



Audit Committee Agenda

Wyre Borough Council
Date of Publication: 02 March 2020
Please ask for : Emma Keany
Democratic Services Officer
Tel: 01253 887476

Audit Committee meeting on Tuesday, 10 March 2020 at 6.00 pm in the Council Chamber, Civic Centre, Poulton-le-Fylde.

- 1. Apologies for absence**
- 2. Declarations of interest**

To receive any declarations of interest from any members of the Committee on any item on this agenda.
- 3. Confirmation of minutes** (Pages 3 - 6)

To confirm as a correct record the minutes of the last meeting of the Audit Committee held on 19 November 2019.
- 4. Review of Audit Committee's Terms of Reference** (Pages 7 - 12)

Report of the Corporate Director Resource (Section 151 Officer).
- 5. Internal Audit Strategy and Audit Plan 2020/21** (Pages 13 - 20)

Report of the Corporate Director Resources (Section 151 Officer).
- 6. Internal Audit Charter** (Pages 21 - 38)

Report of the Corporate Director Resources (Section 151 Officer).
- 7. Letter from the Public Sector Audit Appointments Limited (PSAA)** (Pages 39 - 40)

The Corporate Director Resources (Section 151 Officer) will provide a verbal update.
- 8. External Audit Plan 2019/20** (Pages 41 - 64)

Report of the Council's external auditors- Deloitte.

9. 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 Chief Internal Officer, as provided for in the Committee's work programme.

10. Time and date of next meeting

6pm on Tuesday 5 May 2020.



Audit Committee Minutes

The minutes of the Audit Committee meeting of Wyre Borough Council held on Tuesday 19 November 2019 at the Civic Centre, Poulton-le-Fylde.

Audit Committee members present:

Councillors R Amos, Cartridge, E Ellison, Holden, Ingham, Longton, McKay, Minto, Moon, Stirzaker and Webster

Apologies for absence:

Councillors Fairbanks, O'Neill and L Walmsley

Officers present:

Clare James, Head of Finance and Section 151 Officer
Emma Keany, Governance Trainee
Joanne Billington, Head of Governance and Data Protection Officer
Karen McLellan, Senior Auditor
Mary Grimshaw, Legal Services Manager and Deputy Monitoring Officer
Paul Hewitson, Director at Deloitte LLP (External Auditor)
Roy Saunders, Democratic Services and Scrutiny Manager

No members of the public or press attended the meeting.

26 Declarations of interest

None.

27 Confirmation of minutes

Agreed that the minutes of the Audit Committee meeting held on 30 July 2019 be confirmed as a correct record.

28 Compliance with the Regulation of Investigatory Powers Act 2000 (RIPA)

The Legal Services Manager submitted a report that reviewed the authority's use of RIPA (Regulation of Investigatory Powers Act 2000), the outcome of the RIPA desktop inspection by the IPCO (Investigatory Powers Commissioner's Office) and proposed changes to the Council's RIPA policy.

The Legal Services Manager gave an update to the committee on the findings of the first desktop inspection. She commented on the fact that the council had been found to be low risk with no compliance risk.

There were questions from the committee regarding the requirements that needed to be met in order to apply for an RIPA authorisation. The Legal Services Manager explained the requirements and reiterated to members that no such authorisation had been requested since 2012. She stated that she would report back to the committee if any RIPA authorisations were made.

Agreed:

- 1) That the committee noted the fact that there had been no authorisations granted for directed surveillance or covert human intelligence source under RIPA since 2012.
- 2) That the revised RIPA policy, attached at Appendix A, reflecting the guidance contained in the revised Code of Practice for Covert Surveillance and Property Interference (August 2018), be approved.

29 Internal Audit and Risk Management - Progress Report

The Head of Finance (Section 151 Officer) submitted a progress report on the Internal Audit and Risk Management Plan and the resulting action plan from the 2018/19 Annual Governance Statement.

The Head of Governance introduced the report, stating that it was a six monthly update to the Committee.

The Senior Auditor summarised the report and identified a few key areas to provide the committee with a more in-depth update. These included:

- Marine Hall and the progress it had made since the last update.
- The outcomes of the Strategic Risk review that had taken place on 16 October 2019.
- Steps that had been taken towards the finalisation of the Operational risk registers. The updated registers would be posted on the intranet once completed.
- The separate ICT risk register and the required actions necessary to mitigate any issues from the identified risks.

The Senior Auditor answered questions from the committee regarding the operation of the Marine Hall including its staffing levels, events and business opportunities and the amount of time spent by the Audit team ensuring that procedures and protocols were being adhered to.

There were also questions about Payment Card Industry (PCI) compliance, how risk scores are calculated on the Risk Register and the internal audit plan.

Agreed that the progress on the delivery of the Internal Audit and Risk Management Plan at appendices 1, 2 and 3 be noted.

30 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.

The Head of Governance talked through some of the updates and changes that were being made to the Financial Regulations and Financial Procedure Rules and the additions being made relating to compliance with the Social Value Act 2012.

Agreed that the proposed changes to the Financial Regulations and Financial Procedure Rules be approved.

31 Annual Review of Council's Counter Fraud Policies

The Head of Finance (Section 151 Officer) submitted a report on the Annual Review of the 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.

Agreed:

That the revised versions of the following policy documents be approved:

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

32 Approval of the Council's Data Protection Policy and Procedures

The Head of Governance (Data Protection Officer) submitted a report on the Approval of the Council's Data Protection Policy and Procedures.

She stated that the report demonstrated that the council had arrangements in place to ensure compliance with the General Data Protection Regulations (GDPR) and other data protection laws.

There were questions from the committee regarding Contact Centre staff scripts and privacy notices.

Agreed that the Data Protection Policy and Procedures and incident/breach reporting and investigation instruction at Appendix 1 of the report, be approved.

33 Annual Audit Letter 2018/19

The Council's external auditors Deloitte, submitted a copy of the Annual Audit Letter 2018/19.

Paul Hewitson, Director at Deloitte LLP, stated that it was a mandatory requirement for external auditors to submit such a report and that it was written in layman's terms so that the judgement was more accessible to members of the public. He confirmed that there was nothing fundamentally new or different to the ISA260 report received at the July committee.

Agreed that the Annual Audit Letter for 2018/19 from the External Auditor's Deloitte, be noted and published on the council's website.

34 Role of the External Auditor

Paul Hewitson, External Auditor, gave a presentation to the committee detailing the role of an external auditor.

35 Date of next meeting

Tuesday 10 March 2020 at 6pm in the Council Chamber.

The meeting started at 6pm and finished at 19.24pm.

