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Audit Committee Agenda

Wyre Borough Council
Date of Publication: 4 March 2019
Please ask for: Roy Saunders
Democratic Services and Scrutiny
Manager

Tel: 01253 887481

Audit Committee meeting on Tuesday, 12 March 2019 at 6.00 pm in the Civic Centre, Poulton-le-Fylde

- 1. Apologies for absence
- 2. Declarations of interest
- 3. Confirmation of minutes (Pages 1 6)

To confirm as a correct record the minutes of the last meeting of the Audit Committee held on 13 November 2018.

4. Review of Audit Committee's terms of reference (Pages 7 - 12)

Report of the Head of Finance (Section 151 Officer).

5. Internal Audit Strategy and Audit Plan 2019/20 (Pages 13 - 20)

Report of the Head of Finance (Section 151 Officer).

6. Certification of claims and returns: annual report 2017/18 (Pages 21 - 24)

Letter from the Council's external auditors – KPMG.

7. **External Audit Plan 2018/19** (Pages 25 - 46)

Report of the Council's external auditors – Deloittes.

8. Periodic private discussion with the Chief Internal Auditor

Following the conclusion of the formal meeting, Members of the Committee will be given the opportunity to have their private periodic discussion with the External Auditor, as provided for in the Committee's work programme.

9. Time and date of next meeting

6pm on Tuesday 28 May 2019.



Audit Committee Minutes

The minutes of the Audit Committee meeting of Wyre Borough Council held on Tuesday, 13 November 2018 at the Civic Centre, Poulton-le-Fylde.

Audit Committee members present:

Councillors R Amos, Beavers, Ingham, McKay, Moon, A Turner, Walmsley and Wilson.

Apologies for absence:

Councillors E Anderton, Balmain, Greenhough, Holden, Raynor and B Stephenson.

Other councillors present:

Councillor I Amos.

Officers present:

Clare James, Head of Finance and Section 151 Officer Joanne Billington, Head of Governance Karen McLellan, Senior Auditor Paul Hewitson, Director and Risk Advisor Deloitte LLP Roy Saunders, Democratic Services and Scrutiny Manager.

No members of the public or press attended the meeting.

17 Apologies for absence

Apologies for absence were received from Councillors E Anderton, Balmain, Greenhough, Holden, and Raynor. Cllr B Stephenson was also not present.

Cllr Beavers apologised for having to leave before the end of the meeting.

18 Declarations of interest

Cllr Moon declared an "other" but "not significant" interest in in the Officers Gifts and Hospitality Register, referred to under the item on Internal Audit and Risk Management progress Report, because he was named on the list as having given a gift.

19 Confirmation of minutes

Agreed that the minutes of the Audit Committee meeting held on 24 July 2018 be confirmed as a correct record.

20 Annual Review of Audit Committee's Performance

The Head of Finance (Section 151 Officer) submitted a report on the latest annual review of the Committee's performance.

The Head of Governance referred to the CIPFA self-assessment of good practice questionnaire attached as Appendix 1 of the report which she and the Head of Finance had completed. She drew attention in particular to the new questions included for 2018 (questions 13, 20, 21, 22, and 25) and also to the proposed actions set out in the comments column on questions 3, 4, 7, 12 and 21. Members of the committee commented on those questions and actions.

Agreed:

- 1. That the report of the Head of Finance (Section 151 Officer) and the Introductory comments made by the Head of Governance be noted.
- That the responses made in the comments column of the completed self-assessment of good practice form, attached as Appendix 1, be endorsed.
- 3. That the following specific actions be approved:-
 - (a) That the Audit Committee's terms of reference would be reviewed in March 2019 to reflect any changes made in the recently amended CIPFA guidance.
 - (b) That, following the council election in May 2019, the new Audit Committee would receive training on the amended terms of reference.
 - (c) That a new questionnaire specific to Audit Committee members (and separate questionnaires for members of other committees), would be devised, ready for use immediately after the May 2019 election, to identify the current level of knowledge of committee members.
 - (d) That, following appointments to committees in May 2019, all Audit Committee members would have a one-to-one meeting where any gaps in the required core knowledge and skills framework would be identified and addressed.
 - (e) That, as stated in the Annual Governance Statement, the Chief Executive would meet with the Current Leader of the Council prior to the May 2019 election to discuss committee numbers and also the required skill set of the Audit Committee.
 - (f) That when considering future audit reports, the Audit Committee would consider calling in Service Managers, if appropriate, to

challenge them on audit findings, outstanding actions or any associated risks.

