

Agenda for Audit and Governance Committee

Thursday 15 March 2018, 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 6 March 2018

East Devon District Council
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Devon EX10 8HL

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- 1 [Public speaking](#)
- 2 Minutes for 18 January 2018 (pages 3-5)
- 3 Apologies
- 4 Declarations of interest

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Guidance is available online to Councillors and co-opted members on making
[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 **Annual Audit Plan 2018/19** - SWAP (pages 6-12)
- 8 **External Audit Plan** – KPMG (pages 13-35)
- 9 **Progress report and Technical update** - KPMG (pages 36-53)
- 10 **Statement of Accounts 2017/18 – Review of Accounting Policies and
accelerated timetable** – Strategic Lead Finance (pages 54-56)
- 11 **CIL Methodology update** - Service Lead, Planning Strategy and Development Management
(pages 57-63)
Appendix 1 - SWAP Section 106/CIL 2017/18 review (pages 64-74)
- 12 **RIPA update** - Strategic Lead Governance and Licensing
At the meeting of 18th January 2018, Members agreed to receive an update on RIPA
activity throughout the year. The RIPA Senior Responsible Officer advises that there
have been no requests for RIPA authorisation since the last committee.
- 13 **Audit and Governance Forward Plan** – Strategic Lead Finance (page 75)

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Members of the public exercising their right to speak during Public Question Time will be recorded.

[Decision making and equalities](#)

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EAST DEVON DISTRICT COUNCIL

Minutes of a Meeting of the Audit & Governance Committee held in the Council Chamber at Knowle, Sidmouth on 18 January 2018

Attendance list at end of document

The meeting started at 2.30pm and ended at 3.10pm.

***37 Chairman's welcome**

The Chairman welcomed everyone to the meeting.

***38 Public Speaking**

There were no members of the public present.

***39 Minutes**

The minutes of the Audit and Governance Committee meeting held on 16 November 2017 were confirmed and signed as a true record, subject to minute 31 being amended from 'Rob Andrews' to 'Darren Gilbert', who had attended from KPMG.

***40 Declarations of Interest**

There were no declarations of interest.

***41 Internal Audit Activity – Quarter 3 2017/18**

Following the recent collapse of Carillion, members sought reassurance on financial resilience of the council's contractors, and the measures in place to mitigate any risks. It was reported that Senior Management Team would be checking the record of all the council's key partners and contractors, and what the mitigations were. It was noted that most contracts worked on a partnership approach, with regular monitoring meetings, contingency plans and safeguarding policies that were appropriate to the contract.

Georgina Teale, Senior Auditor, SWAP gave a verbal update to the Committee on internal audit activity for quarter 3 2017/18. The Committee agreed the 2017-18 Internal Audit Plan at its March 2017 meeting. The report provided an update on the 2017/18 Internal Audit Plan Quarter 3. It was important that Members were aware of the status of all audits as this information helped place reliance on the work of the Internal Audit and its ability to complete the plan as agreed. Primarily the work included:

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

There were no 'Partial Assurance Opinion' audits or significant corporate risks identified in this quarter. However, there had been two substantial assurance opinions, which was positive to note. Overall, the report was very positive, with recommendations being implemented.

An update was given on the Data Protection risk, identified as significant in the quarter 4 2016/17 internal audit. Recommendations had been made and it was hoped that this risk would be 100% complete by the next meeting of the Audit and Governance

Committee. It was noted that all listed quarter 4 audits would be completed. It was suggested that including start and end dates for the audits in the table would be useful.

RESOLVED:

that the content of the Internal Audit report be noted.

***42 Audit Committee Progress report**

Rob Andrew, Manager, KPMG provided the Committee with an overview on progress in delivering their responsibilities as the external auditors. It was noted one error had been found in the grant claims report. This has been highlighted to the DWP so that the claims could be issued.

The Chairman thanked Rob Andrews, on behalf of the Committee for his report.

RESOLVED:

that the content of the progress report be noted.

***43 Certification Report**

Public Sector Audit Appointments required its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter was the annual report for the certification work KPMG had undertaken for 2016/17.

In 2016/17 KPMG carried out certification work on only one grant claim, the Housing Benefit Subsidy claim. The certified value of the claim was £31.548 million, the work was completed and the claim certified on 30 November 2017.

RESOLVED:

that the certification work be noted.

***44 Risk Management half year review**

The report by the Management Information Officer provided Risk information for November 2017/18 financial year to allow the Committee to monitor the risk status of Strategic and Operational Risks. This follows the full review of risks by responsible officers during November 2017.

The Strategic Lead – Finance advised the Committee that the report highlighted one risk that scored as high. This was lack of funding to enable the delivery of required infrastructure through lack of sufficient income from the Community Infrastructure Levy (CIL) and that this holds up development. A report on this would be provided at the next meeting of the Audit and Governance Committee.

It was noted that the risk register process was up to date and taken seriously by managers. Apart from CIL, there were no major areas for concern in the risk register.

RESOLVED:

that the half year review be noted.

***45 Surveillance Commissioner's Report**

The Strategic Lead Governance and Licensing provided a strategic oversight of the Council's RIPA (Regulation of Investigatory Powers Act) function in order to update Members following receipt of the Investigatory Powers Commissioners Report and to seek adoption of the revised Policy.

RESOLVED:

1. that the report and actions being taken to address the Recommendations of the Investigatory Powers Commissioners Report be noted, and
2. that the revised RIPA Policy contained in Appendix A be approved and adopted.

***46 Audit and Governance Forward Plan**

Members noted the contents of the Committee Forward Plan for 2017/18.

Items to be considered at the March 2018 committee included:

- Annual Audit Plan 2018/19
- External Audit Plan
- Audit Committee update
- Accounting Policies Approval
- CIL Methodology update
- Early closure of 2017/18 Accounts

RESOLVED:

that the Forward Plan be noted.

Attendance list

Councillors:

Mark Williamson (Chairman)
Dean Barrow (Vice Chairman)
John Dyson
Steve Gazzard
Steve Hall
John Humphreys
Rob Longhurst

Cllr Paul Diviani - Leader
Cllr Ian Thomas - Portfolio Holder Finance
Cllr Phil Twiss – Deputy Leader

Apologies:

Bill Nash
Cherry Nicholas
Ben Ingham

Officers present:

Simon Davey, Strategic Lead – Finance
Henry Gordon Lennox, Strategic Lead - Governance and Licensing
Mark Williams, Chief Executive
Alethea Thompson, Democratic Services Officer

Rob Andrews, Manager, KPMG
David Hill, Executive Director, SWAP
Georgina Teale, Senior Auditor, SWAP

Chairman Date.....

Report to: **Audit and Governance Committee**

Date of Meeting: 15 March 2018

Public Document: Yes

Exemption: None

Review date for release None



Agenda item: 7

Subject: **South West Audit Partnership - EDDC Internal Audit Plan for 2018/19**

Purpose of report: As a key element of its Governance arrangements the Council has a partnership arrangement with South West Audit Partnership to deliver an annual internal audit plan. The Executive Director for SWAP, together with the Council's S151 Officer and in consultation with the Senior Management Team, has produced an Audit Plan for 2018/19 that requires the approval of the Audit and Governance Committee.

Recommendations: **That the Audit and Governance Committee approve the Internal Audit Plan of 416 days (including a 40 day carry forward) for April 2018 to March 2019.**

Reason for recommendation: It is a requirement that the Audit and Governance Committee approve the annual audit plan.

Officer: David Hill, South West Audit Partnership
David.Hill@southwestaudit.co.uk 07595 711087

Financial implications: No change from previous year.

Legal implications: Internal audits assist in testing and demonstrating compliance with regulatory frameworks, including governance and best value.

Equalities impact: Low Impact

Risk: Medium Risk
Failure to gain independent assurance over the internal control arrangements of the Council's activities, using a risk based methodology, impacts negatively (i.e. financial, reputational, operational) on the Council.

Links to background information:

Link to Council Plan:

Background

The total number of audit days planned for 2018/19 is 416 days, which includes a 40 day carry forward.

This plan was compiled to provide assurance to Officers and Elected Members on the current risks faced by the Authority; in an ever changing risk environment. If an emerging risk or fraud investigation is deemed higher risk than the audits in this Audit Plan, then changes may be required during the year. The Committee are approving the initial plan of 416 days. Any changes will be reported to Committee quarterly for approval.

To ensure that we have covered the necessary risks, the Executive Director and the Section 151 Officer liaised with the Senior Management Team to produce the plan detailed in Appendix A. They also considered the information gathered in audits undertaken in recent years. Input was also sought, received and considered from Members of the Audit and Governance Committee.

Key Control Audits

We have liaised with the External Auditors, KPMG, who may place reliance on the work we will be undertaking on Housing Rents.

An overall day allowance has been included in the plan to ensure that key financial risks are audited, whilst enabling a better degree of flexibility in approach. The exact scope of these audits will be agreed with the S151 Officer prior to commencement, taking into account emerging and current issues.

The number of days allocated to this area reflects the assurance opinions awarded in relation to Key Control Audits conducted in recent years.

I.T. Audits

I.T. Reviews are completed to provide the Authority with assurance regarding their compliance with industry best practice. There are 40 days planned which are split over two audits. The potential areas that will be covered have been discussed with the S151 Officer, but have not yet been finalised.

