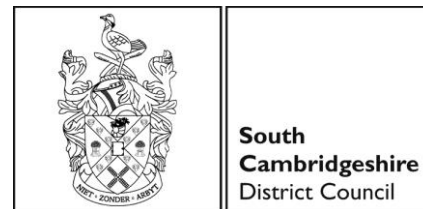


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14 March 2018

To: Chairman – Councillor Andrew Fraser
Vice-Chairman – Councillor Grenville Chamberlain
Members of the Audit and Corporate Governance Committee – Councillors
John Batchelor, Graham Cone, Christopher Cross, Roger Hall,
Douglas de Lacey, Tony Orgee and John Williams

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**, which will be held in **MONKFIELD ROOM, FIRST FLOOR** at South Cambridgeshire Hall on **THURSDAY, 22 MARCH 2018 at 10.00 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully
Beverly Agass
Chief Executive

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.

AGENDA		PAGES
1.	Apologies for Absence To receive Apologies for Absence from Committee members.	
2.	Declarations of Interest	
3.	Minutes of Previous Meeting To confirm the minutes of the meeting held on 26 January 2018 as a correct record.	1 - 4
INTERNAL AUDIT REPORTS		
4.	Internal Audit Quarterly Reports To advise of the work of internal audit, completed between October and March 2017, and the developments within the team.	5 - 14
5.	Internal Audit Plan 2018/19	15 - 44

EXTERNAL AUDIT REPORTS

- | | | |
|-----------|--|----------------|
| 6. | External Audit Plan 2017/18 | 45 - 84 |
| 7. | Local Government Audit Committee Briefing | 85 - 96 |

INFORMATION ITEMS

- | | |
|-----------|--|
| 8. | Matters of Topical Interest |
| 9. | Date of Next Meeting
To approve the dates included in the Calendar of Meetings for 2018/19
agreed by Council on 22 February 2018:
9:30am Thursday 7 June 2018 (Workshop)
9:30am Tuesday 31 July 2018
9:30am Tuesday 25 September 2018
9:30am Tuesday 20 November 2018
9:30am Tuesday 26 March 2019 |

OUR LONG-TERM VISION

South Cambridgeshire will continue to be the best place to live, work and study in the country. Our district will demonstrate impressive and sustainable economic growth. Our residents will have a superb quality of life in an exceptionally beautiful, rural and green environment.

OUR VALUES

We will demonstrate our corporate values in all our actions. These are:

- Working Together
- Integrity
- Dynamism
- Innovation

GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL

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If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

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Agenda Item 3

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Audit and Corporate Governance Committee held on
Friday, 26 January 2018 at 9.30 a.m.

PRESENT: Councillor Andrew Fraser – Chairman

Councillors:	John Batchelor	Graham Cone
	Christopher Cross	Roger Hall
	Douglas de Lacey	Ray Manning
	Tony Orgee	John Williams

Officers:	Patrick Adams	Senior Democratic Services Officer
	Alex Colyer	Executive Director (Corporate Services)
	Rory McKenna	Principal Lawyer & Deputy Monitoring Officer
	Caroline Ryba	Head of Finance
	Martin Yates	Interim Chief Accountant

Auditors:	Suresh Patel	Ernst & Young
	Tony Poynton	Ernst & Young
	Jonathan Tully	Head of Shared Internal Audit

1. APOLOGIES FOR ABSENCE

Councillor Grenville Chamberlain gave his apologies for this meeting. Councillor Ray Manning was acting as his substitute.

The Chairman welcomed Martin Yates, Interim Chief Accountant and Jonathan Tully, Internal Auditor to their first meeting.

2. DECLARATIONS OF INTEREST

Councillor Andrew Fraser declared a non-pecuniary interest in agenda item 7 as a Director of Ermine Street Housing Ltd.

3. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 29 September 2017 were signed as a correct record, subject to the removal of Councillor Grenville Chamberlain in the list of attendees.

4. EXTERNAL AUDIT: GRANT CERTIFICATION REPORT FOR 2016-17

Tony Poynton, External Auditor, presented this report on the certification and other assurance work carried out by External Audit for 2016-17.

Housing benefits subsidy claim

Tony Poynton explained that there had been an increase in the level of extended testing. A typographical error made by the Council had resulted in an increase of the subsidy claim submitted to the Department for Work and Pensions by £135,000. This had been accepted by the Council and the auditors were unconcerned.

Indicative audit fees

In response to questioning Tony Poynton explained that the indicative fee for 2017/18 of £24,043 was set by the Public Sector Audit Appointments Ltd, not by Ernst & Young, and was based on the final fees for 2015/16. This represented a substantial increase on the

actual fee of £13,793 for the 2016/17 accounts and was only likely to prove accurate if the External Auditors were required to carry out more testing than expected.

Changes in certification of accounts in 2018/19

It was noted that for the 2018/19 accounts the Council would be required to appoint their own reporting accountant for the certification of the housing benefit subsidy claim. Ernst & Young were prepared to carry out this work on behalf of the Council.

Tony Poynton reported his thanks to Dawn Graham and her team for their support and co-operation in the carrying out of this work for the 2016/17 accounts.

The Committee **NOTED** the report.

5. ACHIEVEMENT OF STATUTORY ACCOUNTS DEADLINE 2017-18

The Interim Chief Accountant presented this report, which informed the Committee of the Council's plans to achieve the statutory accounts deadline of 31 July 2018 for the signing of the 2017/18 accounts. He provided details of the arrangements that were being put in place to mitigate the risk of not meeting the deadline.

Accountancy staff

The Interim Chief Accountant explained that the Council would recruit a new Principal Accountant in mid-February, whilst the current Interim Principal Accountant would remain in post to allow a handover.

Improved communication

The Interim Chief Accountant explained that regular team meetings would be held for accountancy staff to ensure that targets would be met and Ernst & Young would be provided with a single point of contact. It was understood that a missed deadline by the Council could result in longer delays as the External Auditors would have to re-arrange the visits for their staff. Suresh Patel explained that the schedule was challenging, but the workshop arranged for 8 June to review the draft accounts helped to mitigate the risk. The Head of Finance added that constant monitoring of progress against the targets set in the timetable would also mitigate the risk. An online portal had been developed to assist the process.

New Financial Management System

The Head of Finance explained that the new Financial Management System would be rigorously tested before it was implemented. The scheduled implementation date was April 2018, so the data on the existing system would be used for the 2017/18 accounts.

It was noted that whilst the deadline for the downloading of Month 9 Financial Data to Ernst & Young Portal for Interim Audit had not been met, this was not seen as significant.

The Committee **NOTED** the report.

The Chairman explained that this was Tony Poynton's last meeting as one of the Council's External Auditors and he thanked Tony for the work that he had carried out. Tony was being replaced by Kay McClennon.

6. STATEMENT OF ACCOUNTS 2016-17 UPDATE

Suresh Patel explained that following further investigation the anomalies regarding the value of assets did not materially affect the accounts.

Minor amendments

The Committee noted the following suggested amendments:

- In the penultimate paragraph of the letter of representation the word “disclosure” should read “disclosed”.
- The supplementary agenda items should have been numbered “6a”, “6b” etc. and not “1”, “2”.
- The colour copying of agendas should be kept to a minimum.

