

N G HERRIS

Date: 2 November 2010  
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To: Members of the Audit and Corporate Governance Committee  
(Councillors: David Atkins, Peter Bowden, Derek Button, Bob Buxton,  
Chris Gibbings, Stephanie Jones, Ken Potter, Tim Wood)

East Devon District Council  
Knowle  
Sidmouth  
Devon  
EX10 8HL

For information:

Portfolio Holder, Resources – Councillor Andrew Moulding  
Member Champion for Data Quality – Councillor Graham Troman

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Chief Executive  
Corporate Directors  
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Dear Sir/Madam,

**Audit and Corporate Governance Committee**  
**Thursday 11 November 2010**  
**Committee Room at 2.30pm**

The above meeting will be held in the Committee Room at East Devon District Council Offices, Knowle, Sidmouth, to consider the matters detailed on the agenda below.

Yours faithfully,

MARK WILLIAMS

Chief Executive

**AGENDA**

**PART A**

**Page/s**

**1 Public question time – standard agenda item (15 minutes)**

Members of the public are invited to put questions to the Committee through the Chairman.

- Each individual questioner exercising the right to speak during this public question time is restricted to speaking for a total of 3 minutes.
- Councillors also have the opportunity to ask questions of the Leader and/or Portfolio Holders during this time slot whilst giving priority at this part of the agenda to members of the public.

The Chairman has the right and discretion to control question time to avoid disruption, repetition, and to make best use of the meeting time

**2 To confirm the minutes of the meeting of the Audit & Governance Committee held on 23 September 2010 and the minutes of the Special Meeting of the Audit and Governance Committee held on 7 October 2010.**

**3 – 5 &  
6 - 7**

- 3 To receive any apologies for absence.
- 4 To receive any declarations of interests relating to items on the agenda.
- 5 To consider any items which in the opinion of the Chairman, should be dealt with as matters of urgency because of special circumstances.

(Note: Such circumstances need to be specified in the minutes; any Member wishing to raise a matter under this item is requested to notify the Chief Executive in advance of the meeting).

- 6 To agree any items to be dealt with after the public (including the press) have been excluded. There is one item which Officers recommend should be dealt with in this way.
- 7 Annual Audit Letter 2009/10 Grant Thornton 8 – 19
- 8 Internal Audit Annual Report Chris Gunn To follow
- 9 Minutes of Corporate Risk Management Group Councillor Peter Bowden 20 - 21
- 10 **The Vice Chairman to move the following:-**

"that under Section 100(A) (4) of the Local Government Act 1972 the public (including the press) be excluded from the meeting as exempt information, of the description set out on the agenda, is likely to be disclosed and on balance the public interest is in discussing this item in private session (Part B)."

#### PART B

- |    |  |  |          |
|----|--|--|----------|
| 11 | 'Whistle blowing' report                 | Para 3 Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information). | 22 – 77  |
| 12 | The Council's links with an outside body | Para 3 Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information). | 78 - 130 |

#### Members remember!

- You must declare the nature of any personal or prejudicial interests in an item whenever it becomes apparent that you have an interest in the business being considered.
- Where you have a personal interest because the business relates to or is likely to affect a body of which you are a member or manager as an EDDC nominee or appointee, then you need only disclose that interest when (and if) you speak on the item. The same rule applies if you have a personal interest in relation to a body exercising functions of a public nature.
- Make sure you say the reason for your interest as this has to be included in the minutes.
- If your interest is prejudicial you must leave the room unless
  - a) you have obtained a dispensation from the Council's Standards Committee or
  - b) where Para 12(2) of the member Code of Conduct applies. [Para 12(2) allows a Member with a prejudicial interest to stay for the purpose of making representations, answering questions or giving evidence relating to the business but only to the extent the public are allowed the same rights. If you do remain for these purposes, you must not exercise decision-making functions or seek to improperly influence the decision; you must leave the meeting room once you have made your representation, answered questions or given evidence.]
- The Code states that any member of the Executive Board or other decision-making committee or joint committee or sub-committee attending Overview and Scrutiny committees has a prejudicial interest in any business where that member was a member of the committee at the relevant time and present when the decision was made or other action was taken (whether or not implemented). Members with prejudicial interests should declare them and are allowed to remain in the meeting for the limited purposes set out in the Code para 12(2) – see last paragraph.
- You also need to declare when you are subject to the party whip before the matter is discussed.