We will liaise with the auditors for Strata (Devon Audit Partnership), in agreeing our plan, to avoid duplication of work.

Operational and Governance Reviews

Operational audits are a detailed evaluation of a service or function's control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Follow Up Audits

Internal Audit follow up on all audits awarded a 'Partial or No Assurance' level, to ensure that agreed actions to mitigate risks have been implemented. We have planned 10 days to do follow-up reviews this year.

Advice and Meetings

Internal Audit are risk experts and, as well as undertaking planned audits, are always glad to assist officers where they seek advice on managing their risks. Similarly, to enable effective governance, Internal Audit work closely with External Audit and with the S151 Officer and the Audit and Governance Committee through regular liaison meetings and progress reporting.

Appendix A

Audit Area	Days	Scope	Key Risks	Background Information
Planning and Advice	36.00			
Planning / Client Liaison	12	Audit Planning / S151 Liaison	N/a	N/a
Corporate Advice	5	Guidance and advice on best practice	N/a	N/a
Committee Reporting & Attendance	12	Audit & Governance Committees and Reports	N/a	N/a
External Audit	2	Liaison with KPMG	N/a	N/a
Relocation Project Consultancy	5	Consultancy and Advice and ad-hoc projects	Disruption of service delivery.	Council is due to relocate to Honiton in December 2018. This will raise money through sale of The Knowle site and will increase efficiency through downsized premises.
Follow Up Audits (unallocated)	10	Review Partial Assurances	Financial loss and reputational damage is suffered through fraud, theft or inaccurate recording of monies.	Main Accounting - last completed October 2015 - Full Review Council Tax NNDR - last completed October 2015 - Full Review Payroll - last completed October 2015 - Full Review
Key Controls (unallocated)	35	An overall day allowance has been included in the plan to ensure that key financial risks are audited, whilst enabling a better degree of flexibility in approach. The exact scope of these audits will be agreed with the S151 officer prior to commencement, taking into account emerging and current issues.		
Housing Rents (Key Controls)	20	Issues arising in 2016/17 relating to the replacement of the Housing System.	Financial loss and reputational damage is suffered as a result of: -Transactions not being accurately recorded. -Rental income not being collected. -Systems not being adequately protected against fraud and/or errors.	Key Control audit plus a review of Phase 2 of the new Housing System.

Transparency	5	Requested by Strategic Lead - Finance due to the information published not all being in line with Transparency Code	<p>Reputational damage through public reporting of non-compliance and relationship with Central Government. There is also the 'East Devon Watch' group, a public group that acts as a peoples' watchdog and looks to publicise any wrongdoing.</p> <p>Financial loss due to reduced funding from the DCLG.</p>	Central Government expects all Local Authorities to conform to the Transparency Code. The Strategic Lead-Governance and Licensing's primary concern was that non-compliance would damage EDDC's relationship with Central Government.
Right to Buy Council Properties	20	Concern Identified by John Golding - Tenants fraudulently purchasing properties	Financial loss and reputational damage due to tenants fraudulently purchasing Council properties at subsidised prices.	The purpose of this scheme is to allow Council Housing occupants, all of whom should be vulnerable persons (low-income, disabled, otherwise homeless), at a substantial discount to housing in the area. This is of particular concern in East Devon as it is one of the most sought-after/expensive locations in the country for housing.
Licensing	20	Deferred from 1718 - New Licensing Manager	<p>The service breaches relevant legislation.</p> <p>The service does not achieve total cost coverage, resulting in the General Fund being used to supplement the budgetary shortfall.</p>	Primarily, we need to ensure the Council's processes are effective in meeting its statutory responsibilities to provide certain licences (some are statutory, some are not).

Economic Development	20	Requested by Economic Development Manager	Failure to deliver planned 18-19 projects.	Requested general review of service to a) provide assurance that the service is efficient and effective and b) to gain more buy-in from members for the service/publicise their achievements and value to the Council.
Car Parking	20	Key Income generator for the Council	New system implementation fails/allows customers to avoid paying for parking/fines. Monies are mismanaged/stolen/lost/unaccounted for.	Identified changes being made in terms of car parking charge methods under Income Generation audit. Was reluctant to raise prices but was investigating other ways of increasing income. To implement a new parking charge/handheld device-oriented system this year.
Lone Working	15	To include review of new system	Uncontrolled hazards to a lone worker may result in harm to an employee and reputational damage to the Council.	Due to implement a new lone worker system. Implementation has been delayed by technical issues with the phone lines with Home Safeguard.
Project Management	20	Success of implementation of new project guidelines	Failure to deliver planned 18-19 projects.	We will look to see what impact of the new Project Management Guidelines has had on recently implemented projects that have used the new guidelines.
Ethical Governance	10	Declaration of Personal and Business Interests	The Council is perceived not to be acting in the public interest, undermining the basis upon which Local Authorities are built.	Increasingly important issue as many high profile cases of corruption have occurred in recent years and the Public are increasingly concerned about it.

GDPR	20	Self-assessment checklist	The Council is found to contravene the new GDPR, to be implemented in May 2018.	Significant fines and personal liability if found to break these regulations.
Other Funding/Grants	20	How is EDDC maximising other funding if CIL low	The Council is unable to deliver the Local Plan.	Recent legislative changes will hinder the Council's ability to deliver the long-term infrastructure it pledged in 2013.
Safer Recruitment	10	Reference, qualification, job history, agency staff etc.	Fraud conducted by member of staff.	Recent high-profile cases in public sector bodies in which qualifications of senior officers were found to be false; having not been checked thoroughly upon recruitment.
Asset Management Plan	10	To include progress of the implementation of Corporate Asset Register	Inefficient and ineffective management of the Council's assets.	Review of progress made on implementation of the Corporate Asset Register.
Homelessness Reduction	20	Regulation change	The Council fails to comply with the Homelessness Reduction Act 2017.	To review compliance with the new 2017 Act. Benchmarking with other SWAP partners.
ICT Audit to be agreed	40	TBC with IT Audit.	TBC with IT Audit.	TBC with IT Audit.
Property Services	20	High staff turnover may result in failing controls	High staff turnover may result in failing controls.	A more detailed scope to be confirmed at the initial meeting.
Budget Setting and Control	15	To include monitoring of budgets by budget holders	Significant financial loss due to inefficient monitoring, recording and reporting of financial budgets.	Has not been reviewed recently. Presents a significant financial risk .
Transformation Strategy	15	Progress made on delivering Actions within the current Strategy	Cost savings required by Central Government are not achieved.	To review the progress made on Objectives set out in the Transformation Strategy for 2015-2020.

Risk Management	10	To review processes.	<p>The Council is not aware of all the significant corporate risks presented.</p> <p>A significant corporate risk is realised.</p>	A review of processes to ensure all risks are identified, assessed and priorities appropriately.
Business Rates	5	Follow Up	Loss of Income	Follow up to 2017/18, is the Council maximum the opportunities to maximise business rates.
Totals Days	416			



External Audit Plan 2017/2018

**East Devon District
Council**

January 2018

Summary for Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. This represents a significant change for the Authority and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter. In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at **£1.6 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.08 million**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued;
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure completeness and accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; and
- **Management override of controls** – This risk is present in all entities as management is in a unique position to manipulate accounting records. The audit approach will test the appropriateness of journal entries recorded in the general ledger, review the appropriateness of accounting estimates, and assess the reasonableness of provisions.

See pages 3 to 9 for more details

Summary for Audit Committee (cont.)

Value for Money Arrangements work

We have not yet carried out our detail risk assessment regarding your arrangements to secure value for money, however our initial VFM audit planning has identified the following VFM significant risk to date:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and also pursue income generation strategies. We will consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year. As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

See pages 10 to 14 for more details

Logistics

Our team is:

- Darren Gilbert - Director
- Rob Andrews - Manager
- Chaney Heystek - Assistant manager

More details are in **Appendix Two**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 17**.

Our fee for the 2017/18 audit is £50,821 (£50,821 2016/17) see **page 16**. These fees are in line with the scale fees published by PSAA.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office’s Code of Audit Practice and the PSAA Statement of Responsibilities.