Cost of revaluing housing assets

In response to questioning regarding the extra costs generated through the re-evaluation of the Council’s housing assets, Suresh Patel explained that the engagement of in-house experts to value these housing assets was standard practice within the industry when it came to investigating anomalies and the work had resulted in the Council changing the way in which it values its housing assets.

Delay in signing-off the accounts

Concern was expressed at the 15 week delay between September’s Committee delegating authority for the signing of the accounts, to the accounts actually being signed off. Suresh Patel explained that there had been anomalies regarding the valuation of the housing assets, which had required extra work by the valuation team.

It was hoped that work had been carried out to ensure that these problems were not repeated with the 2017/18 accounts.

The Committee **NOTED** the report.

7. TREASURY MANAGEMENT ANNUAL REPORT 2016-17

The Head of Finance introduced this report on the Council’s treasury management performance for the year 1 April 2016 to 31 March 2017, by explaining that investments had achieved over £600,000 more than estimated due to higher balance levels and longer periods of investment, predominantly with South Cambs Limited. In response to questioning the Executive Director explained that the Council had achieved higher than expected interest on the funds loaned to South Cambs Limited. The risk was that there could be a sudden change in the financial markets which would make the Council’s investment in South Cambs Limited less competitive.

The Committee **NOTED** the report.

8. MATTERS OF TOPICAL INTEREST**Annual Governance Statement**

The Executive Director asked the Committee for its opinion on the style and layout of the Annual Governance Statement. It was noted that three years ago the Committee had asked for the Annual Governance Statement to be displayed in plain English that was accessible to a lay person. The Committee supported the continuation of this practice. The Committee asked the Senior Democratic Services Officer to arrange a workshop for the Committee to discuss the format of future Annual Governance Statements.

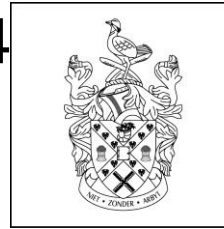
Regulation of Investigatory Powers Act (RIPA)

The Principal Lawyer – Governance and Deputy Monitoring Officer explained that the Council had not used its RIPA powers since the last meeting and so there had been no formal report submitted to the Committee.

9. DATE OF NEXT MEETING

The Committee **AGREED** the date of its next meeting on Thursday 22 March at 9:30am in the Monkfield Room.

The Meeting ended at 10.30 a.m.



REPORT TO: Audit and Corporate Governance
Committee
LEAD OFFICER: Executive Director (Corporate Services)

22nd March 2018

Internal Audit Update 2017/18

Purpose

1. To advise of the work of internal audit, completed between October 2017 and March 2018, and the developments within the team.
2. This is not a key decision because the report is being presented to the Audit and Corporate Governance Committee in accordance with their terms of reference.

Recommendations

3. It is recommended that the Committee note the contents of the report.

Reason for recommendations

4. The role of internal audit is to provide the Audit & Corporate Governance committee and Management with independent assurance, on the effectiveness of the internal control environment.

Background

5. 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 auditing standards or guidance.”
6. Internal Audit assists the Council, and the Audit and Corporate Governance Committee, to discharge its governance responsibilities. Our work supports the Council’s corporate objectives, and the corporate governance framework.

Considerations

7. Internal audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the council’s ability to achieve its objectives.
8. Internal Audit work should help add value to the Council by helping to improve systems, mitigate risks, and subsequently inform the Annual Governance Statement.

Implications

9. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, there are no significant implications.

Effect on Strategic Aims

10. Delivery of the audit plan aims to provide assurance that corporate systems and processes are robust and protect the Council.

Background documents

- Internal Audit Charter, Strategy and plan

Report Author:

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Appendix A – Internal Audit Progress report



South Cambridgeshire District Council

Introduction

1. Management is responsible for the system of internal control and establishes policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit and Corporate Governance Committee, Internal Audit acts as an assurance function by providing an independent and objective opinion on the control environment.
2. The purpose of this report is to provide an update on the recent work completed by internal audit. The information included in the progress report will feed into and inform our overall opinion in the annual Head of Internal Audit (HoIA) report issued at the year end. This opinion will in turn be used to inform the Annual Governance Statement which accompanies the Statement of Accounts. We previously provided an update report, to the committee, in September 2017.
3. Where appropriate reports are given an overall opinion based on four levels of assurance. This is based on the evaluation of the control and environment, and the type of recommendations we make in each report. If a review has either “Limited” or “No” assurance, the system is followed up to review if the actions are implemented promptly and effectively. Further information is available in Appendix B - Audit definitions.

Resources

4. An audit plan is presented at least annually to the Audit and Corporate Governance Committee. It is good practice to continually review the plan, to reflect emerging risks, revisions to corporate priorities, and changes to resourcing factors. No additional pieces of work have been included in the plan for the final quarter of the year. The latest internal audit plan, commencing April 2018, is also being presented to the Audit & Corporate Governance Committee on the 22nd March 2018.
5. Since the previous report, to the Committee, there have been changes to the team. A business case and proposal for establishing a shared internal audit team was approved by South Cambridgeshire District Council and Cambridge City Council in 2017. Establishing a centralised team, operating from both sites, will enable

economies of scale, more resilience, and smarter ways of working. Consequently a new Head of Shared Internal Audit Service joined the Council in December 2017.

6. A Senior Auditor, who was based at SCDC, was successfully appointed to a position at another Council. This has created a vacancy which is currently being recruited into. The audit plan is being delivered by other members of the team, which is an example of the resilience from the shared working.
7. To help establish the shared service we have developed a business plan and new branding (which can be seen on the cover page of this report).
8. Progress of the plan delivery is illustrated on the following pages.

Progress against the plan

Finalised reviews

The following audit assignments have reached completion, since the previous report to the committee:

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
Project Management – Benefits Realisation	Not applicable – new review	Limited	0	3	2	0	<p>The Council updated and approved their Project Management Toolkit in April 2017. We reviewed a sample of completed projects and concluded the control environment was limited. This was because of a lack of baseline data, and minimal information for the proposed benefits, making it difficult to measure the success of a project and determine if they were on track.</p> <p>Management have agreed to define, agree, measure and report benefits within a project as part of a review of the Project Management Toolkit.</p> <p>The Post Project Review template will be revised to ensure that it captures business benefits clearly, integrated into business as usual, and issue guidance where a series of post project reviews may need to be scheduled.</p> <p>The Project Initiation Document template will be revised to enable baseline data to be recorded, enabling business benefits to be identified and tracked, and to demonstrate improvement.</p> <p>These actions will improve the control environment, for project management, and we will complete a follow-up review.</p>
Organised crime – procurement	New review	Not applicable	0	0	0	1	<p>This review considered Home Office guidance, and provided positive assurance that appropriate arrangements are in place. Further information is included later in this report.</p>

Works in Progress

The following reviews are currently in progress:

System reviewed	Prior review:	Previous assurance:	Commentary and update
Treasury management	March 2015	Substantial	This is a key financial system, which is reviewed periodically. The review aims to seek assurance there is compliance with legislation, the investment strategy is followed, return on investment is maximised and cost of borrowing minimized. Testing has concluded and there are no significant areas of concern.
Risk management	March 2016	Reasonable	The Council has a Risk Management Strategy, and has a risk management system. The review aims establish that the Council has an up to date strategy, effective supporting guidance, there is regular monitoring and reporting, plus there is an awareness of risk (and the actions required to mitigate risk). We have made good progress with our testing to date.
Agency workers	New review	Not applicable	We are reviewing the process for use of agency workers, and compliance with the corporate contract which is intended to provide the Council with an efficient and cost effective recruitment solution. We have prepared our testing for the review of this system.

