

## Agenda for Audit and Governance Committee Thursday, 30th January, 2020, 2.30 pm

### Members of Audit and Governance Committee

Councillors: S Hawkins (Chairman), G Pratt (Vice-Chairman),  
D Barrow, F Caygill, S Chamberlain, S Gazzard, P Hayward,  
M Rixson, P Twiss and C Wright

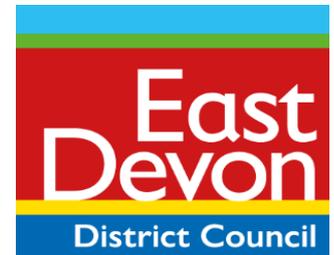
**Venue:** Council Chamber, Blackdown House

**Contact:** Amanda Coombes;

01395 517543; email [acoombes@eastdevon.gov.uk](mailto:acoombes@eastdevon.gov.uk)

(or group number 01395 517546)

Tuesday, 21 January 2020



East Devon District Council  
Blackdown House  
Border Road  
Heathpark Industrial Estate  
Honiton  
EX14 1EJ

DX 48808 HONITON

Tel: 01404 515616

[www.eastdevon.gov.uk](http://www.eastdevon.gov.uk)

1 Public speaking

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

2 Minutes of the previous meeting (Pages 3 - 6)

Minutes for 24 October 2019

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 **Annual Audit letter - Grant Thornton** (Pages 7 - 21)

8 **Audit update - Grant Thornton** (Pages 22 - 35)

9 **Annual Internal Audit report - STRATA** (Pages 36 - 37)

10 **Internal Audit Activity - Quarter 3 2019/20 SWAP** (Pages 38 - 51)

11 **Risk Management review - half year review** (Pages 52 - 54)

12 **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.

13 **Audit and Governance Forward Plan** (Page 55)

Under the Openness of Local Government Bodies Regulations 2014, any members of the public are now allowed to take photographs, film and audio record the proceedings and report on all public meetings (including on social media). No prior notification is needed but it would be helpful if you could let the democratic services team know you plan to film or record so that any necessary arrangements can be made to provide reasonable facilities for you to report on meetings. This permission does not extend to private meetings or parts of meetings which are not open to the public. You should take all recording and photography equipment with you if a public meeting moves into a session which is not open to the public.

If you are recording the meeting, you are asked to act in a reasonable manner and not disrupt the conduct of meetings for example by using intrusive lighting, flash photography or asking people to repeat statements for the benefit of the recording. You may not make an oral commentary during the meeting. The Chairman has the power to control public recording and/or reporting so it does not disrupt the meeting.

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

[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 24 October 2019****Attendance list at end of document**

The meeting started at 2.35 pm and ended at 3.50 pm

**12 Public speaking**

There were no member of the public wishing to speak.

**13 Minutes of the previous meeting**

The minutes of the Audit and Governance Committee meeting held on 25 July 2019 were confirmed as a true record.

**14 Apologies****15 Declarations on interest**

SWAP Internal Audit Activity - Quarter 2 2019/20.

Councillor Paul Hayward, Personal, He has undertook internal audit services for parish councils.

**16 Matters of urgency - External Audit Findings report 2018/19 and Letter of Representation****External Audit Findings report 2018/19**

Geri Daly from Grant Thornton summarised the key findings in relation to the 2018-19 external audit (Audit Standards ISA260 report). The report focused on the on-site work which was completed on site during June, August, September and October 2019. No adjustments to the financial statements had been identified that would have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

The anticipated audit report opinion would be unqualified, subject to the satisfactory completion of all outstanding matters and an unqualified value for money conclusion.

There were discussions around additional audit fees being requested which was to be challenged by the council and a discussion on the audit contract which was a national issue.

**RESOLVED:**

that the report be received and noted.

**Letter of Representation**

Members were asked to note the letter to Grant Thornton in respect of the audit of the Financial Statements for the year ended 31 March 2019 confirming the council's position, documents produced and the sound processes in place.

**RESOLVED:**

that the letter be noted and signed by the Strategic Lead Finance and the Chairman of Audit and Governance.

17 **Partnership Register**

The EDDC's Partnership Policy required all partnerships identified by the council to be reviewed annually. There were currently 12 active partnerships as defined by the policy which stated that EDDC uses the following as the definition of a partnership: "An agreement between two or more independent bodies to work collectively to achieve an objective."