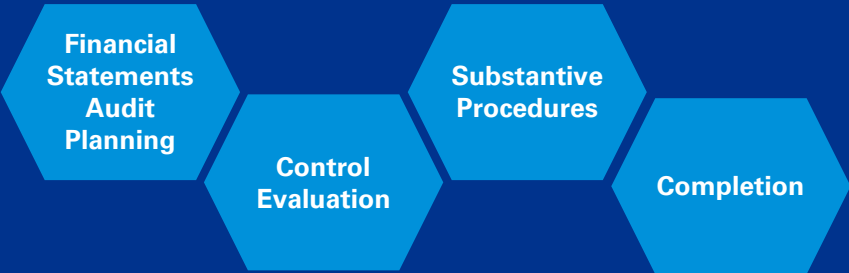
Our audit has two key objectives, requiring us to audit/review and report on your:

- 01 | **Financial statements:**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- 02 | **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Audit Committee.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix One provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 10 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to March 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

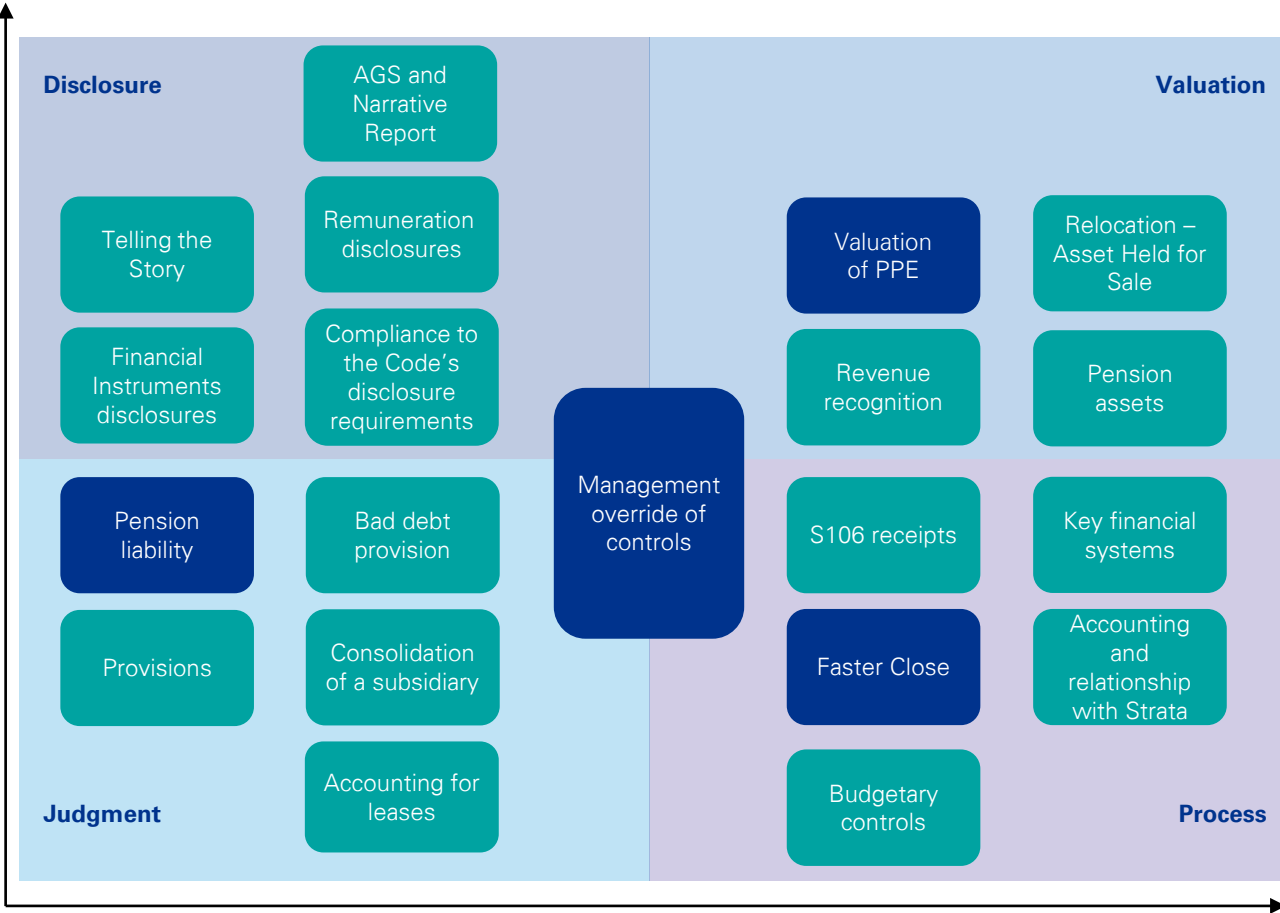
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: Significant risk Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	Valuation of PPE 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 Authority 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. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is historically undertaken as at 1 April, there additional risk that the fair value of those assets valued is different at the year end.
Approach:	We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time. In relation to those assets which have been revalued during the year we will assess the valuer’s qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The is an admitted body to the Devon Pension Fund, administered by Devon County Council, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
Approach:	<p>As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Barnett Waddingham.</p> <p>We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by Barnett Waddingham.</p> <p>In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.</p>

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none">— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;— Revising the closedown and accounts production timetable to ensure that all working papers and other supporting documentation are available at the start of the audit process;— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Approach:	<p>We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent ‘misstatements’ unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £1.6 million for the Authority’s standalone accounts which equates to 2% percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

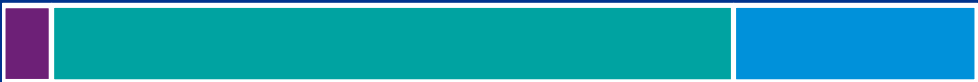
Prior Year Gross Expenditure: £81.5 m (2015/16: £92.0m)

Materiality

£1.6m

2% of Expenditure

(2016/17: £1.6m, 2%)



£80k Misstatements reported to the audit committee (2016/17: £80k)

£1.2m Procedures designed to detect individual errors (2016/17: £1.2m)

£1.6m Materiality for the financial statements as a whole (2016/17: £1.6m)

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.08 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure
(Corrected and uncorrected)

Value for money arrangements work

VFM audit approach

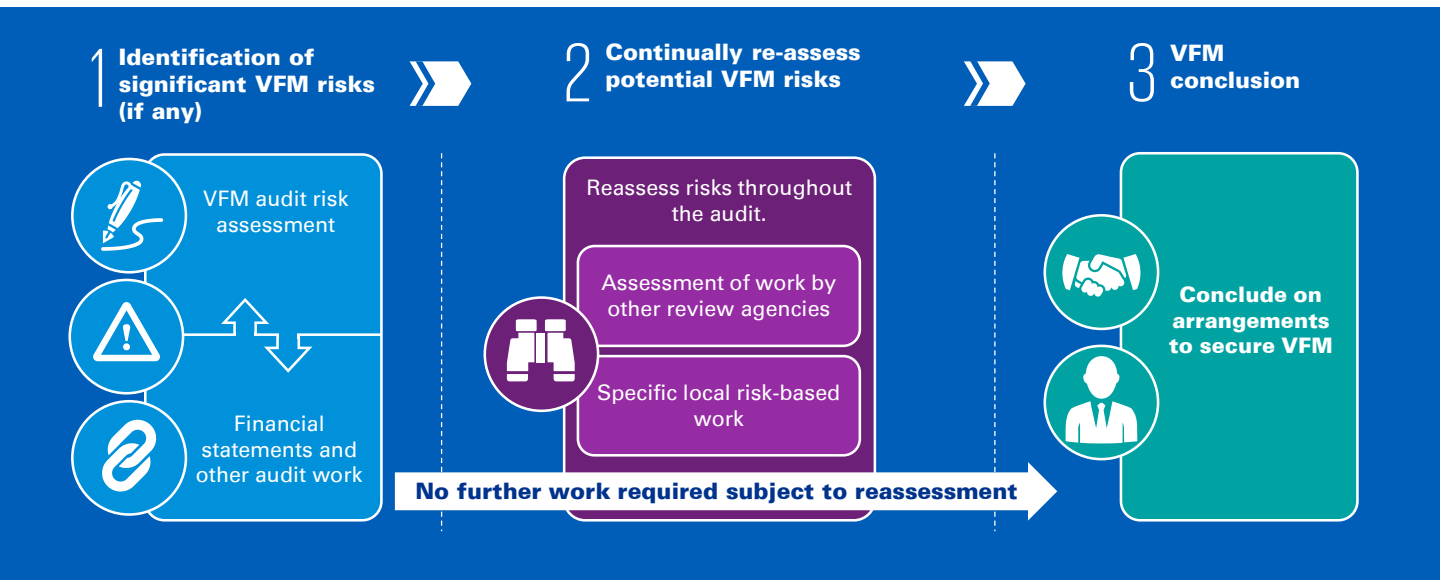
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

Overall criterion

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

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage



VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



Identification of significant risks

Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage



Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



Concluding on VFM arrangements

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



Reporting

Audit approach

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

We have not yet carried out our detailed risk assessment regarding your arrangements to secure value for money, however our initial VFM audit planning has identified the following VFM significant risk to date. Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Risk:	Delivery of budgets <p>The Authority identified the need to make savings of £0.792 million in 2017/18. The current forecast as at September 2017 shows that the Authority will deliver an underspend of approximately £0.262 million, however this includes further savings will be identified in order to meet the approved balanced budget.</p> <p>The Authority’s budget for 2018/19 was presented at the Cabinet meeting on 3 January 2018 and recognised a need for £0.735 million in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £1.265 million will be required over the period 2019/20 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority’s financial resilience.</p>
Approach:	As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criterion</p> <ul style="list-style-type: none">— Informed decision making;— Sustainable resource deployment; and— Working with partners and third parties

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.



Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix One.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix Three provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £50,821, compared to 2016/2017 of £50,821.

