
No change	21	n/a
Minor update for formatting or a change that does not have a significant impact e.g. change in references to financial year	3	<ul style="list-style-type: none"> • General Principles • Changes in Accounting Policies, Prior Period Adjustments, Estimates and Errors • Depreciation and other Charges to Revenue for Non-Current Assets (MRP element of policy)
Appendix 1 provides the detailed illustration of the changes to the respective accounting policies.		

Other changes as a consequence of the 2017/18 Accounting Code of Practice

- 3.3 A number of changes have been included in the Code for 2017/18; those that are applicable to the Council are discussed in detail in **Appendix 2** with a summary of the impact on the Council shown in **Table 2** below:

Other Changes as a Consequence of the 2017/18 Accounting Code of Practice		Table 2
Change	Impact on the Council	
Narrative Reporting Structure	Reorganisation of the Narrative Report to ensure compliance with the new structure and principles.	
Presentation of Financial Statements: Going Concern Concept	No change as the Council has previously disclosed its compliance with the concept of 'Going Concern'.	
Significant Accounting Policies	This report provides the fundamental review of significant accounting policies applicable to 2017/18.	
Community Infrastructure Levy (CIL) schemes	Assurance that the Councils accounting treatment is compliant with the 2017/18 Code clarification.	

- 3.4 It is envisaged that the proposed minor changes to the accounting policies and other Code changes will not have any direct financial implications.

4. KEY IMPACTS

- 4.1 During the preparation of the statement of accounts, the working papers, practices and associated documents will be updated to reflect the changed accounting policies to ensure that the statement of accounts are prepared to the correct legislation and regulations.

5. WHAT ACTIONS WILL BE TAKEN

5.1 Upon approval, these accounting policies and other Code changes will be included in the 2017/18 statement of accounts. If during the accounts closure process it becomes apparent that a:

- further accounting policy is required,
- current policy requires further amendment, or
- alternative accounting practice is required

this will be agreed with the Responsible Financial Officer and reported retrospectively to this Committee when the accounts are presented for authorisation in July.

6. LINK TO THE CORPORATE PLAN

6.1 Accounting Policies assist the Council in effective Financial Management which is encapsulated within The Code of Financial Management; this falls within the “Ensuring we are a customer focused and service led Council delivering value for money services” aspect of the Corporate Plan, and enabling the Council to “*Become more business-like and efficient in the way we deliver services*”.

7. LEGAL IMPLICATIONS

7.1 There are no direct legal implications arising from this report.

8. RESOURCE IMPLICATIONS

8.1 There are no direct resource implications arising from this report.

9. OTHER IMPLICATIONS

9.1 No other implications are known at this time.

10. REASONS FOR THE RECOMMENDED DECISIONS


10.1 It is recommended that Corporate Governance Committee reviews and approves the changes to the accounting policies for 2017/18 statement of accounts.

BACKGROUND PAPERS

Copies of relevant Codes of Practice and Accounts Closure Training Notes are located within Finance.

CONTACT OFFICER

Clive Mason, Head of Resources

 01480 388715

Accounting Policy Changes as a Consequence of the 2017/18 Accounting Code of Practice.

Appendix 1

<p>Accounting Policies Used within 2016/17 Annual Financial Report</p> <p><i>Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</i></p>	<p>Proposed Accounting Policies for 2017/18 Annual Financial Report</p> <p><i>Code of Practice on Local Authority Accounting in the United Kingdom 2017/18</i></p>	<p>Reasons for change in accounting policy (see key at the end of annex)</p>
<p>General Principles</p> <p>The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).</p> <p>The underlying concepts of the accounts include the:</p> <ul style="list-style-type: none"> • Council being a 'going concern' – all operations continuing • Accrual of income and expenditure – placing items in the year they relate to rather than the year they take place • Primacy of legislative requirements – legislation overrides standard accounting practice <p>The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the Council.</p> <p>The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the</p>	<p>General Principles</p> <p>The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).</p> <p>The underlying concepts of the accounts include the:</p> <ul style="list-style-type: none"> • Council being a 'going concern' – all operations continuing • Accrual of income and expenditure – placing items in the year they relate to rather than the year they take place • Primacy of legislative requirements – legislation overrides standard accounting practice <p>The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the Council.</p> <p>The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the</p>	<p align="center">B</p>