Also a partnership must reflect the following criteria:

- critical to the delivery of the Council's corporate priorities
- strategic in nature
- require significant resource input from the Council
- have constitution and governance arrangements in place
- have multi-agency membership

For this year-end review for 2018/19 all lead officers involved with a partnership were asked to assess the overall partnership, reviewing budget issues, achievements, forward plans and the ongoing benefit of continuing engagement with the partnership.

**RESOLVED:**

1. that the status of partnerships until March 2019 be noted, and
2. that the adoption of the reviewed Partnership policy be agreed.

18 **SWAP Internal Audit Activity - Quarter 2 2019/20**

Alastair Woodland, Assistant Director, SWAP provided an update on the 2019/20 Internal Audit Plan as at end of September 2019. The Audit and Governance Committee agreed the 2019-20 Internal Audit Plan at its March 2019 meeting. Primarily the work included:

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

The Service Lead Environmental Health and Car Parks discussed a partial opinion on Corporate Health and Safety and the measures in place to improve this.

**RESOLVED:**

that the progress made in delivery of the 2019/20 internal audit plan and significant findings since the previous update in July 2019 be noted.

19 **Expenditure on consultants and agency staff 2018/19**

At the Committee's request, the report detailed capital and revenue spend on consultants and specialist advice and agency staff for 2018/19.

**RESOLVED:**

that the details of expenditure on consultants and agency staff in 2018/19 be noted.

20 **Statement of Accounts 2018/19 including Governance Statement**

The Strategic Lead, Finance presented Statement of Accounts for 2018/19. The accounts were presented to the July meeting of Audit and Governance along with a report explaining the delay in the ability for the Committee to approve the 2018/19 Statement of Accounts. The Committee should have adopted the Accounts before the 31 July deadline. Unfortunately the external audit had not been concluded or an opinion issued for members to consider. The audit was now complete, this did not alter the financial position already presented to the Committee.

**Governance Statement**

The Accounts & Audit (England) Regulations 2015 required the Council to prepare and publish an annual governance statement. This was a public document that reported on the extent to which the council complied with its own code of corporate governance. The Annual Governance Statement explained how the council makes decisions; managed its resources in line with the council's priorities; and achieved the required outcomes for service users and communities.

The Chairman thanked Grant Thornton, Simon Davey and his team for getting the audit opinion and Statement of Accounts finalised.

**RESOLVED:**

that the 2018/19 Statement of Accounts including the Governance Statement be approved.

21 **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.

22 **Audit and Governance Forward Plan**

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

Items to be considered at the November 2019 committee included:

- Audit Committee update
- Annual audit letter
- Annual Internal Audit Report - DAP
- Report on outcomes against the Corporate Counter Fraud and Compliance strategy
- RIPA update
- CIL & Section 106 update
- Internal Audit on Strata

**Attendance List**

**Councillors present:**

S Hawkins (Chairman)  
G Pratt (Vice-Chairman)  
D Barrow  
S Gazzard  
P Hayward  
M Rixson  
P Twiss

**Councillors also present (for some or all the meeting)**

S Bond  
A Moulding

**Officers in attendance:**

Amanda Coombes, Democratic Services Officer  
Geri Daly  
Simon Davey, Strategic Lead Finance  
Andrew Ennis, Service Lead Environmental Health and Car Parks  
Alison Ferrero, Principal Environmental Health Officer  
Sam Harding  
Georgina Teale  
Alastair Woodland  
John Symes, Finance Manager

**Councillor apologies:**

F Caygill  
C Wright

Chairman .....

Date: .....

# The Annual Audit Letter for East Devon District Council

Year ended 31 March 2019

November 2019



# Contents



Your key Grant Thornton  
team members are:

page 8

Geraldine Daly

Key Audit Partner

T: 0117 305 7741

E: [geri.n.daly@uk.gt.com](mailto:geri.n.daly@uk.gt.com)

Samantha Harding

Senior Manager

T: 0117 305 7874

E: [sam.g.harding@uk.gt.com](mailto:sam.g.harding@uk.gt.com)

Rob Patterson

Assistant Manager

T: 0117 305 7767

E: [rob.j.patterson@uk.gt.com](mailto:rob.j.patterson@uk.gt.com)

## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

## Page

3  
5  
10

## Appendices

- A Reports issued and fees

---

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at East Devon District Council ( the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 24 October 2019.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1.8 million, which is 1.9% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 25 October 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

---

# Executive Summary

---

<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 October 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions and the Council's pooling housing capital receipts return. Our work on these claims is not yet complete and will be finalised by 31 January 2019. We will report the results of this work to the Audit and Governance Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of East Devon District Council in accordance with the requirements of the Code of Audit Practice on 25 October 2019.