Work completed to date

Below is a summary of other work completed to date, from the current internal audit plan. These have already been reported to the Audit & Corporate Governance Committee, will be used to inform the annual opinion, and further information can be read in the previous committee reports.

Assurance			Actions			
System reviewed	Date reported:	Assurance / Status:	Critical:	High:	Medium:	Low:
Procurement and commissioning	June 2017	Substantial	0	0	0	1
Council Tax and NNDR Follow-up	June 2017	Substantial	0	0	0	0
Annual Audit Opinion	June 2017	Completed	0	0	0	0
Internal Audit Effectiveness review	June 2017	Completed	0	0	0	0
National Fraud Initiative	June 2017	Ongoing	0	0	0	0
Safeguarding	September 2017	Reasonable	0	3	6	3
Ermine Street – Governance	September 2017	Reasonable	0	0	5	0
Ermine Street – Operations	September 2017	Reasonable	0	2	5	3
Taxi Licensing	September 2017	Reasonable	0	1	1	2

Counter fraud and corruption update

9. A review of arrangements in place to tackle and prevent Serious Organised Crime was completed. Following a series of pilots across the United Kingdom, the Home Office issued guidance to all local authorities which set out a series of checklists into monitoring and protecting authorities against Serious Organised Crime. A review based on the Home Office checklists provides assurance that the Council has appropriate arrangements in place to reduce and identify this threat at an early stage.
10. The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.17 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at South Cambridgeshire District Council, which provides assurance that internal controls continue to operate effectively. Work has commenced on reviewing these matches and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported, and there are no matters arising at this time.

Other audit activity

11. The Public Sector Internal Audit Standards (PSAIS) require that the Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity, and includes both internal and external assessments.
12. External assessments must be conducted at least once every five years by a qualified, independent assessor. The internal audit team will complete a self-assessment, to the Public Sector Internal Audit Standards, and the supplementary Local Government Application Note. The review will be completed with Cambridge City Council, as part of the new Greater Cambridge Shared Audit, and will have an independent external verification. This approach will provide a best value approach and will help to inform the development of the new team.
13. We contributed to the review of the Annual Governance Statement, which was approved with the Statement of Accounts.
14. The next internal audit update report will be reported the Audit & Corporate Governance committee in July, with the annual report of the internal audit service.

Appendix B - Audit definitions

An assurance opinion is provided at the conclusion of the audit. The following definitions are used by Internal Audit to assess the level of assurance which may be provided, and to assess the impact of individual findings. We categorise our opinions according to our assessment of the controls in place and the level of compliance with them

Assurance	Description
SUBSTANTIAL	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks
REASONABLE	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks
LIMITED	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority
NO	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives

We categorise our **recommendations** according to their level of risk and priority for implementation:

Priority	Description	Timescale
CRITICAL	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	To be implemented at the first opportunity
LOW	Control weakness which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical

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REPORT TO: Audit and Corporate Governance
Committee

LEAD OFFICER: Executive Director (Corporate Services)

22nd March 2018

Internal Audit Plan 2018/19

Purpose

1. This report introduces the draft Internal Audit Annual Plan and Strategy, for 2018 / 2019, for consideration by the Audit and Corporate Governance Committee.
2. This is not a key decision because the risk based Internal Audit Plan is being presented to the Audit and Corporate Governance Committee in accordance with their terms of reference.

Recommendations

3. The Audit and Corporate Governance Committee is requested to consider the supporting information, in the appendices, to:
 - (i) approve the draft Audit Plan and Strategy; and
 - (ii) approve the supporting Charter and the Code of Ethics.

Reasons for Recommendations

4. The plan has been subject to consultation with senior management, the Chief Executive, and circulated to the External Auditors.
5. Internal Audit Plans, and associated documents, have been created in line with best practice laid down in the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN).
6. The draft Internal Audit Plan should help add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

Background

7. 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 auditing standards or guidance.”
8. The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”.
9. Appendix A is the risk based Internal Audit Plan for 2018 / 2019. It has been based upon the Corporate Plan, risk registers, consultation with key officers, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.

10. The Internal Audit Charter (Appendix B) and the Code of Ethics (Appendix C) are also included for information. These documents were approved by the Committee last year, and have been reviewed as good practice, considering both the PSIAS and the LGAN. They have been updated to reflect the latest version of the standards, and there are no significant changes. They will also be reviewed this year, as part of an ongoing Quality Assurance and Improvement Programme (QAIP). It is good practice to present these documents as they define internal audit's purpose, authority, responsibility and position within an organization, supporting the risk based audit plan.

Considerations

11. The plan is the work programme for Internal Audit and provides the basis upon which the service will subsequently give an audit opinion on South Cambridgeshire District Council's (SCDC) system of internal control, risk management and corporate governance arrangements.
12. Progress against the plan, and updates, will be regularly reported to the Committee.

Implications

13. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, there are no significant implications.

Effect on Strategic Aims

14. Delivery of the audit plan aims to provide assurance that corporate systems and processes are robust and protect the Council.

Background documents

15. Background papers used in the preparation of this report:
- Risk-Based Internal Auditing – Working Standards and Procedures
 - Public Sector Internal Audit Standards
 - CIPFA Local Government Application Note
 - South Cambridgeshire District Council Risk Registers
 - Corporate Plan

Report Author:

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Appendix A – Internal Audit Plan 2018/19

1 Introduction

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 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 auditing standards or guidance."
- 1.3 The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit "must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals".
- 1.4 Internal Audit provides an independent, objective assurance and consulting service that adds value and improves the Council's control environment. It helps the Council deliver its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.5 The provision of assurance is the key role for Internal Audit. This role requires the Head of Shared Internal Audit to provide an annual Audit Opinion based on an objective assessment of the framework of governance, risk management and control. This opinion is provided to the Committee and also feeds into the Annual Governance Statement. The team also completes consulting services. These are advisory in nature, and are generally performed at the specific request of management with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

2 Strategy

- 2.1 A report to Cabinet (19 January 2017) set out the proposals for developing a shared service between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). Existing staff at SCDC have now transferred across to CCC.
- 2.2 A new Head of Shared Internal Audit joined the Council in December. This strategy has been developed to deliver a co-ordinated audit plan for both Councils.
- 2.3 There are already a number of shared services, and this joint approach enables work to be undertaken which reflects the priorities for SCDC whilst getting the benefits of co-ordinated reviews which can be covered in partnership.

3 Internal Audit Plan

- 3.1 Our work will support the Council's corporate objectives, and the corporate governance framework.
- 3.2 The plan has considered the Corporate Plan, risk registers, consultation with key officers, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.
- 3.3 This identifies potential reviews, which are subsequently prioritised. Factors taken into account include materiality; corporate importance, vulnerability, risks and opportunities. The overall aim is to add value by providing assurance, reducing risk and improving controls.
- 3.4 There needs to be a flexible approach to planning, to ensure that our work meets the needs of the Council in the continually changing risk and control environment. The risk based planning approach enables the plan to be updated when new reviews are identified. The plan will be reviewed and monitored throughout the year, and any significant changes will be reported to the Executive Management Team and the Audit & Corporate Governance Committee.
- 3.5 The internal audit work should address key risk areas and draw attention to significant concerns and what needs to be done. Ideally the plan will

provide coverage across the whole organisation, and some reviews may be cross cutting and involve multiple teams and partners. This enables the Head of Shared Internal Audit to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement.

