

Agenda for Audit and Governance Committee Thursday, 24th September, 2020, 2.30 pm

Members of Audit and Governance Committee

Councillors S Hawkins (Chairman), P Millar (Vice-Chairman), D Barrow, J Bailey, F Caygill, S Gazzard, P Hayward, F King, G Pook and P Twiss

Venue: Online via the Zoom App

Contact: Amanda Coombes 01395 517543; email acoombes@eastdevon.gov.uk

(or group number 01395 517546)
Tuesday, 15 September 2020



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**Important - this meeting will be conducted online and recorded by Zoom only.
Please do not attend Blackdown House.**

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This meeting is being recorded by EDDC for subsequent publication on the Council's website and will be streamed live to the Council's Youtube Channel at
<https://www.youtube.com/channel/UCmNHQruge3LVI4hcgRnbwBw>

Public speakers are now required to register to speak – for more information please use the following link: <https://eastdevon.gov.uk/council-and-democracy/have-your-say-at-meetings/all-other-virtual-public-meetings/#article-content>

1 Public speaking

Information on [public speaking](#) is available online

2 Minutes of the previous meeting (Pages 3 - 5)

Minutes from the Audit and Governance committee meeting held on 30 January 2020

3 Apologies

4 Declarations on interest

Guidance is available online to Councillors and co-opted members on making [declarations of interest](#)

5 Matters of urgency

Information on [matters of urgency](#) is available online

6 Confidential/exempt item(s)

To agree any items to be dealt with after the public (including the Press) have been excluded. There are no items which officers recommend should be dealt with in this way.

Matters for Decision

- 7 **Internal Audit Outturn Report 2019-20** (Pages 6 - 21)
- 8 **Internal Audit Annual Audit Opinion Report 2019-20** (Pages 22 - 40)
- 9 **Internal Audit Plan & Charter 2020-21** (Pages 41 - 58)
- 10 **Internal Audit Progress Report 2020-21** (Pages 59 - 72)
- 11 **Independent External Assessment May 2020** (Pages 73 - 80)
- 12 **External Audit Progress Report and Sector Update - GT** (Pages 81 - 96)
- 13 **Informing the audit risk assessment 2019-20 responses - GT** (Pages 97 - 126)
- 14 **Revenue and Capital Outturn Report 2019-2020** (Pages 127 - 137)
- 15 **Review of Accounting Policies 2019/20** (Pages 138 - 156)
- 16 **Statement of Accounts 2019/20** (Pages 157 - 158)
- 17 **Risk Review** (Pages 159 - 161)
- 18 **RIPA update**

At the meeting of 18 January 2018, Members agreed to receive an update on RIPA activity throughout the year (Regulation of Investigatory Powers Act). The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.
- 19 **Audit and Governance Forward Plan** (Pages 162 - 163)

Decision making and equalities

For a copy of this agenda in large print, please contact the Democratic Services Team on 01395 517546

EAST DEVON DISTRICT COUNCIL

Minutes of the meeting of Audit and Governance Committee held at Council Chamber, Blackdown House on 30 January 2020

Attendance list at end of document

The meeting started at 2.30 pm and ended at 3.19 pm

23 Public speaking

There were no members of the public wishing to speak.

24 Minutes of the previous meeting

The minutes of the Audit and Governance Committee held on 24 October 2019 were confirmed as a true record.

25 Declarations on interest

Minute 31. Annual Internal Audit report - STRATA.

Councillor Phil Twiss, Personal, Chairman of Strata Joint Scrutiny Committee.

Minute 32. Internal Audit Activity - Quarter 3 2019/20 SWAP.

Councillor Paul Hayward, Personal, Undertakes internal audit services for Town and Parish councils.

26 Annual Audit letter - Grant Thornton

Steve Johnson, Audit Manager Grant Thornton presented the Annual Audit letter which summarised the key findings from their work for the year ending March 2019.

RESOLVED:

that the content of the Annual Audit Plan be noted.

27 Audit update - Grant Thornton

Steve Johnson, Audit Manager presented the report on progress in delivering our responsibilities as the external auditors.

Financial Statements Audit

Grant Thornton commenced the planning for the 2019/20 audit and would issue a detailed audit plan, setting out our proposed approach to the audit of the council's 2019/20 financial statements to the March Audit Committee.

Value for Money

The scope of this work was set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

Audit Fees

Grant Thornton stated that work in the Local Government sector in 2018/19 had highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needed to improve. There was also an increase in the complexity of Local Government financial transactions and financial reporting.

Grant Thornton were currently reviewing the impact of these changes on both the cost and timing of audits. They would discuss this with the S151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit and Governance Committee.

RESOLVED:

that the Audit update report be noted.

28

Annual Internal Audit report - STRATA

The statement of assurance was provided by the Head of Audit Partnership, the provider of Internal Audit Services to Strata Service Solutions for audits in relation to the 2018-19 internal audit plan. The provision of ICT services was the responsibility of Strata Services Solutions under the arrangements specified within the original Partnership Agreement between Exeter City Council, East Devon District Council and Teignbridge District Council.

The assurance statement consisted of the following elements:

- Overall Assurance Statement;
- Governance:
- ICT Service operations.

Overall, based on work performed during the year and experience from the current year progress, the Head of Internal Audit's Opinion was of "Substantial Assurance" on the adequacy and effectiveness of the internal control framework in the Strata Service Solutions.

Craig Moodie from DAP was thanked for his informative and interesting report and it was hoped that similar audit reports would be made to future meetings of the Committee.

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Internal Audit Activity - Quarter 3 2019/20 SWAP

Alastair Woodland, Assistant Director SWAP reminded members that the Audit and Governance Committee agreed the 2019-20 Internal Audit Plan at its March 2019 meeting. The report was to provide an update on the 2019/20 Internal Audit Plan as at end of December 2019. There were no adverse audit opinions.

RESOLVED:

that the Internal Audit Progress Report be noted.

30

Risk Management review - half year review

Risk information for the 2019/20 financial year was supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This followed the full review of risks by responsible officers during November/ December 2019.

RESOLVED:

that the current status of risks following the full risk review undertaken in November/December 2019 be noted.

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RIPA update

At the meeting of 18 January 2018, Members agreed to receive an update on RIPA activity throughout the year. The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.

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Audit and Governance Forward Plan

Members noted the contents of the Committee Forward Plan for 2019-20.

Items to be considered at the March committee included:

- Annual Audit Plan 2020/21 and Review of Internal Audit Charter
- Internal Audit Plan Progress
- External Audit Plan
- Audit Committee update
- Accounting Policies Approval
- RIPA update
- Relocation project close-out report

Attendance List

Councillors present:

S Hawkins (Chairman)

D Barrow

P Hayward

M Rixson

P Twiss

C Wright

Officers in attendance:

Amanda Coombes, Democratic Services Officer

Simon Davey, Strategic Lead Finance

Steve Johnson, Grant Thornton

Craig Moodie, DAP

John Symes, Finance Manager

Georgina Teale, SWAP

Alastair Woodland, SWAP

Councillor apologies:

G Pratt

F Caygill

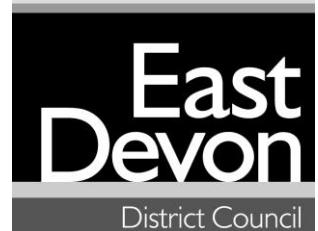
S Chamberlain

S Gazzard

Chairman

Date:

Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None



Subject:	Internal Audit Plan Outturn Report 2019/20
Purpose of report:	The Audit and Governance Committee agreed the 2019-20 Internal Audit Plan at its March 2019 meeting. This report is to provide an update on the outturn position of the 2019/20 Internal Audit Plan.
Recommendation:	To note the content of the Internal Audit Progress Report.
Reason for recommendation:	The Committee are required to review the progress of the audit plan.
Officer:	Alastair Woodland, Assistant Director, SWAP.
Financial implications:	There are no direct financial implications identified.
Legal implications:	The legal framework is reflected in the report. While there are no direct legal implications arising, ensuring Key Actions are carried out will reduce risk to the Council which in turn will reduce the chance of failures or challenges occurring.
Equalities impact:	Low Impact
Risk:	Low Risk
Links to background information:	Approved Internal Audit Plan 2019/20 – Audit and Governance Meeting March 2019 Internal Audit Progress Update Reports
Link to Council Plan:	Outstanding council and council services.

East Devon District Council

Report of Internal Audit Activity

Outturn Report 2019-20

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The contacts at SWAP in connection with this report are:		
David Hill Chief Executive Tel: 01935 848 540 David.hill@SWAPaudit.co.uk	➤ Role of Internal Audit	Page 1
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	➤ SWAP Performance	Page 4
Alastair Woodland Assistant Director Tel: 07872500675 Alastair.woodland@SWAPaudit.co.uk	➤ Approved Changes to the Audit Plan	Page 5
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Internal Audit Outturn Report 2019/20

Our audit activity is split between:

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



Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter, and for the 2019-20 Audit Plan year the Charter was approved by the Audit and Governance Committee at its meeting in March 2019.

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

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

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2019. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Outturn Report 2019/20

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme

The schedule provided at [Appendix B](#) contains a list of all audits as agreed in the Annual Audit Plan 2019/20. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

The following table summarises 2019-20 audits reported since our last committee update.

Audit Area	Quarter	Opinion
Bridging the Funding Gap	3	Reasonable
Tree Management	3	Reasonable
Data Protection (GDPR)	4	Partial
Business Continuity	4	Reasonable
Relocation – Benefits Realisation	4	Non-opinion

Partial Assurance Audits (See Appendix C)

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified.

- Data Protection (GDPR) was provided with a partial assurance opinion.

Internal Audit Outturn Report 2019/20

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme Contd.

Corporate Risks (See Appendix C)

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

There are no corporate risks identified in this period.

Impact of Covid-19 on 2019-20 Audit Work

2019-20

All audits from the 2019-20 plan have been completed to final report stage. The Covid-19 pandemic has inevitably caused some delay in progress due to availability of Officers dealing with service delivery priorities as well as the impact childcare arrangements will have on our staff. This did cause some delays with the timeliness of response to draft report. However, with the exception of the Integrated Asset Management Contract audit that was deferred from 2019-20 q4 to the 2020-21 audit plan, all audits within the 2019-20 plan have been completed to final report.

Internal Audit Outturn Report 2019/20

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



Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2019/20 are as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started	100% 0% 0%
<u>Quality of Audit Work</u> Customer Satisfaction Questionnaire	99%



Internal Audit Outturn Report 2019/20

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



Approved Changes to the Audit Plan 2019-20

The audit plan for 2019/20 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to East Devon District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

The planned Integrated Asset Management Contract audit which was planned for quarter 4 has been deferred until 2020/21 at EDDC request whilst new contract control arrangements are bedding in.



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

- Substantial
- Reasonable
- Partial
- None
- Non-Opinion/Advisory



Audit Framework Definitions

Control Assurance Definitions

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

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Audit Framework Definitions

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 1: Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

Definitions of Risk

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

Below is a summary of the Audit Plan for 2019-20 together with the status of the audit, overall opinion offered and a breakdown of the number of recommendations made by Priority. Definitions are contained in [Appendix A](#) above.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Special Investigation	Special Investigation 1	1	Final	Advisory / Non-opinion	2	0	1	1	
Special Investigation	Special Investigation 2	1	Final	Advisory / Non-opinion	2	0	1	1	
Operational Audits	Development Management	1	Final	Reasonable	4	0	3	1	
Operational Audit	Corporate - Fire Safety Council Owned Dwellings	1	Final	Reasonable	5	0	3	2	
Operational Audit	Impact of Universal Credit Financial Impact	1	Final	Reasonable	3	0	2	1	
Key Controls	Debtors	1	Final	Reasonable	3	0	1	2	
Follow up	Housing Invoice Maintenance	1	Final	Advisory / Non-opinion	0	0	0	0	
Governance, Fraud and Corruption	Corporate Health and Safety	2	Final	Partial	7	0	4	3	
Governance, Fraud and Corruption	Reserves Management	2	Final	Reasonable	7	0	3	4	
Governance, Fraud and Corruption	Members Declaration of Interests	2	Final	Reasonable	1	0	0	1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Governance, Fraud, Corruption	Commercial Property Investment (Framework)	2	Final	Reasonable	2	0	1	1	
Key Controls	Treasury Management	3	Final	Reasonable	2	0	1	1	
Operational Audit	Impact of Universal Credit Social Impact	3	Final	Advisory / Non-opinion	0	0	0	0	
Governance, Fraud & Corruption	New: EDDC Carbon Footprint	3	Final	Advisory / Non-opinion	0	0	0	0	
Key Controls	Housing Benefit	3	Final	Substantial	0	0	0	0	
Transformation	Transformation Strategy - Funding Gap	3	Final	Reasonable	2	0	1	1	
Governance, Fraud, Corruption	Relocation – Benefits Realisation	4	Final	Advisory / Non-opinion	0	0	0	0	
Governance, Fraud & Corruption	Business Continuity	4	Final	Reasonable	3	0	2	1	
Governance, Fraud & Corruption	Information Governance (including GDPR)	4	Final	Partial	12	0	5	7	
Operational Audits	Tree Management	4	Final	Reasonable	5	0	4	1	
Deferred									
Governance, Fraud & Corruption	Integrated Asset Management Contract	4				Deferred at client request. Now in 2020-21 Audit Plan			

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Summary of Audit Findings and High Priority Service Finding

The following information provides a summary of each audit review finalised since the last Committee update in March 2020. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the March 2020 update there is one Partial Assurance audit opinion that I need to bring to your attention.

Governance, Fraud and Corruption

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk.

Information Governance Including GDPR

The revised Data Protection Act was published in 2018 and complements the EU's GDPR Regulations which were also published in May 2018. EDDC updated their Data Protection and Document Retention Policy in April 2018 which clearly outlines how EDDC is in compliance with the legislation. EDDC have the risk of '*non-compliance with Data Protection*' in their Operational Risk Register and it has been given a low residual risk status and as it states that the controls are working and effective.