21 Internal Audit and Risk Management - Progress Report

The Head of Finance (Section 151 Officer) submitted a report reviewing progress on Internal Audit activity (Appendix 1), risk management (Appendix 2) and actions arising from the Annual Governance Statement for 2017/18 (Appendix 3).

The Head of Governance introduced the report. She began by referring to the schedule of completed audit reports, starting on page 44 of the agenda. She said that in most cases the audit opinion had been "Good", but in one case. an audit of the Marine Hall, the opinion in the final report had been "Weak". She said that action was being taken on the identified areas for improvement summarised in the schedule. The Senior Auditor said that, as had been agreed following the audit report, she had been visiting the Marine Hall regularly to offer support, advice and guidance to check that improved control procedures had been put in place and were becoming embedded. She confirmed that the majority of recommendations made in the audit report had been implemented, although progress in embedding the improvements and developing a new culture had been slower than had been hoped because of staff turnover. Unfortunately, in September there had been a discrepancy in a cash reconciliation. An investigation had been carried out but it had not been possible to identify how the loss had occurred. A member of the Finance Team had also been allocated to visit the Marine Hall over the summer to help support the process and provide some additional cover to ensure financial procedures were properly followed. The new Commercial Manager was now working strenuously with the Audit and Finance Teams to put make sure improvements were made and that procedures and processes were properly followed.

The Head of Governance circulated to members of the committee lists of the gifts and hospitality received by both officers and councillors since 2018. She said that there were not many entries and they did give rise to any current concerns.

With regard to risk management, the Senior Auditor reported that a review of the Council's high level 'strategic' risks had been completed with the Corporate Management Team on 5 November 2018. She said that, as a result of the review, four of the identified risks had retained the same score as in the first half of 2018/19 and remained above the risk appetite; the likelihood of two risks had been reduced, removing them below the risk appetite; and, two risks had retained the same score as in the first half of 2018/19 and remained below the risk appetite. No new risks had been identified. An executive summary of the results of the review was distributed to members of the Committee.

The Senior Auditor said that she had also recently undertaken a regular six monthly review of operational risks and Heads of Service were currently in the process of sending updates to her.

The Head of Governance said that good progress was being made in implementing the actions arising from the Annual Governance Statement 2017/18, as described in the final column of Appendix 3. She said, in response to questions, that compliance with the General Data Protection Regulations (GDPR) 2018 had so far been good. She said that that had largely been because of the strong lead given by the Corporate Management Team and the commitment made by Service Managers to promoting the completion by their teams of required tasks. Significant resources had been allocated in the Audit Plan to ensuring GDPR compliance. As part of that work, two-thirds of the Council's contracts had so far been reviewed and negotiations were currently taking place with suppliers to update some of them. Reviews of data retention schedules were also being carried out to reduce the risk of information which should have been deleted being released when responses were sent to Freedom of Information Act and Subject Access requests.

Agreed:

- **1.** That progress on the delivery of the Internal Audit Plan be noted.
- 2. That the Commercial Manager be asked to attend the Audit Committee meeting in June 2019, when a report on the Senior Auditor's assessment of the response to the action plan arising from the audit of the Marine Hall would be due for consideration.
- **3.** That progress on the management of strategic and operational risks be noted.
- **4.** That progress on the implementation of actions arising from the Annual Governance Statement for 2017/18 be noted.

22 Annual Review of Financial Regulations and Financial Procedure Rules

The Head of Finance (Section 151 Officer) submitted a report.

The Head of Governance explained that the Financial Regulations and Financial Procedure Rules were reviewed annually, in accordance with best practice and guidance. She said that the regular review process provided evidence which helped the council to demonstrate that it had put arrangements in place to maintain a sound system of internal control. She referred to the proposed, relatively minor, amendments listed in paragraph 5.1 of the report.

As previously agreed by the Committee, paper copies of the Financial Regulations and Financial Procedure Rules had not been printed with the agenda, but links had been included in the report to enable them to be viewed on the Council's web site.

Agreed that the proposed changes to the Financial Regulations and Financial

Procedure Rules referred to in paragraph 5.1 of the report and set out in full as track changes in Appendix 1 of the report, be approved.