4 Resources

- 4.1 Resource requirements are reviewed each year as part of the audit planning process. The current establishment for the audit team enables sufficient resource to deliver the risk based plan. However there are currently three vacancies within the team, which are currently in the process of being advertised. Subject to successful recruitment, small adjustments in resource may be reflected later in the Audit Plan to allow for notice periods.
- 4.2 Demand for potential reviews will exceed the number of available days. The risk based planning approach identifies and matches audit work to the available audit resources, based on where the most value can be added.
- 4.3 The Internal Audit plan needs to be fluid and flexible enough to enable the Internal Audit service to be reactive as required to situations arising during the course of the period covered by the plan. A contingency reserve element has been built in, to assist in dealing with any such matters arising to hopefully at least minimise any major impact on the work plan itself.
- 4.4 Time allocations within the plan are based on previous year assessments, with any overall allocation for each key area. As each audit activity is fully scoped and agreed with the appropriate senior manager, each job will then be monitored to that time allocation.

5 Key Themes

- 5.1 As in previous years, Internal Audit will continue to support the compliance culture within the Council, with the emphasis on improving service ownership of controls and management of risk and governance including fraud. There will continue to be liaison with the external auditors so that resources are used effectively.

- 5.2 A number of audits are identified which aim to provide assurance that corporate systems and processes are robust and protect the Council. The days allocated to reviewing core assurance work has increased this year to recognise the implementation of the Financial Management System.
- 5.3 Aside from core financial systems, coverage will be prioritised towards the corporate priorities and risks to the Council, to help ensure that desired outcomes are delivered efficiently.
- 5.4 The plan is grouped to the key objectives of the Council. For each discrete audit area, a brief description of the scope for the work is provided together with the type of audit. Timing and detailed scopes for each audit will be agreed with the relevant Senior Manager prior to commencement of the fieldwork.

6 Follow-ups

- 6.1 To ensure that agreed actions are being implemented, follow-up work will be carried out. If a review resulted in significant recommendations, then a full audit may be planned to evaluate the effectiveness of the implementation.

7 Other activities

- 7.1 In addition to delivering the risk based audit plan, resources are allocated to deliver other assurance based activities. Examples include:
- Advice and consultancy: (providing proactive advice on internal controls and participating in working groups);
 - Anti-fraud and corruption: (including response, proactive work and data analytics);
 - Governance: (activities which help deliver the assurance framework including Annual Governance Statement, Risk Management).

8 Summary

- 8.1 The draft internal audit plan should help add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

9 AUDIT PLAN 2018 / 2019

9.1 The table below provides an overview of the breakdown of audit time in the plan, and a brief comparison with the previous year.

Audit area	Days	Current year	Previous Year
Corporate Plan Objectives	92	37%	37%
Core Assurance Work	45	18%	15%
Annual Governance and Assurance Work	44	18%	28%
Other resource provisions	68	27%	20%
Grand Total	249	100%	100%

This is the allocation of work for South Cambridgeshire District Council. A more detailed breakdown of planned audit work is given on the pages that follow.

Corporate Plan Objectives

- 9.2 Corporate Plan Objectives are reviews of systems and processes which have been risk appraised. Where possible they are aligned to the Corporate Plan Objectives to demonstrate how they support the Council. The reviews are listed in the table below:

Audit	Audit type	Audit scope	Audit days
Homes for our future			
Grant assurance - Disabled Facility Grant	Housing	Certification of the annual grant payment from the Better Care Fund allocated to District Councils via the County Council. Review of a sample of payments made in respect of disabled facilities and process review.	7
Housing - Options	Housing	Review of framework and processes to prevent homelessness. Review actions on risk register, plus review of new legislation.	6
Housing - Repairs and maintenance	Housing	Review of system for managing repairs and maintenance. Est £6m PA	8
Living Well			
Trading operations - Trade waste	Commercial	Review of system for managing trade waste operations. Complete a forward looking review focussing on the income generation, performance reporting and being a critical friend for any proposals and processes.	10

Audit	Audit type	Audit scope	Audit days
Planning Fee Income	Development	Review of system for managing planning fee income. Ensuring that policies are in place for both discretionary and nationally set charging, and that income opportunities are maximised, debts collected and balances reconciled to main accounting systems.	10
Innovative and Dynamic organisation			
Gifts and hospitality	Governance	Review of the Council framework for recording declarations of interests, and gifts and hospitality. Planned review noted in the 1617 Annual Governance Statement.	8
Waste Management - Performance	Governance	This review will include a benefits realisation, considering the savings targets set out in the original business case.	15
Facilities Management	Internal processes	Review of the policies and processes for Facilities Management with comparison to other areas of good practice.	8
Information Governance - GDPR	Internal processes	Review of the Councils readiness for the implementation of the General Data Protection Regulations in May, and whether any further work needs to be completed.	10
Ermine Street - Governance	Third party	Review of the governance arrangements, plus a review of risks on the team / service risk register.	10

Core Assurance Work

- 9.3 This work includes reviews of systems that are fundamental to providing control assurance for internal financial systems, and allow the s.151 officer to make their statement included in the authority's Annual Statement of Accounts. The work can also help to provide assurance for the External Auditor. Systems are reviewed on a rolling cycle to ensure that all are covered.
- 9.4 For the current financial year there has been an increase in the allocation, to reflect the new Financial Management System. These reviews will commence after the system has been implemented.

Audit	Audit type	Audit scope	Audit days
Accounts Payable	Core Assurance	Key controls audit as part of cyclical review of core systems.	10
Accounts Receivable	Core Assurance	Key controls audit as part of cyclical review of core systems.	10
Insurance	Core Assurance	Key controls audit as part of cyclical review of core systems. Also review of new system for monitoring claims – Claim control.	5
National Non Domestic Rates	Core Assurance	Key controls audit as part of cyclical review of core systems	10
Payroll	Core Assurance	Key controls audit as part of cyclical review of core systems	10

Annual Governance and Assurance Work

- 9.5 Each year the Council issues a statement on the effectiveness of its governance arrangements. Internal Audit completes work which supports the production of the Annual Governance Statement.

AUDIT ACTIVITY	AUDIT TYPE	SCOPE
Annual Audit Opinion	Assurance	This is the annual report, produced by the Internal Audit lead for their relevant audit committee, to provide an opinion on the state of governance and the internal control framework in place within the Council.
Internal Audit Effectiveness	Assurance	A regular review of the Internal Audit service, to the Public Sector Internal Audit Standards and the Local Government Application Note, is completed. This is also known as a Quality Assurance and Improvement Program.
Annual Governance Statement	Assurance	Internal Audit supports the development of the Annual Governance Statement, the associated action plan and review of the Local Code of Governance.
Prevention of Fraud and Corruption	Assurance	Internal Audit supports development and awareness of risks across the Council, and reports summary information to the Committee. A national survey is completed annually to help identify potential fraud risks. In addition Internal Audit co-ordinates the National Fraud Initiative, a proactive data matching exercise.