**EAST DEVON DISTRICT COUNCIL**  
**Minutes of a Meeting of the**  
**Audit and Corporate Governance Committee**  
**held at Knowle, Sidmouth,**  
**on Thursday 23 September 2010**

- Present:** Councillors:  
Ken Potter (Chairman)  
Tim Wood (Vice-Chairman)  
David Atkins  
Peter Bowden  
Bob Buxton  
Stephanie Jones  
Chris Gibbings
- Also Present:** Councillor:  
Andrew Moulding, Portfolio Holder, Resources
- External Auditors:** Kate Jefferies, Grant Thornton  
Barrie Morris, Grant Thornton
- Officers:** Diccon Pearse, Corporate Director  
Simon Davey, Head of Finance  
Laurelie Gifford, Accountant  
Christopher Holland, Democratic Services Officer  
Graham Stubbs, Auditor  
Moya Moore, Auditor  
Chris Powell, Head of ICT
- Observing:** Chris Gunn, South West Audit Partnership
- Apologies:** Councillors:  
Derek Button  
Graham Troman

The meeting started at 2.30pm and ended at 4.11 pm

**\*13 Public Questions**

No questions were raised by members of the public or Councillors.

**\*14 Minutes**

The minutes of the meeting of the Audit and Governance Committee held on 5 July 2010 were confirmed and signed as a true record.

**\*15 Letter of Representation**

Members considered and noted the letter of representation to the external Auditors Grant Thornton which set out the Council's formal position regarding the Financial Statements for the year ended 31 March 2019.

**RESOLVED:** that the letter of representation be noted.

**\*16 Audit of Accounts 2009/10**

Consideration was given to the report of the Council's external auditors, Grant Thornton regarding the audit of accounts for the 2009-2010 financial year.

Presenting the report, Barrie Morris said that the audit for 2009/2010 had been a challenging audit with a large number of issues that needed to be resolved. He thanked the Finance Team at the Council for their hard work and professionalism but added that the audit had taken too long to complete. He stressed that the audit for the coming year would be tougher still with additional work required through new reporting standards and commented that the accounts preparation process needed strengthening. Members acknowledged that the issue of resources provided for the reporting of the financial statements should be monitored closely.

Members considered the audit report in detail and asked a number of questions of the external auditors regarding individual entries in the accounts. The report highlighted a number of adjustments, which were required to the document.

- RESOLVED:**
- 1) that the 2009-10 Financial Statements be approved.
  - 2) that the comments from the Council's external auditors requiring adjustments to be made be noted.
  - 3) that the resources and requirements for future audits of the accounts be considered at the next meeting of the Committee.

**\*17 Value for Money Conclusion 2009/10**

Members considered the report of the Council's external auditors, Grant Thornton, regarding the Value for Money Conclusion 2009-10. The report highlighted that the Council had made strong progress against the areas of improvement identified in the previous review. The report also highlighted that the authority had made good arrangements, which were continually improved in respect of the use of natural resources.

Members considered the report in detail and asked a number of questions of the external auditors.

- RESOLVED:** that the Value for Money Conclusion 2009/10 and accompanying action plan be noted and approved.

**\*18 Internal audit activity report for the period 1 April 2010 to 30 September 2010**

Consideration was given to the report of Internal Audit, which gave a brief report on the staffing situation within the Council's Audit section. The report also highlighted Internal Audit activity for the first quarter and into the second quarter 2010, indicating where audits were progressing well and identified those that had slipped against the internal audit plan. Members noted the progress made and also noted the audits that remained outstanding.

The issue of S106 monies was raised by some Members who felt that Members should receive a regular update which showed the value of S106 funds available in their wards. The Chairman agreed that an update on the matter would be presented to the next meeting.

- RESOLVED:**
- 1) that the report be noted.
  - 2) that an update on S106 funds available would be presented to the next meeting.