23 Annual Review of Council's Counter Fraud Policies

The Head of Finance (Section 151 Officer) submitted a report on the Annual Review of Council's Counter Fraud Policies: Anti-Fraud, Corruption and Bribery; Whistle Blowing; Anti Money Laundering; Gifts, Hospitality and Registration of Interests.

The Head of Governance introduced the report and highlighted proposed changes to the policies, listed in Section 5, of the report.

As had previously been agreed by the Committee, paper copies of the policies had not been printed with the agenda, but links had been included in the report to enable them to be viewed electronically.

Agreed that the revised versions of the following policy documents, including the amendments set out in paragraphs 5.1 to 5.6 of the report of the Head of Finance (Section 151 Officer), be approved:

- Anti-Fraud, Corruption and Bribery Policy;
- Whistleblowing Policy;
- Anti-Money Laundering Policy;
- Gifts and Hospitality and Registering Interests Policy.

24 Annual Audit Letter 2017/18

The Head of Finance (Section 151 Officer) submitted a copy of the Annual Audit Letter 2017/18 prepared by the Council's external auditors KPG.

She said that it was a mandatory requirement for the external auditors to submit such a report. It was essentially a high-level summary of work carried out during the year and the issues referred to had all previously been reported to the Committee in more detail, so it contained no surprises.

Agreed that the Annual Audit Letter for 2017/18 from the External Auditor's KPMG, be noted and published on the Council's website.

25 Housing Benefit Subsidy Claim Audit 2016/17 Update

The Head of Finance (Section 151 Officer) provided a verbal update to the Committee on the latest position with regard to the Housing Benefit Subsidy Claim Audit 2016/17.

She reminded members that, as a consequence of extrapolations made from minor errors found by KPMG in a sample of twenty benefit cases reviewed during the 2016/17, overpaid subsidy of approximately £12,000 had been identified. The Department for Work and Pensions (DWP) had then stated that they required a different Cell to be sampled and KPMG had sampled a further forty cases. Unfortunately, from extrapolations made from those cases, it had been calculated that possible overpayments amounting to

approximately £92,000 had been identified. Despite it being established that this figure had been skewed by an error of just over £600 on a single case, which was out of proportion with any other errors which had been found, a letter had now been received from the DWP seeking recovery of the full amount of over claimed subsidy. The Head of Finance (Section 151 Officer) said that she was minded to challenge the claim, but she wanted to obtain further information and talk again to KPMG before deciding whether or not to do so. She said she would update the Committee at its next meeting.

Agreed that the current position be noted.

26 Date of next meeting

Agreed that the next meeting of the Committee be held at 6pm on Tuesday 12 March 2019.

The meeting started at 6pm and finished at 7.10pm.

Date of Publication: 20 November 2018.



Report of:	Meeting	Date
Head of Finance (Section 151 Officer)	Audit Committee	12 March 2019

REVIEW OF AUDIT COMMITTEE'S TERMS OF REFERENCE

1. Purpose of report

1.1 The periodic consideration of the terms of reference of the Audit Committee in accordance with best practice guidance.

2. Outcomes

2.1 The annual review of the Audit Committee terms of reference.

3. Recommendations

- 3.1 That the Audit Committee considers the previously agreed terms of reference attached at Appendix 1 and agree that they accurately reflect the role of the committee.
- **3.2** That the terms of reference be recommended to full Council for approval.

4. Background

- **4.1** Audit Committees are a key component of corporate governance. Their overall purpose being to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process.
- 4.2 In March 2018, CIPFA re-issued their practical guidance for Audit Committees (Audit Committees Practical Guidance for Local Authorities and Police) and provided local authorities with a suggested terms of reference setting out the purpose and the core functions required. The terms of reference state that 'The purpose of an Audit Committee is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes'. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

5. Key Issues and proposals

5.1 At the last meeting of the Audit Committee, members considered the annual review of the committee's performance against the 'self-assessment of good Page 7

practice' which is documented in CIPFA's 'Audit Committees – Practical Guidance for Local Authorities'. The self-assessment requires that an annual review of the Audit Committees' terms of reference be completed.