---

page 10

## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting
- Supporting development – we provided workshops for the Governing Body and Audit Committee on the role of External Audit.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
November 2019

---

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1.8 million, which is 1.9% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £20,000.

We set a lower threshold of £90,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings, other than housing revenue accounts assets, which are revalued annually, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£326.3 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end</li> <li>we have also reviewed your previous auditor's working papers to obtain assurance for the opening balances reported in the financial statements.</li> </ul>	<p>We raised a recommendation for the Council to document clearly the work undertaken to demonstrate that the carrying value of land and building assets not revalued during the year is not materially different from the current value.</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£65 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability and assessing how management have challenged assumptions made by the actuary, including the impact of the Brexit decision on the pension fund investments</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements</li> <li>• considered the Council's arrangements in respect of the McCloud judgement and undertaken procedures to confirm the reasonableness of the actuary's estimate of the potential impact on the Council</li> <li>• we also reviewed your previous auditor's working papers to obtain assurance for the opening balances reported in the financial statements.</li> </ul>	<p>Our work concluded that the actuary's estimate of £1,202k for the McCloud judgement should be adjusted for in the accounts.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how performance is reported.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work identified that there is no formal process in place for the authorisation of journals. This is due to the small size of the finance team and the limited number of people able to post journals. No issues were identified in our testing of journals.</p>

---

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 25 October 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline. The finance team responded promptly and efficiently to our queries during the course of the audit. The amount of testing of the Council's asset valuations and pensions liability has increased significantly this year and a small number of issues in respect of audit testing required additional fees to be charged.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 24 October 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not exercised these powers.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of East Devon District Council in accordance with the requirements of the Code of Audit Practice on 25 October 2019.

---

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

---

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

---

### Significant Risks identified in our plan

#### Future Financial Sustainability

Local Government funding continues to be stretched with increasing cost pressures from the national pay award, inflation and new homelessness legislation and demand for services. The Medium Term Financial Plan identifies a funding gap of £0.665m for 2019/20 rising to £4.8 million by 2028/29 if no corrective action is taken. To address this shortfall the Council has adopted a Transformation Strategy which sits alongside the Financial Plan, this outlines how the Council will continue to deliver key priorities in the context of reducing government funding and increasing demand for services.

Many local authorities have changed their approach to managing reductions in income, shifting away from reducing spending on services to looking for other savings and sources of income. As part of the Transformation Strategy, you are developing an Asset Investment Strategy to develop alternative sources of income to offset reductions in funding and increasing demand for services.

The 2018/19 budget was presented to Cabinet on 3 January 2018, identifying the need to deliver savings of £665,000, including unidentified savings of £70,000. At month 6, the Council is predicting an overspend of £327,000, which will be met by the use of reserves.

We will review performance against budget and final outturn. We will consider arrangements for monitoring and reporting the financial position and the assumptions used in producing the Medium Term Financial Plan. We will also consider progress towards delivering transformation priorities

---

### Findings

- The Council's original net revenue budget for 2018/19 was £14.57 million. This was predicated on savings incorporated into the budget of £0.67 million and the use of £0.14 million general fund reserves to balance the budget. The budget included an increase in council tax of £5, the maximum increase before triggering a referendum.
- The final outturn position reported an overall underspend of £0.27 million against the original budget and therefore an increase in general fund reserves of £0.42 million to that initially budgeted, with no draw down on these reserves required. The main reasons for this reported underspend relate to variations in areas including car park income, staff vacancies and recycling income. The underspend is less than 2% of the original planned budget and therefore represents good financial monitoring throughout the year.
- The draft accounts presented for audit reported total usable reserves of £30.82 million, including £3.94 million general fund reserves. This represents an increase in the general fund reserves from the prior year of £0.27 million. This level of reserves is above the Council's minimum general revenue balances policy.
- The HRA budget overspent by £0.23 million against the initial planned surplus position of £1.41 million. The main reason for this was in relation to responsive repairs being overbudget. A new maintenance contract has been implemented in 2019/20 which is based on a fixed price per property which is expected to control these costs going forward.