We last undertook a limited scope audit on GDPR in 2018/19 and we offered partial assurance mainly as a result of inconsistencies in the Privacy Notices. We have followed up the actions arising from that audit within this review.

The Scope of this review was to ensure that personal data collected, retained, published and shared by services is compliant with the principles of the Data Protection Act 2018. Whilst looking at corporate controls we also

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

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Governance, Fraud and Corruption

selected a sample of services that deal with personal data which included Council Tax, Housing Benefits, Recruitment and Housing Allocations.

We have provided Partial Assurance due to specific issues relating to document retention, weaknesses in training and the Information Asset Register not being fully complete. In addition, there is still some inconsistencies within the Privacy Notices which was an issue identified in the 2018/19 audit.

The Electronic Data Management System (EDMS) provided by CIVICA is used across the Council and contains significant amounts of personal data. Currently there is no method for removing the data that is no longer required as the Document Disposal Module has not yet been procured by the Council. A business case was drawn up back in 2017 but was not progressed due to queries raised over the charge for the module. Therefore, there is a risk of a data breach as personal data may be held longer than required and if an individual uses their right to be forgotten EDDC will not be able to remove the data from the EDMS.

The Information Security (IS) Policy (published in January 2018) states that IS Training is mandatory for all Officers and Members, however it has not been implemented resulting in a greater risk of a security breach due to a lack of understanding of information security. We have, however, been advised by Strata that it is due to be rolled out in February 2020 and it has been agreed that it will be mandatory for all Officers.

Our review of the mandatory training spreadsheet from November 2019 revealed that 32 Officers had not completed their GDPR training. Although not all Officers will use personal data in their role, it is a mandatory requirement that Officers complete the training. Our survey results also backup the need for GDPR training to ensure both Officers and Members are aware of their responsibilities around Data Protection.

The Information Asset Register has not been reviewed or updated since January 2018 and contains blank fields and out of date information.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Governance, Fraud and Corruption

A breakdown of the high priority recommendations and management response together with the agreed date the recommendation should be complete is listed below.

Information Governance (including GDPR) - Priority 1 and 2 recommendations

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
P2.	Members and Officers have not received Information Security Awareness Training.	Officers and Members are not sufficiently trained to identify and prevent data security issues leading to financial penalty and reputational damage.	We recommend that the Strategic Lead – HR and Organisation Development liaises with Strata regarding the roll out of the IS Awareness Training programme and ongoing annual refresher. Training should be included in the Induction process and in the mandatory training programme for Officers and Members.	Agreed	30 November 2020
P2	Not all Members and Officers have received training on Data Protection.	Officers and Members are not sufficiently trained to identify and prevent data security issues leading to financial penalty and reputational damage.	We recommend that the Strategic Lead – Governance and Licensing obtains final confirmation of who has not completed the training is established and the Members and Officers are contacted to request that they undertake the e-learning within a specified timescale.	Agreed	30 November 2020

Summary of Partial Opinions

APPENDIX D

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
P2	Personal Data is held longer than required as it is currently unable to be removed from the Electronic Data Management System (EDMS).	The Council breaches the Data Protection Act by not removing personal data from the EDMS system that is no longer required.	We recommend that the Strategic Lead – Governance and Licensing obtains approval for the Document Disposal Module to be purchased from Civica and implemented by Strata.	Agreed. Will discuss with S151 officer and look to incorporate within budget setting or bring a report to Council for authorisation of spend.	31 October 2020
P2	The Information Asset Register is out of date and incomplete.	The evidence to confirm compliance with the Data Protection Regulations is not accurate reducing the understanding and visibility over the information assets that are held.	We recommend that the Strategic Lead-Finance arranges for the Information Asset Register to be updated. Following this, a formal process should be implemented to review the register on a regular basis to ensure that it contains current information on all of the assets.	Agreed	March 2021
P2	The Administering Business Rates Privacy Notice states that it obtains personal information from several internal services but the corresponding notices do not state that they share with the business rate service.	Financial penalty and reputation damage arises as a result of users not being advised on how their personal data is processed preventing their ability to fully consent.	We recommend that the Strategic Lead – Governance and Licensing reviews the Administering Business Rate Privacy Notice and confirms that it correctly lists all the services where it may obtain personal information from. Once agreed, the relevant privacy notices produced for Environmental Health, Building Control, Council Tax, Planning, Estates, Streetscene and Licensing should be updated to ensure that they correctly reference the business rates service under the “who will receive or see my personal information”.	Agreed	31 October 2020

Report to: Audit and Governance Committee

Date of Meeting: 24 September 2020

Public Document: Yes

Exemption: None

Review date for release



Subject: Internal Audit Annual Opinion Report 2019-20

Purpose of report: This report provides Internal Audits overall opinion on the systems of governance, risk and control at East Devon District Council.

The Audit and Governance Committee agreed the 2019/20 Internal Audit Plan at its March 2019 meeting.

Recommendation: To note the content of the Internal Audit Annual Report and Opinion

Reason for recommendation: This report summarises the work of the Internal Audit Services for 2019/20 and provides an overall positive assurance opinion on the Council's framework of governance, risk and control based upon the internal audit work undertaken during the year.

Officer: Alastair Woodland, Assistant Director, SWAP.

Financial implications: There are no direct financial implications identified.

Legal implications: There are direct financial implications detailed in this report.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: [Approved Internal Audit Plan 2019/20 – Audit and Governance Meeting March 2019](#)

Link to Council Plan: Continuously improving to be an outstanding council.



East Devon District Council

Report of Internal Audit Activity

Annual Opinion Report For 2019/20

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Contents

The contacts at SWAP in connection with this report are:

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives.
 - the effectiveness of risk management processes.
 - The potential for the occurrence of fraud and how the organisation manages fraud risk.
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Summary

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To ensure the effectiveness of an organisation's risk management framework, the board and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.



Background

The Internal Audit service for East Devon District Council is provided by SWAP Internal Audit Services. The Team's 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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of our work against the 2019/20 Internal Audit Plan. The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defence Model



Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

Summary of Audit Work 2019/20

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

I have considered the balance of audit work in 2019/20 and the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year, 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.

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of governance and risk management and control within East Devon District Council. Internal Audit has not reviewed all risks and assurances relating to East Devon District Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at Appendix B, and as such it is one source of assurance on the adequacy of the internal control environment.

The Annual Opinion is made based on the following sources of information:

- Completed audits (Final & Draft - during the year 2019/20) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regs.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion Continued

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/ consultancy work and the assurance mapping records the team maintain). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

In the revised 2019/20 audit plan for East Devon District Council there were 20 reviews to be delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed'. Changes can be seen from Appendix B.

All audits in the revised audit plan are at final report stage. The following is a breakdown of opinions offered: one (5%) audit was Substantial, eleven (55%) were Reasonable assurance; two (10%) were Partial Assurance; five (25%) were Advisory and one (5%) was a Follow Up reviews on previous areas of weakness identified in the 2018-19 Audit Plan.

It is worth noting that East Devon District Council's IT Support Services is provided through STRATA, for which East Devon District Council is a partner organisation. STRATA also provides IT Support Services to Exeter City Council and Teignbridge District Council. The Devon Audit Partnership (DAP) provides Internal Audit services to STRATA and therefore Members will need assurance from DAP on how well IT Control Environment is operating. An update was provided by DAP in January 2020 Audit Committee.

COVID 19 has disrupted the delivery of the 2019-20 Internal Audit Plan in the final few weeks of the financial year but I do not consider this impact significant on our work when forming the 2019-20 Annual Internal Audit Opinion. It is recognised emergency measures often bypassing standard control have been implemented but this will have a greater impact on 2020-21.

Summary

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at [Appendix B](#) contains a list of all audits agreed for inclusion in the Annual Audit Plan 2019/20 and the final outturn for the financial year. In total, 20 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 20 reviews in the revised 2019/20 audit plan, they are broken down as follows:

Type of audit	2019-20 original plan	2019-20 revised plan
Operational Audits	4	5
Governance, Fraud & Corruption	7	8
Special Investigation	0	2
Key Control	3	3
Follow-up	1	1
Transformation	1	1
TOTAL	17	20

As would be expected some audits were 'exchanged' or 'removed' as the need to respond to changes and emerging risks that arise during the year.

Summary of Audit Work 2019/20

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Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.

Assurance Definitions

Partial Assurance - *In relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.*



Significant Corporate Risks & Partial Assurance Audits

We provide a definition of the three Risk Levels applied within audit reports under [Appendix A](#). For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review/Risks	Auditors Assessment
No risks identified as High during period.	

Summary of Partial Assurance Audits

The following audits received a Partial assurance opinion in respect of their control environments in 2019/20.

Audit Name	Risk Rating	Priority Findings		
		1	2	3
Data Protection (including GDPR)	Medium	0	5	7
Health and Safety	Medium	0	4	3

Summary of Audit Work 2019/20

SWAP Performance - Summary of Audit Opinions

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

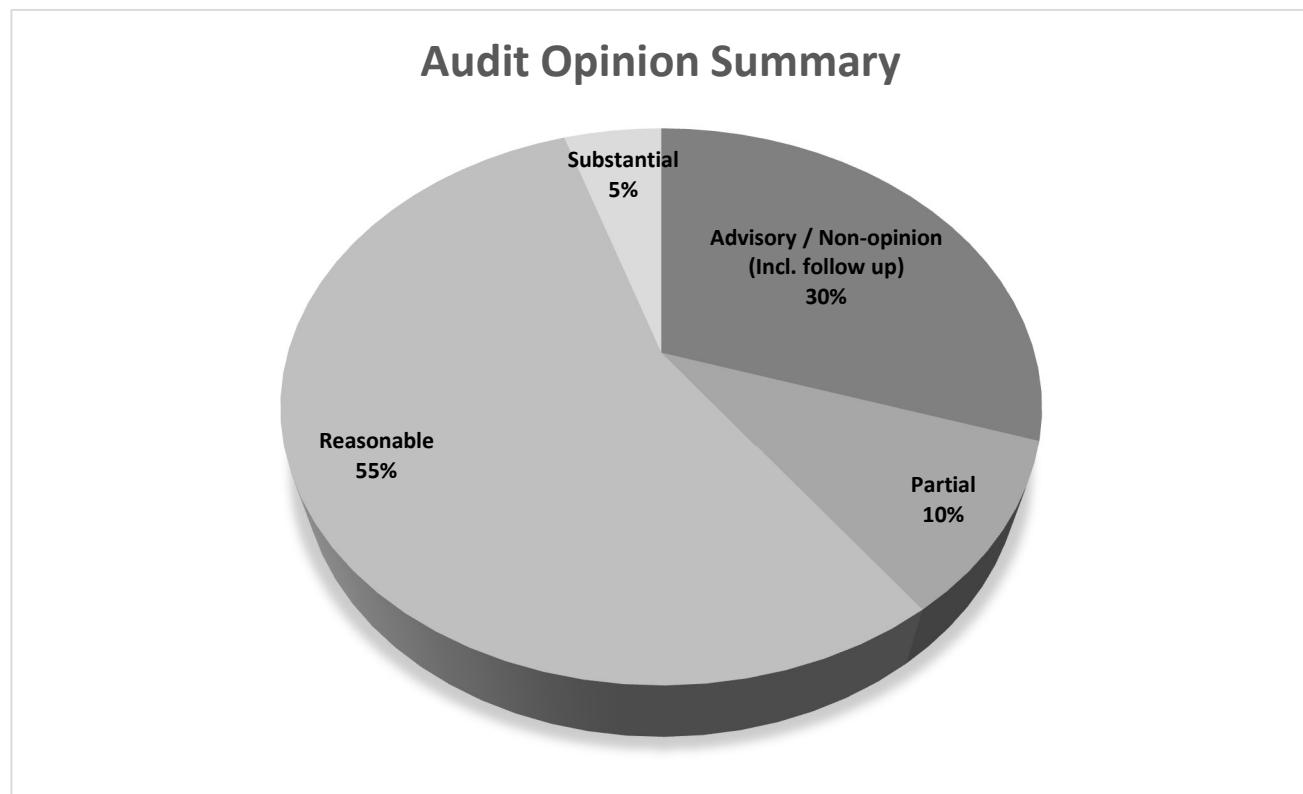
- Substantial
- Reasonable
- Partial
- No Assurance

We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern or risk.



Summary of Audit Opinion

A breakdown of the Audit Opinions for the 2019/20 Audits is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



Summary of Audit Work 2019/20

SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action



Priority Actions

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. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 1 recommendations being more important than priority 3. All recommendations as currently contained in Appendix B are summarised below.



Added Value

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



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of "added value" is; "it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost".

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where EDDC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies.
- **An Internal Audit View** – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- **Responsiveness** – we adapt our audit plans to address emerging risks and areas requiring assurance to management.

Added Value

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



Added Value Continued

- **Benchmarking and best practice** – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- **Data Analytics** – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.

Plan Performance 2019/20

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



SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2019/20 are as follows:

Performance Target	Target Year end	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started	>90%	100%
<u>Quality of Audit Work*</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>95%	99.6%
<u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%	98.6%

*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



SWAP Performance

SWAP's work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm conformance to the required standards. SWAP was recently externally assessed in February 2020 and confirmed that we 'Generally Conform' to the standards.

Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues that the programme must include both internal and external assessments for improvement. Following our external assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to achieve, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our agreed actions.

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

- **Substantial**
- **Reasonable**
- **Partial**
- **No Assurance**



Audit Framework Definitions

Control Assurance Definitions

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.

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.

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.

No Assurance

The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advice – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

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



Audit Framework Definitions

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

- Priority 1 Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2 Important findings that need to be resolved by management.
- Priority 3 Finding that requires attention.