Other resource provisions

- 9.6 Throughout the year, audit activities will include reviews that have not been specified within the Audit Plan, including management requests as a result of changing risks; following up agreed audit actions and completion of audit works from previous plans. Examples include:

AUDIT ACTIVITY	AUDIT TYPE	SCOPE
Carry forward activities	Various	A number of reviews continue from the previous plan, due to other activities taking precedence e.g. investigations or corporate projects.
Contingency: requested work / advice / irregularities	Advice	<p>The Audit Plan is based only on a snapshot of the Council at any moment in time, and risks and priorities change throughout the year.</p> <p>Internal Audit act as a focal point to assist officers across the Council in providing advice / support in relation to projects; contracts; procurement or general controls.</p> <p>No matter how robust services and processes are, there is always the potential for anomalies to occur. Internal Audit assists by providing pro-active counter fraud work; and reactive work for suspected irregularities and whistleblowing referrals.</p> <p>An element of time has been set aside to allow for these activities within the plan.</p>
Follow up provision	Follow Up	A number of audits completed in previous years, where there have been concerns identified, are followed up to ensure that agreed recommendations have been implemented.

Appendix B – Internal Audit Charter



Our vision:

To be valued as an integral part of the business by providing high quality assurance, acting as a catalyst for change and advocating improvements to risk management, control and governance processes.

February 2018

Next Review: By February 2019

Version Control: 1.04

1 INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The Standards have been revised from 1 April 2017 to reflect the latest changes in the IPPF. In addition the PSIAS are supported by a Local Government Application Note (LGAN), published by the Chartered Institute of Public Finance and Accountancy to provide relevant sectoral requirements guidance.
- 1.3 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within the Council; its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the relevant audit committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

2 PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

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

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

3 AUTHORISATION

- 3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2015¹, which state that

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 3.2 There are additional requirements placed upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA’s Statement on the Role of the Head of Internal Audit in Public Sector Organisations, with Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer.
- 3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:
- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
 - Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
 - Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally

¹ http://www.legislation.gov.uk/uksi/2015/234/pdfs/ukxi_20150234_en.pdf

assisting the Internal Audit activity in fulfilling its roles and responsibilities.

- 3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

4 ORGANISATION AND RELATIONSHIPS

- 4.1 Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. The following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:

- Chief Audit Executive
- Board
- Senior Management
- External Audit
- Other Internal Audit Service Providers
- Other External Review and Inspection Bodies

Chief Audit Executive

- 4.2 The Chief Audit Executive is the Head of Shared Internal Audit Service (HoSIAS), part of a shared management arrangement between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). The HoSIAS reports to the relevant S151, and has access to the Chief Executive should it be required.

Board

4.3 The 'Board' oversees the work of Internal Audit. It will be the relevant audit committee of the Council, known as Civic Affairs Committee (CCC) and the Audit and Corporate Governance Committee (SCDC), which has been established as part of its corporate governance arrangements. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against plans;
- Annual Audit Opinion; and
- Compliance with standards.

4.4 Internal Audit will work closely with the committee to facilitate and support its activities.

Senior Management

4.5 In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter are the Strategic Leadership Team and the Senior Management Team (CCC) and the Executive Management Team and the Corporate Management Team (SCDC).

External Audit

4.6 Internal Audit aims to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. Our audit plans and reports are shared with the appointed external auditor, Ernst and Young.

Other Internal Audit Service Providers

4.7 Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with each Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing regime.

Other External Review and Inspection Bodies

- 4.8 Internal Audit will co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

5 OBJECTIVES AND SCOPE

- 5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.
- 5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.
- 5.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.
- 5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:

- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
- The effectiveness of the Council's processes for performance management and accountability.
- The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
- The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
- The provisions developed to support achievement of the organisation's strategic objectives and goals.
- The systems formulated to secure an effective internal control environment.
- The completeness, reliability, integrity and timeliness of management and financial information.
- The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
- The systems designed to safeguard Council assets and employees.
- The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.

5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.

- 5.6 Managing the risk of fraud and corruption is the responsibility of management. However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators.
- 5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Committee of such situations.

6 INDEPENDENCE

- 6.1 Internal Audit operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the HoSIAS direct access to and the freedom to report unedited, as deemed appropriate, to the Committee, the Chief Executive, Section 151 Officer and Senior Management.
- 6.2 Internal Audit has no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The HoSIAS will confirm to the Committee, at least annually, the organisational independence of the Internal Audit activity.

7 PROFESSIONAL STANDARDS

- 7.1 Internal Auditors operate in accordance with the PSIAS and LGAN. The Internal Auditors are also governed by the policies, procedures, rules and regulations established by the Council. These include, but are not limited to, Financial Regulations and Contract Standing Orders, the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements and all legislation affecting the Council's activities.
- 7.2 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by the Internal Auditors, are set out in the Audit Manual.

8 AUDIT RESOURCES

- 8.1 The HoSIAS will be professionally qualified (CCAB, CMIIA or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.
- 8.2 The HoSIAS will ensure that the Internal Audit Service has access to staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special investigations being required, there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

9 AUDIT PLANNING

- 9.1 The HoSIAS will develop an annual audit strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. This will be submitted to the

Senior Management for their approval prior to being taken forward to the Committee for final endorsement, in advance of the new financial year to which they relate.

- 9.2 Any difference between the plan and the resources available will be identified and reported to the Committee. It will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in Table 1.

TABLE 1: AUDIT ACTIVITIES	
Core system assurance work	Departmental specific reviews
Governance and Assurance Framework	Follow up activity
Corporate / Cross Cutting audits	Internal advice on risks, controls and procedures

- 9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this.
- 9.4 Annual audit plans will be discussed with Senior Management prior to their formal approval.

10 REPORTING

10.1 The process followed for completing each audit is set out in Table 2.

10.2 Upon completion of each audit assignment, an Internal Audit report will be prepared that:

- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
- Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales.

10.3 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for responses to Internal Audit recommendations lies with the Chief Executive, Directors, and / or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Committee.

TABLE 2: WORKING ARRANGEMENTS DURING AUDITS

Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced following completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond including acceptance of actions together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final. The report will be distributed in accordance with agreed protocols (see Table 4).

10.4 It is important that following production of each audit report, there is prompt dialogue between managers and Internal Audit so that findings can be discussed, actions identified to remedy any weaknesses and finally an agreed timescale to rectify them. Internal Audit will monitor implementation and report any gaps to senior management.

10.5 Actions are rated and an overall opinion given on the service area reviewed (see Table 3). Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary.

TABLE 3: AUDIT ASSURANCE

We categorise our opinions according to our assessment of the controls in place and the level of compliance with them

Assurance	Description
SUBSTANTIAL	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks
REASONABLE	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks
LIMITED	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority
NO	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives

We categorise our **recommendations** according to their level of risk and priority for implementation

Priority	Description
CRITICAL	Extreme control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. TO BE IMPLEMENTED AS A MATTER OF PRIORITY
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. TO BE IMPLEMENTED AT THE FIRST OPPORTUNITY
LOW	Control weakness which, if corrected, will enhance control procedures that are already relatively robust. TO BE IMPLEMENTED AS SOON AS REASONABLY PRACTICAL

10.6 Our assurance ratings will be subject to regular review to ensure that they remain relevant and robust for the service / organisation.