**\*19 Corporate Governance Action Plan**

Consideration was given to the report of Internal Audit, which detailed the Corporate Governance Action Plan which outlined the work undertaken to ensure the Council's corporate governance arrangements were effective, and in compliance with its local Code of Corporate Governance

**RESOLVED:** that the report be approved.

**\*20 ICT Audit Report – a Clarification**

Members noted the report of Internal Audit which highlighted that when the audit report regarding ICT was presented to the Committee in July 2010, there was a lack of clarity regarding the purpose of the report and that some areas had been overemphasised giving Members a potentially unbalanced view. In addition, the responses to the draft report from the Head of ICT had not been fully incorporated.

The clarification report aimed to more clearly highlight the key areas of risk identified.

**RESOLVED:** that the report be noted.

**\*21 Counterfeit Coins – Further Update**

Members considered the report of the Head of Finance. They noted that the issue of counterfeit coins from Council car park machines had been on going for sometime with a number of reports to the Committee.

From the last update there had been one issue remaining concerning the confirmation that the Council had received genuine receipts from the Royal Mint confirming counterfeit coin deposits made by our contractor, Contract Security Services. This confirmation had now been received.

Members also noted that the Council had received a £2,000 refund from the contractor for coins previously declared counterfeit which were now deemed proper currency.

**RESOLVED:** that the situation be noted with Members being satisfied with the controls and procedures in place.

**22 Transfer of internal audit function to South West Audit Partnership**

Diccon Pearse, Corporate Director presented his report regarding the future partnership with South West Audit Partnership. Members noted that Council had already resolved to transfer responsibility for the delivery of a managed internal service to South West Audit Partnership (SWAP). The report commented on certain matters associated with that arrangement, including the adoption of an Audit Charter which set out the nature, role, responsibility, status and authority of internal auditing within the East Devon District Council, and outlined the scope of internal audit work.

**RECOMMENDED:** that the Council's present position regarding South West Audit Partnership be noted and the Audit Charter be adopted.

Chairman ..... Date .....

**EAST DEVON DISTRICT COUNCIL**  
**Minutes of a Meeting of the**  
**Audit and Corporate Governance Committee**  
**held at Knowle, Sidmouth,**  
**on Thursday 7 October 2010**

**Present:**

Councillors:

Ken Potter (Chairman)  
Tim Wood (Vice-Chairman)  
David Atkins  
Bob Buxton  
Stephanie Jones  
Chris Gibbings

**Also Present:**

Councillor:

Philip Skinner  
Graham Troman, Member Champion – Data Quality

**Officers:**

Paul Bacon, ICT Design & Compliance Manager  
Steve Gammon, ICT Business Solutions Manager  
Christopher Holland, Democratic Services Officer  
Karen Jenkins, Head of Organisational Development  
Denise Lyon, Corporate Director (Monitoring Officer)  
Diccon Pearse, Corporate Director

**Observing:**

Chris Gunn, South West Audit Partnership

**Apologies:**

Councillors:

Derek Button  
Andrew Moulding, Portfolio Holder, Resources

The meeting started at 2.30pm and ended at 3.46 pm

**\*16 Exclusion of the Public**

**RESOLVED:**

that the classification given to the documents to be submitted to the Committee be confirmed, and that the reports relating to exempt information, be dealt with under Part B.

**\*17 Exclusion of the Public**

**RESOLVED:**

that under Section 100(A) (4) of the Local Government Act 1972 the public (including the press) be excluded from the meeting as exempt information, is likely to be disclosed and on balance the public interest is in discussing the items in private session (Part B).

**\*18 Data Breach of Payroll Data – July 2010**

Members considered the joint report of the Monitoring Officer, Head of Organisational Development and head of ICT concerning a data breach of Payroll data in July 2010. The data had been emailed to the personal computer of an employee rather than using the Council's secure access arrangements provided. Members considered the report and recommendations which aimed to reduce the risk and probability of future reoccurrences.

**RESOLVED:** that the recommendations outlined in the report be developed and progressed by the Programme Board within a 3 month timescale.