## Key findings Continued



page 18

- The Council's main savings areas in 2018/19 were in relation to the implementation of green waste scheme and organisation fit for purpose scheme. The income from green waste was not as high as budgeted however, this was offset by additional recycling income. The organisation fit for purpose scheme and the council's investments achieved the budgeted savings / increase in income.
- At the February 2019 Full Council, a net revenue budget of £15.27 million was approved. As in the prior year an increase of £5 in Council Tax was approved.
- Looking forward, the 2019/20 budget incorporated savings of £0.41 million which includes additional income from property investments. The Council are on track with this, with the first property in the commercial investment portfolio currently being finalised. The Council will need to further invest in this area going forward to achieve the planned additional income over the medium term. The organisation fit for purpose scheme continues to be an area of focus for the Council, with significant proportion of the savings required being in this area.
- The medium-term position for the Council is more uncertain. There is no confirmed Government funding plan in place for 2020/21 and beyond due to the impact of Brexit and the impact of the delay of the business rate retention plan and the Fairer Funding Review.
- The Council's transformational strategy supports the Council in closing the budget gap identified within the MTFs from 2020/21. A number of transformation savings have been agreed, with significant additional income expected to be created from further investment in commercial property. A number of other proposals have now been approved to close the budget gap in the medium term.

**Overall, the Council has appropriate arrangements in place for financial sustainability, However, we recognise the increased pressures the Council face going forward and importance of continued close in-year monitoring of budgets.**

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	October 2019
Annual Audit Letter	November 2019

## Fees

	Planned £	Actual fees £
Statutory audit	39,132	46,632
Housing Benefit Grant Certification	12,000	12,000
<b>Total fees</b>	<b>41,132</b>	<b>58,632</b>

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	£3,000
- Pooling Housing Capital Receipts	

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

# A. Reports issued and fees

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £39,132 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. All fee proposals are to be agreed with PSAA.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
<b>Other matters</b>	<p>We encountered a number of other issues which required additional time to resolve, these related to:</p> <ul style="list-style-type: none"> <li>• Delays caused by Council staff availability delaying the start of our interim audit</li> <li>• Additional time required to obtain reconciling populations for grants, debtors, creditors and housing benefits</li> <li>• Bank reconciliation issues</li> <li>• Work required to confirm that property not revalued during the year was not materially misstated, and to resolve errors identified.</li> <li>• Resolution of errors identified from the movement in reserves statement</li> </ul>	To be discussed further with management.
<b>Total</b>		£4,500



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

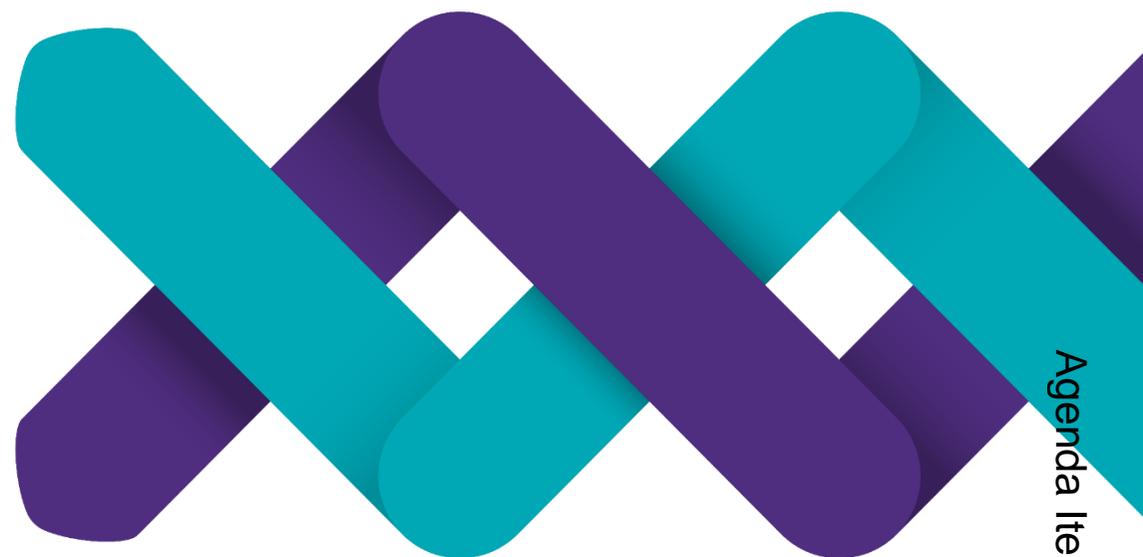
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Audit Progress Report and Sector Update