<p>revaluation of certain categories of non-current assets and financial instruments.</p>	<p>revaluation of certain categories of non-current assets and financial instruments.</p> <p>The accounting policies are reviewed on an annual basis to ensure that they are appropriate, compliant with accepted accounting practice and relevant to the Council's ongoing business activity.</p>	
<p>Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors</p> <p>Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively, if material, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. For 2016/17, there are no new accounting policies in respect of statutory requirements or to ensure local circumstances are better reflected within the Annual Report.</p> <p>Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.</p> <p>Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.</p>	<p>Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors</p> <p>Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively, if material, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. For 2017/18, there are no new accounting policies in respect of statutory requirements or to ensure local circumstances are better reflected within the Annual Report.</p> <p>Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.</p> <p>Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.</p>	<p>B</p>

<p>➤ Depreciation and other Charges to Revenue for Non-Current Assets</p> <p>Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:</p> <ul style="list-style-type: none"> • depreciation attributable to the assets used by the relevant service • revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off • amortisation (annual charge) of intangible assets attributable to the service. <p>The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue, known as the Minimum Revenue Provision (MRP), to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement to reflect the difference between the two.</p> <p>In respect of General MRP Policy capital assets, MRP will be chargeable in the year following the agreement of any final account. For each financial year, for other capital investments MRP will be charged in the following the completion of the scheme.</p>	<p>➤ Depreciation and other Charges to Revenue for Non-Current Assets</p> <p>Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:</p> <ul style="list-style-type: none"> • depreciation attributable to the assets used by the relevant service • revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off • amortisation (annual charge) of intangible assets attributable to the service. <p>The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue, known as the Minimum Revenue Provision (MRP), to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement to reflect the difference between the two.</p> <p>In respect of General MRP Policy capital assets, MRP will be chargeable in the year following the agreement of any final account. For each financial year, for other capital investments MRP will be charged in the following the completion of the scheme.</p>	<p>B</p>
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The basis for calculating MRP is restricted by legislation and the policy has to be approved by the Council. The Council has adopted the following which clarifies the policy to be applied in differing circumstances:

i. MRP Policy in respect of Loans to Organisations or Loans with Security (as defined within the Treasury Management Strategy)

Where the Council has provided:

- loans to local organisations or businesses, and/or
- loans with security

and these loans are repaid on, at least an annual basis, that the principal repayments received can replace the need to make a minimum revenue provision.

ii. MRP Policy in respect of Debt not relating to Loans to Organisations

MRP for this category will be on an annuity basis. This results in the MRP increasing over the life of the asset to match the fall in the interest cost as the debt is “notionally” repaid. The net result is a consistent charge to the Council’s accounts over the assumed life of the asset.

iii. MRP Policy in respect of the Commercial Investment Strategy

For each capital investment undertaken under the requirements of the Council’s Commercial Investment Strategy, MRP will be made that is equal to the principal repayment for any loan finance supporting the

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For each capital investment undertaken under the requirements of the Council’s Commercial Investment Strategy, MRP will be made that is equal to the principal repayment for any loan finance supporting the investment. However, from 2017/18 the Council

<p>investment. However, from 2017/18 the Council has approved a further MRP Policy for CIS purchases where the expenditure will be financed by Maturity Loans.</p> <p>When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal; receipts from disposals are credited to the same line. Any accumulated revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.</p>	<p>has approved a further MRP Policy for CIS purchases (commercial and housing acquisitions) where the expenditure will be financed by Maturity Loans.</p> <p>When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal; receipts from disposals are credited to the same line. Any accumulated revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.</p>	
<p><u>Clarifications for Reasons for Changes to/New Accounting Policies</u></p> <p>Key:</p> <p>A: No change.</p> <p>B: Minor update for dates, formatting or changes in accounting policy that do not have a significant impact on financial reporting.</p> <p>C: Significant change in accounting policy.</p> <p>D: New accounting policy.</p>		

Category of Changes	Detail of Change	Impact on HDC
<p>Narrative Reporting</p>	<p>To reflect the new principles based approach to Narrative Reporting introduced by the 2017/18 Code for authorities in England, Wales and Northern Ireland.</p>	<p>The Narrative Report is the commentary that supports the statements of accounts, its purpose is to provide commentary in respect of the Councils financial performance.</p> <p>The main items to be included in the Narrative Report should include:</p> <ul style="list-style-type: none"> a) organisational overview and external environment b) governance c) organisational model d) risks and opportunities e) strategy and resource allocation f) performance g) outlook, and h) basis of preparation. <p>The Narrative Report:</p> <ul style="list-style-type: none"> i. Should provide information on the authority, its main objectives and strategies and the principal risks that it faces. ii. Should provide a commentary on how the authority has used its resources to achieve its desired outcomes in line with its objectives and strategies. iii. Must provide a fair, balanced and understandable analysis of the authority's performance.