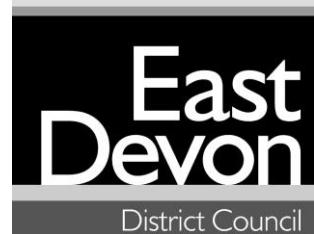
Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Special Investigation	(Additional) Special Investigation 1	1	Final	Advisory / Non-opinion	2	0	1	1	
Special Investigation	(Additional) Special Investigation 2	1	Final	Advisory / Non-opinion	2	0	1	1	
Operational Audits	Development Management	1	Final	Reasonable	4	0	3	1	
Operational Audit	Corporate - Fire Safety Council Owned Dwellings	1	Final	Reasonable	5	0	3	2	
Operational Audit	Impact of Universal Credit Financial Impact	1	Final	Reasonable	3	0	2	1	
Key Controls	Debtors	1	Final	Reasonable	3	0	1	2	
Follow up	Housing Invoice Maintenance	1	Final	Advisory / Non-opinion	0	0	0	0	
Governance, Fraud and Corruption	Corporate Health and Safety	2	Final	Partial	7	0	4	3	
Governance, Fraud and Corruption	Reserves Management	2	Final	Reasonable	7	0	3	4	
Governance, Fraud and Corruption	Members Declaration of Interests	2	Final	Reasonable	1	0	0	1	
Governance, Fraud, Corruption	Commercial Property Investment (Framework)	2	Final	Reasonable	2	0	1	1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Key Controls	Treasury Management	3	Final	Reasonable	2	0	1	1	
Operational Audit	Impact of Universal Credit Social Impact	3	Final	Advisory / Non-opinion	0	0	0	0	
Governance, Fraud & Corruption	(Additional) EDDC Carbon Footprint	3	Final	Advisory / Non-opinion	0	0	0	0	
Key Controls	Housing Benefit	3	Final	Substantial	0	0	0	0	
Transformation	Transformation Strategy - Funding Gap	3	Final	Reasonable	2	0	1	1	
Governance, Fraud, Corruption	Relocation – Benefits Realisation	4	Final	Non-opinion	0	0	0	0	
Governance, Fraud & Corruption	Business Continuity	4	Final	Reasonable	3	0	2	1	
Governance, Fraud & Corruption	Information Governance (including GDPR)	4	Final	Partial	12	0	5	7	
Operational Audits	Tree Management	4	Final	Reasonable	5	0	4	1	
Deferred									
Governance, Fraud & Corruption	Integrated Asset Management Contract	4				Deferred at client request. Now in 2020-21 Audit Plan			

Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None



Subject: **EDDC Internal Audit Plan 2020-21 & Audit Charter**

Purpose of report: This report introduces the Internal Audit Plan for 2020/21 and also incorporates the 'Internal Audit Charter' which sets out the operational relationship between EDDC and the South West Audit Partnership (SWAP).

The Assistant Director for SWAP, together with the Council's S151 Officer and in consultation with the Senior Management Team, has produced an Audit Plan for 2020/21 that requires the approval of the Audit and Governance Committee. This is a flexible plan that may be amended during the year to deal with shifts in priorities or new and emerging risks. Any changes to the plan will be reported to this Committee.

- Recommendation:**
- 1. That the Audit and Governance Committee approve the Internal Audit Plan for 2020-21 (Appendix 1)**
 - 2. The Audit and Governance Committee approve the Internal Audit Charter (Appendix 2)**

Reason for recommendation: It is a requirement that the Audit and Governance Committee approve the annual Internal Audit Plan and Audit Charter.

Officer: Alastair Woodland, Assistant Director, SWAP.

Financial implications: There are no direct financial implications identified.

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

Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. EDDC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

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: Outstanding council and council services

East Devon District Council

Proposed 2020-21 Internal Audit Plan and Internal Audit Charter

The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2020/21 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.

Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's AGS.

It is the responsibility of the Authority's Senior Management Team and the Audit Committee, to confirm that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

The Internal Audit Plan: Approach

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To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.

Approach to Internal Audit Planning 2020/21

The factors considered in putting together the 2020/21 internal audit plan have been set out below:



Due to the pace of change within Local Authorities and now the impact from Covid-19, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will be embracing short-term prioritisation with regular review/updates to the audit plan to mirror the changing pace of risk and assurance needs. We will adopt an 'agile' approach and, each quarter, we will review the next quarter's plan to ensure that we are auditing the right areas at the right time; any necessary changes will, of course, be agreed with the Corporate Management Team, and the Audit Committee will be kept informed.

The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

As above, it is the responsibility of the Authority's Leadership Team, and the Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.

Internal Audit Annual Risk Assessment

Our 2020/21 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for East Devon District Council:



The Internal Audit Plan: Coverage

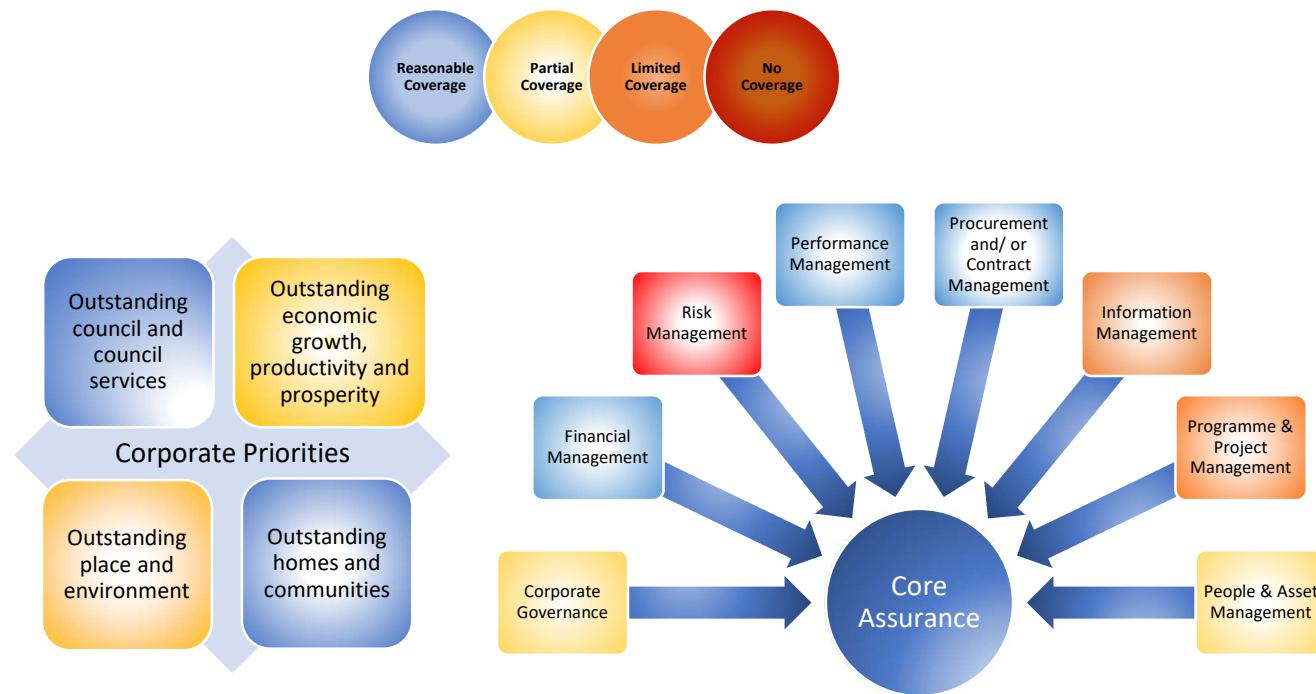
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Following our SWAP Risk Assessment above, we have set out how the proposed 20/21 plan presented in Appendix 1 provides coverage of the Authority's key corporate outcomes, as well as our core areas of recommended coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

Internal Audit Coverage in 2020/21

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives, as well as our core areas of recommended coverage. Where we have highlighted limited or no coverage, Senior Management and Audit Committee should seek and document assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:



Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 26 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- **Candid**
- **Relevant**
- **Inclusive**
- **Innovative**
- **Dedicated**

● Your Internal Audit Service

Audit Resources

The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for East Devon District Council are:

Alastair Woodland, Assistant Director – Alastair.woodland@SWAPaudit.co.uk, 07720312467
Georgina Teale, Senior Auditor – Georgina.teale@SWAPaudit.co.uk

Conformance with Public Sector Internal Audit 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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed conformance with the Public Sector Internal Audit Standards.

Conflicts of Interest

We are not aware of any conflicts of interest within East Devon District Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, and Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and risks
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<u>Delivery of Annual Internal Audit Plan</u> Completed at year end	>90%*
<u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>95%
<u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%

*Subject to impact from Covid-19

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Due to the outbreak of Covid-19, the audit plan for 2020/21 has to remain flexible. The plan will focus on short-term prioritisation and regular review/updates to the audit plan to mirror the changing pace of risk and assurance needs. This work shall remain on-going.

A draft audit plan was discussed and agreed with the EDDC Senior Management Team in February 2020 and discussed with the Audit Committee Chair. The audits listed below for quarter 1 and 2 have been undertaken or are in progress based on the draft audit plan, although subject to priority changes due to Covid-19. Prioritisation of audits during quarter 1 commenced with minimal impact on the delivery of frontline services as agreed with Service Managers and the Section 151 Officer. All reviews listed below will consider the impact of Covid-19 as part of the initial scoping meeting.

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Key Control: Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.					
Accounts Receivable (Debtors)	Review again in 2020/21 as there were significant changes going on in the department including new systems and processes. Review to ensure arrangements are effective for ensuring all invoices are raised where necessary and effective debt collection arrangements in place to maximise income to the Authority.	4	Strategic Risk: Failure to collect all income due to the council	Outstanding council and council services	Financial Management
Accounts Payable (Creditors)	Significant area of where money is going out of the Authority. A review to ensure controls are operating effectively and fraud risks are being effectively managed.	2	Strategic Risk: Insufficient Financial Resources to achieve Council Priorities	Outstanding council and council services	Financial Management
Council Tax and NDR	This area was last reviewed in 2018. This is a significant income stream and therefore area of financial risk to the Authority. A review to ensure controls are operating effectively to maximise income collection.	3	Strategic Risk: Failure to collect all income due to the council	Outstanding council and council services	Financial Management
New Council Tax Reduction Scheme	New Controls will be implemented due to new CTRS (links to Poverty Action Plan). A review on arrangements to ensure operating effectively and minimise the risk of fraud to the Council.	4	-	Outstanding council and council services	Financial Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Governance, Fraud & Corruption: Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk.					
Audit Committee Benchmarking	Compliance with CIPFA Audit Committee Practical Guidance 2018	1	-	Outstanding council and council services	Corporate Governance
Ethical Governance & Culture	<i>Ethical governance is defined as a set of processes, procedures, cultures and values designed to ensure the highest standards of behaviour. This review would seek to confirm that processes, procedures, culture and values are aligned to the Nolan Principles and are working effectively for members and officers.</i>	1	Operational Risk: Failure to support ethical governance and standards within the council and parish councils	Outstanding council and council services	Corporate Governance
Commercialisation Strategy	<i>Significant focus on commercialisation in the new Council Plan. A new Commercialisation Strategy is also being developed and is due to be completed by June 2020.</i>	3	-	Outstanding economic growth, productivity and prosperity	Risk Management
Decision Making	<i>This is to examine the clarity on decision making process and ensure that decisions are made in line with delegated powers. It will also examine the relationship arrangements for effective decision making.</i>	4	Strategic Risk: Retaining and strengthen a collective approach to decision making	Outstanding council and council services	Corporate Governance
Performance Management	<i>Not examined for some time. The performance management process should have clear links from organisational objectives through to individual performance measures so individuals can clearly see how their performance impacts on the organisation. A new Corporate Dashboard is being developed and a New Corporate Report is being designed.</i>	3	Operational Risk: Failure to manage and monitor organisational performance may compromise the Council's reputation	Outstanding council and council services	Programme and Project Management
Council Premises – H&S Compliance	<i>There is numerous legislation covering Health & safety of premises, regulatory reform (fire Safety Order 2005, Control of Asbestos Regulations 2006, Work at height regulations 2005, Electricity at Work Regulations 1989 to name but a few. EDDC have two sites to manage, both with different on-going needs due to the age of the buildings. Assurance to be provided that EDDC is fulfilling its requirements as a Landlord.</i>	2	Operational Risk: Failure to ensure that the corporate property portfolio is fully compliant with legal requirements	Outstanding council and council services	People & Asset Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Procurement	<i>Procurement is a key component in driving through value for money. There are also fraud risks around procurement. Procurement at EDDC is supported by Devon CC. This review will look at measures around delivering value for money, adherence to legislation and local procurement rules as well as the measures in place to minimise the fraud risks.</i>	4	-	Outstanding council and council services	Procurement and/or Contract Management
LED Contract Management	<i>To look at arrangements in place to ensure that the leisure service is being delivered according to the contracts in place.</i>	3	Operational Risk: Failure of LED leisure through budget, legal or reputational issues	Outstanding place and environment	Procurement and/or Contract Management
Firmstep	<i>Major project. Review governance and project arrangements to ensure project benefits are on track and have the best chance to be achieved.</i>	3	-	Outstanding council and council services	Programme and Project Management
Integrated Asset Management Contract	<i>Deferred from 2019/20. Contract has now been in place for a year and is a different type of contract. A review to consider the governance arrangements in place to monitor the delivery of this important contract.</i>	4	Operational Risk – Failure of Responsive Repairs Contractor	Outstanding homes and communities	Procurement and/or Contract Management
Asset Register	<i>A review has been requested to examine the systems and controls in place for recording, monitoring and reporting on the council's general fund assets.</i>	2	-		Asset Management
Business Grants	<i>Time to undertake the 'spotlight' checks on the discretionary business grants.</i>	1	-	-	-
Operational: Operational audits are a detailed evaluation of a Service's control environment. A risk matrix is devised, and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.					
Housing H&S Compliance (Gas Safety)	<i>We have a rolling Programme of audits covering Gas Safety, Fire Safety Management, Asbestos Management, electrical safety and legionella. For 2020-21 the focus will be on Gas Safety. The Council has a legal duty under the Gas Safety Regulation 1998 to conduct gas safety checks to ensure all rented properties have a valid Gas Safety Certificate. This review will be undertaken to ensure there are sufficient controls in place for the monitoring, completion and achievement of compliance of all gas safety checks.</i>	2	Operational Risk: Failure to satisfy a compliance requirement.	Outstanding homes and communities	Asset Management
Green Waste	<i>This Service been in place for a couple of years. This review will look at how the service is operating to ensure it is achieving its objectives.</i>	1	-	Outstanding council and council services	N/A