East Devon District Council  
Year ending 31 March 2020

page 22

30 January 2020



# Contents

Section	Page
Introduction	3
Progress as at 13 January 2020	4
Certification of claims and returns	6
Audit Deliverables	7
Sector Update	8

# Introduction

This paper provides the Audit, Compliance 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; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Compliance 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](http://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.



**Steve Johnson**

**Audit Manager**

T 0117 305 7868

M 07880 456134

E [steve.p.johnson@uk.gt.com](mailto:steve.p.johnson@uk.gt.com)

# Progress at 13 January 2020

## Financial Statements Audit

We have commenced the planning for the 2019/20 audit and will 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.

Our interim audit will take place in early 2020, as agreed with your officers. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Committee Progress Report and aim to give our opinion on the Statement of Accounts by the accounts publication date.

## 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 will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date.

# Progress at 13 January 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. The certification work for the 2018/19 claims for East Devon District Council was completed on 26 November, in advance of the 30 November deadline. We have reported our findings to the Audit, Governance and Committee further on in this report on Page 6.

We will also be finalising the certification of the pooling of housing capital receipts claim in January 2020.

### Meetings

We will meet with your section 151 officer in January as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We will also meet with your Chief Executive in January to discuss the Council's strategic priorities and plans.

### Events

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

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 are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit, Compliance and Governance 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.

---

# Certification of claims and returns

---

We completed the certification of Housing Benefit claims for East Devon District Council on 26 November 2019. Our findings are set out below:

The claim was unqualified, and the following results were reported to the DWP:

- Cell 011 - Non HRA Rent Rebates – No claims were found to be in error
- Cell 055 – HRA Rent Rebates – No claims were found to be in error
- Cell 094 - Rent Allowances – As a result of the initial testing, one claim was identified whereby the Council had incorrectly applied working tax credit for one week, resulting in an underpayment of £214.78. This was included in our report to DWP, no further action was necessary.
- Follow up of prior year error – No prior year errors were noted.

page 27

The work on the Council's Pooling of Capital receipts return is being undertaken in January 2020

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2019/20.	April 2019	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to Audit, Compliance and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 2020	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit, Compliance and Governance Committee.	Summer 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	Summer 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	September 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, Compliance and Governance 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

# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

# Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

## The reporting environment

The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

## Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

## IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Clear identification of practical expedients used on transition and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.



# What is the future for local audit?

Paul Dossett, Head of Local Government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

# Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

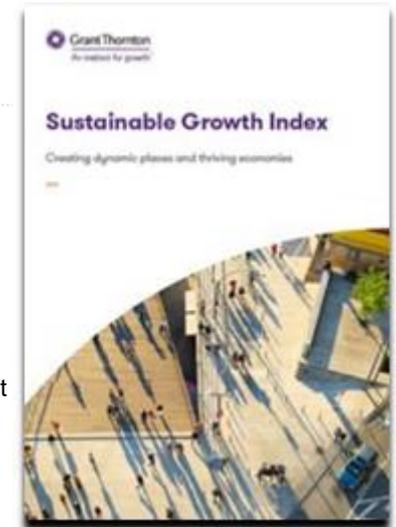
Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

# Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>







The following statement of assurance is 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 is 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.

This statement has been compiled to meet the assurance needs of The Partners, as the interested bodies for the provision of ICT services.

This assurance statement consists of the following elements:

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

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

**Good Standard** - The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit of the ICT service operations, the recommendations made serve to strengthen what are mainly reliable procedures. We reported last year that the governance arrangements for business continuity required improvement to ensure they are current, relevant and operating to link in with and meet Partner needs. We understand that these arrangements have been much improved and that an integrated business continuity plan is near completion. We will review these developments in the 2019-20 audit.

The work completed in this year has been focused around project management and strategy. This has naturally tied in to areas of cyber security and key IT operations providing a wider assurance coverage. This assurance must be read in consideration of the evolving nature of complex ICT provision involving the merged ICT services from the three partner organisations whose infrastructure, service provision and service needs are at different levels but with a common objective; to improve the value and quality of ICT provision.