Date of Publication: 23 December 2019



Report of:	Meeting	Date	Item no.
Corporate Director Resources (Section 151 Officer)	Audit Committee	10 March 2020	4

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 CIPFA's practical guidance for Audit Committees (Audit Committees Practical Guidance for Local Authorities and Police) provides 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. The guidance also states that a review of the Audit Committees' terms of reference be completed annually.

5. Key Issues and proposals

- 5.1** Since its last review in March 2019, when a number of changes were made to ensure it accurately reflected the work of the committee and took into consideration the suggested terms of reference recommended by CIPFA, only one other change has been made.
- 5.2** The highlighted paragraph under 'External Audit' has been added at the request of the External Auditor. This is to document that the committee must periodically consider whether the appointed Auditors remain independent and objective and, that their judgement in carrying out that role has not been impaired as a consequence of their participation in any non-audit reviews, services or advice provided to the council.
- 5.3** The 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 ✓ 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	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
ICT	x
data protection	x

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
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Joanne Billington	01253 887372	Joanne.billington@wyre.gov.uk	11 February 2020
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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 Internal 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 are any inappropriate 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.
- To consider periodically (at least annually) whether the Auditors appointed to carry out the External Audit function remain independent and objective and, that their judgement in carrying out that role has not been impaired as a consequence of their participation in any non-audit reviews, services or advice provided to the council.

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.

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	Item no.
Corporate Director Resources (Section 151 Officer)	Audit Committee	10 March 2020	5

INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2020/21
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1. Purpose of report

- 1.1 To review the Internal Audit Strategy and annual Audit Plan for the 2020/21 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 has been developed and approved by the Audit Committee and is incorporated into

the risk-based 2020/21 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 2020/21 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 ✓ 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	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
ICT	x
data protection	x

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 2020

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 2020/21

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.

Category of Audit	Total Days	Head of Governance	In House Days
General / Meetings / Training / Non-Chargeable			
Audit Committee (Preparation of report / attendance at meetings)	20	15	5
North West Chief Internal Audit Group Meetings / CIPFA North West Regional Meetings	3	3	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 & follow-up)	5	5	0
General Audit Advice and Liaison	20	5	15
Audit Contingencies			
Contingency for Investigations / Whistleblowing	20	10	10
Financial Systems Audits			
VAT	10.5	0.5	10
Expenses	10.5	0.5	10
Debtors, Creditors & Budgetary Control	15.5	0.5	15
Cash Receipting (front desk procedures & Fleetwood Market)	5.5	0.5	5
Audits Rolled from 19/20 Audit Plan			
Citizens Access Portal	5.5	0.5	5
Beach Management Scheme	5.5	0.5	5
CIVICA Pay	5.5	0.5	5
Disaster Recovery - Review of new plans	3.5	0.5	3
Follow-up reviews (if previous audit opinions less the 'Good')			
IR35	5.5	0.5	5
Building Maintenance	5.5	0.5	5
Marine Hall	5.5	0.5	5
Operational / Core Audit Work (driven from risk universe & registers)			
Wyre Community Lottery (following implementation)	5.5	0.5	5
Pest Control	10.5	0.5	10
Election Accounts	10.5	0.5	10

Accuracy of Information Asset Registers	10.5	0.5	10
Performance Management (following change of responsibility)	5.5	0.5	5
New Website (content accuracy)	5.5	0.5	5
Land Charges	10.5	0.5	10
Waste Management (review of payment process)	5.5	0.5	5
Strategic Work (driven from Business Plan / Strategic risk registers)			
Climate Change Emergency	10.5	0.5	10
Digital Wyre Strategy	10.5	0.5	10
Safeguarding	5.5	0.5	5
Other Areas of Work / Project Work			
Risk Management (Implementation of new risk software & facilitation of strategic and operational workshops)	50	25	25
Maintaining Gifts and Hospitality Register / Promotion	1	1	0
Lancaster City Council (Chief Internal Auditor role)	50	50	0
Other Head of Governance Responsibilities (Inc. Data Protection Officer)	80	80	0
Anti-Fraud & Corruption / Bribery (Development / Awareness & Monitoring)	1	1	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 for 2020/21 will therefore be completed solely by the in-house audit team.

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Report of:	Meeting	Date	Item no.
Corporate Director Resources (Section 151 Officer)	Audit Committee	10 March 2020	6

ANNUAL REVIEW OF INTERNAL AUDIT CHARTER
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1. Purpose of report

1.1 Agreement of the Internal Audit Charter for the Audit and Risk Management Section ensuring compliance with the Public Sector Internal Audit Standards (PSIAS) and the associated Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.

2. Outcomes

2.1 Compliance with the PSIAS and the checklist contained within CIPFA's Application Note constituting 'proper practices' as defined in the Accounts and Audit Regulations 2015.

3. Recommendation

3.1 That the Audit Committee agrees the Internal Audit Charter and Code of Ethics attached at Appendices 1 and 2.

4. Background

4.1 Specific requirements detailed in the Accounts and Audit Regulations 2015 require a relevant body to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account PSIAS or guidance'. From 1 April 2013 the standards and guidance were defined in the PSIAS and CIPFA's Application Note which provides guidance on the specific requirements for local government internal audit services.

4.2 The Application Note documents a number of specific local government requirements, including the requirement to complete an extensive checklist for assessing compliance with the PSIAS. One of the mandatory requirements within the checklist is to have an Internal Audit Charter in place.

- 4.3** In addition, The Head of Governance publishes an Internal Audit Strategy which assists in demonstrating how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter, council objectives and priorities.

Key Issues and proposals

- 5.1** Since the Audit Charter was last approved in May 2019, only one minor change has been made to reflect that the Head of Finance / Section 151 Officer is now the Corporate Director Resources / Section 151 Officer and the Head of Governance reports directly to her.
- 5.2** The Internal Audit Charter and Code of Ethics are included for approval at Appendices 1 and 2.

Financial and legal implications	
Finance	None arising directly from the report.
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 ✓ 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 an x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
ICT	x
data protection	x

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
Jo Billington	01253 887586	joanne.billington@wyre.gov.uk	11 February 2020

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

List of appendices

Appendix 1 – Internal Audit Charter

Appendix 2 – PSIAS Code of Ethics



Internal Audit Charter – March 2020

Introduction

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Internal Audit Charter sets out the purpose, authority and responsibility of the internal audit activity at Wyre Council and includes a Code of Ethics which stipulates the conduct of Internal Auditors within the Audit and Risk Management Section.

The Internal Audit Charter is publicised within the council to ensure that the role of the Audit and Risk Management Section is understood. The Head of Governance is responsible for reviewing the Internal Audit Charter and presenting it to the Corporate Director Resources / Section 151 Officer (Senior Management) and the Audit Committee (The Board) at least annually for review and approval.