Appendix One:

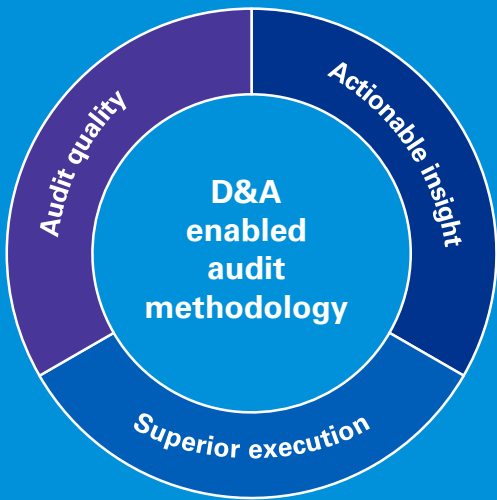
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

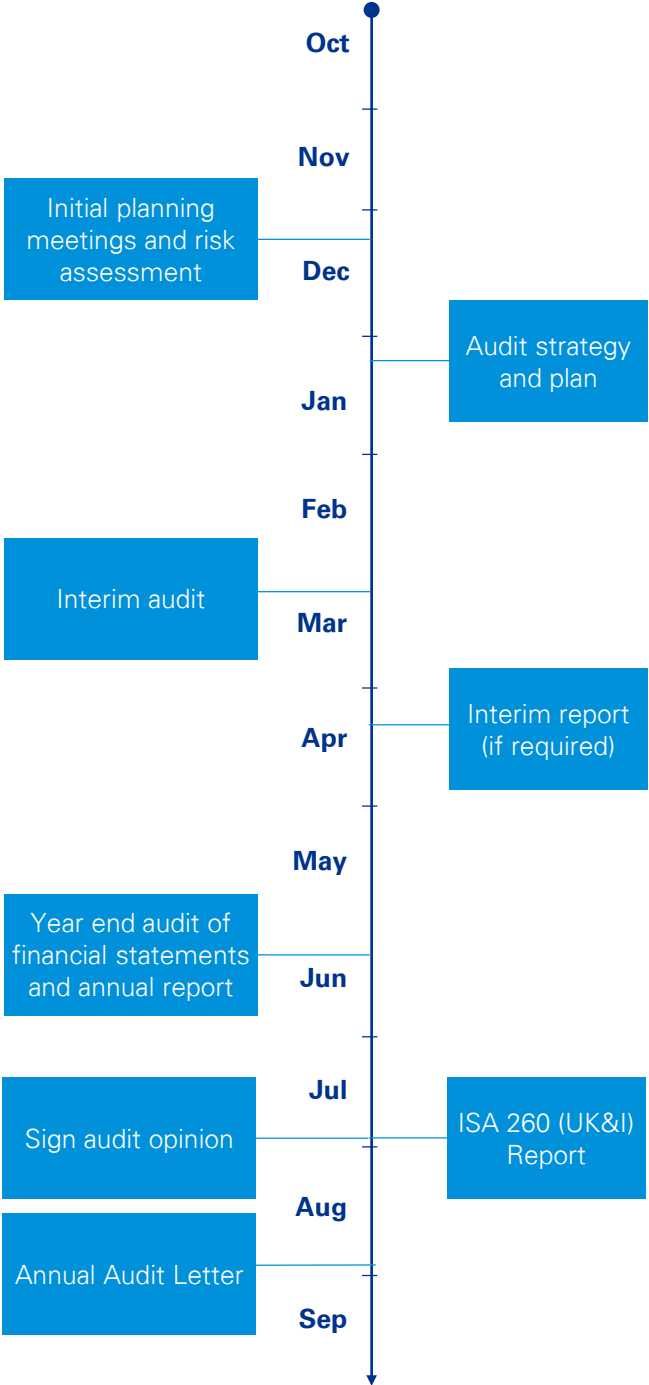
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals.



Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team.



Appendix One:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting

Appendix Two:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit Director and Manager were all part of the East Devon District Council audit last year.



Darren Gilbert
Director

T: +44 (0)29 2046 8205
E: darren.gilbert@kpmg.co.uk

‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive.’



Rob Andrews
Manager

T: +44 (0) 117 905 4773
E: rob.andrews@kpmg.co.uk

‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Darren to ensure we add value. I will liaise with Simon Davey and other Executive Directors.’



Chaney Heystek
Assistant Manager

T: +44 (0) 777 554 7869
E: chaney.heystek@kpmg.co.uk

‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF EAST DEVON DISTRICT COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity are in place.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Darren Gilbert and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix Three:

Independence and objectivity requirements
(cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018	Value of Services Committed but not yet delivered
Certification of housing benefit grant claim	None identified		Fixed Fee	£8,721	£8,721

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP



kpmg.com/uk



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 [...], 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.

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Technical update

East Devon District Council

February 2018

Contents

The contacts at KPMG in connection with this report are:

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	Page
External audit progress report	3
KPMG resources	5
Technical developments	7
Appendices	
1. 2016/17 audit deliverables	15

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

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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>We have completed our planning work for the 17/18 audit, considering key issues at the Council and any relevant requirements as per the Code. This has informed our audit plan, which has been presented at this committee.</p> <p>We will complete our interim fieldwork during March 2018, to test the control environment at the Council. The final audit will be completed during June 2018, as part of the 'faster close' earlier deadlines.</p>
Value for Money	Our approach for the 17/18 conclusion has been considered as part of our audit planning. See audit plan for key risks raised.
Certification of claims and returns	<p>The Housing Benefit grant certification was completed before the November deadline. We issued a qualified certificate on this grant claim. Planning will commence for the 17/18 certification from April 2018.</p> <p>Our Annual report on grants and returns was presented to the previous Audit & Governance Committee meeting</p>
Other work	There is no other work ongoing currently.



KPMG Resources

How to build a business case

A sound business case is a foundation to effective investment decisions. It is crucial for making the right investment decisions. As the pressure on local authority finances continues the role of major investment and transformation decisions will become more critical to delivering a sustainable future. Robust business cases are vital to ensuring that investment choices have the best chance of delivering success.

Through KPMG's work with over 100 public sector bodies we have produced a practical guide to preparing robust and proportionate business cases to support both routine and strategic investment decisions.

The report covers:

- The role of the business case
- How to achieve consistent quality
- Getting the balance right in the content of the business case
- Achieving objectivity
- The business case framework
- A guide to local government business cases, including the requirements for good business cases, split into 11 elements.

The full report can be accessed here: <https://home.kpmg.com/uk/en/home/insights/2017/12/local-government-how-to-build-a-business-case.html?hootPostID=ad392ed3a21657cc96c79dbd6eb73134>



Technical developments

Auditor Guidance Note 1 (AGN 01) – General Guidance

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&AG) has issued a revised version of Auditor Guidance Note 1 (AGN 01).</p> <p>AGN 01 provides general guidance to auditors of local bodies, and sets out the overall framework for issuing guidance and for providing other support to local auditors. It includes relevant ethical requirements which those charged with governance may wish to be aware of.</p> <p>A copy of AGN 01 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-01-General-Guidance-Supporting-Local-Audit.pdf</p>	<p>Those charged with governance will wish to be aware of the requirements of the FRC's ethical standard and the supplementary and explanatory guidance set out in AGN 01.</p>

Auditor Guidance Note 7 (AGN 07) – Auditor Reporting

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&AG) has issued an update version of Auditor Guidance Note 7 (AGN 07).</p> <p>AGN 07 is relevant to all bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code).</p> <p>The changes include revisions to clarify the guidance relating to:</p> <ul style="list-style-type: none"> • Reporting to those charged with governance, which needs to cover the range of audit responsibilities under the Code including auditor judgements on significant risks in respect of arrangement to secure value for money • In specified circumstances, enhanced reporting requirements under ISA (UK) 700, including the reporting of key audit matters under ISA (UK) 701 • Reporting considerations in relation to material uncertainty in respect of going concern • Considering when to issue the annual audit letter, including in situations where work remains outstanding, for example, on Whole of Government Accounts returns; and • Part-year reporting requirements. <p>A copy of AGN 07 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-07-Auditor-Reporting-1.pdf</p>	<p>Those charged with governance will wish to be aware of the reporting requirements of the Local Audit and Accountability Act 2014.</p>

DCLG FAQ on MRP and Investment Code guidance

Level of impact: ● (For Action)	KPMG Perspective
<p>The Department for Communities and Local Government (DCLG) has issued its FAW on the Minimum Revenue Provision (MRP) and Investment Code guidance consultations. The consultation on the proposed changes closed on 22nd December 2017, and changes will be made after the analysis of consultation responses.</p> <p>The FAQ includes common queries from local authorities, and covers the following:</p> <ul style="list-style-type: none">• Clarification what the section on borrowing in advance of need means• Whether the proposals on MRP mean that local authorities no longer have the flexibility to decide what is prudent provision for debt• Whether local authorities should apply the current or the proposed Codes whilst making decisions during the consultation period• If the changes to the MRP guidance will be applied prospectively or retrospectively. <p>The full FAQ can be found at the following link: https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-qa</p>	<p>Members may wish to discuss with officers what, if any, is the potential impact of the consultations.</p>

CIPFA/LASAAC statement on the adoption of IFRS 9 Financial Instruments

Level of impact: ● (For Information)

Members may wish to be aware that the Chartered Institute of Public Finance and Accountancy Local Authority Code Board (CIPFA LASAAC) has published a statement on the adoption of IFRS 9 Financial Instruments.

IFRS 9 will be adopted in the 2018/19 local government accounting code.

Members may wish to consider the effect of the adoption of IFRS 9 on the financial statements for 2018/19.

PSAA's consultation on 2018-19 scale of fees for opted-in bodies

Level of impact: ● (For Information)

Public Sector Audit Appointments (PSAA) has published its consultation on the 2018-19 scale of fees for principal local government and police bodies that have opted into the appointing person arrangements.