**\*19 Report on a 'whistle blowing' allegation**

Members considered the report of the Monitoring Officer concerning a 'whistle blowing report' and allegation. Members noted the report and its contents.

Members noted that the Officer concerned had offered to attend the Committee. The Chairman however wished for a full debate before the officer was afforded the opportunity to address the Committee. Members further noted that the Monitoring Officer had found no evidence to support the allegations that the Officer in question had acted inappropriately or fraudulently in the areas raised by the allegations. It was felt that in the interests of natural justice it would be appropriate to offer an opportunity to hear from the Officer concerned.

**RESOLVED:** that the report from the Monitoring Officer be noted and that the Officer concerned be invited to attend a future meeting of the Committee.

Chairman ..... Date .....



**Grant Thornton**

**East Devon District Council**

Annual Audit Letter 2009-10

October 2010



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# 1 Introduction and key messages

## **Purpose of this Letter**

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work that we have carried out at East Devon District Council (the Council) during our 2009-10 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **Responsibilities of the external auditors and the Council**

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## **What this Letter covers**

- 1.6 This Letter covers our 2009-10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009-10 year end accounts (Section 2);
  - the accuracy of grant claims and returns to various government departments and other agencies (Section 2); and
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A and Appendix B sets out our actual and budgeted fees for 2009-10.

## The economy

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment;
  - reducing ring-fenced central government grants; and
  - undertaking a full review of local government finance.
- 1.9 Council tax in England is also to be frozen for at least one year, with a possible freeze for a second year in partnership with local authorities.
- 1.10 This Annual Audit Letter has been written in the context of the significant change agenda in which the Council is operating, including the ongoing increase in demand for services, the need to generate cash releasing efficiency savings and rationing or reducing the level of services to achieve a year end balanced financial position for 2010-11.

### Key areas for Council action

- 1.11 We have set out below, the key areas where action should be taken by the Council to further improve its arrangements during 2010-11.
- The Council needs to ensure that its plans to deliver a balanced financial out-turn are achieved and longer term plans to secure further cost savings need to be developed. Looking forward, it needs to ensure that the benefits from its strategic relationship with South Somerset District Council and joint working opportunities that arise from that relationship are realised and optimised over the medium to longer term.
  - Arrangements to produce the annual statement of accounts should be further strengthened, both in order to minimise the number of adjustments processed as part of the audit and, to produce the first set of IFRS accounts within the required timetable.
- 1.12 The context for these key messages can be found in this Letter. Management has agreed to the implementation of these recommendations through our individual reports, which are shown in Appendix B.

## 2 Audit of accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009-10 accounts on 23 September 2010, ahead of the statutory certification deadline. Our opinion confirmed that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we were required to report significant matters arising from the audit to those charged with governance, defined as the Audit and Governance Committee at the Council. We presented our Annual Report to those Charged with Governance to the Audit and Governance Committee on 23 September and summarise only the key messages in this Letter.

### Audit of the accounts

- 2.3 We were presented with the draft financial statements on 24 June 2010 and the majority of supporting working papers were prepared in accordance with the agreed timetable for audit. Our audit identified a number of significant amendments that needed to be made to the draft accounts and we recognise that officers worked hard to ensure these were accurately processed in order to meet to approval deadline of 30 September 2010.
- 2.4 The misstatements identified through our audit impacted upon all of the primary statements as well as a number of the notes to the accounts. We also identified a material prior year adjustment which required the reclassification of £3.42 million of assets from community to infrastructure. This resulted in a reduction in the value of these assets of some £2 million due to accumulated depreciation which should have been charged in previous years, reducing the Council's total fixed asset value to £365 million.
- 2.5 Whilst the Council has continued to improve the quality of its working papers each year, we continue to identify a number of errors. We recognise that the Council has taken account of the underlying reasons for these adjustments during the course of our audits, but to ensure that these are not repeated we consider that the accounts preparation process needs to be strengthened further.