The scope of the audit for the year has included the following areas and are shown with the levels of assurance;

Assurance Opinion on Risks or Areas Covered • key concerns or unmitigated risks	Level of Assurance	Direction of travel
<b>Performance Management:</b> the new monthly performance reports are clearer in their presentation and more focused to KPIs than previously. There is clearer indication of improvement of performance over time with several of the kpi, though there is opportunity to link these to target outcome.	Good Standard	

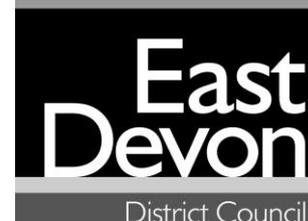
Assurance Opinion on Risks or Areas Covered • key concerns or unmitigated risks	Level of Assurance	Direction of travel
<p><b>ICT Strategy:</b> The strategic direction remains appropriate to the needs of the Partners with financial benefits exceeding the values forecast within the original Business Case. The new Strata Business Plan* provides excellent and measurable detail as to how it will continually improve the services it offers the Partners and act as an effective enabler for transformational change.</p> <p>* Not formally adopted by all Partners at time of writing</p>	Good Standard	
<p><b>Cyber Security</b> (Cyber Essentials Scheme (CE))</p> <ul style="list-style-type: none"> <li>CE presents the requirements for mitigating the most common Internet based threats to cyber security.</li> <li>Using CE, no significant weaknesses identified with all of the five control areas achieving a good standard.</li> </ul>	Good Standard	
<p><b>Key IT Operational Functions</b> Key operational functions and processes provide stable services that help deliver business outcomes.</p> <ul style="list-style-type: none"> <li>Core operational infrastructure and service delivery processes now benefit from a largely stabilised operational environment. No areas of material concern were found.</li> </ul>	Good Standard	
<p><b>Service Design</b> Turning service strategy into plans for delivering business objectives.</p> <ul style="list-style-type: none"> <li>New project management process recognises the importance of design/ specification and governs within a project gateway.</li> <li>Dedicated resource created to enhance this area, including recognition of the importance of effective client liaison and business analysis.</li> </ul>	Good Standard	

Our audit remit and coverage does not extend to financial and operational procedures as a business (outside of ICT service delivery) which are provided / supported by the Partners in 'host arrangements'. Assurance on financial and operational procedures should be sought from the Partner organisations audit services.

Further, more in-depth, audit reviews will be completed in the coming cycle as the maturity of the organisations arrangements develop and harmonise.

**David Curnow**  
Deputy Head of Partnership

<b>Full Assurance</b>	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.	<b>Limited Assurance</b>	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
<b>Substantial Assurance</b>	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.	<b>No Assurance</b>	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.



<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date of Meeting:</b>	30 January 2020
<b>Public Document:</b>	Yes
<b>Exemption:</b>	None
<b>Review date for release</b>	None

<b>Subject:</b>	<b>Internal Audit Plan Progress end December 2019 (2019/20)</b>
<b>Purpose of report:</b>	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 2019/20 Internal Audit Plan as at end of December 2019.
<b>Recommendation:</b>	Members are asked to note progress made in delivery of the 2019/20 internal audit plan and significant findings since the previous update in October 2019.
<b>Reason for recommendation:</b>	The Committee are required to review the progress of the audit plan.
<b>Officer:</b>	Alastair Woodland, Assistant Director, SWAP.
<b>Financial implications:</b>	There are no direct financial implications identified.
<b>Legal implications:</b>	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.
<b>Equalities impact:</b>	Low Impact
<b>Risk:</b>	Low Risk
<b>Links to background information:</b>	Approved Internal Audit Plan 2019/20 – Audit and Governance Meeting March 2019
<b>Link to Council Plan:</b>	Continuously improving to be an outstanding council.



# East Devon District Council

## Report of Internal Audit Activity

Plan Progress 2019/20 as at end December 2019

## Contents

The contacts at SWAP in connection with this report are:

**David Hill**

Chief Executive

Tel: 01935 848 540

[David.hill@SWAPaudit.co.uk](mailto:David.hill@SWAPaudit.co.uk)

**Alastair Woodland**

Assistant Director

Tel: 07872500675

[Alastair.woodland@SWAPaudit.co.uk](mailto:Alastair.woodland@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
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 6, 7
	Appendix B – Internal Audit Work Plan 2019/20	Page 8 - 10
	Appendix C – Partial/No Assurance Audits	Page 11

## Our audit activity is split between:

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



## Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 21 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
- IT Audits
- 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.