- 5.2 Since its last review in March 2018, the committee has been assigned responsibility for ensuring the council's compliance with the General Data Protection Regulations. This was approved at Full Council on the 14 June 2018 and the committee's terms of reference updated accordingly.
- 5.3 In addition to this, although no further responsibilities have been added to the committee, a significant number of changes have been made to the terms of reference to ensure that it accurately reflects the work of the committee and that is takes into consideration the suggested terms of reference recommended by CIPFA.
- **5.4** The amended terms of reference are included for consideration at Appendix 1.

Financial and legal implications		
Finance	None arising directly from the report.	
Legal	Any changes to the terms of reference would be subject to confirmation by full Council.	

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a \checkmark below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	√/x
community safety	х
equality and diversity	х
sustainability	Х
health and safety	х

risks/implications	√/x
asset management	х
climate change	х
ICT	х
data protection	х

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018

report author	telephone no.	email	date
Joanne Billington	01253 887372	Joanne.billington@wyre.gov.uk	31 January 2019

List of background papers:			
name of document	date	where available for inspection	
None			

List of appendices

Appendix 1 – Audit Committee Terms of Reference

Audit Committee - Terms of Reference

7.01 Purpose

The audit committee is a key component of Wyre Council's corporate governance. It provides an independent high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of an audit committee is to provide those charged with governance, independent assurance of the adequacy of the risk management framework and the internal control environment. It provides independent review of the authority's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Core Functions

The Council will appoint an Audit Committee independent from both the Executive and the Overview and Scrutiny function and it will have the following core functions:

Governance, Risk and Control

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- To review the annual governance statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.
- To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- To monitor the effective development and operation of risk management in the council and monitor progress in addressing risk-related issues reported to the committee.
- To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

- To approve the internal audit charter.
- To review proposals made in relation the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- To approve the risk-based internal audit plan, including resource requirements and the approach to using other sources of assurances and any work required to place reliance upon those other sources.
- To make appropriate enquiries of both management and the head of internal audit to determine if there appears in appropriate scope or resource limitations.

- To approve and periodically review safeguards to limit impairments to the independence or objectivity of the internal audit team.
- To approve significant changes to the audit plan and resource requirements.
- To consider reports from the head of internal audit on the performance during the year. This will include an update on the implementation of agreed recommendations.
- To consider the head of internal audit's annual report.
- To consider a report on the effectiveness of internal audit to support the Annual Governance Statement and also any external assessments of effectiveness; i.e. the quality assessment of internal audit that takes place at least once every five years in accordance with the Public Sector Internal Audit Standards.
- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External Audit

- To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- To monitor the External Auditor's progress with the Annual Plan.
- To consider the external auditors' annual letter and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the external auditors, including the opportunity for a private meeting with the committee.

Financial Reporting

- To review the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate.

Accountability Arrangements

- To prepare an annual report to full Council setting out the committee's work and performance during the year in relation to the terms of reference and to refer to Council any matters it shall see fit.
- To review any issue referred to it by the Chief Executive, Monitoring Officer or any Council body.
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Other core functions

- To undertake the annual review of the council's use of the Regulation of Investigatory Powers Act 2000 (RIPA), ensuring compliance with the Code of Practice.
- To receive updates and reports from the Head of Audit (Data Protection Officer) and to approve policies in relation to compliance with the Data Protection Act and Regulations made under the Act.



Report of:	Meeting	Date
Head of Finance (Section 151 Officer)	Audit Committee	12 March 2019

INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2019/20

1. Purpose of report

1.1 To review the Internal Audit Strategy and annual Audit Plan for the 2019/20 financial year.

2. Outcomes

2.1 An approved Internal Audit Strategy that sets out how the Internal Audit Team will implement the Audit Plan which is designed to take account of the characteristics and relative risks of the Council's activities.

3. Recommendation

3.1 Members are asked to approve the Internal Audit Strategy and Annual Audit Plan attached at Appendices 1 and 2.

4. Background

- 4.1 Internal audit is 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.
- 4.2 Professional standards for Internal Audit in local government specify that "The Chief Audit Executive (the Head of Governance) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals." The standards also specify that "The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must be incorporated or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities."
- 4.3 In accordance with the standards an Internal Audit Strategy was developed and approved by the Audit Committee in March 2018 and has been incorporated into the risk-based 2019/20 Audit Plan. Both documents are

attached.

