

Agenda for Audit and Governance Committee

Thursday 5 January 2017, 2.30pm

[Members of the Committee](#)

Venue: Council Chamber, Knowle, Sidmouth, EX10 8HL

[View directions](#)

Contact: [Amanda Coombes](#), 01395 517543 (or group number 01395 517546): Issued 16 December 2016

- 1 [Public speaking](#)
- 2 Minutes for 17 November 2016 (pages 3-7)
- 3 Apologies
- 4 [Declarations of interest](#)
- 5 [Matters of urgency](#) – none identified
- 6 To agree any items to be dealt with after the public (including press) have been excluded. There are no items that officers recommend should be dealt with in this way.

Part A Matters for Decision

- 7 **Internal Audit Activity – Quarters 2&3 2016/17 – SWAP** (pages 8-24)
- 8 **Audit Committee update** - KPMG (pages 25-49)
- 9 **Certification report** - KPMG (pages 50-51)
- 10 **Analysis of consultants fees 2015/16** - Financial Services Manager - to follow
- 11 **Identification of future internal audits 2017/18** – verbal update
- 12 **Audit and Governance Forward Plan** – Strategic Lead Finance (page 52)

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Mark Williams, Chief Executive
Richard Cohen, Deputy Chief Executive



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Services Team on 01395 517546**

EAST DEVON DISTRICT COUNCIL

Minutes of a Meeting of the Audit & Governance Committee held in the Council Chamber at Knowle, Sidmouth on 17 November 2016

Attendance list at end of document

The meeting started at 2.30pm and ended at 4.36pm

***24 Chairman's welcome**

The Chairman welcomed everyone to the meeting.

***25 Public Speaking**

Mr Ron Metcalfe spoke on agenda item 12 - Findings from objection raised to Statement of Account; this is recorded at Minute 33.

***26 Minutes**

The minutes of the Audit and Governance Committee meeting held on 22 September 2016 were confirmed and signed as a true record.

***27 Declarations**

Councillor Mark Williamson – Minute 32

Interest: Personal

Reason: Member of Exmouth Regeneration Board

Councillor Bill Nash – Minute 32

Interest: Personal

Reason: Member and Trustee of Leisure East Devon (LED)

Councillor Steve Hall – Minute 32

Interest: Personal

Reason: EDDC representative of LED Board of Trustees

***28 Annual audit letter**

Darren Gilbert Director, KPMG updated Members on the Annual Audit letter that summarised the outcome from the audit work in relation to the 2015/16 audit year. Darren confirmed that the Audit Certificate had now been issued. This confirmed that KPMG had concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

RESOLVED:

that the content of the Annual audit letter be noted.

***29 Progress report**

Rob Andrews from KPMG, presented the Council's Progress report which provided the Audit Committee with an overview on progress in delivering their responsibilities as the external auditors. Darren introduced Rob Andrews as the new audit manager for KPMG. There was no technical update for the committee to note. The Annual Audit Letter had been completed and the Grants Certification work was progressing smoothly.

The Chairman thanked Darren and Rob for their reports.

RESOLVED:

that the content of the Progress report be noted.

***30 Risk management review – half year review**

The Strategic Lead, Finance provided the Risk information for the 2016/17 financial year until September 2016 in order for the Committee to monitor the risk status of Strategic and Operational Risks. This followed the 1st full review of risks by responsible officers for 2016/17. The 3 High risk scores in Economy had been revised to Medium risk. Child protection would remain a High risk as this was a crucial part of the Council's work.

RESOLVED:

that the Risk management review be noted.

31 Future of External Audit

The Strategic Lead, Finance presented this report. Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 required authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

RECOMMENDED:

that it be recommend to Council that EDDC opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

***32 Partnership Register**

Partnership information for the 2015/16 financial year until March 2016 allowed the Committee to monitor the status of the Council's partnerships. This followed the year end review of partnerships by responsible officers for 2015/16.