## 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 2018/19. 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 summarised Audits finalised Since the October 2019 update.

Audit Area	Quarter	Status	Opinion
Debtors	Q1	Final	Reasonable
Housing Maintenance Invoicing Follow up	Q1	Final	Non-opinion
Commercial Property Investment Framework	Q2	Final	Reasonable
Members Declaration of Interest	Q2	Final	Reasonable
Social Impact of Universal Credit	Q3	Final	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. There are no Partial Assurance audit reports issued in this period.

**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.

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 (as at End of December 2019) were as follows:

Performance Target	Target Year end	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b>                      Final, Draft and Discussion                      In progress                      Not Started</p>	>90%	80% 10% 10%
<p><b><u>Quality of Audit Work</u></b>                      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></p>	>95%	100%
<p><b><u>Outcomes from Audit Work</u></b>                      Value to the Organisation  <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	Reported Year end

page 44

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 following changes have been made to the 2019/20 Audit Plan since it was approved in March 2019:

The Business Continuity Plan audit has been pushed back to quarter 4 to enable the new Lead Officer time to complete the Business Continuity Plan. To compensate this movement, we started the Information Governance (GDPR) audit in quarter 3.



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



Audit Framework Definitions

Control Assurance Definitions

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

<b>Substantial</b>	▲ ★ ★ ★	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.
<b>Reasonable</b>	▲ ★ ★ ☆	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.
<b>Partial</b>	▲ ★ ☆ ☆	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.
<b>None</b>	▲ ☆ ☆ ☆	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.

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**

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.

# Partial Assurance Opinions

# APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
<b>FINAL</b>									
Special Investigation	Special Investigation 1	1	Final	Advisory	2	0	1	1	
Special Investigation	Special Investigation 2	1	Final	Advisory	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	
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	
Key Controls	Debtors	1	Final	Reasonable	3	0	1	2	
Governance, Fraud and Corruption	Members Declaration of Interests	2	Final	Reasonable	1	0	0	1	
Key Controls	Treasury Management	3	Final	Reasonable	2	0	1	1	
Follow up	Housing Invoice Maintenance	1	Final	Non-opinion	0	0	0	0	

page 48

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	
Operational Audit	<b>New:</b> Impact of Universal Credit Social Impact	3	Final	Non-opinion	0	0	0	0	
Governance, Fraud & Corruption	<b>New:</b> EDDC Carbon Footprint	3	Final	Non-opinion	0	0	0	0	
<b>DRAFT</b>									
Transformation	Transformation Strategy - Bridging the Funding Gap	3	Draft						
Key Controls	Housing Benefit	3	Draft						
Operational Audit	Tree Management	3	Draft						
<b>IN PROGRESS</b>									
Governance, Fraud, Corruption	Relocation – Benefits Realisation	4	In Progress						
Governance, Fraud, Corruption	Information Governance (GDPR)	3	In Progress						Moved to Quarter 3 from Quarter 4
<b>NOT STARTED</b>									
Governance, Fraud, Corruption	Business Continuity	4	Not started						Moved to Quarter 4 from Quarter 3

page 49

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Operational Audits	Integrated Asset Maintenance Contract	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 Audit Findings and High Priority Service Finding

There are no audits which are high priority or received a partial opinion since the update in October 2019.



**Report to:** **Audit and Governance Committee**  
**Date of Meeting:** 30 January 2020  
**Public Document:** Yes  
**Exemption:** None  
  
**Review date for release** None

**Subject:** **Full Risk Review November / December 2019**

**Purpose of report:** Risk information for the 2019/20 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 November / December 2019

**Recommendation:** **That the Audit and Governance Committee considers the current status of risks following the full risk review undertaken in November / December 2019.**

**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](mailto:sdavey@eastdevon.gov.uk)  
 ext 2690  
 Joanne Avery, Management Information Officer  
[javery@eastdevon.gov.uk](mailto:javery@eastdevon.gov.uk)  
 ext 2332

**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.

**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 November / December 2019](#)
- [Appendix B – Strategic Risks November / December 2019](#)

- [Appendix C – Explanations and definitions](#)

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

## 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 November 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. All services were asked to highlight any new and emerging risks with no new risks being put forward at this review
3. In the operational risk register there is one risk currently scored as high.