4.4 Although the plan is specific, it is important to note that it is flexible and should any new risks materialise during the year and following the review of the strategic and operational risks during the year, consideration will be given to making changes to this plan. The Audit Committee will be informed of any changes.

5. Key Issues and proposals

5.1 The Internal Audit Strategy and Annual Audit Plan for the 2019/20 financial year is attached at Appendices 1 and 2.

Financial and legal implications		
Finance	Key financial system audits are reviewed on a rolling basis. Full system based audits are normally completed every two – three years.	
Legal	This will ensure good governance and probity.	

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a \checkmark below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	√/x
community safety	х
equality and diversity	х
sustainability	Х
health and safety	х

risks/implications	√/x
asset management	х
climate change	х
ICT	х
data protection	х

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

report author	telephone no.	email	date
Joanne Billington	01253 887372	Joanne.billington@wyre.gov.uk	28 February 2019

List of background papers:			
name of document	date	where available for inspection	
None			

List of appendices

Appendix 1 - Internal Audit Strategy

Appendix 2 - Annual Audit Plan 2019/20

Internal Audit Strategy

1.0 Internal Audit Strategy

1.1. This strategy is the high level statement of how the internal audit service will be developed and delivered in accordance with its approved terms of reference (the Audit Charter) and how it links to the council's organisational objectives and priorities.

2.0 Service Purpose

- 2.1 The key purposes of the internal audit service are to:
 - provide the council with independent assurance regarding the effectiveness of its systems of risk, governance and internal control;
 - support the council in delivering organisational change and its development programme; and
 - help the council secure and demonstrate value for money throughout its activities.

3.0 Strategic Aims and Objectives

- 3.1 Internal audit's strategic aims and objectives are defined as:
 - promoting and helping develop standards of risk management throughout the council's operations;
 - contributing to improving standards of internal control and governance within the authority and its key partnerships;
 - developing the corporate 'assurance framework' and coordinating the capture and reporting of sources of assurance;
 - developing and supporting managers in the management of risk;
 - working closely with the council's corporate compliance team to develop programmes of work to combat and reduce the risk of fraud;
 - supporting the council in identifying efficiencies and achieving value for money in service delivery; and
 - continuing to develop the scope, robustness and effectiveness of internal audit's assurance work.

4.0 Identifying and Accommodating Significant Local and National Issues and Risks

- 4.1 Emerging local and national issues that might warrant internal audit attention will primarily be identified through:
 - contributing to the development, updating and monitoring of the assurance framework:
 - reviewing the business plan and individual service plans;
 - carrying out strategic and operational risk workshops; and
 - regular consultation and liaison with Corporate Management Team, other statutory officers, Heads of Service and the Council's External Auditors.

- 4.2 This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance necessary and already available, and will involve:
 - tracking corporate policy / priority developments and the decisions taken by the authority's decision-making bodies;
 - regular consultation with the Corporate Management Team, Heads of Service and the Audit Committee Chairman;
 - regular liaison with other review bodies, especially the Council's External Auditor:
 - liaison with/considering the approach and work programmes of other internal review bodies, for example the Overview and Scrutiny function;
 - liaison with other local government auditors and active participation in local/regional professional groups;
 - consideration of key corporate risks; and
 - maintaining a professional focus and taking advantage of opportunities for professional updates/development, including continuous professional development for key staff, where appropriate.
- 4.3 The annual risk-based audit plan seeks to provide assurance in areas of significant risk where alternative sources of assurance are not readily available. Typically this will tend to focus on the auditing of "underlying risks", being those risks which are not being addressed by a current corporate or service-based project or initiative. The plan will be reviewed and updated on a rolling basis to accommodate any emerging significant risks and assurance needs identified through an ongoing review of the assurance framework.
- 4.4 Internal audit activity may involve any one, or a combination of the following:
 - a specific piece of internal audit assurance work;
 - efficiency / VFM or support work directed at improving the efficiency of existing procedures and/or standards of governance and control;
 - contributing to corporate groups / projects / reviews (officer and/or Member based) established for a given purpose / objective.