### Financial performance

- 2.6 The Council reported a £1.1 million reduction in the general fund balance at 31 March 2010 and has set a balanced budget for 2010-11 and for the period of the current Medium Term Financial Strategy (MTFS). General fund reserves reduced from £7.5 million to £6.4 million in the year as a result of the planned support for the MTFS. Of this balance £2.4 million has been set aside for costs associated with transforming the Council to facilitate further savings, leaving a general fund of £4 million. Overall, the Council maintains a healthy level of reserves which it believes are required to support it during increasingly uncertain economic times.

- 2.7 However, the Council's financial position remains extremely challenging as it seeks to remain in financial balance whilst facing significant cost pressures impacting across local government. The latest budget monitoring report (September 2010) shows that the overall income and expenditure position will result in a general fund balance of £3.4 million at 31 March 2011 and, £0.2 million of the transformation fund has been spent to date. Both the Council's revenue and capital budgets remains under considerable pressure and it needs to ensure that its plans for service reductions and cost efficiencies are delivered.
- 2.8 The scale of the challenge faced has been recognised by Members and there is a need for strong decisions to be taken. We will continue to keep the Council's financial position under review as part of our 2010-11 audit.

### Financial systems

- 2.9 We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.10 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009-10 accounts. Throughout the year, we have discussed how the Council could further improve its internal audit arrangements and have made a number of recommendations. The Council has recently joined the South West Audit Partnership (SWAP) with the aim of strengthening its internal audit resource and to gain access to a wider pool of experience and expertise. We will continue to liaise with management to ensure that appropriate arrangements are maintained during 2010-11 and on an ongoing basis.
- 2.11 As part of our overall review of the internal control system, we have performed a high level review of the general IT control environment and concluded that there were no material weaknesses within the IT arrangements that would adversely impact upon our audit of the accounts. We did identify a small number of areas where these arrangements could be strengthened further and have reported these to management.

### Annual Governance Statement

- 2.12 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that the AGS was consistent with our knowledge of the Council and no significant issues arose from our work.

### Matters raised by local electors

- 2.13 There have been a number of issues and questions raised by local electors and other interested parties during the year and, where necessary, we have responded to these and discussed any areas for improvement with the Council. None of the issues raised indicated significant weaknesses with the Council's arrangements.
- 2.14 In addition, we received query by a local elector who exercised their rights under the Audit Commission Act 1998 to question the external auditor regarding the Council's use of section 106 monies. We considered the issues raised as part of our audit of the financial statements and were satisfied that the amounts had been disclosed correctly. However, we did raise

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recommendations to further improve the control environment around the management and utilisation of these monies and these were reported in our Annual Report to those Charged with Governance.

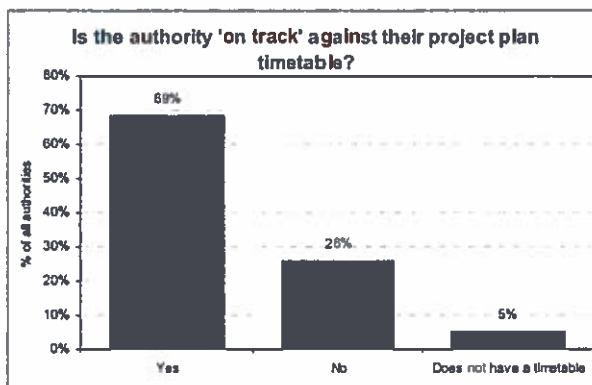
### Additional local risk work

- 2.15 During the year the Council entered into an arrangement with South Somerset District Council to share a Chief Executive. This arrangement was underpinned by a Section 113 agreement and involved the sharing of redundancy costs for the former Chief Executive of South Somerset District Council between the two councils on an agreed proportion of rates.
- 2.16 We undertook specific work to determine whether appropriate arrangements had been put in place and whether East Devon District Council had taken due consideration of the legislative provisions to make such a payment. Following our review and having sought independent legal advice, we were satisfied that the arrangements made by the Council were appropriate and that the legislative framework enabled such a payment to be made. ✓
- 2.17 Moving forward, the Council needs to ensure that appropriate legal contracts are in place to enable the development of shared services and the sharing of any restructuring costs between the two councils on an appropriate basis. *about !!*

### International Financial Reporting Standards

- 2.18 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010-11. The IFRS transition at the Council is being led by a project board and a project plan is in place.
- 2.19 A survey on IFRS progress was undertaken by the Audit Commission during July 2010. The survey indicated that whilst most authorities had made adequate progress against their project plans, nearly a third had not as can be seen in the Exhibit below.