Discussions included the following:

- Greater Exeter Great Devon was a forum to discuss strategic matters
- The governance arrangements for regeneration boards were written in the terms of reference adopted at the first meeting
- Seaton Regeneration Board was now finished as the projects had been completed
- Greater explanation was needed for the Blackdowns Hills AONB

RESOLVED:

1. that the current status of partnerships until March 2016, and
2. greater explanation for the Blackdowns Hills AONB be noted.

***33 Findings from objection raised to Statement of Account**

Mr Ron Metcalfe spoke on the KPMG investigation focused on the Cranbrook development and commented on weaknesses in systems there. The Cranbrook development was only one of many in the District, and KPMG only examined s106 agreements within the 2015/2016 financial year. It was therefore likely that EDDC's s106 payment due figures were understated and had been for some years.

In a Freedom of Information request it was disclosed that £730,000 in s106 payments was owed to EDDC. Mr Metcalfe asked;

1. would the committee require EDDC staff to prepare and carry out a plan to recover the £730,000 in s106 payments owed to EDDC during financial years 2014/2015 and 2015/2016?

2. Would the committee require EDDC staff to devise and implement policy or protocol changes to be put into place to ensure that any breach of payment of s106 monies was fully and proactively enforced?

Answers and explanations to Mr Metcalfe's questions included the following;

- KPMG chose to investigate Cranbrook as this gave greater coverage, however minor developments were considered
- KPMG had found a number of appropriate and reasonable controls in place
- There were hundreds of live s106 agreements at any one time
- Developers returns were accumulative so the 2015/16 accounts would capture any previous years monies due so were current
- There had been no evidence of any financial loss
- The legal obligation was on the developer to provide information when trigger points were met although officers should monitor this
- Future reports on s106 collections would be reported back to the Committee
- S106 agreements were also legal procedures, which were tied to the land and therefore become statutory local land charges. Enforcement would be outside of the Council
- There was an enforcement policy and this would be used where necessary to recover outstanding debts
- The £730k referred to included £409k invoiced to the Council on behalf of another body

The report summarised the key findings and conclusions arising from a formal objection received from a local elector in relation to East Devon District Council's 2015/16 financial statements.

Such an objection was received by KPMG in August 2016. Through this objection the elector raised concerns about the Council's arrangements for recording, monitoring and seeking payment of developer contributions due to the Council through agreements under s106 of the Town & Country Planning Act 1990, and the accounting for the sums due. In particular, it was asserted that:

- whilst the Council had a record of how many s106 agreements it had entered into with developers, there was no systematic method in place for the collection and aggregation of amounts due from individual agreements;
- monies due in relation to s106 agreements were not systematically identified and communicated to the Council's Finance department;
- amounts due were not tracked regularly and there was no process to inform Finance if they were unpaid and become overdue;
- these weaknesses suggested that the Council was not accounting for the true amounts due from s106 agreements; and
- as a consequence it would appear that the Council cannot demonstrate that it was securing value for money in the use of its resources.

These concerns formed the basis of the work performed by KPMG to determine if the Council had appropriate process and controls in place for its s106 agreements to secure economy, efficiency and effectiveness in the use of resources, and to ensure complete and accurate accounting for the sums due.

The report stated although no evidence that weaknesses had led to any financial loss, it had led to the Council failing to identify on a timely basis significant amounts which had

become payable from developers; particularly Cranbrook, and consequently to the understatement of these amounts in the Council's financial statements.

Whilst formal audit powers had not been exercised in response to the objection, this work had indicated that the issues raised by the objector were correct.

Discussions included the following;

- the need for progress reports to be presented at the Committee to include whether interest has or has not been charged
- holds up Town and Parishes being able to spend on facilities
- a new software system was in place to collate a centralised record of s106 contributions

RESOLVED:

that the following be agreed;

1. Absence of summarised financial information

Develop a record of all s106 contributions detailing the financial contributions expected, the relevant trigger and current collection status. This record should be accessible to Finance to inform the recognition of s106 income and the raising of invoices. The Council should also ensure that it had its monitoring information in a format which was consistent with the s106 agreements. This would allow the Council to more accurately track the outstanding debts owed to it and ensure prompt payment.