<u>Audit Plan – 2019/20</u>

Category of Audit	Total Days	Head of Governance	In House Days
Conoral / Mactings / Training / Non Chargophla			
General / Meetings / Training / Non-Chargeable Audit Committee (preparation of report / attendance at meetings)	20	15	
North West Chief Internal Audit Group Meetings / CIPFA North West Regional Meetings	3	3	5 0
Corporate Meetings / Senior Leadership Team Meetings / Team Briefs	13	10	3
Annual / Quarterly planning of audit work	4	2	2
Training and development (courses / seminars)	4	2	2
Annual Governance Statement (preparation / monitoring)	5	5	0
General audit advice and liaison	20	5	<u>0</u> 15
Audit Contingencies	20	3	15
Contingency for Investigations / Whistleblowing	20	10	10
IT Audits	20	10	
Disaster Recovery - review of new plans	3.5	0.5	3
Pancial Systems Audits			•
Assurance of segregation of duties and resources capacity	10.5	0.5	10
Audits Rolled from 18/19 Audit Plan (owing to Insurance work)			
Grant Management - identification of other grants where WBC are the accountable body	3.5	0.5	3
Street Cleansing - performance management	5.5	0.5	5
Cross Organisational Work			
Follow-up work and re-issue audit opinions - to include sample of AGS actions	22	2	20
GDPR compliance audit	28	3	25
Assurance mapping	4	1	3
Operational / Core Audit Work (driven from risk registers)			
Inspection regimes - site inspections (inc. car parks, parks and opens spaces)	10.5	0.5	10
Inspection regimes - external contractors	10.5	0.5	10
Recovery policy and procedures	10.5	0.5	10
Fleetwood Ferry - governance framework	5.5	0.5	5
Marine Hall - on-going support	5.5	0.5	5
Civica Pay - (replace Paris Cash Receipting from 1 April 2019)	3.5	0.5	3
Planning - Local Authority education contributions	10.5	0.5	10

Category of Audit	Total Days	Head of Governance	In House Days
Waste Management - contract renewal	3.5	0.5	3
FOI / EIR - changes to legislation	3.5	0.5	3
Strategic Work (driven from Business Plan / Strategic risk registers)			
Beach Management Scheme - project assurance work	5.5	0.5	5
Wyre Community Lottery	5.5	0.5	5
Better Care Fund (rolled from 2018/19)	10.5	0.5	10
Recruitment and Selection (inc. induction)	5.5	0.5	5
Citizens' Access Portal	5.5	0.5	5
Other areas of work / project work			
Risk Management (facilitation of strategic and operational workshops) - to include BREXIT			
preparation	20	5	15
Training of new Insurance / Governance post	20	10	10
PSIAS review - preparation for next review on behalf of North West Group Auditors	2	2	0
Maintaining the gifts and hospitality register / promotion	1	1	0
Lancaster City Council (Chief Internal Auditor role)	50	50	0
The result of Governance Responsibilities (Inc. Data Protection Officer)	80	80	0
view and re-fresh Governance risk assessments / lone working	3	3	0
APti-Fraud & Corruption / Bribery Act (development / awareness and monitoring)	2	2	0
GRAND TOTAL	440	220	220

Note

This plan is influenced by information contained within the Council's Strategic and Operational Risk Registers, Business Plan, Internal Audit intelligence and the Council's Annual Governance Statement. Although a contract with Lancashire Audit Services is in place to provide up to a total of 50 audit days, at the time of drafting the audit plan the additional resource was not required. This is due to the implementation of assurance mapping which has allowed the audit plan to be streamlined and re-focused on areas where no assurances are currently provided. The audit plan will therefore be completed solely by the in-house audit team.

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Agenda Item 6



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Clare James Head of Finance Civic Centre Breck Rd Poulton-le-Fylde FY6 7PU

Contact Harriet Fisher +44 7827 305274

10 December 2018

Dear Ms James

Wyre Borough Council - Certification of claims and returns - annual report 2017/18

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on only one claim or return, the Housing Benefit Subsidy claim. The certified value of the claim was £29.193 million, and we completed our work and certified the claim on 30 November 2018.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.



Wyre Borough Council - Certification of claims and returns - annual report 2017/18
10 December 2018

Our work identified one issue, however this related to an outstanding issue rather than an error or a change to the claim.

We issued a qualification letter relating to the 2016/17 subsidy claim as a result of issues identified in relation to the assessment of claimant state pension income. As the Authority was unable to drill-down to a population that only contained claimants in receipt of state pension income, we extrapolated our findings over headline cell 094. This led to the DWP advising the Authority on 18 October 2018 that they would be deducting the extrapolated 2016/17 error from their subsidy.