The consultation is available on the PSAA website at: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/>

The consultation proposes that scale audit fees for 2018-19 should reduce by 23 per cent, compared to the fees applicable for 2017-18. More details on the proposals are set out in the consultation document.

Proposed 2018-19 scale fees for individual opted-in bodies, based on the 23 per cent reduction, are listed on the website and are accessible through the following links:

- Local government: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-local-government-bodies/>
- Local police bodies: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-police-bodies/>
- Pension fund audits: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-pension-funds/>

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

Level of impact: ● (For Information)

The NAO has conducted an investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership. The investigation was prompted by concerns raised about the Partnership.

The role of Local Enterprise Partnerships (LEPs) continues to grow, and it may be noted that government has given LEPs a key role in the recently published Industrial Strategy to lead the development of Local Industrial Strategies.

Information on the UK's Industrial Strategy can be found at the following link: <https://www.gov.uk/government/topical-events/the-uks-industrial-strategy>

The Department for Communities and Local Government (DCLG) carried out a national review of LEP governance and transparency. The review made a number of recommendations for improvement.

The review, published on 26 October 2017, with the aim of providing sufficient assurance to the Accounting Officer's and ministers that LEPs fully implement existing requirements for appropriate governance and transparency.

A full copy of the report can be found at the following link: <https://www.gov.uk/government/publications/review-of-local-enterprise-partnership-governance-and-transparency>

PSAA's report on the results of auditors' work 2016-17

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) published its Report on the results of auditors' work 2016/17: Local government bodies on Tuesday 19th December.

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016-17. The report covers the timeliness and quality of financial reporting, auditors' local value for money arrangements work, and the extent to which auditors used their statutory reporting powers.

The timeliness and quality of financial reporting for 2016-17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies.

Compared with 2015-16, the number of principal bodies receiving an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on the accounts by the end of July compared with 49 (10 per cent) for 2015-16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017-18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015-16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new timetable. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

For the fourth year in a row there have been no qualified opinions on the accounts issued to date to principal bodies. The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015-16.

The complete report is available publically on the PSAA website: <https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2017	Complete
Interim			
Interim Letter	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.	June 2017	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 2017	Complete

Appendix 1

2016/17 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 2017	Complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	Complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	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.	January 2018	Complete



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Report to: **Audit and Governance Committee**
Date of Meeting: 15 March 2018
Public Document: Yes
Exemption: None



Agenda item: 10

Subject: **Statement of Accounts 2017/18 – Review of Accounting Policies and accelerated timetable**

Purpose of report: It is good practice for the Audit and Governance Committee to approve the Accounting Policies to be adopted in advance of the preparation of the Accounts.

The report also reminds members of the accelerated timetable for completion of the 2017/18 Annual Statement of Accounts.

Recommendation: **To approve the Accounting Policies and note the accelerated timetable for the 2017/18 Statement of Accounts.**

Reason for recommendation: Members of the Audit and Governance Committee have responsibility for the approval of the Annual Statement of Accounts.

Officer: Simon Davey, Strategic Lead Finance
sdavey@eastdevon.gov.uk

Financial implications: There is likely to be additional staff costs to meet the accelerated timetable.

Legal implications:

Equalities impact: Low Impact

Risk: Medium Risk

Links to background information: [EDDC Accounting Policies for adoption by the Audit & Governance Committee on 15 March 2018.](#)

Link to Council Plan:

1. Background

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Local Authority Accounting Board is a standing committee of CIPFA and LASAAC and is responsible for developing the Code of Practice on Local Authority Accounting in the United Kingdom.

- 1.2 The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of the Council and is based on European Union adopted International Financial Reporting Standards (IFRS). It is reviewed continuously and normally updated annually by the CIPFA / LASAAC Local Authority Board, effective for the financial years commencing 1 April.
- 1.3 As specified by regulation 21(2) of the Local Government Act 2003, all Local Authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 1.4 It is therefore essential that the Council's own internal accounting policies are aligned and updated to reflect changes to the Code of Practice and for other transactions that occur during the reporting year.
- 1.5 The Code specifies the principles and practices of accounting required to give a "true and fair view" of the financial position, financial performance and cash flows of the Council. As noted the Code is updated annually to reflect current thinking and accounting practices.
- 1.6 The 2017/18 edition of the Code applies to Account periods on or after 1 April 2017 and supersedes the 2016/17 edition.

2. Key Accounting Changes in 2017/18 Code

- 2.1 A full review of the changes in the 2017/18 Code has been undertaken as evidenced below. In light of this review no amendments other than an update to relevant dates and any typo and grammatical errors found. EDDC Accounting Policies have remained the same and are linked to this report for reference.

Section of the Code	Change	Impact
Section 2.2	Updates to guidance on Business Improvement District Scheme and Community Infrastructure Levy (CIL) to clarify the treatment of revenue costs and charges received before the commencement date	None EDDC have no BIDS and the accounting arrangements for CIL already comply – at March 17 there were no CIL charges received before the commencement date, hence all CIL balances were held in Capital Grants Unapplied.
Section 3.1	Introduction of key reporting principles to the Narrative Report	None Clarification only
Section 3.4	Clarify the reporting requirements for accounting policies and going concern accounting	None Clarification only
Section 3.5	Updates to reflect changes to HRA reporting practices in the Housing Revenue Account (Accounting Practices) Directions 2016.	None EDDC already complied including the requirement for total charge for depreciation calculated in accordance with proper practice.

Section 4.2	Amendments for Lease and Lease Type Arrangements and Service Concession Arrangements	None No effect on EDDC current arrangements and is an update to Scottish Authorities.
Section 6.5	New Pension Fund disclosure of investment management transaction costs and clarification of approach to investment clarification	None This relates to the administering authority of the Pension Fund.

2. **Reminder of accelerated closedown timetable**

- 2.1 From 2017/18 there is a statutory requirement to have the annual statement of accounts completed and on our website by 31st May as opposed to the current date of 30th June.

These changes provide challenges for both the preparers and the auditors of the financial statements. The impact of the changes to the deadlines is shown in the table below:

	2016/17 Statutory Deadline	2017/18 Statutory Deadline	Statutory Reduction in time
Preparation of draft financial statements, signed by S.151 officer	30 June	31 May	1 month
Approval and publication of financial statements with audit opinion	30 September	31 July	2 months
Available audit time	92 days	61 days	31 days

- 2.2 This clearly has implications on workloads mainly for the Financial Services Team and it is anticipated that more items will be estimated, resulting in possible variations at the actual audit date. These may add to items of difference in the final audit report (ISA260).
- 2.3 It is not intended to prepare a full Outturn Book for 2017/18 as has been the case previously for the Audit & Governance Committee and Cabinet at year end. Instead an Outturn report will be prepared in the same style as the monitoring reports currently presented to Cabinet but will be linked to the year-end position and will sit alongside a complete Statement of Accounts.
- 2.4 From 2017/18, the Audit and Governance committee will meet and approve the Accounts on 26th July 2018.

Report to: **Audit and Governance Committee**

Date of Meeting: 15 March 2018

Public Document: Yes

Exemption: None

Review date for release None



Agenda item: 11

Subject: **Community Infrastructure Levy**

Purpose of report: To advise Members of the systems and processes that have been put in place to enable the collection and spending of monies collected through the Community Infrastructure Fund as well as the findings of a recent internal audit into these systems and processes and the level of assurance achieved.

Recommendation: **Members consider the report and note that an audit by SWAP has given a reasonable level of assurance.**

Reason for recommendation: To ensure that Members are aware of the systems and processes in place and that suitable measures are in place to ensure that the CIL funds due are collected.

Officer: Ed Freeman – Service Lead Planning Strategy and Development Management

Tel: 01395 517519 e-mail: efreeman@eastdevon.gov.uk

Financial implications: No additional Finance implications

Legal implications: There are no legal implications requiring comment.

Equalities impact: Low Impact

Risk: Medium Risk
As detailed in the report.

Links to background information: .

Link to Council Plan: Encouraging communities to be outstanding, Delivering and promoting our outstanding environment, Continuously improving to be an outstanding council.

Background

The Community Infrastructure Levy (CIL) is a charge required from new development, based upon its use and amount of floor space. The money raised by this levy must be spent on the provision, improvement, replacement, operation or maintenance of infrastructure to support the development of East Devon. Although there is not a comprehensive national definition of “infrastructure” in the context of town planning, the Planning Act 2008 states that infrastructure includes:

- a) Roads and other transport facilities,
- b) Flood defences,
- c) Schools and other educational facilities,
- d) Medical facilities,
- e) Sporting and recreational facilities, and
- f) Open spaces.¹

The levy is intended to focus on the provision of new infrastructure and should not be used to remedy pre-existing deficiencies in infrastructure provision, unless those deficiencies will be made more severe by new development.² A 'Regulation 123' list of infrastructure to be funded in whole or in part by CIL has been adopted by the council (see para 4 below).

Community Infrastructure Levy in East Devon

EDDC began charging CIL on 1 September 2016, meaning that dwellings across the district and retail development outside town centres approved since this date may be liable to pay CIL. However, there are several national exemptions from paying the levy, including dwellings which are built by 'self-builders'; residential annexes and residential extensions; and affordable housing.