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Disabilities Facilities Grants (DFG) and Better Care Funds	<p>You could get a DFG grant if you're disabled and need to make changes to your home, for example to: widen doors and install ramps; improve access to rooms and facilities – e.g. stairlifts or a downstairs bathroom; provide a heating system suitable for your needs; adapt heating or lighting controls to make them easier to use.</p> <p>The Council haven't been using all the grants allocated. This review will look at how the grants are promoted and administered to ensure they are being used effectively and the risk around fraud is minimised.</p>	4	Operational Risk: Without appropriate controls on approving grants and monitoring budgets there is risk of fraud and to the Council's finances	Outstanding homes and communities	N/A
S106/CIL Compliance	<p>The Council will continue to use S.106 Agreements, alongside CIL, to secure affordable housing from residential development and essential site-specific mitigation, for example on-site children's play facilities, from residential and other types of development that are needed to enable development to proceed. This review will look at how S106/CIL are being used by the Authority as well as arrangements for monitoring delivery of obligations and management of money.</p>	2	Strategic Risk: Lack of Funding to enable the delivery of required infrastructure.	Outstanding levels of economic growth	N/A
Affordable Housing	<p>The East Devon Local Plan promotes the delivery of new affordable housing in the district, through policies relating to affordable housing targets (Strategy 34) and exceptions sites (Strategy 35). The council are rolling out an Affordable Housing supplementary planning document (SPD) to provide guidance on the implementation of these affordable housing policies, giving greater clarity to developers and communities about the expectations for affordable housing delivery in East Devon.</p>	1	-	Outstanding homes and communities	N/A
Private Sector Housing – Fines for Non-compliance	<p>The Council are able to issue Private Sector Landlords with a Civil Penalty for not complying with H&S requirements. This will be a benchmarking review to compare and examine what other Local Authorities are doing and to share best practice.</p>	4	-	Outstanding homes and communities	N/A
Follow -up: Follow up reviews are undertaken where a previous audit has returned a 'Partial Assurance' or 'No Assurance'. This is to provide assurance that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review.					
Corporate Health and Safety	Follow up of recommendations raised in partial assurance audit.	4	Strategic: Failure to adequately protect staff health and safety at work	Outstanding council and council services	Risk Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Data Protection (GDPR)	<i>Follow up of recommendations raised in partial assurance audit.</i>	4	Operational: Failure to process information in accordance with FOI and Data Protection legislation	Outstanding council and council services	Information Management
Planning, Advice and Support					
	<i>Time for additional small-scale work, ad hoc advice, committee reporting & attendance, planning and client liaison meetings, in year follow up audits.</i>	1-4			

The Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within East Devon District Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Audit and Governance Committee on 21 March 2019 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit and Governance Committee on 24 September 2020*.

Provision of Internal Audit Services

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: "*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.*"

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

Responsibilities of Management, Audit, Governance and Standards Committee and of Internal Audit

Management¹

Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit and Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Audit and Governance Committee²

The Audit and Governance Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director on the progress of work undertaken,

¹ In this instance Management refers to the Senior Management Team and Statutory Officers.

² In this instance Audit and Governance Committee relates to "The Board" referred to in the PSIAS

reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

Internal Audit

The SWAP Assistant Director, as Head of Internal Audit, is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work.

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for East Devon District Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officer, and report to the Audit and Governance Committee as set out below.

The Assistant Director will be the first and primary point of contact for East Devon District Council for all matters relating to the Audit and Governance Committee, including the provision of periodic reports. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the Council.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of East Devon District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information.
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks.

APPENDIX 2

- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary.
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services.
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and determining whether Somerset West and Taunton Council is in compliance.
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- appraising the economy, efficiency and effectiveness with which resources are employed.
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy, ethical expectations and corporate values, investigating where necessary.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditor's independence is not compromised.
 - the internal audit service has the necessary skills to carry out the assignment or can obtain such skills without undue cost or delay.
 - the scope of the consultancy assignment is clearly defined, and management have made proper provision for resourcing the work.
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit and Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Audit and Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit and Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

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In addition to the reporting lines outlined above, the Chief Executive of SWAP and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised March 2020

Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None



Subject:	Internal Audit Plan Progress September 2020 (2020/21)
Purpose of report:	This report is to provide an update on the 2020/21 Internal Audit Plan as at September 2020.
Recommendation:	Members are asked to note progress made in delivery of the 2020/21 internal audit plan and significant findings.
Reason for recommendation:	The Committee are required to review the progress of the audit plan.
Officer:	Alastair Woodland, Assistant Director, SWAP.
Financial implications:	There are no direct financial implications identified.
Legal implications:	The legal framework is reflected in the report. While there are no direct legal implications arising, ensuring Key Actions are carried out will reduce risk to the Council which in turn will reduce the chance of failures or challenges occurring.
Equalities impact:	Low Impact
Risk:	Low Risk
Links to background information:	Approved Internal Audit Plan 2020/21 – Audit and Governance Meeting September 2020
Link to Council Plan:	Outstanding council and council services.

East Devon District Council

Report of Internal Audit Activity

Plan Progress 2020/21 September 2020

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Contents

The contacts at SWAP in connection with this report are:		
David Hill Chief Executive Tel: 01935 848 540 David.hill@SWAPaudit.co.uk	➤ Role of Internal Audit	Page 1
	➤ Internal Audit Work Programme	Page 2 - 3
	➤ SWAP Performance	Page 4
	➤ Approved Changes to the Audit Plan	Page 5
Alastair Woodland Assistant Director Tel: 07872500675 Alastair.woodland@SWAPaudit.co.uk	➤ Appendices:	
	Appendix A – Internal Audit Definitions	Page 6, 7
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	Appendix C – Significant Findings	Page 11

Our audit activity is split between:

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



Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which is being presented at the September 2020 Audit and Governance Committee.

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

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

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. Due to Covid-19 presentation of the 2020-21 plan to the Audit Committee has been delayed. The plan is scheduled to be presented for approval at the September 2020 Audit & Governance Committee. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme

The schedule provided at [Appendix B](#) contains a list of all audits in the draft plan for 2020-21. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

The following table summarises the Audits finalised from the 2020/21 Plan.

Audit Area	Quarter	Status	Opinion
Affordable Housing	Q1	Final	Reasonable
Discretionary Grants – Spotlight checking	Q1	Complete	Advisory / Non-Opinion
Audit Committee Benchmarking	Q1	Final	Advisory / Non-Opinion

Limited Assurance Audits (See Appendix C)

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Limited’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. There are no Limited Assurance reviews that need to be brought to your attention.

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme Contd.

Corporate Risks (See Appendix C)

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

There are no 'High' corporate risks to bring to your attention through our work.

Impact of Covid-19 on 2020-21 Audit Work

We recognise the changing risk environment that Covid-19 has and will bring to East Devon District Council. During these unprecedented times, organisations are having to take a wide range of decisions quickly and effectively. Naturally services & processes will need to adapt, staff will be reallocated, and wide-spread remote working will lead to changes in communication and oversight. These changes in working practices will also present financial challenges. Due to this the 2020-21 audit plan will be under constant review and work prioritised on a quarterly basis and therefore there could be more frequent changes to the audit plan. Any changes will be clearly communicated to the Audit Committee with an explanation for the change. Work Prioritisation of audits during quarter 1 commenced on areas with minimal impact on the delivery of frontline services and those areas where SWAP could provide assurance work around the payment of Business Grants.

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



Plan Progress Performance

SWAP now provides the Internal Audit service for 25 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2020/21 (as at 4 September 2020) were as follows:

Performance Target	Target Year end	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress Not Started	>90%	17% 21% 63%
Quality of Audit Work Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>95%	N/A
Outcomes from Audit Work Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%	Reported Year end

Plan Progress 2020/21

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



Approved Changes to the Audit Plan 2020-21

The audit plan for 2020/21 is detailed in [Appendix B](#). Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to East Devon District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

There are no agreed changes to the Audit Plan present to the Audit Committee September 2020.

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

- Substantial
- Reasonable
- Limited
- None
- Non-Opinion/Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
None	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Audit Framework Definitions

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 1: Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

Definitions of Risk

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

Internal Audit Work Plan

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Operational Audit	Affordable Housing	1	Final	Reasonable	2	0	2	0	
Governance Fraud and Corruption	Discretionary Grant – Spotlight checks	1	Final	Advice	0	0	0	0	Work requested during Coronavirus Pandemic
Governance Fraud and Corruption	Audit Committee Benchmarking	1	Final	Advisory / Non-Opinion	0	0	0	0	Report to be shared with Audit Committee
DRAFT									
Operational	Green Waste	1	Draft						
IN PROGRESS									
Governance, Fraud and Corruption	Ethical Governance & Culture	1	In Progress						
Governance, Fraud and Corruption	Asset Register	2	In Progress						
Governance, Fraud and Corruption	S106/CIL Audit	2	In Progress						
Governance, Fraud and Corruption	Housing – H&S Compliance (Gas Safety)	2	In Progress						
Key Controls	Creditors	2	In Progress						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
NOT STARTED									
Governance, Fraud, Corruption	Council Premises – H&S Compliance	2	Not Started						
Governance, Fraud, Corruption	Commercialisation Strategy	3	Not started						
Governance, Fraud, Corruption	LED Contract Management	3	Not Started						
Governance, Fraud, Corruption	Firmstep – Digital Transformation	3	Not Started						
Governance, Fraud, Corruption	Performance Management	3	Not Started						
Key Control	New Council Tax Reduction Scheme	3	Not started						
Key Control	Council Tax and NDR	3	Not Started						
Governance, Fraud, Corruption	Decision Making	4	Not Started						
Governance, Fraud, Corruption	Procurement	4	Not Started						
Governance, Fraud, Corruption	Integrated Asset Management Contract	4	Not Started						
Operational Audits	Disabilities Facilities Grants and Better Care Funds	4	Not Started						

Internal Audit Work Plan

APPENDIX B

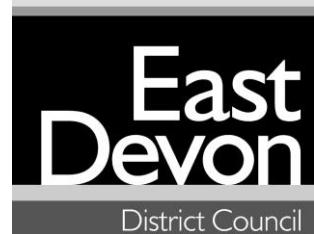
Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Operational Audits	Private Sector Housing – Fines for Non-compliance	4	Not Started						
Key Controls	Accounts Receivable	4	Not Started						
Follow up	Corporate Health and Safety	4	Not Started						
Follow up	Data Protection (GDPR)	4	Not Started						

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Summary of Significant Audit Findings

There are no Limited Assurance Opinions to bring to your attention.

Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None



Subject:	SWAP Independent External Assessment Report 2020
Purpose of report:	The purpose of this report is to provide members with the outcomes from the recent independent external assessment for SWAP Internal Audit Services.
Recommendation:	Members are asked to note the content of the report.
Reason for recommendation:	The Committee are required to have an overview on the outcome of the Independent External Assessment.
Officer:	Alastair Woodland, Assistant Director, SWAP.
Financial implications:	There are no direct financial implications identified.
Legal implications:	While there are no direct legal implications arising, ensuring SWAP is compliant with the relevant Public Sector Internal Auditing Standards (PSIAs) helps ensure quality of their work.
Equalities impact:	Low Impact
Risk:	Low Risk
Links to background information:	None
Link to Council Plan:	Outstanding council and council services.

SWAP - Independent External Assessment Report Summary

March 2020

Assessment Team:

Alix Wilson, BA/IPFA, Head of South West London Audit Partnership
Russell Banks CMIIA, Chief Internal Auditor, Orbis

CONTENTS

1. Introduction
 2. Objectives
 3. Executive Summary
 4. PSIAS Statement of Conformance
 5. Evaluation Actions Summary
- Appendix A – Rating Definitions

1 Introduction

1.1 The Public Sector Internal Auditing Standard (PSIAS) and the International Standards for the Professional Practice of Internal Auditing require that an external quality assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the EQA process. The EQA can be accomplished through a full external assessment or a self-assessment with independent validation.

1.2 SWAP Internal Audit Services (SWAP) conducted a self-assessment of its internal audit activity and selected Orbis and South West London Audit Partnership (SWLAP) as the qualified, independent external assessment team to conduct a validation of the self-assessment by SWAP. In addition, the assessment team was also asked to consider, drawing on their previous extensive partnership experiences, what actions might be taken to further improve the overall quality and effectiveness of the service.

1.3 The assessment team was made up of Russell Banks, Chief Internal Auditor for Orbis and Alix Wilson, Head of SWLAP. Orbis deliver internal audit and counter fraud services to Surrey County Council, East Sussex County Council and Brighton & Hove City Council, as well as to range of external clients, including emergency services and district/borough councils. SWLAP is a 5 Borough shared audit service covering the Royal Borough of Kingston and the London Boroughs of Richmond, Wandsworth, Sutton and Merton. SWLAP also delivers internal audit services to a number of external clients including Achieving for Children, a wholly owned community interest company providing children's services to Kingston, Richmond and Windsor and Maidenhead councils.