2. Enforcement of legal obligations

Ensure the information provided by developers was in line with that required under the s106 agreements. Any delayed returns from developers should be followed up on a timely basis to ensure that complete information was obtained and payment of contributions was made.

3. Understanding of financial and accounting implications of triggers being met and the communication between Planning and Finance over this

Money due to the Council under s106 agreements should be accrued as soon as the Council becomes aware that conditions for payment had been triggered. Regular communication between Finance and Planning, to ensure that Finance were aware of when triggers had been met, should be implemented.

4. that Town and Parish Councils be informed when contributions had been received for their areas.

34 Local Code of Corporate Governance

The Strategic Lead, Legal, Licensing and Democratic Services presented the Council's adopted Code of Corporate Governance. This sets out the overarching approach to corporate governance arrangements and was adopted in January 2012 so was now overdue for review. Following changes to relevant guidance there had been revisions to the Code.

RECOMMENDED:

that the Committee recommend to Cabinet that the revised Local Code of Corporate Governance be adopted.

***35 Audit and Governance Forward Plan**

Members noted the contents of the Committee Forward Plan for 2016/17.

Items to be considered at the January Committee included:

- Internal Audit Activity – Quarters 2&3 2016/17
- Audit Committee update
- Certification Report
- Anti-Money Laundering Policy approval
- Analysis of consultants fees 2015/16

RESOLVED:

that the Forward Plan be noted.

Attendance list

Present:

Councillors

Mark Williamson (Chairman)

Dean Barrow (Vice Chairman)

Steve Hall

John Dyson

Ben Ingham

Bill Nash

John Humphreys

Ian Thomas Portfolio Holder Finance

Megan Armstrong

Geoff Jung

Cathy Gardner

Apologies:

Steve Gazzard

Paul Diviani Leader

Officers:

Mark Williams, Chief Executive

Simon Davey, Strategic Lead – Finance

Henry Gordon Lennox, Strategic Lead - Legal Licensing and Democratic Services

Ed Freeman, Service Lead - Planning Strategy and Development Management

Amanda Coombes, Democratic Services Officer

Darren Gilbert, Director, KPMG

Rob Andrews, Audit Manager, KPMG

Chris Parsons, KPMG

Moya Moore, Assistant Director, SWAP

Chairman Date.....

Report to: **Audit and Governance Committee**

Date of Meeting: 5 January 2017

Public Document: Yes

Exemption: None

Review date for release None



Agenda item: 7

Subject: **Internal Audit Plan Progress Quarter 2 (2016/17)**

Purpose of report: The Audit and Governance Committee agreed the 2016-17 Internal Audit plan at its March 2016 meeting. This report is to provide an update on the 2016/17 Internal Audit Plan (Quarter 2).

Recommendation: **To note the content of the Internal Audit Progress Report**

Reason for recommendation: The Committee are required to review the progress of the audit plan.

Officer: Moya Moore, Assistant Director (SWAP)
Moya.Moore@southwestaudit.co.uk

Financial implications: No direct financial implications

Legal implications: The legal framework is reflected in the report and there are no issues arising which require legal comment.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: [Use of Consultants Report 2016](#)

Link to Council Plan: .

East Devon District Council

Report of Internal Audit Activity

Plan Progress 2016/17 Quarter 2

Summary

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

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David Hill

Director of Planning

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Moya Moore

Assistant Director

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Internal Audit Plan Progress 2016/17 Quarter 2

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 30 June 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit Plan Progress 2016/17 Quarter 2

Internal Audit Plan Progress 2016/17 Quarter 2

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2016/17. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on pages 7 and 8 of this document.