Definition of Internal Audit

The PSIAS defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objective’s by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

Mission of Internal Audit

The Internal Audit Charter sets out what the internal audit service aspires to accomplish; which is *‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’*. The core principles listed in the PSIAS, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. Failure to achieve any of the principles would imply that an internal audit function was not as effective as it could be in achieving internal audit’s mission. There are 10 core principles, namely:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;

- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Responsibilities

Internal Audit is a review activity that does not relieve management of its responsibility for ensuring that effective systems of control are in place. The council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the council's objectives. Management shall accept and implement internal audit findings and recommendations, or accept the risk resulting from taking no action.

The Audit and Risk Management Section will assist the council in discharging its corporate governance requirements and ensure that the council's assets and activities have the necessary insurance cover. The Head of Governance is responsible for:

- Developing and maintaining an internal audit strategy demonstrating how the internal audit service will be delivered and developed in accordance with the internal audit charter, council objectives and priorities.
- Developing an annual risk-based audit plan in the context of the strategic direction and based on an understanding of the council's key risks;
- Managing the provision of a complete professional internal audit service that is compliant with the PSIAS and CIPFA's Application Note;
- Providing an annual internal audit opinion to the Audit Committee, based on the outcomes of internal audit work conducted throughout the year;
- Assisting officers and members of the authority in the effective discharge of their responsibilities;
- Examining, evaluating and reporting on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources;
- Evaluating the effectiveness and contributing to the improvement of risk management processes;
- Ensuring the council's assets and interests are accounted for and safeguarded against losses of all kinds, including those arising from fraud, irregularity, corruption or bribery;

- Maintaining a level of independence and integrity to permit the proper performance of the internal audit function;
- Maintaining an effective working relationship with the External Auditor;
- Attending Audit Committee meetings, contributing to Audit Committee Agendas and advising the Committee on any scope or resource limitations;
- Assessing all matters of potential fraud or irregularity in line with the requirements of the Council's counter-fraud policies; and
- Assisting the Audit Committee in achieving effectiveness in the delivery of their terms of reference.

In carrying out their role, staff within the Audit and Risk Management Section are required to comply with the auditing standards as defined in the PSIAS, the Accounts and Audit Regulations 2015 and any other relevant professional guidelines issued by The Institute of Internal Auditors.

In accordance with the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the system of internal control must be carried out. This will be conducted using the checklist within CIPFA's Application Note which will be presented to the Audit Committee in May. The outcome of the exercise will form part of the Annual Governance Statement (AGS). Completing an exercise of this nature also allows greater reliance to be placed on the overall opinion on the effectiveness of the control environment within the Annual Audit Report.

Limitations of Internal Audit Responsibilities

In seeking to discharge the responsibilities of Internal Audit set out above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:

- Controlling the risks of the organisation;
- Establishing and maintaining systems of internal control;
- Determining operational policies or procedures; and
- Preventing or detecting fraud and irregularity.

Organisational Roles and Relationships

The PSIAS require that the internal audit charter defines the terms 'Board' and 'Senior Management' in relation to the work of internal audit. For the purpose of internal audit work at Wyre Council, the 'Board' is taken to refer to the Audit Committee and 'Senior Management' is taken to refer to the Corporate Director Resources / Section 151 Officer. The PSIAS also refer to the 'Chief Audit Executive' which at Wyre refers to the Head of Governance (Head of Internal Audit).

The council has adopted CIPFA's Statement on the Role of the Chief Financial Officer in Local Government and the associated Statement on the Role of the Head of Internal Audit in Public Service Organisations. These statements set out principles and standards for the Corporate Director Resources / Section 151 Officer and the Head of Governance to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.

Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances related to the council's strategy and governance arrangements and will use the Annual Governance Statement to notify him of any significant issues.

Internal Audit supports the Monitoring Officer in discharging her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.

The Audit and Risk Management Section derives its authority from the Financial Regulations and Financial Procedure Rules, contained within the Council's Constitution.

Relationships with Elected Members, Officers, External Audit and Other Agencies

To ensure good working relationships are established, the Audit and Risk Management Section comply with the 'protocol for officer / member relations' which forms part of the Council's Constitution and involves:

- Working in a spirit of mutual respect and co-operation;
- Maintaining impartiality;
- Being politically neutral;
- Respecting confidentiality;
- Observing the protocols with regards to access to information; and
- Trying to resolve any issues informally and in a spirit of understanding.

The Audit and Risk Management Section will co-operate with External Audit and other review agents to:

- Ensure that duplication of work is minimised;
- Consider joint delivery;
- Determine the level of assurance that can be obtained from their work; and
- Review the reliance that can be placed on that assurance as part of the Head of Governance's overall opinion on the control environment included in the Internal Audit Annual Report.

Independence and Objectivity

Internal Audit operates independently within the council to ensure it is able to appraise and give an impartial opinion on the council's governance arrangements, risks and internal control systems.

To ensure this independence, internal audit operates within a framework that allows unrestricted access to all council officers, senior management and elected members. As such all internal audit staff have the right to access all premises, records and documentation held by the council, its officers and Elected Members and to seek explanation as they see necessary to discharge their duties. This position is supported by the Accounts and Audit Regulations 2015.

The Head of Governance is responsible for identifying and managing any threats to objectivity. In addition, objectivity and independence is further enhanced by the partnership arrangements in place between the council and Lancashire Audit Services (LAS). They are also used to avoid any conflicts of interest that may arise if Internal Audit have undertaken any non-audit activities or have been involved in the system or policy setting.

Reporting Lines

The Audit and Risk Management Team sits within the Resources Directorate and the Head of Governance reports directly to the Corporate Director Resources / Section 151 Officer. Internal audit activity is organisationally independent in its planning and operation and as such has unrestricted access to the following:

- ◆ Chief Executive;
- ◆ Monitoring Officer;
- ◆ Chairman of the Audit Committee;
- ◆ Chairman of the Standards Committee;
- ◆ Members of the Council; and
- ◆ All council employees.

Functionally, the work of internal audit is reported to the Corporate Director Resources / Section 151 Officer, other Corporate Directors, Heads of Service, Audit Committee and the External Auditor by means of specific reports. They are also reported in summary form to the Audit Committee via six-monthly monitoring and activity reports.

The Head of Governance and the Chairman of the Audit Committee have mutual, direct access to each other and will liaise as they consider appropriate.

Due Professional Care and Ethics

All Audit and Risk Management staff have an ethical responsibility to work with due professional care. Due professional care is the care and skill that prudent and competent internal auditors will apply in performing their duties; working with competence and diligence, using knowledge and judgement based on experience, training and ability.

Care will be appropriate to the objectives, complexity, nature and materiality of the audit being performed. The auditor will consider various data analysis techniques and be alert to significant risks that may affect the organisation.