2 Objectives

2.1 The principle objective of the EQA was to assess SWAP's conformance with the Standards and the Code of Ethics.

2.2 In addition, the assessment team has sought to draw on its own experiences of delivering professional internal audit services, in a partnership capacity, to a range of public sector organisations to help identify any further opportunities to improve the overall quality and effectiveness of the services delivered by SWAP.

3 Executive Summary

3.1 SWAP is a high performing and well managed internal audit partnership, delivering professional and high-quality services to its partner/client organisations in conformance with Public Sector Internal Audit Standards. Whilst some areas of partial conformance with the Standards have been identified, none of these are considered to be significant.

3.2 Interviews with stakeholders were overwhelmingly positive about the service they receive from SWAP, recognising the value and professionalism of the service. In the interest of continuous improvement, something quite rightly seen as being of great importance to the Chief Executive and SWAP management, we have taken the opportunity as part of this review to identify areas where the organisation can further improve and develop. In many cases, these are simply suggestions for management to consider as in some cases, they may not be appropriate for every internal audit service provider.

3.3 To demonstrate how the service is viewed we have captured a flavour of some of the comments made to us:

- “*The quality of reports is good and the recommendations are proportionate and well explained*” – s.151 Officer
- “*The auditors have good knowledge of the organisation and its risks. The organisation recognises that they have skills that can be used and trust their advice*” – Monitoring Officer
- “*Internal audit brings insight from other clients and a wider knowledge*” – s.151 Officer
- “*They are treated as a critical friend and are seen to add value*” – Executive Director

4 PSIAS Statement of Conformance

4.1 Based on the work carried out it is our overall opinion that SWAP generally conforms with the Standards and the Code of Ethics. A summary of Evaluation Actions to be taken by SWAP to address areas for improvement against individual Standards and the Code of Ethics is shown in *Section 5*.

4.2 The IIA's Quality Assessment Manual for the Internal Audit Activity suggests a scale of three rankings when opining on the internal audit activity:

DEFINITIONS	
Generally Conforms	The internal audit activity has a charter, policies, and processes that are judged to be in conformance with the <i>Standards</i> and the <i>Code of Ethics</i> .
Partially Conforms	Deficiencies in practice are noted that are judged to deviate from the <i>Standards</i> and the <i>Code of Ethics</i> ; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
Does Not Conform	Deficiencies in practice are judged to deviate from the <i>Standards</i> and the <i>Code of Ethics</i> , and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

(Ref: *Institute of Internal Auditors*)

4.3 A detailed description of conformance criteria can be found in *Appendix A*.

5 Evaluation Actions Summary

There were a small number of areas where partial conformance was identified. These were minor observations, none of which were significant enough to affect the overall opinion. Some were captured across more than one of the attribute standards or are recommendations for improvement, rather than failures in conformance. A summary of the actions agreed relating to these areas are as follows:

Task
Regular meetings will be held with all Audit Committee Chairs to further strengthen relationships and ensure that they are kept up to date with any issues outside of formal meetings. <i>(Attribute Standard 1000)</i>
We will consider establishing an Internal Audit Strategy which sits alongside the Charter and annual plan, which will cover the objectives and remit of the service, and how it will be delivered. This will include service and staff development. <i>(Attribute Standard 2010)</i>
There will be a consolidation of the templates used as part of the engagement planning process, to ensure that the fraud risks are properly considered. The pre-audit questionnaire will be reviewed and updated, the template loaded onto MK Insight and formally rolled out. The process of reviewing Audit Terms of Engagement will consistently include reviewing the results of the pre-audit questionnaire, to ensure that risks have been properly identified and reflected in the scope of the review. <i>(Attribute standard 1210)</i>
The Internal Audit Charter will be extended to cover the type of consultancy work which could be provided, and how independence will be maintained. This detail will also be reflected within the Internal Audit Strategy, once developed. <i>(Attribute standard 2200)</i>
Whilst it may not be proportionate to report the QAIP (Quality Assessment Improvement Plan) in its entirety to Audit Committees, an update on progress will be included in the annual opinion reports going forward. <i>(Attribute Standards 1300, 1310, 1311, 1320 and 2450)</i>
The inclusion of significant issues identified in AGS (Annual Governance Statement) reports helps ensure that internal audit provides holistic assurance of the organisation, particularly where there are known concerns. The identification of other sources of assurance aim to ensure that work is co-ordinated with other assurance bodies and limited resources are not duplicating effort. The Audit manual will be updated to ensure that the AGS forms part of the audit planning risk assessment process, and other sources of assurance are duly considered. <i>(Attribute standard 2010 and 2050)</i>
The Audit Manual and accompanying power point slides that have been embedded in the induction will be made accessible on the Intranet to all staff. <i>(Attribute Standard 2020)</i>
The QAIP will be maintained as a live document and reported to the Board and respective Audit Committees. <i>(Attribute Standards 1300, 1310, 1311, 1320 and 2450)</i>

The PSIAS can be viewed at <https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>.

Appendix A – Rating Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

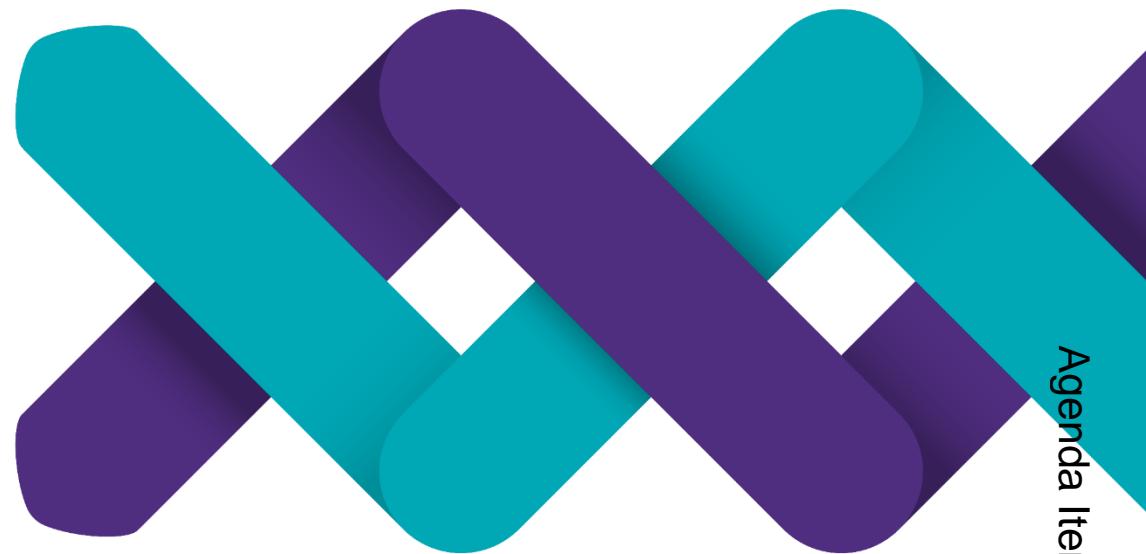
DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Audit Progress Report and Sector Update

East Devon District Council
Year ending 31 March 2020

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24 September 2020



Agenda Item 12

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Introduction



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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 9 September 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in February 2020, and interim audit in February to March 2020. We began our work on your draft financial statements in August 2020.

In March 2020 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts at the November 17th Audit and Governance committee, ahead of the revised 30 November target date for audit completion.

Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 26 March 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. In May 2020, we issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19.

Progress

We received the Financial statements on 10 August 2020, before the revised publication deadline of 31 August 2020. We had received a trial balance and some working papers on 6 July 2020.

We commenced our audit work in July and the work is progressing.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "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 three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan and we will report our work in the Audit Findings Report.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations.

Progress at 9 September 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2019/20 claim will commence in the Autumn, and we plan to be able to complete our work by the revised deadline of 31 January 2021. We will report our findings to the Audit and Governance Committee following the completion of the work.

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). We have yet to receive from MHCLG guidance for the certification work for the 2019/20 return.

Meetings

We met (virtually) with Finance Officers in August as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Your officers were also invited to dial in to our Covid-19 financial reporting workshop in July 2020.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

COVID-19 Update

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Impact on working arrangements:

Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home.

We will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.

There may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of Covid-19.

Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements:

The Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 31 August 2020.

For principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.

IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019/20 financial statements and a Conclusion on the Council's Value for Money arrangements. We issued an addendum to our Audit Plan in May as a result of the Covid-19 pandemic.	March 2020	Complete
Interim Audit Findings If we have any significant findings to report, we will report these to management and yourselves by means of a separate report.	April 2020	No significant items requiring reporting
Audit Findings Report We plan to report the Audit Findings Report to the November Audit and Governance Committee.	November 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

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The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>



Guide for Audit and Risk Committees on Financial Reporting and Management during Covid-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the Covid-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to Covid-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of Covid-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the Covid-19 outbreak, including on:

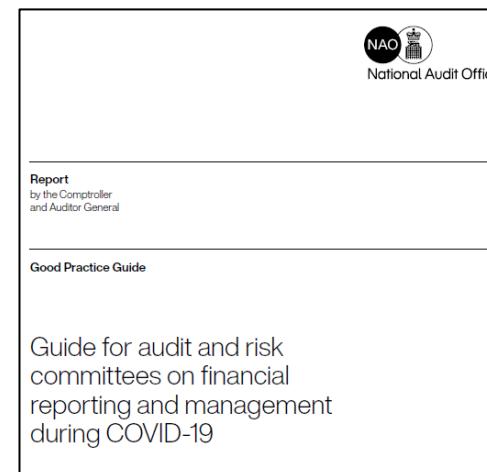
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020/21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

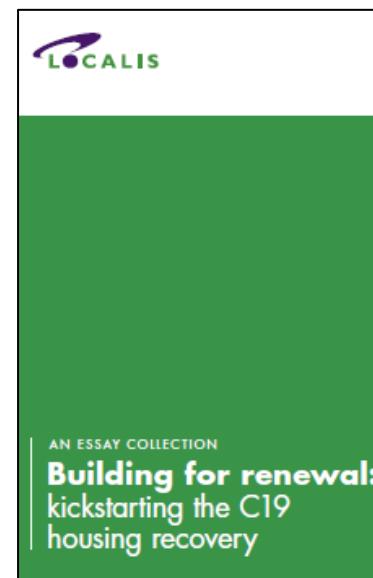
Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

- **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.
- **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.
- **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.
- **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in Covid-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.
- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the Covid-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny ‘events’ in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

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This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the Covid-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report "draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams".

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Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that "PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme".



The full report can be obtained from the PSAA website:

<https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

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Informing the audit risk assessment for East Devon District Council 2019/20

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Agenda Item 13

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors, Management and the Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>Valuation of the Council's assets and pension liability are areas that are continually subject to volatility and this is particular true with the circumstances of Covid-19.</p> <p>Council Tax and Business Rate collection has fallen and careful consideration of the appropriate level of Provisions is required.</p> <p>The implication of Covid-19 on the Council income streams and areas of additional expenditure although the impact is in 2020/21 the question of the Council being a going concern needs to be considered. Through analysis and reports to members it can be seen that although this has a significant impact the Council can manage the position.</p>
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Accounting policies are reviewed prior to Accounts preparation. They are presented to the Audit and Governance Committee for member approval (although this year this will at the same time as the accounts being presented as meetings have been cancelled as a result of Covid-19).</p> <p>We are not aware of any events or transactions, other than the additional notes relating to Covid, that may cause a change or adoption of new accounting policies.</p>
3. Is there any use of financial instruments, including derivatives?	<p>The use of financial instruments (which includes cash balances and investing) is strictly defined and adhered to through the Treasury Management Strategy. Outcomes are reported through to Cabinet.</p> <p>Financial derivatives do not make up any part of the investment portfolio or strategy.</p>
4. Is Are you aware of any significant transaction outside the normal course of business?	None

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None
6. Are you aware of any guarantee contracts?	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Trowers & Hamlins, Bevan Brittan, Devonshires and Ashfords. Predominantly these relate to specific advice or assistance on transactional / contractual matters. There are no open litigation matters involving external solicitors.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Advisors not used on issues which would have significant impact on the Council's financial position. Treasury Management, VAT, Planning advisors etc. used as part of normal business.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The risk of fraud being committed against the Council is assessed on an annual basis as part of the Council's planning it's audit and fraud assurance work. Arrangements are in place to both prevent and detect fraud.</p> <p>Internal review processes and key reconciliations are built into the Accounts Closedown plan.</p> <p>The risk of material misstatement of the accounts due to undetected fraud is considered to be low.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Council tax (discounts), benefits and contracts / procurement are areas of inherent risk. They are mitigated through the control environment and through a programme of independent internal audit and assurance work. However the risk of fraud within the financial statements is considered to be low.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>All concerns regarding fraud should be reported to the s151 and issues raised to the Fraud Forum.</p> <p>No concerns have been raised since 1 April 2019.</p> <p>The Council's risk register and internal audit reports and work programme are reported quarterly to the Audit & Governance Committee.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>Internal Audit include all risks within their planning process and will highlight and allocate resources to areas considered at greater risk. Particular consideration is given to financial systems, traditionally cash has been an area of high risk but there are not many process now where individuals deal with cash.</p>
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>As above – In addition the Council does have a Corporate Fraud resources who review areas inline with an agreed strategy which focussed on high risk areas including council tax and tenancy fraud.</p>
<p>6. How would you assess the overall control environment for the Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The overall control environment is strong. The Head of Internal Audit opinion in 2018/19 did not highlight any significant weaknesses and no such issues are expected to be raised for 2019/20. All policies and procedures for staff to comply with are documented and regularly tested by Internal Audit for both appropriateness and compliance and staff have to confirm on a regular basis that they have read and understand them. There have been no weaknesses reported in relation to potential to override controls or exert undue influence on the reporting process. Budgets are monitored in a consistent, structured and open manner. The Council neither rewards nor penalises staff based on financial targets.</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	No concerns
8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	There is a staff code of conduct and Financial Regulations. These are available for all staff to access on the Council web-site. Staff are regularly reminded of these. There is a Counter Fraud and Corruption Policy and a Whistleblowing procedure in place which explain the procedures to follow. Policies are in place regards Money Laundering including expectations from staff if suspicions are raised. No significant issues reported
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	All posts have the risk for potential fraud and all staff are expected to be fully compliant of and comply with the code of conduct and Financial Regulations. There is a hierarchy of authority to authorise expenditure/ virement commensurate with individual responsibilities ensuring appropriate governance oversight of major commitments. Controls around reduced single dependencies and separation of duties are established ad these are checked upon by Internal Audit particular around financial and IT system controls
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Members and officers are required to make full disclosure of any relationships that may impact upon their roles. Members are required to declare any relevant interests at Council and Committee meetings. No fraud risk has been identified on the basis of this.