#### Exhibit 1: IFRS Progress all authorities (source - Audit Commission)



- 2.20 Our work confirms that for East Devon District Council, the overall project plan to restate the opening balance sheet and 2009-10 accounts by 31 December 2010 remains on track. However, the project team continue to be under pressure due to budget setting commitments and day-to-day responsibilities.

- 2.21 We will continue to review progress as part of our planned programme of work for 2010-11.

**Certification of claims and returns**

- 2.22 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Our certification work is expected to be complete by the end of December 2010 after which we will prepare a separate certification work report, summarising issues from the 2009-10 work, to facilitate continuous improvement.
- 2.23 Based on our work to date for 2009-10, we have identified that the Council's arrangements to prepare and submit claims and returns continue to improve, although further progress is required to avoid a number of amendments and qualifications to some claims and returns.

## 3 Use of Resources

### Introduction

- 3.1 We issued our annual Value for Money (VFM) conclusion on 23 September 2010, at the same time as our accounts opinion and ahead of the required deadline. We concluded that, for 2009-10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 Prior to giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment against the use of resources framework, in our report presented to the Audit and Governance Committee on 23 September. In this Letter, we summarise the key messages from this work alongside relevant findings.

### VFM conclusion and UoR assessment

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 VFM conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment.
- 3.5 The key developments in the Council's arrangements include:
- a thorough review of the budget was performed for 2010-11, incorporating feedback from local residents and, using a task and finish forum to challenge budget allocations and reprioritise resources;
  - the introduction of new risk management procedures to manage corporate and operational risks, overseen by the new Corporate Risk Management Group; and
  - strong and innovative approaches to managing natural resources to achieve reduced emissions and notable outcomes, including Axe Wetlands project and securing funding from the South West Renewable Energy Agency for the Cranbrook development.
- 3.6 Our review has identified a number of areas where the Council should continue to develop its arrangements in order that it demonstrates that sound value for money is being achieved. The main areas where further action is required by the Council include:
- increased use of scenario planning and sensitivity analysis as part of setting the budget, to enable the Council to more effectively plan for changes in income and demand for services; and



17.5  
64  
Grant £6.5 million

- greater use of benchmarking to identify service areas where costs of the service are not proportionate to the benefits provided, in order to generate further savings. ✓

3.7 On the basis of the work undertaken, we issued an unqualified VFM conclusion.

### **Follow-up of previous reports**

3.8 As part of our planned programme of work for 2009-10, we followed up progress made by the Council in implementing outstanding recommendations from current and previous years' audit reports. Within this Letter, we have summarised the progress made against the most significant recommendations and identified those areas where further attention is required. Overall, the Council has responded positively to the issues that we have raised and has made positive progress against all of the recommendations made in previous years.

### **Approach to local value for money audit work from 2010-11**

3.9 The Audit Commission has reviewed its work programme for 2010-11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money audit work with key national stakeholders.

3.10 From 2010-11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

3.11 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.

## 4 Closing remarks

- 4.1 This Letter was discussed and agreed with the Chief Executive and Corporate Director and presented to the Audit and Governance Committee on 11 November 2010.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

Grant Thornton UK LLP

October 2010

## A Reports issued

Report	Date Issued
Annual audit fee letter	March 2009
Interim audit report including Use of Resources	June 2010
Annual report to those charged with governance	September 2010
Value for Money report	September 2010
Annual Audit Letter	October 2010
Certification work report (planned)	December 2010

## B Audit and other fees

Audit Area	Budget 2009-10 £	Actual 2009-10 £
Financial statements	69,000	69,000
VFM conclusion / Use of resources	40,500	40,500
<b>Total Code of Practice fee</b>	<b>109,500</b>	<b>109,500</b>
Additional local risk work	-	3,028
Certification of grant claims and returns (estimate)	26,000	26,000
<b>Total fees</b>	<b>135,500</b>	<b>138,528</b>

# Minutes of a Meeting of the Corporate Risk Management Group held in Room 69 at 10:00 on 26 October 2010

## Present:

Cllr Peter Bowden, Chairman  
Cllr Ken Potter  
Cllr Tim Wood

## Also present:

Mark Williams, Chief Executive  
Diccon Pearse, Corporate Director  
Karen Jenkins, Head of OD  
Bob Darbourne, Communications and Improvement Manager

## Apologies:

Cllr Ray Bloxham

### 1. Minutes of the Corporate Risk Management Group meeting held on 14 September 2010

These were confirmed as an accurate record.