The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector and all internal audit staff at Wyre Council will operate in accordance with this. In addition, internal auditors are also required to comply with the relevant requirements of their own professional bodies and the organisation in which they are employed and have regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life'.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS requires that the Chief Audit Executive (at Wyre this is the Head of Governance) develops and maintains a Quality Assurance and Improvement Programme (QAIP). A QAIP is designed to enable an evaluation, checking that internal audit's activity conforms to the 'Definition of Internal Auditing', the PSIAS and whether Internal Auditors apply the Code of Ethics. The QAIP also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP must include both internal and external assessments and any improvement plans resulting from the QAIP must be monitored accordingly. The following activities make up the QAIP at Wyre:

Internal Assessment

- 6 monthly progress review of internal audit activity;
- 6 monthly performance appraisals for all audit staff;
- Completion of CIPFA's Application note checklist to assess the Effectiveness of Internal Audit;
- Quality inspections of all audit work by the Head of Governance;
- Annual certification confirming compliance with the Code of Ethics contained within the Audit Charter; and
- Annual feedback from the Chairman of the Audit Committee on the Chief Audit Executive's performance.

External Assessment

- The use of Lancashire County Council's Internal Audit Service to provide independent assurance that controls are adequate and effective in service areas managed by the Chief Audit Executive;
- Annual review and validation of the Annual Governance Statement;

- The External Auditor has an annual opportunity to raise any issues concerning Internal Audit activity with the Audit Committee.
- External assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation in accordance in the PSIAS. The most recent assessment was carried out in 2018 with no significant issues reported. The next review is scheduled for 2023.

The results of the quality and assurance programme and progress against any improvement plans will be reported in the annual report to the Corporate Director Resources / Section 151 Officer and the Audit Committee.

Strategy and Planning

The Head of Governance will develop and maintain an Internal Audit Strategy to demonstrate how the internal audit service will be delivered and developed in accordance with the internal audit charter, council objectives and priorities.

Annually, the Head of Governance will also prepare a risk-based audit plan taking into account the Council's Business Plan, Service Plans, the Medium Term Financial Plan, Strategic and Operational Risk Registers and discussions with the council's Corporate Management Team and the External Auditor. The audit plan will outline the assignments to be carried out and include an assessment of the resources required for delivery. The Audit Committee will approve the plan in advance of the financial year.

To reflect any changing priorities or emerging risks, the audit plan will be constantly reviewed with a provision for contingencies being included accordingly. Progress in relation to the plan will be reported to the Audit Committee on a six monthly basis.

Resourcing and Staffing

The Head of Governance (Chief Audit Executive) will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to the professional values and the Code of Ethics. The Head of Governance will have sufficient skills, experience and competencies to work with the Corporate Director Resources / Section 151 Officer and the Audit Committee to influence the risk management, governance and internal control of the council.

The Head of Governance is responsible for ensuring that Internal Audit are suitably resourced in order to achieve its overall mission and will aim to maintain a suitable mix of experienced and qualified staff. To assist Wyre Council in meeting these requirements, the internal audit service is supplemented by the use of an external audit provider, Lancashire Audit Service (LAS) who are part of Lancashire County Council. This organisation is required to comply with PSIAS.

Individual training needs are established and agreed through the council's Performance Appraisal process along with the most cost effective way of meeting those needs. As a professional service, staff are expected to actively participate in formal Continuing Professional Development (CPD) schemes.

Once a year, the Audit Committee will have the opportunity to attend two scheduled private discussions, one with the council's External Auditors and the other with the Head of Governance. Following on from these discussions, feedback on the Head of Governance's performance is provided by the Chairman of the Audit Committee to the Corporate Director Resources prior to the Head of Governance's annual performance appraisal taking place.

Scope of Internal Audit Work

Using a systematic, disciplined and risk-based approach, the scope of internal audit work covers all of the council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial areas, including value for money.

It allows for unrestricted coverage of the authority's activities and unrestricted access to all records, personnel, property and assets deemed necessary in the course of an engagement. Such access shall be granted on demand and is not subject to advance notice. There are no limitations placed upon the scope of internal audit work. Internal audit has the right to request and receive explanations from all employees or Elected Members concerning any matter under consideration.

The scope of internal audit work extends to services provided through partnership arrangements. The Head of Governance at Wyre Council should decide, in consultation with all parties, whether internal audit staff should conduct the work to derive the required assurance or rely on the assurances provided by others.

If the Head of Governance or those charged with governance consider that the level of internal audit resources in any way limits the scope of internal audit work, or prejudices the ability of internal audit to deliver a service consistent with the definition of internal audit, they should advise the Audit Committee immediately.

Internal audits are not limited to financial systems or records, but extend to all the activities of the council as this reflects the control environment and the governance arrangements in place. The Audit and Risk Management Section will undertake the following activities as and when required:

- Promote appropriate ethics and values within the organisation;
- Assess and make appropriate recommendations to improve the organisation's governance processes and monitor progress made against governance actions;
- Review compliance with laws, regulations, council policies, the Financial Regulations and Financial Procedure Rules and contracts;
- Review compliance with the Council's Constitution;
- Undertake transaction testing to provide assurance as to the accuracy of processing;

- Perform Computer Audit and Contract Audit;
- Undertake proactive and reactive management of the council's insurance portfolio, linked to risk;
- Investigate suspected fraud, bribery and corruption (not including Benefit Fraud Investigation work);
- Embed risk management – including the identification and assessment of significant risks, risk responses and communication of relevant risk information to enable staff and management and the board to carry out their responsibilities;
- Carry out value for money studies; and
- Verify performance information and published national and local indicators.

Consultancy work

Internal audit may act in a consulting role to review controls within existing systems and those under development to give advice and assistance when required, without assuming management responsibility. A contingency will be made in the internal audit plan to support management in this way.

Prior to accepting any additional consultancy work not already included in the internal audit plan, the Head of Governance will consider the effect this would have on the completion of the assurance work. In accordance with PSIAS, approval will be obtained from the Audit Committee for any consultancy work requested, prior to accepting the engagement.

Engagement planning

For each engagement, a Terms of Reference (TOR) will be prepared and agreed with relevant managers. The TOR will contain details of the risks relevant to the activity under review, together with the objectives, scope and timing of the audit assignment, resource and reporting requirements.

Performing the engagement

During each engagement, Internal Audit will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives and to support the recommendations made and the overall conclusion. The draft report and supporting evidence will be reviewed by the Head of Governance to ensure objectives have been achieved and quality assured. All evidence obtained will be documented and securely retained in accordance with the council's Information Asset Register and access to this will be controlled.

Communicating results

Following the conclusion of each engagement, a formal report detailing the findings and recommendations / action plan will be prepared by the Audit and Risk Management team and issued by the Head of Governance.