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Audit and Governance Committee routinely receive details of all audit reports and full reports are presented where only partial assurance for an area is given. In these circumstances, relevant officers are required to attend and account for identified deficiencies and detail remedial actions being undertaken.</p> <p>Any investigations in relation to fraud will be reported to the Audit and Governance Committee as a matter of course. Again, any recommendations and remedial actions will be reported to the Committee.</p> <p>No issues have required reporting in 2019/20</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None to report</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None to report</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>All reports / Portfolio Holder decisions are considered for legal issues before submission to members and Legal's comments are provided in these reports – this is a Constitutional requirement. Monitoring Officer (qualified lawyer) is the statutory officer responsible for legal/ethical compliance; the position is supported by another qualified lawyer as deputy. The Monitoring Officer prepares reports to Council for constitutional changes. The Legal team advise teams on powers and duties and ensure teams are informed of relevant changes to laws and regulations when they arise. Work flows review lawfulness of Council actions and appropriate advice given where any potential risks / breaches found. The Monitoring Officer is under a duty to report any unlawful decision making to Council.</p> <p>Staff in legal and licensing teams regularly attend training courses on updated and new legislation. New legal issues and how to make the council compliant are discussed at senior management team and team meetings. Council's solicitor regularly advises SMT of legal cases impacting on council practice so heads can act on it. Corporate complaints process, together with Local Government Ombudsman investigation / decisions, enables review of decision making on an ongoing basis. Regular reports to SMT on complaint and LGO findings so learnings can be taken on board. Council also receives reports on both complaints / LGO outcomes.</p> <p>Internal Audit and External Agency Reviews, findings of which are reported to Audit & Governance Committee.</p> <p>The Constitution is on the internet/ intranet for main legal framework. Delegated functions are within the Constitution: part 3 section 3. Strategic Leads monitor and implement changes required in individual service areas with reports to Committee as necessary; Senior Management team monitors cross cutting issues; Delegations in Constitution updated annually. Legal Team raise areas of concern with Council Solicitor / Monitoring Officer so there is corporate awareness. Corporate complaint process enables further review of the Council's decision making. Audits provide a further check mechanism as does the Scrutiny function.</p> <p>Not aware of any changes that significantly impact the financial statements.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Finance discuss with Monitoring Officer (Senior Legal Officer) to identify any significant litigation claims at year end.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None to report

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?	<p>Yes. Going concern is considered as part of the preparation of the financial statements. This considers key areas that impact on the Council's ability to continue as a going concern including financial resilience and medium term financial forecasts.</p> <p>The Council's has a relatively healthy financial position in 2019/20, the implications of Covid-19 on 2020/21 position and the MTFP have been assessed and the Council is in a position to manage financially and has options to balance it's budgets going forward.</p>
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to members throughout the year?	Yes

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Council, financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

Question	Management response
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes. There are sufficient staff in post with the appropriate skills and experience. The level of the challenge to deliver the Council's plans and programmes is substantial but there are no significant instances where this is impacting on the delivery of objectives.
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	Yes. Financial budgeting and monitoring information is available on a regular basis providing the facility to review any early concerns with regard to going concern.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	Yes

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes. The Council's going concern assessment is reported separately as part of the Narrative Statement within the Statement of Accounts reported to the Committee each year and is covered specifically within the Audit Finding Report.</p>

Related Parties

Issue

Matters in relation to Related Parties

the Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	Related party transactions and relationships are reported within the statutory accounting process through analysis of existing disclosure records and a specific process to collect information on these relationships to reflect in the Accounts.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

the Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Not aware of any other than those identified.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes. Where estimation is necessary, appropriate estimating methodology is utilised. Estimates will be prepared by those best qualified, e.g. pension fund actuary, professionally qualified asset valuer.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Accounting Estimates and Judgements are reported to Audit and Risk Committee for their approval.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Valuer used for PPE valuations.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Valuer used for PPE valuations.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	See left.	Valuer used for PPE valuations. Where appropriate	See above	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the value.</p> <p>Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and</p>	Charged in the year that the Council becomes aware of the obligation. A calculation is made by the service and Accountant based upon information from third parties, e.g. insurers, solicitors.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
²⁷ Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Accountant in conjunction with service area	No	A consistent proportion of the aged debt listing is	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	The S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an non-adjusting event. For these events, only a note to the accounts is included identifying the nature of the event and where possible estimates of the financial effect.	See left.	N/A.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The Council is an admitted body to the Local Government Pension Scheme. Information is passed from the Council to the Actuary upon which they base their assessment for the financial year	The Actuary's report is reviewed by Finance Staff for reasonableness.	the Council are provided with an actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None

Subject: **Revenue and Capital Outturn Report 2019/20**

Purpose of report: The following report will be presented to Cabinet on 30 September 2020. The report is presented to Audit & Governance Committee to inform the Committee of the financial Outturn position for 2019/20 and to note the recommendations to Cabinet.

The draft accounts have been published along with the public inspection notice on the Council's website and are currently subject to external audit by the Council's appointed auditors Grant Thornton UK LLP and are presented elsewhere on the agenda.

Recommendation: **To note the Revenue and Capital Outturn position for 2019/20 and the recommendations to Cabinet on 30 September 2020.**

Reason for recommendation: To report the Outturn position for the Council's approved budgets for the General Fund, Housing Revenue Account and Capital expenditure.

Members are asked to note the variations from the budgets identified within the report and consider the implications and proposals relating to the Balances and Reserves held by the Council. Specifically that £2m is transferred from General Fund Balance to create a new Reserve (MTFP Risk Reserve).

Officer: John Symes – Finance Manager, jsymes@eastdevon.gov.uk

Portfolio Holder: Portfolio Holder for Finance

Financial implications: Contained within the report

Legal implications: Any legal implications are identified in the report and no further comment is required.

Equalities impact: Low Impact

Climate change: Low Impact

Risk: Low Risk

Financial monitoring reports have kept members informed during the year of budget variations and the projected outturn position of the Council's finances. No areas of concern were raised with the Council maintaining its net spending within overall approved budget levels. All predetermined Balance and Reserve levels were maintained comfortably above the adopted minimum levels. This position has now proven correct in the final outturn position presented in this report.

The report also looks at the monies the Council holds in balances and reserves and considers these in the light of the Council's future financial position and future Government funding cuts. Consideration is given to the Council's financial track record, internal and external audit reports on financial controls and is reflective of occurrences from external factors which affect the Council's finances.

Links to background information: Contained in report attached

Link to Council Plan: Outstanding Council and Council Services

Report to: Cabinet
Date of Meeting: 30 September 2020
Public Document: Yes
Exemption: None
Review date for release



Subject: Revenue and Capital Outturn Report 2019-2020

Purpose of report: During 2019/20 budget monitoring reports have informed members of budget variations and the anticipated year-end financial position. This report contains the final position for the year and compares this outturn position against the budgets set.

The report outlines the implications of these results on the Council's reserves and makes recommendations on any reserve transfers.

The Council's Unaudited Accounts were issued on 17th August 2020 and published on the Council's website, it is anticipated the Audited Accounts will be issued prior to the amended publishing date 30 November 2020.

Recommendation:

1. Cabinet consider and agree the outturn position for 2019/20 including the implications and proposals relating to the Balances and Reserves held by the Council.
2. To specially agree that £2m is transferred from the General Fund Balance to create a new Reserve (MTFP Risk Reserve) and the General Fund Balance is then retained at £4.395m as detailed in 2.7 of this report.

Reason for recommendation: To report the outturn position for the Council's approved budgets for the General Fund, Housing Revenue Account and Capital Expenditure. This financial position aligns to the Council's Statement of Accounts but the position in this report is presented in a style that accords to the budget setting and monitoring reports that members receive.

Members are asked to note the variations from the budgets identified within the report and consider the final position.

It is appropriate at this stage to reflect on the reserves and balances held by the Council and determine if these are the right reserves at the right levels going forward.

Officer: John Symes – Finance Manager, jsymes@eastdevon.gov.uk

Portfolio Holder: Portfolio Holder for Finance

Financial implications: Contained within the report

Legal implications: Any legal implications are identified in the report and no further comment is required.

Equalities impact:	Low Impact
Climate change:	Low Impact
Risk:	Low Risk
	Financial monitoring reports have kept members informed during the year of budget variations and the projected outturn position of the Council's finances. No areas of concern were raised with the Council maintaining its net spending within overall approved budget levels. All predetermined Balance and Reserve levels were maintained comfortably above the adopted minimum levels. This position has now proven correct in the final outturn position presented in this report.
	The report also looks at the monies the Council holds in balances and reserves and considers these in the light of the Council's future financial position and future Government funding cuts. Consideration is given to the Council's financial track record, internal and external audit reports on financial controls and is reflective of occurrences from external factors which affect the Council's finances.

Links to background information:

Link to Council Plan: Outstanding Council and Council Services

Report in full

1. Introduction

- 1.1 This report compares the outturn position (actual amount spent or income received for the year) against budgets set for the financial year 2019/20 for the General Fund, Housing Revenue Account (HRA) and the Capital Programme.
- 1.2 The report looks at the effect the outturn position has on the Council's balances and reserves and considers future policy for holding these sums.
- 1.3 The Council's Unaudited Accounts were issued on 17th August 2020 and are published on the Council's website Final Accounts 2019/20, it is anticipated the Audited Accounts will be issued late September/early October.

2. General Fund Position

- 2.1 The 2019/20 budget was set by Council with a balance of £0.236m to be met from the General Fund Balance to meet the cost of one off items of expenditure included in the budget. The final year end outturn position has resulted in an underspend of £2.718m against the net budget of £15.168m, the majority of this being attributable to additional business rate income.
- 2.2 There has been positive and negative variations against the budget set, the main areas being.

General Fund 2019/20 – main outturn variations against budget	Variation £000	Comment on Future budget implications
Employee savings mainly from vacant posts, the overall budget for employee costs is £14.258m.	(245)	No implication
Business Rates – gain attributable to being prudent on growth with uncertainty on timing of developments but large assessments were received along with maximising income work of Revenues and Benefits team.	(2,500)	Income will also be above 2020/21 budget as rating assessments base higher than expected when budget was set.
Devon Business Rate Pool Gain – Gain on pool not budgeted for as reliant on performance across Devon	(316)	No implication
Savings returned by Strata higher than budgeted.	(203)	No implication
Car Park income higher than projected – good weather generated high use.	(69)	No implication
Coast & Flood Prevention savings on contractors and support.	(37)	No implication
EDDC Elections – increase in Royal Mail pollsort postage service. Increases in electorate and increased payments to polling staff have added to increased cost.	63	No implication
Burial Income lower than predicted.	88	2020/21 budget has subsequently been reduced by £50k.
Housing Benefit net savings after subsidy. £70k variance against £26m expenditure budget is a minor variation in percentage terms but results in a significant sum.	(70)	No implication
Saving obtained in administration costs in Revenues & Benefits service – Council Tax, Housing Benefit, Council Tax Support, Business Rates, Fraud and Sundry Debtors	(232)	No implications
Public Conveniences overspend, in particular water charges. Total expenditure budget £473k. This will be monitored closely with any necessary action taken.	73	2020/21 budget subsequently increased by £36k.
Planning application fees lower than budgeted. Reductions in expenditure used to mitigate overall reduction.	363	2020/21 budget has subsequently been reduced by £205k.
Recycling & Refuse – costs over and above refuse collection contract as indices higher than budgeted (customer base passed 71,000).	70	Contractual sums paid to Suez increased in 2020/21 (+£313k).
Additional Homelessness Costs. Implications of new legislation including increased rent deposit bonds. Also, large increase in homelessness approaches (1126 compared to 871 in previous year) – a rise of 29%. This will be monitored closely.	55	2020/21 supplies & services budget increased by £82k to bring in new duties to prevent and relieve homelessness.

- 2.3 The main positive service area variations relate to staff vacancies and savings made on supplies and contractors along with income in areas such as car parking. Many areas of adverse variations have previously been identified and budgets have accordingly been adjusted, for example, the step change in the Recycling and Refuse due to contract conditions being hit.
- 2.4 A new reserve has been created in 2019/20 with £84,000 for Growth Point Funding received from MHCLG to fund initiatives in future years and is included within the statements.
- 2.5 The Council was granted 100% business rates pilot status for 2018/19, this has generated additional rating income of £3.1m to be retained by the Council. The bid to Government to obtain this status was on the basis that this additional income would be used to promote and protect economic development in the district. The Council to date have agreed to support two areas from this additional income; £0.6m additional share purchase in Exeter Science Park Company Limited (ESPL) and the purchase of £0.05m founder shares in South West Mutual Ltd (the setting up of South West Mutual Bank). The remaining surplus, this financial year, of £2.056m has been transferred to a reserve making it available for future members' consideration.
- 2.6 The overall General Fund Balance position at year end is given below, this shows the effect of the outturn variation of £2.718m.