		<p>iv. Should highlight and explain the linkages between information presented in the Narrative Report and the information within the financial statements and information presented must be consistent with the information within the financial statements.</p> <p>The Councils AFR for 2017/18 will follow this aforementioned structure and ensure that the principles are adhered to.</p>
<p>Presentation of Financial Statements</p>	<p>The Code's provisions in respect of the going concern basis of accounting for local authorities has been updated.</p>	<p>The clarification in respect of 'Going Concern' confirms the following:</p> <p><i>"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."</i></p> <p>The Councils AFR accounting policy in respect of "General Principles" Accounting Policy includes the following:</p> <ul style="list-style-type: none"> • Council being a 'going concern' – all operations continuing. <p>It is considered that in the interests of 'decluttering' that no change to this policy is made.</p>

Significant Accounting Policies	The Code has clarified the reporting requirements for accounting policies.	This report to CGC details the changes to the significant accounting policies as a consequence of the 2017/18 Code.
Community Infrastructure Levy (CIL) schemes	Clarification of the treatment of CIL revenue costs.	<p>CIL is required to be accounted dependent on whether it is the Charging or Collecting Authority. The Council will, in the main be the charging authority and will therefore immediately recognise the income received within the Comprehensive Income and Expenditure Account and if unused allocated to the Capital Grants Unapplied Account (CGUA); when CIL receipts are applied there is then a consequential transfer from the General Fund (CGUA) to the Capital Adjustment Account.</p> <p>The correct accounting practice will be followed in respect of CIL. If it is established that the Council previous accounting treatment in respect of CIL has not been compliant; as the 2016/17 balance is in excess of £8m and therefore material, a restatement will be required.</p>
Other changes that are included in the 2017/18 Code but not applicable to the Council include items in respect of the Housing Revenue Account and Dedicated Schools Grant.		

CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT

Committee	Decisions	Date for Action	Action Taken	Officer Responsible	Delete from future list
07/12/2016	<p><u>Skills, Knowledge and Effectiveness Review</u></p> <p>The Corporate Governance Committee resolved:</p> <p>i. that a training programme be devised; and</p> <p>ii. that an effectiveness review be undertaken.</p>			Internal Audit and Risk Manager	No
24/05/17	New Members to receive the training survey. IRAM to submit report on training options.	12/07/17	Report submitted and training event agreed.	Internal Audit and Risk Manager	
12/07/17	Training to be provided on the values of good governance, external audit and internal audit.	12/09/17	Training arranged.	Internal Audit and Risk Manager.	
17/01/18	Further training to be undertaken in the new Municipal Year.	TBA		Internal Audit and Risk Manager.	
22/3/2017	<p><u>Code of Conduct and Register of Disclosable Pecuniary Interests</u></p> <p>Audit to be undertaken of those parishes that have adopted</p>	TBA			

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CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT

Committee	Decisions	Date for Action	Action Taken	Officer Responsible	Delete from future list
17/01/18	<p><u>Lead and Deputy Independent Persons</u></p> <p>Recommended the Council to re-appoint the Lead and Deputy Independent Persons for a further two-year period.</p>	21/02/18	Lead and Deputy Independent Persons re-appointed.	Elections and Democratic Services Manager and Deputy Monitoring Officer.	Yes
17/01/18	<p><u>Review of Code of Financial Management and Code of Procurement.</u></p> <p>Recommended the Council to approve the amended Code of Financial Management and the Code of Procurement.</p>	21/02/18	Revised Code of Financial Management and Code of Procurement approved.	Head of Resources	Yes
17/01/18	<p><u>Progress on Issues Arising from the 2016/17 Annual Governance Statement</u></p> <p>Relevant Head of Service to attend next meeting if actions in respect of improvement areas have not been completed.</p>	28/03/18	Outcome will inform deliberations on 2017/18 governance review. See item elsewhere in the Agenda.	Head of Resources	Yes

CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT

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17/01/18	<p><u>Internal Audit Service Interim Progress Report</u></p> <p>The Committee's views on the decision not to replace an Auditor be conveyed to the Managing Director and Executive Leader.</p>	01/18	Views reported.	Head of Resources	Yes