The Authority has subsequently worked with its software provider and has developed a report which allows it to drill-down to a population which only contains claimants in receipt of state pension income. We have had ongoing correspondence with the DWP and PSAA as to the impact of the Authority being able to produce this population and its impact on our CAKE testing for the 2017/18 claim as well as being able to reperform the testing of cases and extrapolation over a more accurate sub-population for the 2016/17 claim. In correspondence from the PSAA dated 23 November 2018, it was confirmed that this issue should be noted as an outstanding matter in our qualification letter for 2017/18 and this matter would be picked up as an amendment to the 2018/19 claim under the new HBAP regime.

We did not identify any other issues or errors and we certified the claim as qualified but without amendment.

We have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

In our 2016/17 Certification Annual Report we raised no recommendations.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2017/18 of £5,676. Our actual fee was the same as the indicative fee, and this compares to the 2016/17 fee for this claim of £6,703.

Yours sincerely

Amanda Latham



Wyre Borough Council - Certification of claims and returns annual report 2017/18
10 December 2018

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Amanda Latham, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalengulries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SWIP 3HZ



Deloitte.



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Planning report to the Audit Committee for the year ending 31 March 2019

Issued on 4 March 2019 for presentation at the meeting on 12 March 2019

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Partner introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee for the 2019 audit. I would like to draw your attention to the key messages of this paper:

Audit Plan	 We have completed our handover with KPMG, including review of their prior year file. From this handover, and review of the published ISA260 report, we understand there were no unadjusted misstatements arising from the 2017/18 audit.
	 We are developing our understanding of the Council through discussion with management and review of relevant documentation from across the Council.
	 Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.
Key risks	 We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.
Regulatory change	 Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant sobservations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.
- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of external audit

Integrity of reporting

Internal controls and risks

Oversight of internal audit

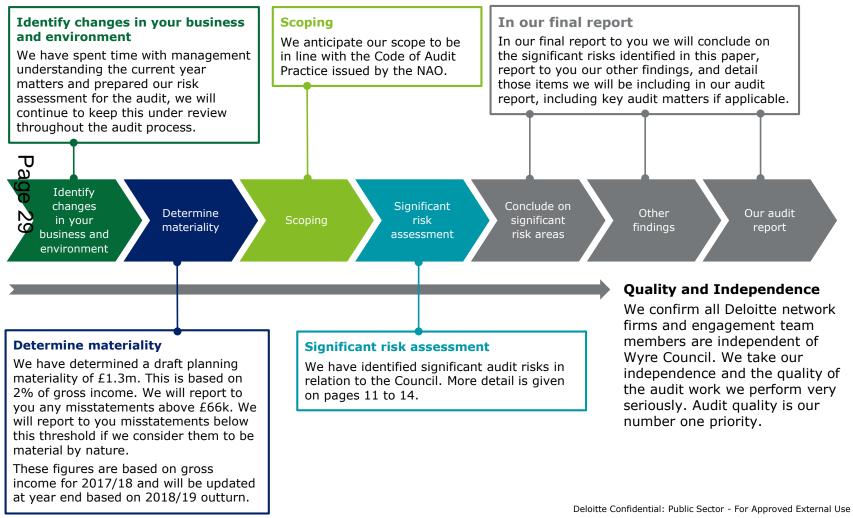
- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess and advise the Council on the appropriateness of the Annual Governance Statement, including conclusion on value for money.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.
- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Our audit explained

We tailor our audit to your business and your strategy



Scope of work and approach

We have three key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Council will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We may also required to issue a separate assurance report to the NAT on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental audit. We will update the Committee on this matter once NAO instructions are confirmed for the year.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the remuneration report and annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

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

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

Our risk assessment in this area remains ongoing although we have not yet identified any specific risks to the delivery of value for money.

We then provide a conclusion on these arrangements as part of our final reporting to you.