As part of Internal Audit's Quality Assurance and Improvement Programme, a 4:4:2 timescale is applied when conducting audit work and drafting and finalising audit reports. The timescales apply as follows;

- 4 weeks from the commencement of the audit fieldwork, a draft report will be issued;
- 4 weeks from the issue of a draft report, a management response and completed action plan will be received; and
- 2 weeks from receiving the response and action plan, the report will be issued as a 'final' version.

The reports are distributed as follows;

- Managers receive a final copy of the report with an agreed action plan, following confirmation of the draft report's factual accuracy. The action plan details responsibilities for action, the timetable and priorities. Whilst management are responsible for the implementation of agreed actions, follow-up work will be performed by Internal Audit whereby a sample of Level 1-3 recommendations are reviewed to ensure actions are being progressed. The Audit Committee will be advised of any delays or failure to implement agreed actions.
- The Section 151 Officer and the appropriate Corporate Director, the Audit Committee and the council's External Auditor all receive copies of the final reports. A copy is also published on the council's intranet.
- The Audit Committee receives six-monthly updates on audit work performed and an executive summary of findings / recommendations made, highlighting any key issues arising from this work.
- At each meeting, the Committee have the opportunity to discuss any of the audit reports that have been issued since the previous meeting. Officers may be asked to attend the Audit Committee meeting to address any questions raised by the members.

Fraud, Bribery and Corruption

Managing the risk of fraud, bribery and corruption is vital to the success of the council in achieving its corporate objectives. The Audit and Risk Management Section will assist management in the effective discharge of this duty. Audit procedures alone, even when performed with due care and professionalism cannot guarantee that a system is 100% risk free, nor that all incidents of fraud, bribery and corruption will be detected and investigated.

The Audit and Risk Management Section is not solely responsible for the prevention or detection of fraud, bribery and corruption. It will, however, remain alert to risk and exposures both internal and external to the organisation. Close involvement with the national anti-fraud agencies and participation in the National Fraud Initiative will assist this process.

Any evidence or suspicion of an irregularity regarding council funds, property or any other asset or interest should be reported immediately using the Whistleblowing Policy. The council is committed to the highest possible standards of openness, probity and accountability, and encourages all its Elected Members, employees, partners and contractors to voice their concerns without fear of reprisal.

The Audit and Risk Management Section will lead or assist in the development, maintenance and delivery of training associated with the effectiveness of policies that contribute towards sound corporate governance, as detailed in the council's Annual Governance Statement e.g. Whistle Blowing Policy, Anti-Fraud, Bribery and Corruption Policy, Officer's Gifts, Hospitality and Interests and the Anti-Money Laundering Policy and Procedures.

Public Sector Internal Audit Standards – Code of Ethics

Introduction

The PSIAS contain a Code of Ethics (the Code) which is mandatory for all internal auditors in the public sector. In addition, internal auditors are also required to comply with the relevant requirements of their own professional bodies and the organisation in which they are employed.

Purpose

The purpose of these ethics is to promote an ethical, professional culture in internal auditing. Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life'. Namely;

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

The Head of Governance at Wyre Council will ensure that auditors are regularly reminded of their ethical responsibilities as part of the performance appraisal process. Auditors will be asked to declare annually any personal interests and certify that they understand and will comply with the requirements of the Code.

Applicability and Enforcement

The Code applies to both individuals and entities that provide internal auditing services including the Lancashire Audit Service. For members of the Institute of Internal Auditors (IIA), breaches of the Code shall be evaluated and administered according to the IIA Disciplinary Procedures. Disciplinary procedures of other professional bodies e.g. CIPFA and employing organisations may also apply to breaches of the Code.

Fundamental Principles

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

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Internal Auditors:

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosure as required by the law and their professions;
- Shall not knowingly be part of any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. 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 judgements.

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;
- Shall not accept anything that may impair or be presumed to impair their professional judgement; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. 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.

Internal Auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties; and
- Shall 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.

4. Competency

Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the Public Sector Internal Audit Standards; and
- Shall continually improve their proficiency and effectiveness and quality of their services.

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COPY OF EMAIL SENT ON 12 DECEMBER 2019 TO ALL S151 OFFICERS OF OPTED IN BODIES, PROVIDED BY PSAA TO AUDIT TEAMS

Dear Section 151 Officer

Normally at this time PSAA is consulting on the following year's audit scale fees. However, this year is unusual in that the National Audit Office is itself consulting on the new Code of Audit Practice that will apply to all local government and NHS audits from 2020/2021. The NAO's second and final consultation stage has now completed, and we understand that it is expecting to present the new Code for Parliamentary approval in the near future. PSAA commissions audits that are Code compliant, and so we need to see the final version before we are able to consult on the scale fees for 2020/2021. Our current plan is to consult with bodies from 27 January to 6 March 2020.

Please note that the NAO intends to consult on and then update the Auditor Guidance Notes (AGNs) that support the Code following its approval. Those AGNs will provide more detail on the auditor's responsibilities, which will be an important factor in ultimately determining the impact on any individual body. We will need to take this further consultation into account when constructing our fee proposals. We will notify you when our consultation paper is issued and look forward to your contribution.

We also want to take this opportunity to update you on the current challenges facing audit. You will no doubt be aware, either directly or indirectly, of the significant numbers of delayed 2018/19 audit opinions in local bodies. This is a much more prevalent problem than in previous years and, needless to say, we are very sorry that it has arisen. The causes of delay vary from body to body. However, the most frequent explanations appear to be an increasing shortage of audit resources suitable for local government work (including significant recruitment and retention challenges), and/or concerns about the quality of draft accounts and working papers (it is acknowledged by CIPFA that producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams), and/or challenges resolving technical issues within increasingly complex accounts.

It is also apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon is currently looking at the audit product.

It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

We are aware that there is a wide-ranging debate about the areas of focus for local government audit work, including concerns that there is too much focus on figures that are not necessarily priorities for audited bodies and electors. CIPFA has recently consulted on the strategy for the Accounting Code, including possible ways that it may evolve in the future. MHCLG has also commissioned Sir Tony Redmond to review financial reporting and audit in local government. Until such time as changes are made, however, the position is that auditors are required to ensure that they have sufficient assurance to meet the professional requirements in the current framework before they can issue their opinions.

We have spoken to many finance officers and members about their audits, and have just carried out a survey of all opted-in bodies to gather views more formally. One issue that arises regularly is the timing and clarity of auditors' communication. Too frequently bodies do not receive information about additional work which the auditor may need to undertake (as well as related fee implications) until very near to the end of the audit process. We have stressed that bodies need this information at the earliest possible opportunity (accepting that that unforeseen issues arise during the audit process, and that this may be towards the end – the aim is though that they are highlighted as soon as is practicable). This includes that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage. Please note that any proposed variation to the fee remains subject to PSAA approval, and cannot be charged unless we agree to it. There is a description of our process for considering fee variations, and through which we independently review every proposed fee variation, on our website.