EDDC is responsible for deciding how money raised by the levy will be spent. The 'Regulation 123' list of infrastructure is reproduced for convenience below:

- Education
- Exmouth Regeneration Area Projects
- Exe Estuary Mitigation
- Pebblebed Heaths Mitigation
- Clyst Valley Regional Park
- Health centres
- Emergency service facilities
- Library facilities excluding Cranbrook
- Community and Youth facilities
- Capital build costs for indoor sports provision at Cranbrook
- Improvements to sports and leisure provision
- Open space/ recreation provision excluding on-site provision
- Strategic Transport Infrastructure.

Whilst the total income from CIL up to the year 2031 (end of Local Plan period) is estimated to be £40.6m, 5% of this is retained for administration costs, and 15% or 25% where there is a made neighbourhood plan is passed to town/parish councils.

This means that the initial estimate is that a total of £30.8m of CIL income will be available to EDDC to spend on infrastructure up to the year 2031 (end of Local Plan period). However around £6m of this needs to be spent on habitat mitigation measures to minimise the impact of development upon the Exe Estuary, Pebblebed Heaths, and Dawlish Warren European sites. This leaves approximately £25.5m for other infrastructure projects.³

It is important to point out that this figure (£25.5m) falls a long way short of the total infrastructure costs required to deliver the Local Plan. The Infrastructure Delivery Plan (IDP) (March 2015) identifies the following costs and funding shortfalls:

¹ Section 216 of the Planning Act 2008, as amended by CIL Regulation 63.

² Ibid.

³ The estimates for CIL income are taken from the Strategic Planning Committee report: [Community Infrastructure Levy – Governance](#), 29 March 2017.

Table 1: Overall estimated cost of infrastructure projects

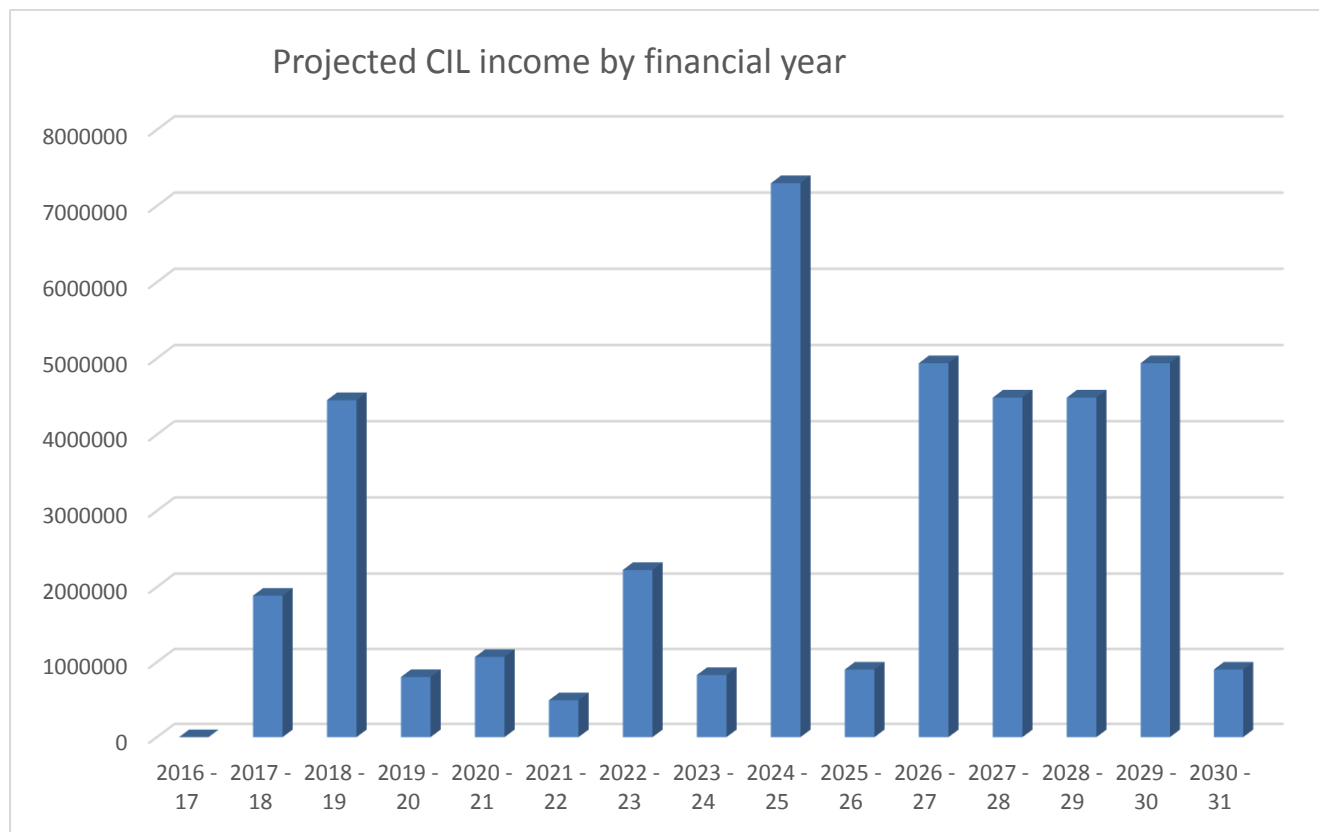
	Infrastructure type	Cost	Funding secured	Funding gap
Priority One	Education	£34,548,272	£20,717,910	£13,830,362
	Energy, Utilities and Waste	£6,000,000	£0	£6,000,000
	Environment and Green Infrastructure	£19,914,510	£10,667,107	£9,247,403
	Transport	£49,775,000	£7,120,000	£42,655,000
Priority Two	Education	£35,890,870	£5,725,355	£30,165,505
	Environment and Green Infrastructure	TBC	TBC	£0
	Flood Risk and Coastal Change Management	£9,000,000	£5,700,000	£3,300,000
	Healthcare	£20,400,000	£0	£20,400,000
	Public Services	£1,779,656	£0	£1,779,656
	Sport and Recreation	£28,855,735	£4,651,190	£24,204,545
	Transport	£9,000,000	£3,700,000	£5,300,000
Priority Three	Communications and Technology	Not specified for East Devon	Not specified for East Devon	£0
	Education	£500,000	£0	£500,000
	Flood Risk and Coastal Change Management	£22,700,000	£19,600,000	£3,100,000
	Healthcare	£98,136,000	£0	£98,136,000
	Public Services	£1,525,000	£0	£1,525,000
	Sport and Recreation	£3,453,423	£547,000	£2,906,423
	Transport	£8,600,000	£700,000	£7,900,000
	TOTAL COSTS/ FUNDING	£350,078,466	£79,128,562	£270,949,894

Given this large funding gap, difficult decisions will need to be made in terms of prioritising projects. Reference can be made to the IDP in making these decisions, as it categorises each project in terms of its importance in delivering the Local Plan, with priority 1 being critical, priority two (important), and priority three (desirable).

As can be seen, CIL will be a piece of the infrastructure funding puzzle, but it will not fund everything. Additional sources of income will need to be identified and levered in to

supplement CIL in order to deliver infrastructure. This could potentially include other council sources such as new homes bonus, business rates retention, and the capital programme.

The following charts show projected CIL income by year both as each year individually and then the cumulative growth of the CIL pot over the plan period.



It is clear from these charts that CIL income will be inconsistent over the plan period with higher levels of income expected when large scale housing developments commence. The second graph shows how it will take many years for the CIL pot to grow to an extent that large scale projects can be afforded. For example a potential key project may be a passing loop

on the Exeter to Waterloo railway line at an estimated cost of over £7 million. If this project were entirely funded from CIL then it would not be until the 2023 – 24 financial year that sufficient funds will have been received to pay for this project by the time that we have top sliced for admin/neighbourhood proportion and Hab Regs. In reality such a project should be match funded from other sources but it illustrates how when making funding decisions for smaller projects thought also needs to be given to how larger scale projects may be funded in the future.

The current financial situation in terms of CIL is as summarised below:

Table

7.1

Allocation	Potential	Due	Collected	Allocated	Spent	Interest	Available
CIL Admin	18,334.74	13,877.14	318.75	0.00	0.00	0.00	318.75
Neighbourhood CIL	56,891.03	41,631.42	956.25	0.00	0.00	0.00	956.25
CIL 123 List	293,355.91	222,034.28	5,100.00	0.00	0.00	0.00	5,100.00
TOTALS	368,581.68	277,542.84	6,375.00	0.00	0.00	0.00	6,375.00

The Risks and Mitigation

It is clear from the above that the collection of CIL amounts to a substantial sum of money for the Council and it is vital that all of the monies due through CIL are collected to ensure that the required infrastructure to deliver the local plan can be delivered. One of the main risks identified for the planning service is therefore :

“Lack of funding to enable the delivery of required infrastructure through lack of sufficient income from the Community Infrastructure Levy and that this holds up the delivery of development”

It is therefore important that we have robust processes and procedures to make this happen as well as the required resources in place. The rest of this report will focus on these issues and how the risks associated with CIL are being mitigated.

Resources

We currently have in place 2 members of staff associated with the collection of CIL these are:

Sulina Tallack: Planning Obligations Monitoring Officer

Carolle House: Planning Obligations Support Officer

Essentially Carolle is responsible for checking applications that are potentially CIL liable and issuing a liability notice to advise the customer of their liability if any. She will then follow this through to collection of the funds including a very complex process of notices and checking for exemptions etc. The exception to this is household extensions which rarely have any liability for CIL as they rarely extend over the 100 square metre threshold and so the householder team are themselves advising where there is no CIL liability when issuing the planning decision. Where the extension is particularly large and it may be liable to pay CIL the file is passed to Carolle to check. Sulina's role is more focused on the monitoring of CIL and S106 income and spend.