10.7 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:

- The scope including the time period covered;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;
- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

10.8 Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

10.9 All reports produced are set out in Table 4.

TABLE 4: PLANNING AND REPORTING FREQUENCY		
Report Produced	For	Reason
Audit Report	Chief Executive S.151 Officer Relevant Director / Head of Service	The end of each audit assignment as the main recipient and those charged with implementing the issues identified
Progress Reports (based around the committee cycle)	Relevant Audit Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising.
Annual Opinion and Performance Report	Relevant Audit Committee	End of year report in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established.
Annual Audit Plan	Relevant Audit Committee S.151 Officer	Details of the future plans to provide assurance across the Council in accordance with PSIAS.

11 QUALITY ASSURANCE AND IMPROVEMENT

- 11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the HoSIAS will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Committee.

Internal Assessments

- 11.2 Internal Assessments must include on-going monitoring of the performance of the internal audit activity and these are reported as part of the annual report.
- 11.3 The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-assessment of the effectiveness of Internal Audit, before the results are submitted to the Committee. Presenting this information enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the HoSIAS.

External Assessments

- 11.4 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.
- 11.5 The HoSIAS will discuss with the Committee and the Section 151 Officer the form of the external assessments; and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, each Council will be reviewed jointly which will reduce the level of duplication.

Appendix C – Internal Audit Code of Ethics

1 INTRODUCTION

- 1.1 The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of the Council's Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

2 PRINCIPLES

- 2.1 Internal auditors are expected to apply and uphold the following principles:

- Integrity The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- Confidentiality Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

INTEGRITY: Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Respect and contribute to the legitimate and ethical objectives of the organisation; and
- Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness

OBJECTIVITY: Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not review any activity for which they have previously had operational responsibility;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

CONFIDENTIALITY: Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate;
- Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.


COMPETENCY: Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

3 MANAGING ARRANGEMENTS:

3.1 To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
- Quality control processes are in place to demonstrate integrity in all aspects of the work;
- All staff are obliged to declare any potential conflicts of interest, at least annually;
- Confidentiality breaches will not be tolerated; and
- All staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.



South Cambridgeshire District Council Audit Plan

Year ended 31 March 2018

13 March 2018

13 March 2018



Audit & Corporate Governance Committee
South Cambridgeshire District Council
South Cambridgeshire Hall
Cambourne Business Park
Cambourne, CB23 6EA

Dear Audit & Corporate Governance Committee Members

Audit Plan

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 Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This report is intended solely for the information and use of the Audit & 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 22 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,

Suresh Patel, Associate Partner

For and on behalf of Ernst & Young LLP

Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit & Corporate Governance Committee and management of South Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Corporate Governance Committee, and management of South Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Corporate Governance Committee and management of South Cambridgeshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

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

Audit risks and areas of focus

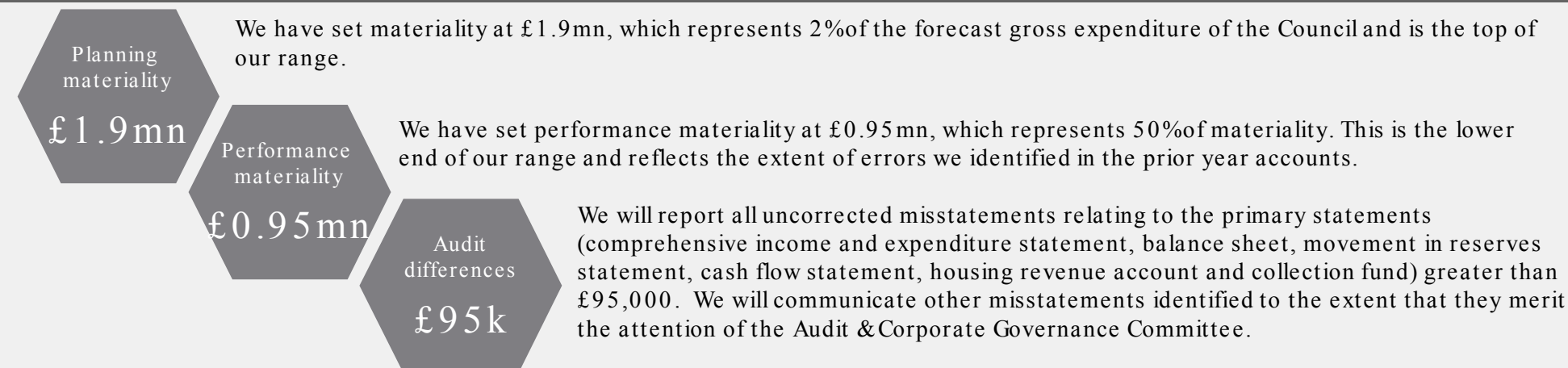
Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this 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.
Management override of controls	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Preparation of statement of accounts, working papers and responding to audit queries	Significant risk	Increase in risk or focus	<p>In the prior year, the Council experienced significant problems preparing its FY17 statements of accounts, working papers and responding to audit queries. For this year the Council needs to prepare draft accounts by 31 May 2018 and publish audited accounts by 31 July 2018.</p> <p>The Council is taking steps to strengthen its arrangements for accounts closedown and the associated requirements for meeting the accelerated timetable. However, the Council also faces additional pressures from introducing a new asset register, consolidating a second subsidiary company, implementing a new general ledger and continued key staff turnover. As a result we view it as a significant risk that the Council will prepare materially accurate accounts, with good quality working papers and respond to audit queries effectively and promptly.</p> <p>Where this risk requires additional audit input and liaison we will discuss with the Executive Director the impact on the planned audit fee.</p>

Overview of our 2017/18 audit strategy

Audit risks and areas of focus (cont)

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of property, plant and equipment (PPE)	Higher inherent risk	Increase in risk or focus	The fair value of land, buildings and 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. In light of the prior year issues on the housing stock valuation, we view this as a higher inherent risk.
Pension Liability valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund 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 £57.5mn.

Materiality



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 South Cambridgeshire 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;

Page 51 The quality of systems and processes; changes in the business and regulatory environment; and management's views on all of the above.

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

For 2017/18 there have been changes in respect of the group accounts which impact on the scope of our work and the associated audit fee. The Board of South Cambs Limited has appointed Ensors as its auditors, in the prior year it was EY. In addition, the Council has decided that it will consolidate Shire Homes Lettings Limited which will also be audited by Ensors. These changes require us to carry out specific procedures on the consolidation process and audit of the group accounts and as a result we propose to retain the additional audit fee of £5,000 we agreed for the prior year.

Audit team

We have made a change to the senior team involved in your FY18 audit, with Kay McClennon as your Audit Manager.



Suresh Patel, Associate Partner



Kay McClennon, Manager

Kay is a CIPFA and ICAEW qualified accountant and brings over 20 years of experience auditing local councils in the Cambridgeshire region.