### 2. Proposals on Risk Management

Bob Darbourne explained his progress since assuming responsibility for Risk Management and his proposals to take things forward, including the start he had made in reviewing the Strategic Risks and the regularity of the use of the Risk Register.

Most Strategic Risks became due for their first reviews at the start of October which ties in neatly with the CRMG's desire for Strategic Risks to be reviewed in light of the changing circumstances affecting the Council such as savings. However, it was considered that the review of Strategic Risks by Corporate Directors would not be a major exercise.

Most Operational Risks also became due for their first reviews at the start of October and it was intended that they would be reviewed after the review of Strategic Risks was completed and around the same time as Service Planning would be undertaken.

Members were invited to make comments on the Strategic Risks and recommend any additional Strategic Risks.

It was recommended that Corporate Directors consider the links between the Strategic Risks that had been identified when they review their Strategic Risks.

It was noted that Mark Willaims' two Strategic Risks cut across the Council's services and it was suggested that he might take on the Strategic Risk entitled Adequate Human Resources in his role as Head of Paid Service, and the one entitled Partnership Failure.

When reviewing the Strategic Risks associated with the West End it was suggested that consideration be given to creating one Strategic Risk with operational components. In addition, it was suggested that a potential area of risk was our relations with partners over the West End and other large developments such as the planning application at Pinhoe.

With regard to the Strategic Risk entitled Delivery of the Growth Agenda for the West End of the District, it was suggested that consideration be given to separating the Housing and Employment elements of the project.

It was felt that some of the Risk Titles could be improved for clarity and that, for the Strategic Risk entitled Financial (Science Park), the Risk Description could be improved for clarity.

In respect of additional Strategic Risks, the following areas were suggested:

- Government changes such as those proposed for the HRA which would involve the Council taking on debt.
- The proposed changes in Benefits.
- Setting a balanced budget.
- New Homes.
- Flood Management.
- Disseminating information on changes to members, staff and the public

The role of Internal Audit now being delivered by the South West Audit Partnership (SWAP) in Risk Management was explained and it was reported that a new approach to Internal Audits was being introduced by SWAP. Internal Audits would now be risk-based instead of process-based which it was felt would be much more meaningful to officers whose services are subject to audit.

**It was agreed that:**

1. Corporate Directors would review the number and appropriateness of Strategic Risks in light of the changing circumstances affecting the Council such as savings and members' comments above during November.
2. After the review of Strategic Risks is complete, Heads and managers would review their Operational Risks in light of the revised Strategic Risks and the changing circumstances.
3. A diagram to show the hierarchy of Risks and the relationship between the Strategic Risks and Operational Risks would be developed.
4. A review of the regularity of use of the Risk Register, including Reviews of Risks, would be completed.
5. The guidance and support provided to officers on using SPAR.net would be reviewed.
6. The practicalities of classifying Risks around our Corporate Strategy Priorities and Outcomes would be explored.
7. An end of year monitoring report on Risks for 2010/11 would be prepared and the feasibility of quarterly monitoring from the first quarter of 2011/12 would be explored.
8. Consideration would be given to whether a separate register of Partnership Risks is required.
9. These actions would be shared with the SMT.

### **3. Any Other Business**

Cllr Potter pointed out that this meeting had not featured on the programme of meetings in The Knowledge. Bob said that he would make sure that the dates of future meetings were shared with Democratic Services so that they could appear in The Knowledge.

### **4. Next CRMG Meeting**

It was agreed to hold the next meeting of the CRMG at 10:00 on Tuesday 11 January 2011.