The precise impact of professional requirements will vary with the unique circumstances of individual bodies. However, your audit lead will be able to update you on how your audit is evolving including any resource, fee or timetable implications. This local dialogue is a vital part of the audit process, and is there to ensure that at any given stage you are well informed about what is happening and why.

I hope this information is helpful to you. Please do not hesitate to contact PSAA if we can be of assistance in any way.

Yours sincerely

Tony Crawley

Chief Executive

Public Sector Audit Appointments Limited



Planning report to the Audit Committee for the year
ending 31 March 2020

March 2020

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Director 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.

We have pleasure in presenting our planning report to the Audit Committee for the 2020 audit. We would like to draw your attention to the key messages of this paper:

Audit Plan

- We have begun planning for the 2020 audit.
- We are updating 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 updated our view of the significant audit risks faced by the Council. This is based on our planning procedures performed to date and our findings from the 2019 audit. These are presented as a summary dashboard on page 11.

Regulatory framework

- 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

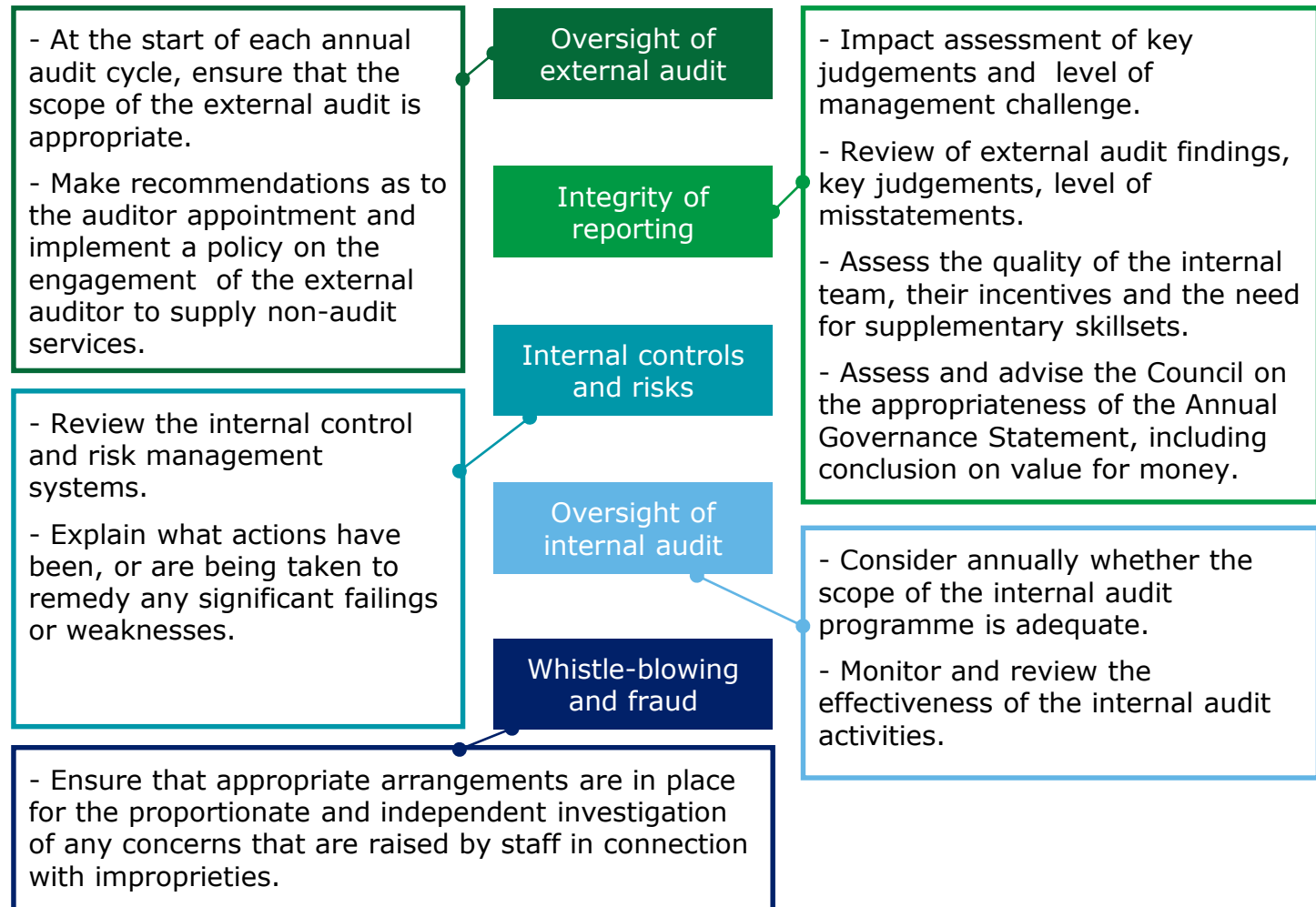
Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

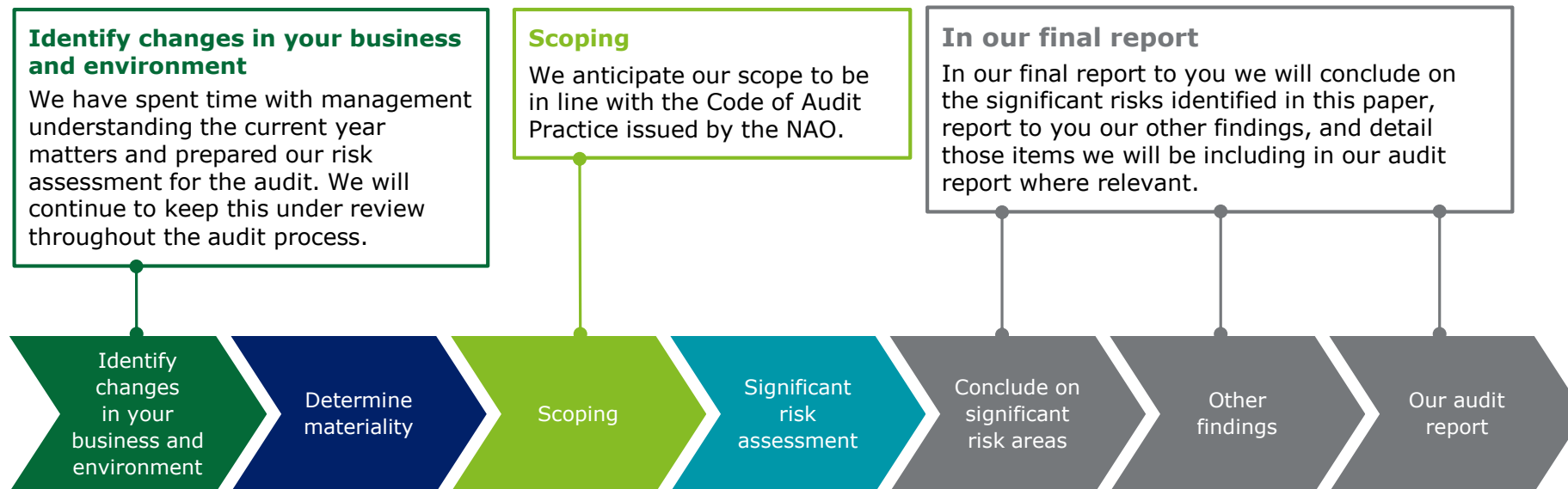
As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there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