02 Audit risks



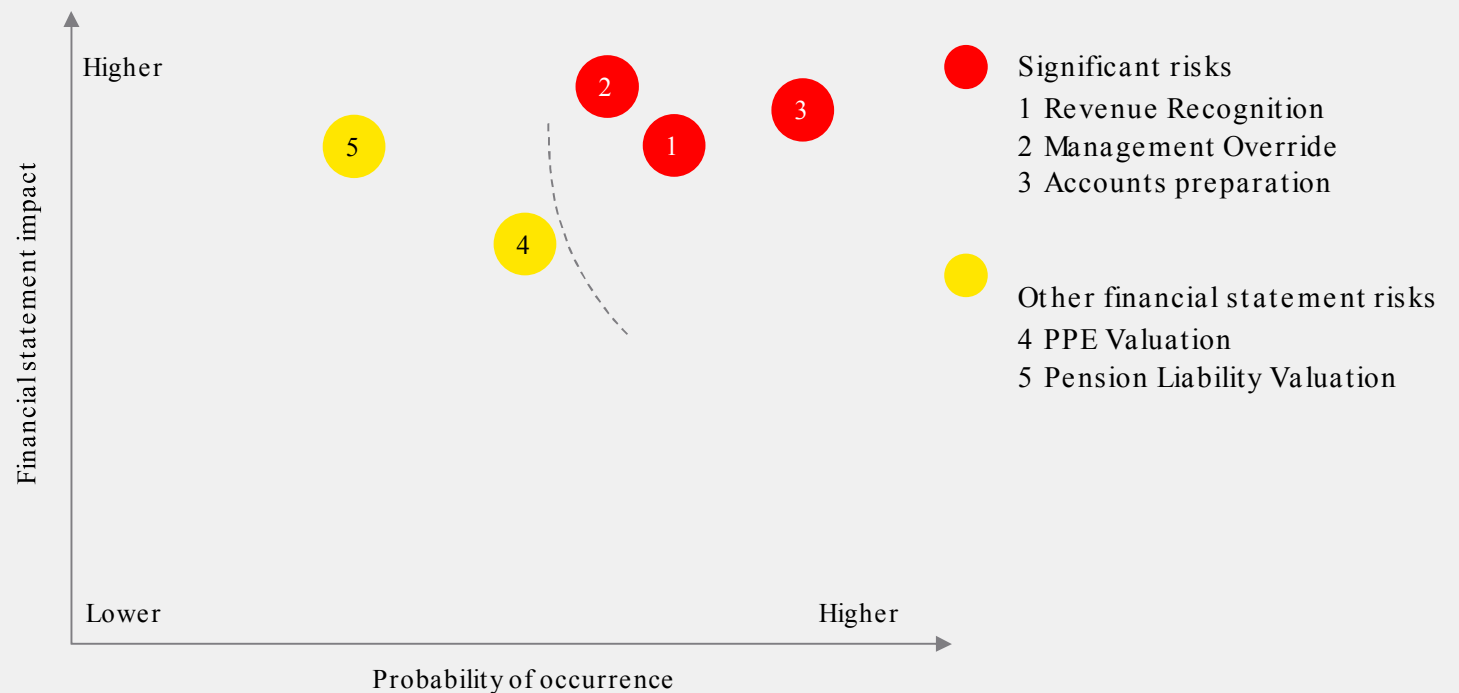


Risk assessment

Risk assessment

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

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





Audit risks

Our response to significant risks

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

Risk of fraud in revenue and expenditure recognition

Financial statement impact

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 2017 financial statements:

Income: £93 mn

Expenditure Account: £95 mn

What is the 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.

What will we do?

We will:

- § Review and test revenue and expenditure recognition policies.
- § Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- § Develop a testing strategy to test material revenue and expenditure streams.
- § Review and test revenue cut-off at the period end date.



Audit risks

Our response to significant risks (continued)

Risk of Management override: Misstatements due to fraud or error	What is the risk?	What will we do?
<p>Financial statement impact</p> <p>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 2017 financial statements:</p> <p>Income: £ 93 mn</p> <p>Expenditure Account: £95 mn</p>	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will:</p> <ul style="list-style-type: none"> § Identify inherent and actual fraud risks during planning. § Enquire of management about risks of fraud and the controls put in place to address those risks. § Understand the oversight given by those charged with governance of management's processes over fraud. § Consider the effectiveness of management's controls designed to address the risk of fraud. § Determine an appropriate strategy to address those identified risks of fraud. § Perform mandatory procedures regardless of specifically identified fraud risks, including testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (this will include the use of analytics to focus our testing). § Review accounting estimates for evidence of management bias. § Evaluate the business rationale for significant unusual transactions.



Audit risks

Our response to significant risks (continued)

Accounts preparation

Financial statement impact

The risks we have outlined could impact the preparation of a statement of accounts free from material misstatement and supported by good quality working papers.

What is the risk?

For FY18 the Council needs to prepare draft accounts by 31 May and publish audited accounts by 31 July. The accelerated timetable provides risks for both the preparers and the auditors of accounts.

We have previously reported to the Committee the problems experienced by the Council in the prior year in preparing its accounts, supporting working papers and responding to audit queries. The Council is taking action to resolve those problems, however Council is facing increasing pressure not only from the need to meet the accelerated deadlines but also from introducing a new asset register, consolidating a second subsidiary company, implementing a new financial ledger and the loss of key finance staff.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Any slippage from the Council to its closedown timetable and agreed outputs with us could potentially put the delivery of the Council's audit 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.

To further streamline this process, the Council needs to ensure it has adequate review processes in place before supporting documentation is provided to us. For example, we would expect a senior member of the finance team to review and check evidence before it is presented for audit. This specifically applies to the transfer of data into the new asset register.

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

Where we are required to carry out additional work and input to complete your audit, due to a lack of understanding of prior year issues arising from finance staff turnover, additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify the Executive Director of the impact on the fee and the timing of the audit. Such circumstances may also result in a delay to your audit while we complete other work elsewhere.



Audit risks

Our response to significant risks (continued)

Accounts preparation (continued)

What will we do?

We recognise the challenge to the Council to mitigate the risks associated with preparing its accounts to the accelerated deadlines and in light of its other challenges. We are committed to working collaboratively with the Council by:

- Engaging early to facilitate early substantive testing where appropriate.
- Providing an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.

Facilitating faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.

Using the EY Client Portal, which will:

- Streamline our audit requests through a reduction of emails and improved means of communication;
- Provide on-demand visibility into the status of audit requests and the overall audit status;
- Reduce risk of duplicate requests; and
- Provide better security of sensitive data.
- Agreeing the team and timing of each element of our work with you.
- Providing clarity on what we consider to be good quality supporting working papers before the Council prepares those papers.
- Ensuring we prioritise our early work on the areas of your accounts most susceptible to error.

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?	What will we do?
<p>Valuation of Land and Buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>Given the issues arising during the audit in 2016/17 and the additional work carried out on the Housing Stock valuation, we view this as a higher inherent risk.</p> <p>We have not determined it is a significant risk because we concluded in 2016/17, after additional audit procedures, that the valuation of council dwellings in the Council's accounts was materially correct.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. 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,



Audit risks

Other areas of audit focus (cont)

What is the risk/area of focus?

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 £57.5 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:

- Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Cambridgeshire 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 the National Audit Office for all Local Government sector auditors, and by 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.