Scope of work and approach (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids undecessary inefficiencies.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Continuous communication and reporting Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim	Year end fieldwork	Reporting activities	
Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. Cain an understanding key processes and anges to financial reporting. Review of key Council documents including Cabinet, Council and Audit Committee minutes.	Document design and implementation of key controls and update understanding of key business cycles. Substantive testing of limited areas including fixed asset additions, expenditure, payroll, certain areas of income. Update on value for money responsibilities.	Substantive testing of all areas. Finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks	Year-end closing meetings Reporting of significant control deficiencies Signing audit reports in respect of Financial Statements Issuing Annual Audit Letter Whole of Government Accounts reporting	
Verbal update with finance team	2019 Audit Plan	Final report to the Audit Committee	Any additional reporting as required	
December	March	June - July	July	
Ongoing communication and feedback				

Materiality

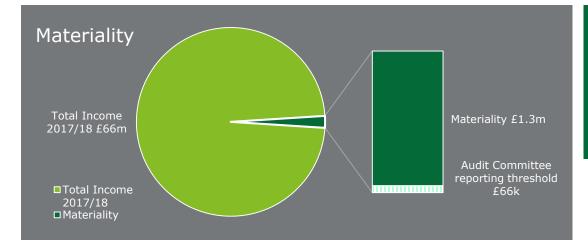
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality to be £1.3m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Total Income based on the 2017/18 audited accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on completion of our interim audit procedures and on receipt of final year results.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of 66k.
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and The changes that have occurred in the business and the environment it operates to in since the last annual report and wfinancial statements.

Principal risk and uncertainties

- PPE Useful Lives
- Property valuation
- Fair value estimations
- Pension liability
- · Provision for bad debts

Changes in your business and environment

- Conclusion of Rossall Sea Wall and future workload of the capital projects team.
- Election Year The council will go through a round of local elections in May 2019 which could have a bearing on the future direction on the council.

IAS 1 Critical accounting estimates

- · Future funding
- Classification of investment properties

NAO - Auditor Guidance Note 06

The National Audit Office has identified going concern, new accounting standards (IFRS15 and IFRS 9) and the guaranteed minimum pension as key issues for 2018-19. Whilst we do not consider these to represent significant risks we will carefully review the approach being taken by the Council to address these issues.

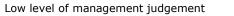
The next page summarises the significant risks that we will focus on during our audit.

Significant risk dashboard

Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
\bigcirc	\bigcirc	D+I		\bigcirc	12
\bigcirc	\otimes	D+I		\bigcirc	13
\bigcirc	\bigcirc	D+I		\otimes	14
	Material	Material Fraud risk	Material Fraud risk approach to controls D+I D+I	Material Fraud risk approach to controls management judgement D+I D+I D+I	Material Fraud risk approach to controls management judgement paper expected D+I D+I D+I D+I

D+I: Assessing the design and implementation of key controls











Risk 1 – Completeness and cut-off of service line expenditure

Risk

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted identified this risk, and instead believe that the fraud risk lies with the completeness and cut-off of service line expenditure. We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure).

> There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position.

There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outturn.

Our response

Our work in this area will include the following:

We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed);

We will perform focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and,

We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.

Risk 2 - Property Valuation

Risk

The council held £124m of property plant and equipment as at 31 March 2018, the opening position for the identified current period.

> The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all property, plant, and equipment revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

> In the prior year, to 31 March 2018, revaluation movements had a £3.2m impact on the book value of property, plant and equipment assets.

There is therefore a risk that that the value of property assets materially differ from the year end fair value.

Our response

We will test the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the current year valuation;

We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;

We will review the approach used by the Authority to assess the risk that assets not subject to revaluation are materially misstated.

We will use our valuation specialists, Deloitte Real Estate, to support our audit and challenge the appropriateness of the Council's assumptions on its assets values between April 2018 and Year end.

We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of service line expenditure and the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will test the design and implementation of key controls in place around journal entries and key management estimates;
- We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- We will review accounting estimates for biases that could result in material misstatements due to fraud; and
- We will obtain an understanding of the business rationale of significant transactions that we become
 aware of that are outside of the normal course of business for the Council, or that otherwise appear
 to be unusual, given our understanding of the entity and its environment.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, Trelevant to you.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Newcastle | 12th March 2019

Appendix 1: Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as a key audit risk for your organisation.

Fraud Characteristics:



- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Board:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit:

• Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance:

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
There are no non-audit fees other than the £8,000 Housing Benefit work.
In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.
•

Appendix 2: Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

Current year £
37,470
37,470
8,000
8,000
45,470

Appendix 3: Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, notipust on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

 \bullet Enhance certain aspects of its independence systems and procedures.

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