In the period Quarter 2 work has been completed on the following audits from the 2015/16 Audit Plan:

- Housing Rents – FINAL – Reasonable assurance
- Grants Awarded – FINAL – Reasonable assurance
- Use of Consultants – FINAL – Reasonable assurance
- Grounds Maintenance - FINAL – Reasonable assurance

In the period Quarter 2 work has progressed on the following audits from the 2016/17 Audit Plan:

- Responsive Repairs - IN PROGRESS
- Housing Revenue Account Business Plan - IN PROGRESS
- Business Continuity Plans – DRAFT
- Achievement of Major Projects – DRAFT
- Corporate Health and Safety – DRAFT
- Healthy Organisation – IN PROGRESS
- New Housing System Implementation – IN PROGRESS
- Housing Rents – IN PROGRESS

Internal Audit Plan Progress 2016/17 Quarter 2

<p>Outturn to Date:</p> <p>We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action</p>	<div data-bbox="638 247 683 295" data-label="Image"> </div> <div data-bbox="712 263 1182 295" data-label="Section-Header"> <h3>Internal Audit Work Programme Contd.</h3> </div> <p>To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' have been summarised in Appendix D.</p> <p>However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.</p>
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Internal Audit Plan Progress 2016/17 Quarter 2

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”.

The SWAP definition of “added value” is “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

As we complete our operational audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. Examples in Quarter 2 include the following:

A report from the Metropolitan Police providing information related to cyber scams has been circulated following comments over usefulness from other Partners.

An assurance mapping document detailing sources of assurance to the Section 151 Officer and Audit and Governance Committee has been developed and shared.

A SWAP report detailing Income Generation benchmarking and best practice has been circulated.

Benchmarking has been completed for inclusion within the Final reports for Business Continuity and Corporate Health and Safety.

Examples of workforce plans from SWAP Partners have been provided to assist EDDC with the planned update in advance of office relocation.

SWAP, in collaboration with Devon Audit Partnership (DAP) and Grant Thornton, provided a free training session to Members in October 2016 covering topical governance issues and challenges facing the public sector.

Internal Audit Plan Progress 2016/17 Quarter 2

The Assistant Auditor for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2016/17 (as at 1 December 2016) are as follows;

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress	19% 39%
<u>Draft Reports</u> Issued within 5 working days	25%
<u>Final Reports</u> Issued within 10 working days of discussion of draft report	0%
<u>Quality of Audit Work</u> Customer Satisfaction Questionnaire	79%

Internal Audit Plan Progress 2016/17 Quarter 2

We keep our audit plans under regular review so as to ensure that we auditing the right things at the right time.



Approved Changes to the Audit Plan

The following changes have been made to the audit plan in Quarter 2 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement or at the request of the Section 151 Officer:

- Arrangements with STRATA – removed at the request of the client.
- New Recycling and Waste Contract Arrangements – moved from Quarter 3 to Quarter 4 at the request of the client.
- Additional days awarded to Responsive Repairs at the client's request.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.



Audit Framework Definitions


- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Internal Audit Work Plan

APPENDIX B


Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5=Major			1 = Minor	
						Recommendation				
						5	4	3	2	1
2015/16										
Key Control	Housing Rents	3	Final	Reasonable	0	0	0	0	0	0
Governance, Fraud & Corruption	Grant Awarded	4	Final	Reasonable	2	0	0	2	0	0
Governance, Fraud & Corruption	Use of Consultants	4	Final	Reasonable	3	0	1	1	0	0
Governance, Fraud & Corruption	Grounds Maintenance	4	Final	Reasonable	4	0	1	3	0	0