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”

The NAO defines proper arrangements as your arrangements to:

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

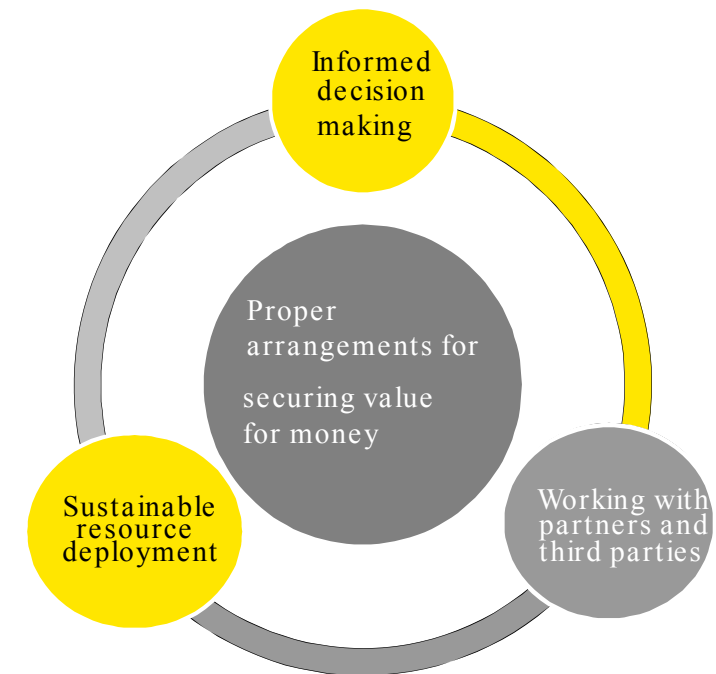
The NAO’s auditor guidance includes specific reference to combined authorities, recognising their commissioning role and focus on partnership working.

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

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

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

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





04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.9mn. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit & 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 £0.96mn which represents 50% of planning materiality. This is lower than the prior year reflecting the errors we identified.

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

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, HRA, and collection fund that have an effect on income or that relate to other comprehensive income. We will communicate other uncorrected misstatements, such as reclassifications and corrected misstatements to the extent that they merit the attention of the Audit & Corporate Governance Committee, or are important from a qualitative perspective.

Specific materiality – We set lower materiality levels for some disclosures e.g. remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.



05

Scope of our audit



Scope of our audit

Objective and Scope of our Audit

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

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

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.

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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 Audit and Corporate Governance Committee.

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

Scope of our audit

Group scoping

For 2017/18 the Council has determined that it should consolidate both South Cambs Ltd and Shire Homes Lettings Ltd, and prepare group accounts. Our audit strategy for performing an audit of an entity components is risk based. We identify components as:

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

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

We have determined that South Cambs Ltd is a significant component due to its financial size and risk. For 2017/18 the company has appointed Ensors as auditors. We will engage with Ensors to perform a full scope audit. We have determined that Shire Homes Lettings Ltd is not a significant component based on size and risk, and we will perform other procedures to gain the necessary audit assurance.

Scoping by Entity

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

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

Scope definitions

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

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

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

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

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



06

Audit team



Audit team

Audit team structure:

Suresh Patel
Engagement Partner

Kay McClennon
Manager

Mary Springer
Senior

Use of specialists

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

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

Area	Specialists
Valuation of Land and Buildings	EY Real Estates
Pensions disclosure	EY Actuaries

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

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

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



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

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

Audit phase	Timetable	Deliverables
Planning: Risk assessment and setting of scopes	January	Verbal update to January committee
Ongoing planning and meetings with key officers	February	Audit Planning Report (to be presented to committee in March 2018)
Walkthrough of key systems and processes	March	
Testing of routine processes and controls	March	
Interim audit testing	March	Interim audit update (verbal unless there are significant issues)
Early year-end testing	April	
Year end audit	July	
Audit Completion procedures	July	Audit Results Report & Audit opinions and completion certificates to the July Committee
	September	Annual Audit Letter to the September Committee





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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
<div>Page 73</div> <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 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

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Other communications

EY Transparency Report 2017

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

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

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



09

Appendices



Appendix A

Fees

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

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

	Planned fee 2017/18	Final Fee 2016/17
	£	£
Scale fee	51,975	51,975
Group scoping	5,000*	5,000*
Additional audit work	***	TBC**
Total audit	56,975	TBC**
Other non-audit services not covered above (Housing Benefits)	9,190	13,973
Total other non-audit services	9,190	13,973
Total fees	66,165	TBC*

All fees exclude VAT

* Group scoping for 2017/18 includes additional procedures on the component auditor (previously EY), the consolidation processes including a second company and auditing the group accounts.

** We are currently agreeing the final fee for the 2016/17 audit with the Executive Director before seeking final approval with PSAA.

*** In light of the significant risk relating to the preparation of the accounts, we will discuss with the Executive Director the impact of additional procedures and liaison we are required to undertake to complete the audit.

The agreed fee presented is based on the following assumptions:

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




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

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

Appendix B

Required communications with the Audit & Corporate Governance Committee




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

Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit & 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 • Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	Audit Results Report

Our Reporting to you




Appendix B

Required communications with the Audit & Corporate Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
<div>Page 78</div> Required communications	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
	Misstatements • 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
	Fraud • Enquiries of the Audit & 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 • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report




Appendix B

Required communications with the Audit & Corporate Governance Committee (continued)

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

Appendix B

Required communications with the Audit & Corporate Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group audits	<ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Planning Report 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 Group and 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 Group and 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 Audit & Corporate Governance Committee reporting appropriately addresses matters communicated by us to the Audit & Corporate Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

Scoping the group audit

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

Detailed scoping							
In scope components	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Gross Revenue Expenditure	Profit before tax	Total assets	Size	Risk
South Cambs DC	Full scope	Yes	£95mn	N/a	£570.0mn	Yes	Yes
South Cambs Limited	Full scope	No	£2.8mn	£0.3mn	£35.5mn	Yes	Yes
Shire Homes Lettings Limited	Other procedures	No	£0.07mn	£0	£0	No	No

We have determined that South Cambs Limited is a significant component based on size and risk, thereby requiring a full scope audit. We have determined that Shire Homes Lettings Limited is not a significant component, therefore we will perform other procedures to gain the necessary audit assurance. We note that it is likely that for both companies there will be an inherent risk of fraud in respect of revenue recognition. As group auditors, we will instruct the auditors of both companies to carry out procedures on the recognition of revenue.

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**Local
Government
Audit Committee
Briefing**





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

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

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

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

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

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



Government and economic news

Will the UK economy hold up as Brexit nears?

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

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

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

Much depends on how the Brexit negotiations develop.

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

Provisional 2018-19 Local Government Finance Settlement

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

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

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

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

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

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

Carillion liquidation

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

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

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

Public sector pay

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

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



Accounting, auditing and governance

IFRS 15 – revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

EY – CIPFA Accounts Closedown Workshop 2017-18

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

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

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

To mitigate this risk we will require:

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

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

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

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

Summary of faster close activities

Finance teams are:

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

Auditors are:

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

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

Together finance teams and auditors are:

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

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



Regulation news

EU General Data Protection Regulation: are you ready?

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

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

Key changes proposed by the EU GDPR include:

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

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

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

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

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

Key questions for the Audit Committee

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

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

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

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

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

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

Find out more

EY ITEM Club Forecast

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

2018-19 Local Government Finance Settlement

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

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

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

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

Carillion collapse

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

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

Public sector pay

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

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

IFRS 15 – revenue from contracts with customers

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

EY – CIPFA Accounts Closedown Workshop 2017-18

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

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



About EY

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