**The Council's income now relies on income from new homes bonus monies which is directly related to new house building in the district. There is a risk of lower growth than estimated** - The Government have announced a review of NHB going forward and 2020/21 spending details have indicated that no legacy payments will be made on 2020/21 sums.

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

Finance	High	Medium	Low
Risks by score	1	1	10

Economy	High	Medium	Low
Risks by score		9	6

Housing	High	Medium	Low
Risks by score		15	5

Environment	High	Medium	Low
Risks by score		9	4

Governance & Licensing	High	Medium	Low
Risks by score		7	7

Organisational Development	High	Medium	Low
Risks by score		1	9

5. 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 11 risks on the strategic register with a new risk added at this last review.

- **New Risk: Retaining and strengthen a collective approach to decision making**  
Retaining and strengthen a collective approach to decision making to ensure we avoid poor decision making effecting our performance and our reputation.
- **Adequacy of financial resource planning to deliver the Council's priorities**  
Insufficient financial resources to deliver Council priorities as a consequence of: a) Failure of financial forecasting, budgeting, monitoring and reporting system resulting in insufficient financial resources and inadequate reserves b) Failure to use resources available effectively c) Reduction in government funding
- **Risk: Adequate emergency planning and business continuity**

A failure to adequately plan for emergencies and understand what issues arise in planning for business continuity could lead to a major service failure.

- **Risk: Delivery of Growth Point**  
Delivery of Growth Point – Failure to delivery planned housing and business growth, including a successful and vibrant new town.
- **Risk: Failure to adequately protect staff health and safety at work**  
Failure to protect staff appropriately could lead to serious injury and will expose the Council to reputation, legal and financial risks
- **Risk: Failure to ensure that our corporate property portfolio is fully compliant with legal requirements.** A failure to ensure our property portfolio is fully compliant with all health and safety and other legal requirements could lead to serious injury or litigation.
- **Risk: Failure to ensure the Council’s sustainability**  
The failure to ensure that the Council is able to sustain its service provision in the long term and meet its priorities as set out in the Council Plan could lead to financial and reputation loss and impact on our communities.
- **Risk: Increased homelessness**  
Failure to meet our statutory obligations for homelessness applications including securing suitable and cost effective temporary accommodation. Poor homelessness decisions risk legal challenge, reputational damage and disadvantage applicants.
- **Risk: Major disruption in continuity of computer and telecommunications services**  
Major disruption in continuity of computer and telecommunications facilities to the detriment of service delivery including Cyber-attack
- **Risk: Office Relocation**  
Not relocating would mean the continued high cost of management and maintenance of Knowle Offices. Increasing inefficiency of current accommodation and reducing capacity to deliver improving services, modern working practices and performance improvements. Challenged ability to maintain high quality services and projects in a time of reducing funding and resources.
- **Risk: Brexit**  
With the on-going Brexit negotiations and the uncertainties around our deal to leave the EU there implications for us to deal with including the loss of direct EU funding, uncertainty around the impact on inward investment, effects on business rate income, possible increases in demand pressures, the effects on our investments and borrowing, possible impact on pension fund deficits and the effects on supply of labour.

These are all scored in in the medium or low range with none currently showing as high risk. More details for each risk can be seen in [Appendix B](#).

Strategic Risks	High	Medium	Low
<i>Risks by score</i>		9	2

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

<b>Audit and Governance Committee</b>
<b>30 January 2020</b>

<b>Audit and Governance Committee</b>		
<b>Forward Plan 2019/20</b>		
<b>Date of Committee</b>	<b>Report</b>	<b>Lead Officer</b>
19 March 2020	<ul style="list-style-type: none"> <li>• Annual Audit Plan 2020/21</li> <li>• Review of Internal Audit Charter</li> <li>• Internal Audit Plan Progress</li> <li>• Certification Report</li> <li>• External Audit Plan</li> <li>• Audit Committee update</li> <li>• Accounting Polices Approval</li>   <li>• RIPA update</li>   <li>• Relocation project close-out report</li> </ul>	SWAP SWAP SWAP Grant Thornton Grant Thornton Grant Thornton Financial Services Manager  Strategic Lead – Governance & Licensing Deputy Chief Executive