Our audit explained

We tailor our audit to your council and your strategy

Page 45



Identify changes in your business and environment
We have spent time with management understanding the current year matters and prepared our risk assessment for the audit. We will continue to keep this under review throughout the audit process.

Scoping
We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

In our final report
In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report where relevant.

Determine materiality
We have estimated planning materiality of £1.22m (2019: £1.21m) This is based on 2% of gross income*. We will report to you any misstatements above £61k (2019: £61k) We will report to you misstatements below this threshold if we consider them to be material by nature.
*These figures are based on gross income for 2018/19 and subject to revision based on 2019/20 outturn.

Significant risk assessment
We have identified significant audit risks in relation to the Council. More detail is given on pages 10-14.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Wyre Borough Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

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.

We may be required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts. 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 any other work.

As part of our work we will review the 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 any risks identified.

Our risk assessment in these areas remains ongoing although we have not yet identified any specific risks to the delivery of value for money. We did not identify any specific risks in the 2019 audit.

We then provide a conclusion on these arrangements as part of our final reporting to you, including confirmation of whether or not we identified any significant risks.

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 inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

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 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.

Last year we held a pre-audit workshop with the finance team, and attended a financial statements workshop with the audit committee to answer questions on best accounting practice and audit approach. We intend to do both again ahead of this audit. We have had ongoing discussions with management throughout the year since the previous audit to discuss their actions in response to the findings we raised last year.

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.

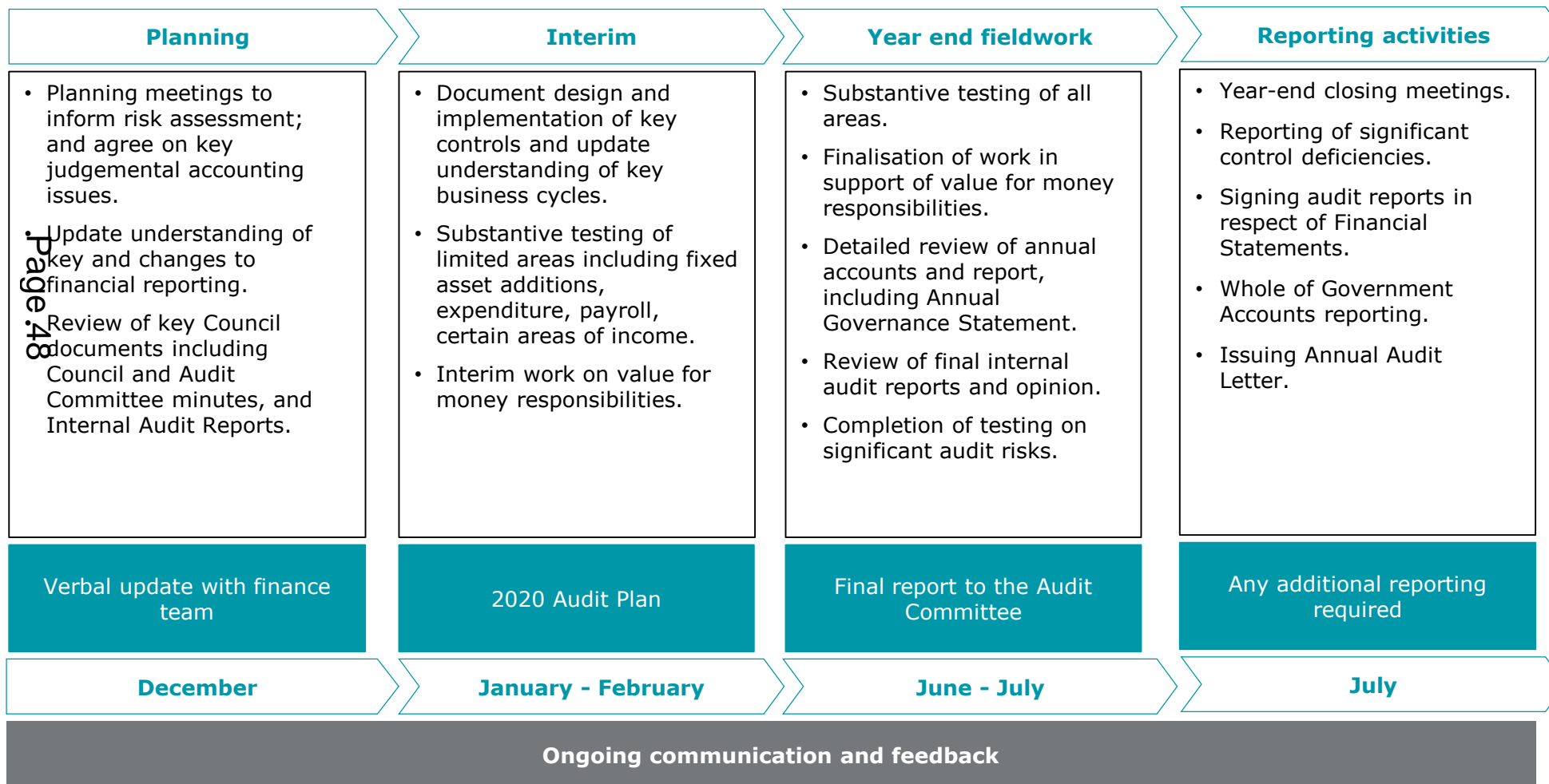
Value for Money and other reporting

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.