2016/17										
Operational	Cash Spot Checks	1	Final	Reasonable	3	0	0	3	0	0
Operational	Relocation Project Consultancy	1	Ongoing		0	0	0	0	0	0
IT	Arrangements with STRATA	1	Removed		0	0	0	0	0	0
Operational	Responsive Repairs	1	In Progress		0	0	0	0	0	0
Operational	HRA Business Plan Review	1	In Progress		0	0	0	0	0	0
Governance	Achievement of Major Projects	1	Draft		0	0	0	0	0	0
Governance	Local Plan Review	1	Removed		0	0	0	0	0	0
Governance	Partnership Working Around Greater Exeter	1	Removed		0	0	0	0	0	0
IT	New Housing System Implementation	2	In Progress		0	0	0	0	0	0

Internal Audit Work Plan

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5=Major Recommendation ↔ 1 = Minor				
						5	4	3	2	1
IT	Business Continuity (Service Review)	2	Draft		0	0	0	0	0	0
Governance	Healthy Organisation - Corporate Governance	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - Financial Management	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - Risk Management	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - Performance Management	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - Commissioning & Procurement	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - Programme & Project Management	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - Information Management	2	In Progress		0	0	0	0	0	0
Governance	Healthy Organisation - People & Asset Management	2	In Progress		0	0	0	0	0	0
Operational	Corporate Health & Safety	2	Draft		0	0	0	0	0	0
Key Controls	Key Controls Provision	3			0	0	0	0	0	0
Key Controls	Housing Rents	3	In Progress		0	0	0	0	0	0
Governance	Procurement Review	3			0	0	0	0	0	0
Follow Up	Creditors Follow up	3			0	0	0	0	0	0
Governance	New Recycling & Waste Contract Arrangements	4			0	0	0	0	0	0
Governance	Data Protection	4			0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5=Major			1 = Minor	
						Recommendation				
						5	4	3	2	1
Governance	Electoral Registration	4			0	0	0	0	0	0
Operational	Organisational Resourcing	4			0	0	0	0	0	0

Schedule of potential significant risks identified from Internal Audit work in the period Quarter 4

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
			There were no significant risks in the period.					

Summary of key points related to 'Partial Assurance' reviews

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
No Partial Assurance reviews were issued in the period.				



Technical update

East Devon District Council

January 2016

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The contacts at KPMG in connection with this report are:		
Darren Gilbert Director KPMG LLP (UK) Tel: +44 (0) 292 046 8205 darren.gilbert@kpmg.co.uk	External audit progress report	2
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Rob Andrews Manager KPMG LLP (UK) Tel: +44 (0)117 905 4773 rob.andrews@kpmg.co.uk	1. 2015/16 audit deliverables	23

This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact  Medium impact  Low impact  For information

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p>The work for the 15/16 audit was concluded in September, the annual audit letter was reported to you at the previous Audit Committee.</p> <p>We are beginning our planning work for the 16/17 audit, considering key issues at the Council and any relevant requirements as per the code. These discussions will form our audit plan, which will be reported in March.</p>
Value for Money	As above, our work on the 15/16 opinion was completed in September and reported at the previous Audit Committee. Our approach for the 16/17 conclusion will be considered as part of our audit planning.
Certification of claims and returns	The grant certification was completed before the November deadline. We certified the Housing Benefits claim unqualified. See attached report for further details.
Other work	Our work in relation to a formal objection was completed in November and reported at the previous Audit Committee.



KPMG resources

Publication 'Redefining Internal Audit'

What does this report address?

Internal audit represents one of the key sources of assurance for local authorities throughout the country. Alongside external audit and other sources of assurance, internal audit provides management and Members with an assessment of the effectiveness of governance and control arrangements, enabling them to make informed decisions and develop action plans to deliver improvements where necessary. The case for excellent internal audit is never stronger than during a period of financial austerity.

This report seeks to provide an oversight of the current status of the provision of internal audit services in the local government sector. Through using the results of surveying and interviewing Finance Directors and Heads of Internal Audit, as well as an analysis of annual internal audit plans over a period of three years, the report highlights areas where there is the potential to redesign delivery models to increase the value internal audit providers can add to their clients.