To assist Carolle and Sulina in their work we have brought in a piece of software called Exacom which is a specially designed piece of software to enable the monitoring and collection of CIL and Section 106 contributions. The Exacom system enables an administrator to capture information, calculate charges, levies, surcharges etc., generate notices and manage finance. We now have all live S106 agreements and CIL activity on the system. A temp is also assisting in capturing all of the S106 obligations on the Exacom system and checking that this data is accurate. This work is however almost complete.

As well as the collection of CIL and holding data on CIL liabilities the team is also involved in the spend of CIL and a spend process was developed to enable stakeholders and delivery partners to bid for CIL monies. This process was overseen by the CIL Members Working Group who then made recommendations to the Strategic Planning Committee. Although no bids were successful and few received this process did allow all parties to bid.

The collection, monitoring and spend processes have all been the subject of a recent SWAP review and they have given these processes reasonable assurance. Their detailed audit report is attached for information. Members will note that there are some minor actions arising from the audit which will be addressed.

Controls

As part of the identified risk over the CIL regime there are two main controls that are also identified. These are:

“Funding: Funding from other sources will need to be found to supplement income from CIL to enable the delivery of infrastructure required to support development.

CIL Charging Schedule: A review of the CIL Charging schedule is planned to ensure that income from CIL is maximised.”

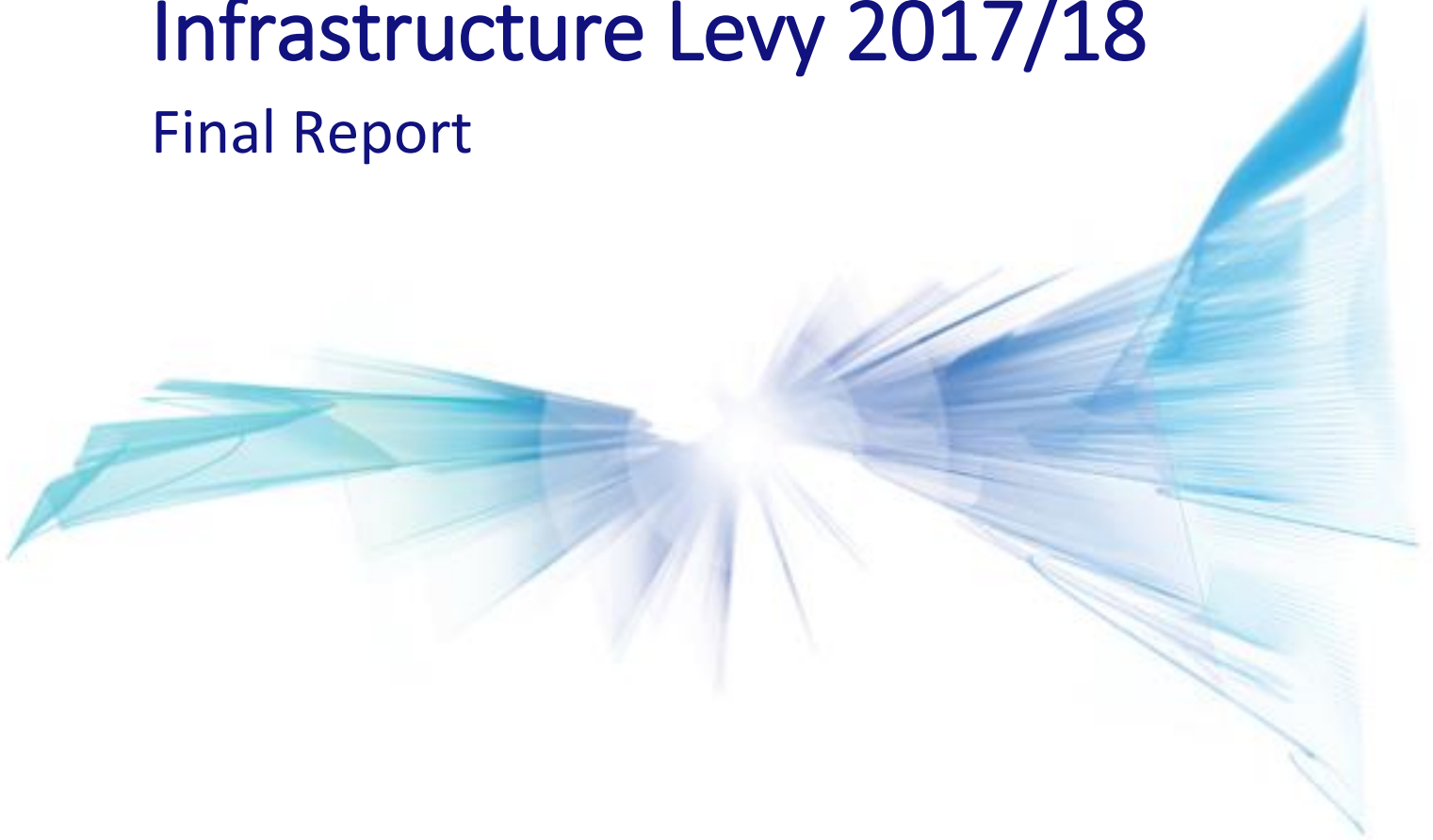
By way of an update on these key measures it is worth noting that we seek out and bid for external funding where available to assist in funding infrastructure projects. Most recently we have been successful in securing £10 million towards the delivery of the Axminster relief road from the Housing Infrastructure Fund (HIF). Funding such as this is not as readily available as it has been in the past but we will continue to pursue these options. It is also worth noting that much of the infrastructure identified on the IDP is also the responsibility of other bodies such as Devon County Council, the NHS etc and these bodies are also seek external funding and are expected to part fund projects either themselves or from other sources when bidding for CIL funds to ensure that CIL is used to match fund projects in order to get maximum value for money.

In terms of the CIL Charging Schedule we have appointed Three Dragons to undertake a review of the CIL charging schedule alongside doing viability testing on the emerging Cranbrook Plan. Unfortunately there have been some delays on the Cranbrook Plan and the CIL charging schedule review is also to some extent awaiting government announcements

and consultation on the future of CIL. The government announced at the autumn budget that they would be consulting on changes to CIL shortly and this is now expected later this month. It is however unclear what these proposals might be. Until there is greater clarity there is little point progressing too far with a review of our charging schedule. The review may open up new ways by which income can be maximised or indeed introduce a whole new system. Once the proposals are known a report will be prepared for Strategic Planning Committee with a draft response to the consultation.

Section 106/Community Infrastructure Levy 2017/18


Final Report




Issue Date: 22 February 2018

Working in Partnership to Deliver Audit Excellence




Executive Summary

-  This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

-  This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

-  Audit Framework Definitions
-  Support and Distribution
-  Statement of Responsibility

Executive Summary

Overview

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place applying the Section 106 (S106)/Community Infrastructure Levy (CIL) across East Devon District Council.

We are able to provide reasonable assurance that EDDC have appropriate controls in place to manage both S106 Agreements and CIL.

S106 Agreements, introduced following the Town and County Planning Act 1990, are legal agreements negotiated between a local authority and property developers. Their intention is to enable infrastructure contributions to be made to make a development proposal acceptable.

These have now largely been replaced by CIL and any new agreements relate to the delivery of infrastructure on the development site itself and are requirements placed directly on the applicant or land owner. The Council still has a number of projects being delivered under consents granted prior to the adoption of CIL and are still collecting and spending monies under S106 agreements. A summary of the current S106 balances are shown below:

	2016/17	2017/18 YTD
S106 Balance Received	£3,888,183	£5,596,944
S106 Amounts Accrued for	£243,653	(£243,653)
S106 Balance Due (Contingent Asset)	£10,303,243	£10,504,302
S106 Total	£14,435,079	£15,857,593

CIL is a tariff based system, designed to cover the costs of all strategic needs which are listed on the Regulation 123 list published by the Council. The Council has been charging CIL since September 2016 and expects this to contribute £30.8m to the delivery of infrastructure under the Local Plan. Linked to the Local Plan is the Infrastructure Development Plan revised in November 2017 that contains all the infrastructure requirements of the housing and economic development in East Devon. The total required to meet the requirements is £350,078,466 and there is currently a £270,949,894 funding gap.

EDDC has an Officer responsible for the negotiation, monitoring and delivery of planning obligations and monitoring CIL. This is supported by a new role of Planning Obligation Support Officer who monitors CIL, calculates CIL liabilities and issues related notices. An ICT system called Exacom is used to manage S106 and CIL and by March 2018, the system will include all S106 Obligations.

Objective

To provide assurance that the Community Infrastructure Levy (CIL) has been implemented appropriately to ensure that the Council obtains the revenue due for community infrastructure across the District.

To provide assurance that there are appropriate policies and procedures in place to effectively manage the S106 agreements.

Significant Findings

Finding:

Risk:

There are no significant findings to report.

Audit Opinion:

Reasonable

We are 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.

We have left the corporate risk score as medium because, despite effective controls being in place, the risk remains that the Infrastructure Development Plan (IDP) will not be delivered. This is not the fault of the Council as the legislation works on the basis that CIL should only ever cover part of the cost of the infrastructure. The intention is that CIL should be match funded with other sources of funding.