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Materiality

Our approach to materiality

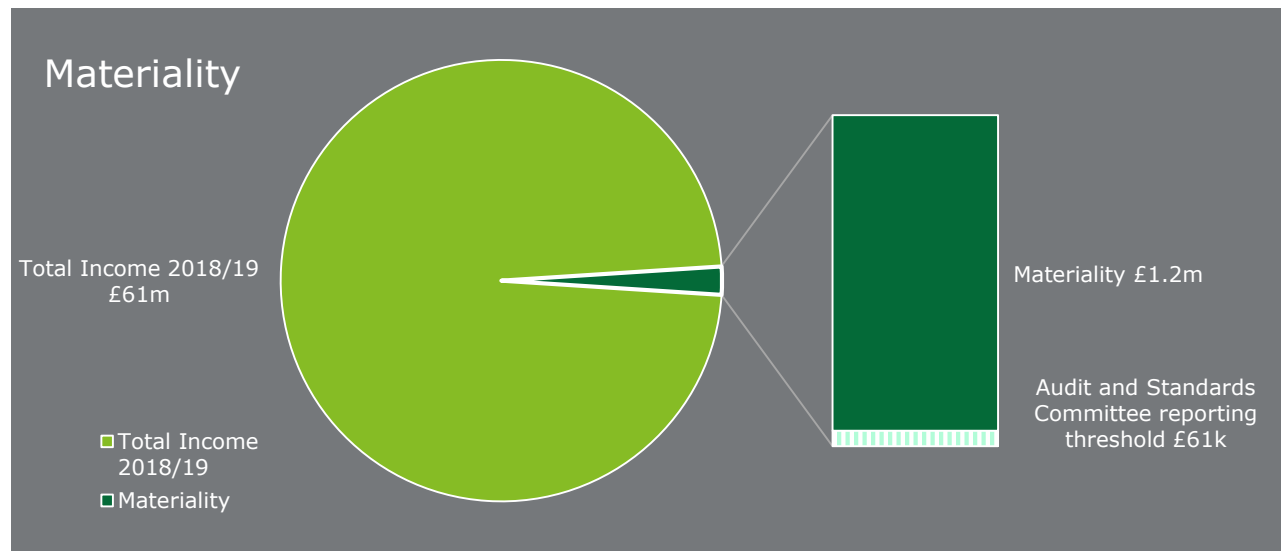
Basis of our materiality benchmark

- The audit director has estimated materiality as £1.2m, 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 Gross Income based on the 2018/19 audited accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on completion of interim audit procedures. We will make a final assessment of materiality once the finalised year end figures are available.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £61k.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

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Although materiality is the judgement of the audit director, 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 in since the last annual report and financial statements.

Principal risk and uncertainties

- Property valuations
- Fair value measurement
- Project management
- Future funding

Changes in your business and environment

Election Year – Two elections have occurred in the financial year (local elections in May 2019 and general election in December 2019) which may impact the future direction and funding of the Council.

IAS 1 Critical accounting estimates

- Pension liabilities
- Lancashire business rates pool
- Provision for NNDR appeals
















NAO – Auditor Guidance Note 06

The National Audit Office identified changes to the accounting code, going concern, and transitional protection for certain pension scheme members (GMP and McCloud), as key issues in their Local Government Audit Planning guidance issued January 2020 which are relevant to Wyre. We reviewed the approach being taken by the Council in response to these in the prior year audit and will refresh our understanding for the current year. We do not believe any of these matters represent a significant audit risk.

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

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Expected to be included in the Audit Committee's report	Slide no.
Completeness and cut off of service line expenditure						12
Property valuations						13
Management override of controls						14

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Controls approach adopted

 Assess design & implementation

Significant risks (continued)

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

Risk identified

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted 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); 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.

Significant risks (continued)

Risk 2 – Property Valuation

Risk identified 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 land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

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

The Council held £125m of Property, Plant and Equipment (PPE) at 31 March 2019. Revaluation adjustments in 2019 totalled an upward revaluation of £2.96m.

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 annual valuation;

We will assess the Council's response to the findings raised in the 2019 audit;

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 review and challenge the appropriateness of the Council's assumptions on its assets values between April 2019 and Year end; and

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.

Significant risks (continued)

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.

Insights and recommendations

Update on insights raised in the previous audit

We have discussed with Management and seen evidence to verify the actions they have taken to address the findings raised in the previous audit. These were first reported to the Audit Committee in our ISA260 letter issued July 2019:

	2019 Deloitte observation and recommendation	2019 Management response	2020 update
IT environment observations	We identified a number of minor observations regarding the IT environment. We recommended the Council reviews its IT systems and policies in light of these observations and consider whether they are satisfied with the safety and security of the IT environment.	"Any recommendations not already implemented will be included in the ICT Service Plan to be taken forward by the new shared Head of ICT and Digital Services."	Policies are being amended to reflect the current environment and will be launched by the end of Q1 2020. A project is currently underway to replace the ageing and at risk core network infrastructure along with a coherent and validated disaster recovery policy.
Assessment of assets not subject to formal revaluation in the year	Assets not subject to full revaluation in the financial year must still be considered for material change in valuation. We recommended the valuer more formally documents his considerations and evaluation of the key factors and provides management, as part of the overall revaluation report, with a statement of assurance that the carrying values of the assets remain only immaterially different from his estimate of the fair value at that date; this statement should set out the key factors considered and any critical judgements made.	"A statement of assurance as described in the recommendation will be sought from the valuer as part of the overall revaluation process in future years."	This recommendation has been implemented for the 2019/20 asset valuations.
Property valuation observations	We identified a number of minor observations regarding the property valuation process. We recommended the Council reviews its valuation policies and processes in light of these observations and consider building them into the valuation process going forward.	"As a small district council, capacity is limited in the team to undertake some of the recommendations including having more than one valuer engaged in the process. It is envisaged that the addition of a trainee in the team will help to increase resources allowing us to work towards greater involvement by a second valuer."	We continue to work towards involving a second valuer in the process and as the trainee progresses in their qualification this should be possible.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)
- Deloitte fully supports an independent review into the role of auditors
- The Government's Brydon Review will consider UK audit standards and how audits should evolve

Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model

Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies

Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)

Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
- Our response to the latest AQR report is on slide in appendix 3

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, relevant to you.

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.

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.

Other relevant communications

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

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

Deloitte LLP
Newcastle | March 2020

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 completeness and cut-off of service line expenditure, and management override of controls as key audit risks 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 Council:

- 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.

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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:

Independence confirmation	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 and Committee for the year ending 31 March 2020 in our final report to the Audit Committee.
Fees	There are no non-audit fees other than the £8k Housing Benefit work.
Non-audit services	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.
Relationships	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 2020 are as follows:

	Current year £	Prior year £
Financial statement audit including Whole of Government Accounts reporting submission and procedures in respect of Value for Money risk assessment	37,470	37,470
Total audit	37,470	37,470
Housing benefit subsidy assurance	8,000	8,750
Additional work in relation to 2016/17 housing benefit subsidy claim	-	2,500
Total assurance services	8,000	11,250
Total fees	45,470	48,720

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 Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

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 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

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