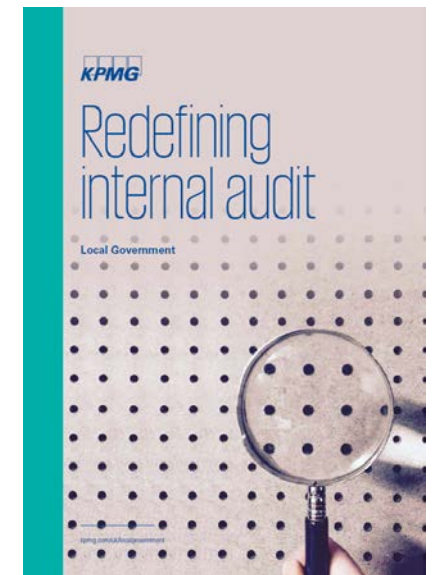
What are the key issues?

Key themes emerging from this report include:

- Over the last three years, two thirds of local authorities have seen their internal audit plan reduced as a result of funding cuts.
- Only 50% of authorities are currently attempting any form of assurance mapping model.
- 7% of respondents said that data analysis was a routine part of their internal audit. Three quarters said it's use was minimal or non-existent.
- Over three quarters of those surveyed said they were generally satisfied by the service offered by internal audit.

Obtaining a copy of the report

The *Redefining Internal Audit* report can be found on the KPMG website at:
<https://home.kpmg.com/uk/en/home/insights/2016/10/redefining-internal-audit.html>



Inspiring innovative government

@gov is a government-focused digital magazine hosted on kpmg.com. Fresh content is added to @gov on a monthly basis and printable digest versions are produced twice annually. Each edition examines a new theme, the first of which is *Transforming government in the age of technology*.

This first edition contains a range of articles, which include articles on:

- establishing digital identities for citizens;
- government data sharing;
- the public policy imperatives of autonomous vehicles; and
- innovations in human service delivery.

The magazine can be downloaded as a PDF from kpmg.com/atgov

Chief Accountant training events

We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2016/17 close down and statement of accounts.

The workshops will be led by our regional local government audit teams supported by our national local government technical team.

Details of the agenda and dates will be provided in due course.

For more information, please contact Rob Andrews by email to rob.andrews@kpmg.co.uk.

Publication 'Value of Audit – Perspectives for Government'

What does this report address?

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.

Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.

What are the key issues?

- The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.
- The importance of trust and independence of government across different markets.
- How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making.
- The importance of technology integration and the issues that need to be addressed for successful implementation
- The degree of reliance on government financial reports as a result of differing approaches to conducting government audits

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at <https://home.kpmg.com/xx/en/home/insights.html>

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

Publication 'Reimagine – Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the *Care Act* to deliver

- Momentum behind last year's *Care Act* risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>



Technical developments

Business Rates Retention

Level of impact: ● (Medium)	KPMG perspective
<p>The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.</p> <p>Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved.</p> <p>The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.</p> <p>The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.</p> <p>Committee members may wish to be aware that, as a result of these proposals, DCLG has launched two consultations on its proposals for 100% retention of business rates by the local government sector.</p> <p>The first consultation seeks to identify issues that should be kept in mind when designing the reforms; the second is a call for evidence to inform the government's fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. Both consultations closed on 26 September 2016.</p> <p>The consultation documents are available for both consultations at www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)	KPMG perspective
<p>Committee members may wish to be aware that the National Audit Office has published its report <i>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</i>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.</p> <p>The report can be accessed via the NAO website at www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