General Fund Balance Position	£000
Opening Balance 1/4/2019	(3,938)
Agreed use of General Fund Balance in 2019/20	236
Outturn variation 2019/20	(2,718)
Closing Balance 31/3/2020	(6,395)

- 2.7 The General Fund Balance at £6.395m is £2.595m above the proposed adopted range which is between £3m and £3.8m. This represents 10% of our net budget equivalent to a two year operational period which gives £3m; to this is added £0.8m headroom to give £3.8m as a top of the range figure. This is the range we stipulate the General Fund Balance to be within before members need to take action; whether above or below the range. With the General Fund Balance being £2.595m above the adopted range (and £3.395m above the minimum sum required to be held) it is proposed that:

- At this stage £2m is transferred to Medium Term Financial Plan Risk Reserve**

The Financial Strategy is presented on this Cabinet's Agenda, within the Strategy there is a significant shortfall outlined in the Council's Medium Term Financial Plan (MTFP) in the short to medium term resulting from possible changes in the Governments funding regimes namely Business Rate Retention and New Homes Bonus Grants. It is predicted that the Council will lose financial resources of £3.1m up to the period 2023/24, however the timing of this final sum is uncertain. It is proposed in the Financial Strategy that the Council set aside a MTFP Risk Reserve from the surplus gained in the General Fund from the 2019/20 Outturn position to mitigate the sudden fall in income from these changes.

The reserve can be used to fund services, if needed, whilst the Council reshapes its budget to meet the available resources at a point when it can determine the amount of savings required rather than take significant actions which effect services and staff

when possibly they are not required to the extent or time predicted. Previous practice has been for Government to make final funding settlement announcements in November making it impossible for Councils to wait for these announcements before preparing detailed budget proposals for the following financial year. Having such a reserve would give a further year and budget setting round to consider changes sensibly. This does not negate the need to still plan and consider proposals but they will not have to be acted upon until needed and then given full member consideration.

- **Remaining sum £4.395m to be retained in the General Fund Balance being £0.595m over the adopted level (or £1.395m above minimum level).**

This is to be held to mitigate estimated overspends in 2020/21 resulting from Covid-19 as detailed in the Financial Monitoring Report contained on the Cabinet Agenda.

2.8 The year end position on the other main Balances/Reserves held for the General Fund are:

- **£1.371m Transformation Reserve.** This sum is set aside to assist the Council's transformation programme by meeting upfront costs necessarily incurred in order to produce savings/efficiencies in future years.
- **£0.911m Asset Maintenance Reserve.** Used to support the Council's General Fund Assets and planned maintenance backlog/essential work/asset failure (created from one off VAT refunds). This Reserve is currently used at a rate of around £0.100m to £0.200m annually. Details of spend are agreed by SMT (Strategic Management Team) and previously presented to the Asset Management Forum to ensure they do not conflict with asset strategy.
- **£0.639m Business Rates Volatility Fund.** Available to mitigate the volatility of business rate income should income fall below the expected budget and allows the Council to set a level in the budget with certainty in relation to an income source that can fluctuate.
- **£0.081m Local Authority Business Growth Incentive Scheme Reserve.** The purpose of this reserve is to promote and deliver economic development. A programme of spend and authority for spend has been approved by Council and is spent in consultation with Economy Portfolio Holder.
- **£2.506m Business Rates 100% Pilot Reserve.** Council gain from the inclusion within the 100% Business Rates Pilot Scheme.

Other Earmarked Reserves

There are other earmarked reserves for specific projects where funding or contributions have been made in advance of spend and monies are held at year end to fund this work in future years. Complete details are contained in the Accounts.

3 Housing Revenue Account (HRA)

- 3.1 The 2019/20 budget was set to achieve a surplus of £1.155m, the outturn position gives a surplus for the year of £0.959m; a variation of £0.196m, the main variations are given below.

HRA 2019/20 – Outturn variations against budget	Variation £000	Comment on Future budget implications
The variance on collected rent in year vs budget was again extremely close being only £70k or 0.39% below. The remainder and majority of the variation can be explained by lost rent due to voids which increased to £0.49m from £0.35m. This was primarily the result of disruption and increased lead times caused by the change in contract during the year.	171	No implication
An increase of £24k has been made to the bad provision, not budgeted for as this is a year end assessment.	24	No implication
Supervision & Management: saving of £10k overall, a minor overspend on Employee costs (£70k on £3.4m budget) was offset by savings made elsewhere.	(10)	No implication
Responsive repairs over budget by £1.1m. The Maintenance & Repairs contract moved to a price per property and price per void contract during the year. Although the change in contractor resulted in some additional unbudgeted costs during mobilisation, such as consultant support & redundancy costs for transferred workers (+£100k). The large majority of the overspend can be attributed to catch up costs during the three months prior to the July changeover.	1,105	The move to a price per property and price per void contract will result in a large reduction in unforeseeable costs, reduce invoicing timeliness issues and improve information exchange.
Programmed Maintenance, Major & Special Repairs spending was £1.489m below budget as the focus of the majority of officers shifted to the implementation of the new Repairs and Maintenance contract. The known overspend above from July was also a factor in reducing other expenditure towards the end of the year within these areas with £0.35m reserved at the year end for next years planned spend items with the remaining balance offsetting repairs and maintenance.	(1,139)	No implication
A £66k revenue contribution was made to capital expenditure during the year to cover the right to buy replacement homes spend.	66	No implication
Savings in Other Expenditure (£44k) were partially offset by a decrease in interest received apportioned from the General fund (£26k).	(18)	No implication

3.2 The updated position of the HRA Balance is given below.

HRA Balance	£000
Opening Balance 1/4/2019	(3,100)
Agreed surplus in 2019/20	(1,155)
Outturn variation 2019/20	196
Closing Balance 31/3/2020	(4,059)

- 3.3 Within the year £0.350m has been transferred to the Property Maintenance Reserve to undertake works which were budgeted in 2019/20 but will now be carried out in 2020/21. This transfer to reserves has been included in the outturn position.
- 3.4 The adopted minimum level for the HRA Balance is between £2.1m to £3.1m, based on £490 per property with headroom added of £1m. This leaves the HRA Balance at £0.959m above the adopted range.
- 3.5 The Council set an HRA surplus budget for 2019/20 including the refinancing of a £1.9m loan due for repayment at year end to use the surplus to meet other key housing spending plans. Refinancing was undertaken and an additional loan of £4.1m taken out taking advantage of low fixed rates and taking into consideration the request from the Housing Review Board to continue with the right to buy replacement program.
- 3.6 The year end position on other Balances/Reserves held for the HRA are:

- **£1.6m in the HRA Business Volatility Fund.** The HRA self-financing business plan relies on a number of assumptions outside the control of the Council, with significant debt repayment schedules this reserve was established to mitigate this risk giving time if necessary to reshape the HRA budget to accommodate any negative changes.
- **New Housing Development Fund.** Used for house purchases to meet 70% of the cost where 30% comes from Right to Buy receipts, the £0.980m balance at the start of the year has been used up.
- **£0.515m in the Planned Maintenance Reserve.** To be utilised for planned maintenance related items in the coming year that were put on hold due to the repairs and maintenance contract overspend.
- **£3.0m in the Fire Risk Assessment Works & Lift Replacement Reserve.** In the prior financial year £3.55m was set aside for ongoing building works to blocks of flats based upon fire risk assessments and the replacement of the lift at the Poplar Mount block. The residual balance within this account is the so far unspent balance.
- **General Capital Receipts** available for general HRA capital expenditure, all receipts have been allocated to spend within the year.
- **£4.019m Ringfenced Right to Buy Capital Receipts** to be spent on Right to Buy replacements. If receipts are not spent within 3 years then they are required to be returned to Government together with an interest payment of 4% above base rate.

Capital Budget

- 4.1 The revised net capital budget (after grants and contributions) for 2019/20 was £16.041m, the outturn position is lower by £2.714m at £13.327m. The majority of this underspend is from scheme slippage which needs to be re-profiled into 2020/21 or later years.

Capital 2019/20 – Outturn variations against budget	Variation £000
Agreed loan to Beer Community Land Trust was not requested by year end	(1,150)
Strata Convergence IT Projects – slippage in programme	(378)
Relocation Project - Re-profiling of expenditure into 2020/21	(380)
Seaton Workshops – on hold subject to re-evaluation of project	(572)
Other Industrial Sites improvements – work slipped to 2020/21	(85)
Ocean Building expenditure	2,809
The Strand Exmouth – Remaining project still to be defined	(125)
Growth Point Projects slipped to 2020/21	(136)
Axe Wetlands Developments and Seaton Jurassic access from Wetlands - complex land ownerships issues	(212)
Delay in sports centre and swimming pool improvement schemes – revised dates agreed with LED.	(911)
Feniton Flood Alleviation Work – project delay through complex negotiations	(696)
Enterprise Zone – Park & Change	(1,355)
Beaches & Foreshores – Various reprofiling to 2020/21	(156)
Play Equipment / Playgrounds - reprofiling to 2020/21	(267)
Car Park works – reprofiling to 20/21	(192)
Gypsy and Traveller sites – location/s still to be identified	(500)
Energy saving/renewable initiatives (EDBC & Industrial Sites)	(152)
Beach Property improvements – scheme slippage	(109)
Magnolia Public Conveniences Improvements – scheme slippage	(200)
Expenditure funded through s106 agreements not in programme	433
HRA house purchase replacement scheme not included in original programme, separately agreed – funding through HRA resources	3,234
HRA Major Repairs – underspend	(484)

- 4.2 The capital funding position given below takes the gross capital position (before grants and contributions) and was funded as follows:

Capital Programme £14.682m

Funded by

Capital Receipts -£12.534m

Government Grants and other contributions Applicable to be applied in the year	-£0.292m
HRA – Major Repairs Reserve	-£3.912m
New Homes Bonus Grant from revenue	-£2.324m
Monies from 100% business rate pilot	-£0.650m
Other direct revenue contributions	-£0.066m
Decrease in underlying need to borrow – cash position met from internal borrowing	£4.445m

- 4.3 To remind members a capital budget is agreed to complete a particular scheme/project (normally in the annual budgeting setting process). Profiling between years is undertaken to help understand yearly financial commitments and for members to understand the annual funding position. Capital scheme slippage will be re-profiled with advice from the project/budget manager but this will be within the total budget approved for the scheme by members.



Report to: **Audit and Governance Committee**

Date of Meeting: 24 September 2020

Public Document: Yes

Exemption: None

Review date for release

Subject: Statement of Accounts 2019/20 – Review of Accounting Policies

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.

Recommendation: **To approve the Accounting Policies for the 2019/20 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: John Symes – Finance Manager, jsymes@eastdevon.gov.uk

Portfolio Holder: Portfolio Holder for Finance

Financial implications: The policies set out for approval underpin the Council's reporting on its financial performance and position. There is little discretion to depart from the policies set down by the Code.

Legal implications: The legal position is detailed in the report and no further comment is required.

Equalities impact: Low Impact

Climate change: Low Impact

Risk: Low Risk

Links to background information:

Link to Council Plan: Outstanding Council and Council Services

Report in full

1. Background and Proposals

- 1.1 This report presents the proposed accounting policies to be adopted for the 2019/20 financial year and to be used in the preparation of the statement of Account for the financial year ending 31st March 2020. Adopting the proposed policies will support the timely production of a high quality set of annual accounts.
- 1.2 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.
- 1.3 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.
- 1.4 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).
- 1.5 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.
- 1.6 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.
- 1.7 The 2019/20 CIPFA Code of Practice on Local Authority Accounting has only minor changes, none of which are judged to be material for the Council.
- 1.8 The proposed accounting policies are presented via the link within the report and do not depart from the provisions of the 2019/20 Code.

2. Future Key Accounting Changes

- 2.1 Implementation of IFRS16 - Leases will be included in the Code of Practice on Local Authority Accounting for 2020/21, however the authority is already following early guidance in its preparation to moving to the new requirements.
- 2.2 The main impact of the standard is to remove (for lessees) the traditional distinction between finance and operating leases. Finance leases have effectively been accounted for as acquisitions whereas operating leases are expensed in the year rentals are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach.

3. Reminder of closedown timetable

- 3.1 From 2017/18 there was a statutory requirement bringing forward the date the annual statement of accounts needed to be completed and on our website to 31st May and approval and publication of financial statements with audit opinion by 31st July.

EDDC Accounting Policies for adoption by the Audit & Governance Committee on 24 September 2020

Note 1 Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council therefore treats all fixed term deposits, which have no contractual provision for early redemption, and if they were redeemed early would suffer a penalty of at least a loss of interest, as investments.

In the Cash Flow Statement, cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

1.4 Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible property, plant and equipment attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Payment (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The provisions for charges to revenue for non-current assets in the HRA were amended on 1 April 2012 following the introduction of HRA self-financing. The Major Repairs Reserve is increased and the HRA balance is decreased by a sum equal to depreciation on all HRA non-current assets so that the depreciation on non-dwelling assets is now a charge to the HRA.

1.6 Council Tax and Non-domestic Rates

Billing authorities act as agents collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate

fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR included in the Comprehensive Income & Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments) the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.7 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are the amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits from the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the authority are members of the Local Government Pensions Scheme, administered by Devon County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- The liabilities of the Devon County pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities.
- The assets of Devon County pension fund attributable to the authority are included in the Balance Sheet at their fair value:
 - quoted securities - current bid price
 - unquoted securities - professional estimate
 - unitised securities - current bid price
 - Property - market value.

The change in the net pensions liability is analysed into the following components:

- **Service cost comprising:**
 - current service cost - the increase in liabilities as a result of years of service earned this year; allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
 - net interest on the net defined benefit liability i.e. net interest expense for the authority is the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- **Re-measurement comprising:**
 - the return on plan assets – excluding amounts included in the pensions interest cost and expected return on pension assets – charged to the Pensions Reserve as Other comprehensive Income and Expenditure.
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 -

- **Contributions paid to the Devon Pension Fund:**

- Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period
 - the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period
 - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9 Fair value measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as available for sale financial assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that the participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and

best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

1.10 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.11 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI); (a separate accounting policy is required for financial instruments held at fair value through other comprehensive income).