We found the following areas to be well controlled:

S106 Agreements

- Key dates are recorded on Exacom to enable efficient monitoring of S106 agreements.
- Contributions collected are adequately accounted for within the Cedar system and the process is documented in a flow chart.
- A standard approved formula is used to calculate developer contributions.
- Indexation is applied according to the S106 agreement in place and is managed through Exacom.
- The Local Plan and Open Space Strategy detail how and when S106 agreements should be applied.
- Contributions received are being spent in accordance with the agreement and within the planned timescale and the process is documented in a flow chart.

CIL

- There is an Officer in place who is responsible for managing the CIL process.
- Exacom enables the effective monitoring of the status of CIL agreements.
- A Working Party is in place, where the requests for CIL funding are discussed and recommendations made to the Strategic Planning Committee.
- A CIL guide has been produced and is being followed for planning applications that are CIL liable.
- Payment terms have been appropriately set up and applied on Exacom.

However, we also identified a small number of areas where improvement could be made:

- To enable customers to receive a prompt answer on whether a household extension is CIL liable, Planning Officers state on the Planning Decision Notices when an application is not CIL liable. Our testing revealed that this was not always taking place and Planning Officers should be reminded that this is the process.
- Exacom Reports should be developed and produced when required to monitor the financial status of the S106 and CIL agreement.

- A report should be produced and reviewed to confirm the completeness of data held on Exacom.

We have also made some suggestions on the CIL bidding form that could be considered to potentially improve the quality of the bids submitted.

Corporate Risk Assessment			
Risks	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
The Infrastructure Development Plan is not being delivered resulting in social, economic and reputational damage for the Council.	High	Medium	Medium

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk based approach. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

As an Added Value exercise, we were also asked to review the new CIL bidding process to establish whether it is fit for purpose.

1	The Infrastructure Development Plan is not being delivered resulting in social, economic and reputational damage for the Council.	Medium
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1.1 Finding and Impact

CIL Not Liable Notification for Householder Applications

To decide whether a Householder Application for an extension is CIL liable, Planning Officers review the plans and supporting information for the Planning Applications. If they decide that the application is not CIL liable then they select the "**Not Liable**" field on Uniform and send the Planning Decision Notice to the developer stating that the development is not CIL Liable.

We reviewed a sample of five planning applications for householder applications, where the "Not Liable" was selected on Uniform. One Planning Decision Notice did not state that the application was not CIL liable. We were advised that the Planning Obligation Support Officer was arranging to rectify immediately.

There is a risk that the developer has not been informed of the decision, which could affect the start date of the development and could cause the Council reputational damage if a complaint is made.

1.1a Agreed Outcome: Priority 3

The Service Lead – Planning has agreed that where the application is for a Household Extension, Planning Officers are aware that the Planning Decision Notice should state when CIL is not liable. Team Leaders should also check that this is included before sending Decision Notices out. Finally, the Planning Obligation Support Officer should undertake a review of all Decision Notices issued in the last three months to confirm that the issue is not widespread.

Action Plan:

Person Responsible:	Service Lead - Planning	Target Date:	31 March 2018
Management Response:	This is a relatively new part of the process introduced to streamline the process for householder applications for extensions and alterations that are very rarely CIL liable only. For all other applications a CIL liability		

	<p>notice is issued. The risk associated with this is very low as an extension would have to be over 100 sq m in floor area to be liable and very few are. The risk of a loss of income is therefore extremely low however we are required to advise applicants whether the development is CIL liable in all cases and so it is still important that we do this.</p> <p>The Householder team and the team leaders can easily be reminded of the need to check this and apply a note to the decision notice as appropriate. A review of all householder decision notices over the last 3 months can also be carried out but this would take time to complete as each decision notice will have to be checked individually.</p>
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1.2	Finding and Impact
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Monitoring and Reporting

The Council produces an Annual Report on S106 and CIL activity for the Strategic Planning Committee each year.

There is not a requirement within the planning department to produce regular financial reports on the balances held and expected for S106 and CIL contributions. However, there may be occasions where this information is required by the Senior Management Team, Members or other interested parties. It would therefore be beneficial if a summary of key financial information could be developed on Exacom; to be produced upon request.

Whilst reviewing Exacom as part of our sample testing on S106 agreements, we found two minor instances where the expected fields were not completed:

1. The Ward field was not completed for one planning application;
2. The S106 Variation box was not ticked, although there were variations recorded for S106 agreements.

Although only minor instances, it is important that all the fields are completed to ensure the accuracy of the information held. Once all the information for the S106 agreements is uploaded onto Exacom, a report should be produced and reviewed to ensure that all fields are completed. This should then be run on a regular basis, to monitor the completeness of data recorded.

If reports are not available to monitor the financial status of the agreements and the completeness of data held, there is a risk that inappropriate decisions are made; which could cause reputational damage.

1.2a	Agreed Outcome:	Priority 3
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The Service Lead – Planning has agreed to request that a Financial report is designed on Exacom, which includes the S106/CIL contributions expected and received. This should then be produced as and when requested by Members of the Senior Management Team.

Action Plan:

Person Responsible:	Service Lead – Planning	Target Date:	30 June 2018
Management Response:	To date the onus has been on issuing liability notices and getting all of the S106 agreements logged on Exacom, however once that has been completed and checked for accuracy the intention has always been to set up appropriate report templates to then be able to produce reports on the data.		

1.2b	Agreed Outcome:	Priority 3
The Service Lead – Planning has agreed to request that, once all the S106 agreement information is uploaded on Exacom, a data quality report is produced and checked; to confirm the accuracy and completeness of information held. This report should then be run and checked on a quarterly basis; to monitor the quality of the data held.		
Action Plan:		
Person Responsible:	Service Lead – Planning	Target Date: 30 June 2018
Management Response:	Agree – Once all of the data has been input there is clearly a need to check its accuracy. The inputting of the data has been a massive task and there will inevitably be some errors that need to be checked and corrected.	

1.3	Finding and Impact
CIL Bidding Process	
<p>The CIL Working Party introduced a bidding process to enable a fair and transparent method for allocating CIL contributions.</p> <p>We were asked to review this process, to confirm that it is fit for purpose and whether any improvements could be made.</p> <p><i>Bidding Form Evidence</i></p> <p>To ensure that bidders attach the appropriate evidence, the Bidding Form could explain what evidence is required for each question and could contain a check list to ensure everything has been included. Alternatively, this could be included at the end of the form.</p> <p><i>Risk Assessment</i></p> <p>The wording of the question could be updated, as it requests that the bidder documents the risks and includes a risk assessment. We feel that the risks only require documenting on the form if no risk assessment is attached.</p> <p><i>Comparison with other Forms</i></p> <p>We compared the EDDC bidding form with other forms available on other Council websites who are also undertaking this process. The following items were included on these forms and not specifically included in the EDDC form:</p> <ul style="list-style-type: none"> • CIL funding – One form requests that the CIL funding should be broken down into required phases. • Status of the project - One form asks to confirm whether the project is ready to commence once the CIL has been received. • Delivery timescale – One form has a checkbox for the bidder to confirm whether the delivery timescale is immediate, up to 5 years, 5-10 years, 10-15 years, More than 15 years. <p>We have not raised a formal recommendation, but we suggest the Service Lead – Planning considers making these changes to improve the current process.</p>	

Audit Framework and Definitions

Assurance Definitions

None	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.
Partial	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.
Reasonable	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.
Substantial	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.

Definition of Corporate Risks

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

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.

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 and 1 Actions will normally be reported verbally to the Service Manager.

Report Authors

This report was produced and issued by:

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Dave Hill, Executive Director

Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Sulina Tallack, Section 106 Officer
Carolle House, Planning Obligations Support Officer
Rob Ward, Accountant

Distribution List

This report has been distributed to the following individuals:

Ed Freeman, Service Lead – Planning
Richard Cohen – Deputy Chief Executive
Simon Davey – Strategic Lead - Finance

Working in Partnership with

Cheltenham Borough Council	Sedgemoor District Council
Cotswold District Council	Somerset County Council
Devon & Cornwall Police & OPCC	South Somerset District Council
Dorset County Council	Taunton Deane Borough Council
Dorset Police & OPCC	West Dorset District Council
East Devon District Council	West Oxfordshire District Council
Forest of Dean District Council	West Somerset Council
Herefordshire Council	Weymouth and Portland Borough Council
Mendip District Council	Wiltshire Council
North Dorset District Council	Wiltshire Police & OPCC
Powys County Council	

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.



SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Agenda Item: 13



Audit and Governance Committee

15 March 2018

Audit and Governance Committee

Forward Plan 2018/19

Date of Committee	Report	Lead Officer
26 July 2018	<ul style="list-style-type: none">• External Audit Report 2017/18• Statement of Accounts 2017/18 including Governance Statement• Letter of Representation• Review of Internal Audit Charter• Annual Report inc. Quarter 4• Internal Audit Activity – Quarter 1 2017/18• Audit Committee update• Risk Management Review• RIPA update	<p>KPMG Strategic Lead Finance</p> <p>Strategic Lead Finance</p> <p>SWAP SWAP</p> <p>SWAP</p> <p>KPMG Management Information Officer</p> <p>Strategic Lead Governance and Licensing</p>