PSAA's Value For Money Tool

Level of impact: ● (Low)	KPMG perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"> — General fund revenue account budget (RA) (2016/17) — Child and working tax credit statistics (2014/15) — Children in low-income families local measure (2015) — Chlamydia testing activity dataset (CTAD) (2015) — Climate change statistics: CO2 emissions (2014) — Collection rates for council tax and non-domestic rates in England (2015/16) — Council tax demands and precepts statistics (2016/17) — Fuel poverty sub-regional statistics (2014) — Homelessness statistical release (P1E) (2015/16) — Housing benefit speed of processing (2015/16) — Mid-year population estimates (2015) — NHS health check data (2015/16) — Planning applications (2015/16) — Schools, pupils and their characteristics (2015/16) — Young people from low income backgrounds progressing to higher education (2013/14) <p>The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</p>	<p><i>The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.</i></p>

2015/16 Code of Practice Update

Level of impact: ● (Low)	KPMG perspective
<p>CIPFA/LASAAC has issued an update to the <i>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.</p> <p>Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.</p> <p>The Code update also includes amendments as a result of legislative changes and particularly the <i>Accounts and Audit Regulations 2015</i> for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.</p>	<p><i>The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code.</i></p>

Local government licensing fees

Level of impact: ● (Low)	KPMG perspective
<p>Following referral from the Supreme Court of the United Kingdom, Advocate General Wathelet has given his opinion on the lawfulness of licence fees in a case involving Westminster City Council.</p> <p>The fee, which was for the grant or renewal of a 'sex establishment' licence in the City of Westminster, was made up of two parts:</p> <ul style="list-style-type: none">— Part A related to the administration of the application (which is nonreturnable if the application is refused); and— Part B (much higher) related to the management and enforcement of the licensing regime, which is refundable if the application is refused. <p>The Supreme Court had asked the Court of Justice of the European Union (CJEU) whether Part B constituted a "charge", which was therefore prohibited by Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market ("the Services Directive").</p> <p>Advocate General Wathelet recommended a finding to the CJEU that the Services Directive must be interpreted as precluding Westminster from taking into account, when calculating the fee due for the grant or renewal of an authorisation, the cost of managing and enforcing the authorisation scheme (part B), even if the part corresponding to that cost is refundable where the application for the grant or renewal of the authorisation in question is refused.</p>	<p>The Committee may wish to seek assurance that the Authority has considered this judgement and has taken action to ensure that its licencing fees are calculated in an appropriate manner.</p>

CIPFA publication on understanding the financial statements

Level of impact: ● (Low)	KPMG perspective
<p>CIPFA has published a new report titled <i>Understanding Local Authority Financial Statements</i>. This is an update of its previous publication <i>How to Tell the Story</i>.</p> <p>The report can be found on the CIPFA/LASAAC pages of the CIPFA website at www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements</p> <p>Further to this report, CIPFA/LASAAC undertook a consultation on proposals for the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom. The headline changes were:</p> <ul style="list-style-type: none"> — a new principles-based approach to narrative reporting. — a review of the Code's provisions on going concern reporting. — a review of accounting policies provisions in the Code. — new disclosure on transaction costs for pension fund investments. — narrow scope amendments to International Financial Reporting Standards. — legislative changes. — a new appendix including the provisions for the Code's adoption of IFRS 9 Financial Instruments (note this new appendix will apply to the 2018/19 financial statements). — a new appendix including provisions for the Code's adoption of IFRS 15 Revenue from Contracts with Customers (note this new appendix will apply to the 2018/19 financial statements). <p>The details of the consultation can be found at www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment</p>	<p><i>The Committee may ask whether their Authority have provided their views in the consultation.</i></p>

NAO report – Children in need of help or protection

Level of impact: ● (Low)	KPMG perspective
<p>The NAO has recently published a report entitled <i>Children in need of help or protection</i> which may be of interest to members.</p> <p>The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children’s social work, including on child protection, varies widely across England and is not related to quality. Neither the Department for Education nor authorities understand why spending varies.</p> <p>The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.</p> <p>The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted’s view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ending 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.</p> <p>The report is available from the NAO website at www.nao.org.uk/report/children-in-need-of-help-or-protection/</p>	<p><i>The Committee may request assurances that their Authority are addressing the issues raised in the report.</i></p>

Discharging Older Patients From Hospitals

Level of impact: ● (For Information)

On 26 May the NAO published a report, *Discharging older patients from hospitals*, which may be of interest to Committee members. The report is available from the NAO website at www.nao.org.uk/report/discharging-older-patients-from-hospital/

The report finds that the health and social care system's management of discharging older patients from hospital does not represent value for money. It also finds that keeping older people in hospital longer than necessary is an additional and avoidable pressure on the financial sustainability of the NHS and local government.