The business model of the council is to hold investments to collect contractual cash flows. Financial assets are therefore classified at amortised cost, except for those whose contractual

payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has from time to time made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased substantially since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased substantially or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

The Council recognises fair value gains and losses on its pooled Short-term Investment Funds, as they arrive, in the Surplus or Deficit on the Provision of Services. This is a requirement under IFRS 9. There is a “statutory reversal” which means that the impact of this

change in valuation does not hit the “bottom line” or taxpayers. The impact is reversed out and placed in an unusable reserve.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains or losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure, along with any net gain or loss related to the asset that has accumulated in the unusable reserve.

Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council has acquired shares in certain entities to fulfil the service objectives of the Council. These equity instruments are not held for trading and under IFRS 9, the Council has elected to designate them as Fair Value through Other Comprehensive Income (FVOCI) so that gains and losses will be recognised through Other Comprehensive Income on the face of the Income Statement. There is a “statutory reversal” which means that the impact of this change in valuation does not hit the “bottom line” or taxpayers. Any impact is reversed out and placed in an unusable reserve.

1.12 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.14 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Exeter City Council, East Devon District Council and Teignbridge District Council each share control of Strata Service Solutions Ltd, which was incorporated on 15 May 2014 under the

Companies Act 2006 for the provision of a shared Information Communications Technology service. The single entity financial statements for each authority reflect their respective shares of Strata Service Solutions Limited. However, the accompanying notes to the authority's financial statements only include information relating to Strata Service Solutions Limited where this would make a material difference to the usefulness of those notes.

1.15 Long term contracts

Long term contracts are accounted for on the basis of charging the Surplus and Deficit on the Provision of Services with the value of the works and services received under the contract in the financial year.

1.16 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at a cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated, but assets included in the Balance Sheet are revalued sufficiently regularly in a rolling 5 year cycle to ensure that their carrying amount is not materially different from their fair value at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund are therefore reversed out in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.17 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.17.1 The authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.17.2 The authority as Lessor

Finance Leases

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.18 Overheads and Support services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

1.19 Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

PPE Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

PPE Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- a deminimus level of £20,000 has been agreed for Capital Expenditure. Any costs below are charged to revenue.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- Where an item of Property, Plant and Equipment has major components whose costs is significant in relation to the total cost, the components are depreciated separately.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

PPE Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

PPE Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives.

An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases and charged in the year of disposal, but not acquisition:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the vehicle, plant, furniture and equipment as advised by a suitably qualified officer
- infrastructure – straight-line allocation as estimated by the valuer.

Where an item of Property, Plant and Equipment valued at greater than £1,000,000 has major components whose cost is more than 20% in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.21 Reserves

The authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

1.22 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.23 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.24 Community Infrastructure Levy (CIL)

The Community Infrastructure Levy (CIL) which was introduced by the planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) as amended, is a discretionary charge which the Council charges on new development in the area from 1 September 2016.

CIL charges are based on a formula which relates the charge to the size of the development. The proceeds of the levy are spent on infrastructure to support the development of the district. East Devon District Council is the chargeable body and collects the levy on behalf of Town and Parish councils.

CIL is recognised on an accruals basis at the commencement date of the development as part of Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement.

CIL income applied to meet the administrative expenses of the scheme is recognised immediately in the Comprehensive Income and Expenditure Statement.

1.25 Rounding

The main statements have been adjusted so that rounding issues do not create casting differences. Within the notes, however, figures have been taken directly from working papers. It is not the Council's policy to adjust for immaterial casting differences within the notes or cross-casting differences between the main statements and disclosure notes.



Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None

Subject:	Statement of Accounts 2019/2020
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Purpose of report: The Council's Draft Statement of Accounts for 2019/20 is linked below to this covering report.

The draft accounts have been published along with the public inspection notice on the Council's website and are currently subject to external audit by the Council's appointed auditors Grant Thornton UK LLP in line with the amended regulation timetable as detailed in the report.

The Accounts will be presented back to Committee for approval once this work is complete, it is envisaged approval will be sought at the Committee's November meeting.

Recommendation:	To receive the draft 2019/20 Statement of Accounts and note the position on publishing the Accounts and audit opinion.
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Reason for recommendation: To provide an update on Statement of Accounts completion and present the Accounts for members understanding and questioning.

Officer: John Symes – Finance Manager, jsymes@eastdevon.gov.uk

Portfolio Holder: Portfolio Holder for Finance

Financial implications: Contained within the report

Legal implications: Any legal implications are identified in the report and no further comment is required.

Equalities impact: Low Impact

Climate change: Low Impact

Risk: Low Risk

Links to background information: [East Devon District Council 2019/20 Draft Accounts and Public Inspection Notice](#)

Link to Council Plan: Outstanding Council and Council Services

1. Publication and Approval of the 2019/20 Statement of Accounts

- 1.1 The process for preparing and publishing the Statement of Accounts is governed by The Accounts and Audit Regulations 2015. The regulation covers the standard to which the accounts must be prepared, the approval and publication requirements and also the rights of public inspection.
- 1.2 The regulations have been amended for the 2019/20 financial year in response to the effects of the COVID-19 pandemic by delaying the statutory publication deadlines.
 - The publication date for final, audited, accounts has been moved from 31 July to the target date of 30 November 2020
 - For added flexibility the requirement for public inspection to include the first 10 days of June has been replaced with the requirement to run the 30 day public inspection period at any point, provided it begins before 1 September
 - This means the accounts must be confirmed by the Responsible Finance Officer (RFO) and published by 31 August 2020
- 1.3 The Council's Unaudited Accounts were issued on 17th August 2020 and are published on the Council's website ([link above](#)) along with the Public Inspection Notice that covers the period 17 August 2020 to 28 September 2020.
- 1.4 The next requirement is for a member meeting, in our case the Audit and Governance Committee, to consider the Statement of Accounts and approve them. They are then signed and dated by the Chair of the Committee and reconfirmed by the Responsible Financial Officer. It is anticipated the Audited Accounts will be presented to the November committee.
- 1.5 In considering the Accounts, the Audit and Governance Committee receive a report from the External Auditor reporting on the work undertaken on significant risk areas, the financial statements and the control environment in place to support the production of timely and accurate financial statements. An Accounts opinion and Value for Money Arrangements opinion would be presented as part of the External Audit Report.
- 1.6 In line with the above amended timetable the target for publication of final audited accounts is 30 November 2020.

Report to:	Audit and Governance Committee
Date of Meeting:	24 September 2020
Public Document:	Yes
Exemption:	None
Review date for release	None



Subject:	Full Risk Review May/June 2020
Purpose of report:	Risk information for the 2020/21 financial year is supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This follows the full review of risks by responsible officers during May/June 2020
Recommendation:	That the Audit and Governance Committee considers the current status of risks following the full risk review undertaken in May/June 2020.
Reason for recommendation:	To ensure that the Risk Management Policy and Guidance is being followed and all risks are being monitored and control actions implemented.
Officer:	Simon Davey, Strategic Lead - Finance sdavey@eastdevon.gov.uk ext 2690
	Joanne Avery, Management Information Officer javery@eastdevon.gov.uk ext 2332
Portfolio Holder:	Portfolio Holder Finance
Financial implications:	No direct financial implications
Legal implications:	There are no direct legal implications
Equalities impact:	Low Impact Failure to identify, assess, monitor, review and manage risks could impact negatively (i.e. financial, reputational, operationally) on the council.
Climate change:	Low Impact
Risk:	High Risk Failure to identify, assess, monitor, review and manage risks could impact negatively (i.e. financial, reputational, operationally) on the council.

- Links to background information:**
- [Appendix A – Full list of Operational Risks May/June 20210](#)
 - [Appendix B – Strategic Risks May/June 2020](#)
 - [Appendix C – Explanations and definitions](#)

Link to Council Plan:
Outstanding Council and Council Services

Report in full

1. As part of our corporate governance it is appropriate that we maintain and manage a risk register. The risk register allows us to highlight any risks to our organisation and set out how we are going to mitigate against their impact and likelihood.
2. Our risk management policy requires all risks identified by the council to be reviewed bi-annually. Through the month of May the risk owners were tasked with reviewing their risks in the SPAR system. The complete operational risk register is provided for the Committee to review at [Appendix A](#). This is listed by service area and includes all of the control actions. There are now 84 operational risks, all of which have been reviewed and re-scored in light of all mitigating actions being undertaken and in relation to the on-going pandemic. All services were asked to highlight any new and emerging risks with no new risks being put forward at this review
3. The implications of Covid-19 has been reflected at individual risk level. A report has been prepared to Cabinet (30th September 2020 Agenda) which outlines the work that has and is being progressed to produce a cohesive approach to East Devon DC's recovery planning as the district emerges from the Response stage of Covid-19. The report aims to give reassurance that the Recovery planning work has followed best practice guidance from the Devon Emergency Planning Partnership (DEPP) in terms of process and documentation. Also the Council has been fully engaged with Team Devon's strategic recovery planning work through participation in various sub groups such as the Devon Recovery Co-ordination Group and the Economy and Business Recovery group. This work should give members of Audit & Governance reassurance that best practice is being followed in the Council response. The same meeting of Cabinet has three key financial reports; Financial Outturn Report for 2019/20, Budget Monitoring for the current financial year and the Financial Plan (2021-2031). These reports again should give confidence to this Committee that financial position resulting from the Pandemic is being managed appropriately.
4. In the operational risk register there are two risks currently scored as high.
 - **Ambitions for economic growth on the Council Plan are not met**
Impact of Covid-19 lock down on local economy will be very significant. This includes loss of key employers as well as effect on wider sectors (e.g. tourism). Potential for increasing unemployment and hardship. Short term measures include grants being deployed. Attention turning to longer term recovery planning.
 - **Car parks' revenue budgets are dependent upon visitor income**
Due to the ongoing pandemic car parking revenue (that would typically have been of the order of £10,000 per day has been virtually zero since before the start of the financial year. Now (in June) visitor numbers are increasing but with shops, pubs, restaurants, visitor attractions and holiday accommodation all still closed revenue is still not close to normal.

5. The tables below set out the number of risks in each service by score.

Finance	High	Medium	Low
Risks by score		6	6

Economy	High	Medium	Low
Risks by score	1	9	5

Housing	High	Medium	Low
Risks by score		16	4

Environment	High	Medium	Low
Risks by score	1	9	3

Governance & Licensing	High	Medium	Low
Risks by score		6	6

Organisational Development	High	Medium	Low
Risks by score		2	8

6. As part of this review our strategic risks have also been reviewed by their owners and are now submitted for Committee's consideration.

There are 10 risks on the strategic register and two of these risks are currently showing as high risk. More details for each risk can be seen in [Appendix B](#).

High risk:

- **Adequacy of financial resource planning to deliver the Council's priorities**
The Council had a MTFP gap in its funding; this has been made significantly worse through Covid-19 as savings plans are unlikely to materialise and reduced income is likely to effect next year finances as well creating a significant in year deficit
- **Risk: Delivery of Growth Point**
Both housing and commercial property markets will be negatively impacted by the Covid-19 outbreak. Full extent of this currently being assessed along with the potential to bring forward mitigating actions. Evidence that construction activity is returning and that demand in certain parts of the commercial property market remains strong.

Medium risk:

- Risk: Adequate emergency planning and business continuity
- Risk: Failure to adequately protect staff health and safety at work
- Risk: Failure to ensure the Council's sustainability
- Risk: Increased homelessness
- Risk: Failure to ensure that our corporate property portfolio is fully compliant with legal requirements.
- Risk: Major disruption in continuity of computer and telecommunications services
- Risk: With the on-going Brexit negotiations and the uncertainties around our deal to leave the EU there implications for us to deal with
- Risk: Retaining and strengthen a collective approach to decision making to ensure we avoid poor decision making effecting our performance and our reputation

Strategic Risks	High	Medium	Low
Risks by score	2	8	0

One of the strategic risks has been removed from the strategic risks as the project is now closed.

- **Risk: Office Relocation**

This risk has been closed as the project has now been completed.

7. An explanation and definitions of these risks including the risk matrix can be found in [Appendix C](#).

Audit and Governance Committee 24 September 2020

Audit and Governance Committee

Forward Plan 2020/21

Date of Committee	Report	Lead Officer
19 November 2020	<ul style="list-style-type: none"> • Statement of Accounts 2019/20 including Governance Statement • Letter of Representation • Annual audit letter • Certification Report • RIPA update 	Strategic Lead Finance Strategic Lead Finance Grant Thornton Grant Thornton Strategic Lead – Governance & Licensing
28 January 2021	<ul style="list-style-type: none"> • Internal Audit Activity – Quarter 3 2020/21 • Audit Committee update • Risk Management review – half year review • Review of the Anti-Fraud Theft and Corruption Policy, Anti-Bribery Policy and Whistleblowing Policy • Review of the Local Code of Corporate Governance • Strata Annual Internal Audit report • RIPA update 	SWAP Grant Thornton Management Information Officer Strategic Lead – Governance & Licensing Strategic Lead – Governance & Licensing DAP Strategic Lead – Governance & Licensing

18 March 2021	<ul style="list-style-type: none"> • Annual Audit Plan 2021/22 and Review of Internal Audit Charter • Internal Audit Plan Progress • External Audit Plan • Audit Committee update • Accounting Policies Approval • DBS Checks for Councillors - update from LGA • RIPA update 	SWAP SWAP Grant Thornton Grant Thornton Financial Services Manager Monitoring Officer Strategic Lead – Governance & Licensing
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