Following this report, the Public Accounts Committee (PAC) published a report in June 2016 following its own hearings on the matter.

The PAC report finds that older patients are increasingly experiencing delays in being discharged from hospital. Such delays are bad for their health, and for the financial sustainability of the NHS and local government. The report notes that there have been improvements and many in the NHS and local government are putting in significant efforts, but the Department of Health, NHS England and NHS Improvement have failed to address long-standing barriers to the health and social care sectors sharing information and taking up good practice. The result is unacceptable variation in local performance. The report concludes that patients and the NHS have a right to expect better.

Members may wish to be aware of the report in order to inform their planning considerations, particularly in relation to value for money arrangements. The PAC report can be found here: www.publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/76/7602.htm

Government contracting

Level of impact: ● (For Information)

The NAO has recently published an overview of its work on the government's management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government's commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice

The overview is available from the NAO website at www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/

NAO speaks at the Institute for Government

Level of impact: ● (For Information)

The Comptroller & Auditor General, Sir Amyas Morse, recently made a keynote speech at the Institute for Government about the need for greater prioritisation in government, and made a case for recognising and addressing the skills gap in the civil service, particularly in digital skills.

In the light of the EU referendum result, he also highlighted the need for government to take a more strategic approach, including deprioritising some issues.

The full text of the speech can be at www.nao.org.uk/event/keynote-speech-by-sir-amyas-morse-kcb-21-july/



Appendix

Appendix 1

2015/16 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	Complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	September 2016	Complete
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	Complete

Appendix 1

2015/16 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	Complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	Complete
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	Provided to the Audit Committee at this meeting.



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Private & confidential

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Our ref KPMG/EDDC/GrantCertL/15-16

8 December 2016

Dear Simon

Certification of claims and returns – annual report 2015/16

Public Sector Audit Appointments (PSAA) requires its appointed auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for East Devon District Council.

In 2015/16 we carried out certification work on only one claim, the Housing Benefit Subsidy claim. The certified value of the claim was £32.2 million, and we completed our work and certified the claim on 30 November 2016. Our work followed PSAA's HBCOUNT methodology and included:

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

Matters arising

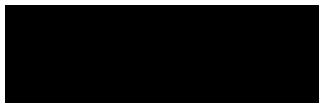
Our certification work on the Council's Housing Subsidy Benefit claim identified minor amendments in order to ensure that the "reconciliation cells" included in the claim form agreed to the related total expenditure cells. These amendments had no impact upon the overall level of subsidy claimed. We certified the claim unqualified following these amendments.

Consequently we have made no recommendations to the Authority to improve its claims completion process. No recommendations were raised during 2014/15 by Grant Thornton and there are no further matters to report to you regarding our certification work.

Certification work fees

PSAA set an indicative fee for our certification work in 2015/16 of £8,721. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £10,810 as charged by Grant Thornton.

Yours sincerely



Darren Gilbert
Director

Agenda Item: 12

Audit and Governance Committee

5 January 2017



Audit and Governance Committee

Forward Plan 2016/17

Date of Committee	Report	Lead Officer
2 March 2017	<ul style="list-style-type: none">• Annual Audit Plan 2017/18• External Audit Plan• Audit Committee update• Accounting Policies approval• Anti-Money Laundering Policy approval	SWAP KPMG KPMG Financial Services Manager Strategic Lead, Finance