Date: 3 November 2010  
Contact Number: 01395 517543  
E-mail: [cholland@eastdevon.gov.uk](mailto:cholland@eastdevon.gov.uk)



To: Members of the Audit and Corporate Governance Committee  
(Councillors: David Atkins, Peter Bowden, Derek Button, Bob Buxton,  
Chris Gibbings, Stephanie Jones, Ken Potter, Tim Wood)

For information:  
Portfolio Holder, Resources – Councillor Andrew Moulding  
Member Champion for Data Quality – Councillor Graham Troman

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Dear Sir/Madam,

**Audit and Corporate Governance Committee**  
**Thursday 11 November 2010**  
**Committee Room at 2.30pm**

Please find attached, additional papers relating to item 8 on the agenda.

Yours faithfully,

A handwritten signature in black ink, appearing to read "C. E. Holland", written over a horizontal line.

Christopher E Holland  
Democratic Services







## **East Devon District Council**

**Report of Internal Audit Activity  
2010/2011 plan update**

# Contents

The contacts at SWAP in connection with this report are:

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# Summary

Our audit activity is split between:

- Operational Audit
- Managed Audit
- Governance, Fraud & Corruption

## Role of Internal Audit

The Internal Audit service for East Devon District Council is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but 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 23rd September 2010. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Plan of Operational Reviews
- Annual review of Key Financial System Controls (Managed Audits)
- Annual review of key governance and fraud controls.

## Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee at its meeting on the 18th March 2010.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

# Internal Audit Work Plan - 2010/11

## Progress Report:

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

## Internal Audit Work Programme

The schedule provided at Appendix A contains a list of all audits as agreed in the Annual Audit Plan 2010/11. This allows Members to monitor the progress of all audits in the plan.

Each completed assignment includes its respective "control assurance" opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as shown in Appendix B.

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council's operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

# Internal Audit Work Plan - 2010/11

## Progress Report:

### Completed Audit Assignments In The Period

## Operational Audits

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

Four operational audits have been completed since the last Committee meeting prior to joining SWAP. These audits are Contracts and Procurement, Democratic Services, Legal Services and Grounds Maintenance. We reported one high risk area in the Legal Services audit where we found that deeds, primary and other sensitive documents were not being held securely. This issue has been actioned with a reminder to staff to hold documents securely.

Three other operational audits are now underway using the new SWAP MKI audit management system. We will report on our progress at the next Committee meeting. Follow up audits have been completed for Planning Administration, Development Management and Building Control. We reviewed the agreed management action plans and did not find any significant issues to report.

We have no IT audits in progress currently and are reviewing the plan for IT audits for the remainder of the year.

## Managed Audits

Managed Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. These are largely scheduled each year to be carried out between December and March.

At the next audit committee meeting we will be able to start reporting the outcomes of these reviews.

# Internal Audit Work Plan - 2010/11

Progress Reports

Completed Audit Assignments In The Period

## Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. We have not carried out any of these audits for the Authority yet.

# Internal Audit Work Plan - 2010/11

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

## Future Planned Work

This is detailed in Appendix A and is obviously subject to any changes in agreement with the S151 officer.

## Conclusions

For those audits still required by the client, SWAP are on target to complete these audits as planned. For the audits completed to report stage each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of recommendations section in Appendix B. Final reports and progress updates are given to the S151 Officer who has a role in monitoring the implementation of recommendations made.

ier Service Centre	October 2010	Deferred		0	0	0	0	0	0
g Control follow up	October 2010	Completed		0	0	0	0	0	0
ig Administration ip	October 2010	Completed		0	0	0	0	0	0
pment Control follow	October 2010	Completed		0	0	0	0	0	0
al Assistance Grants	October 2010	Not yet started		0	0	0	0	0	0
y side	October 2010	Not yet started		0	0	0	0	0	0
Growth Area	October 2010	Not yet started		0	0	0	0	0	0
g Rents follow up	January 2011	Not yet started		0	0	0	0	0	0
se Cards	January 2011	Created		0	0	0	0	0	0
ter	October 2010	Not yet started		0	0	0	0	0	0
ccounting System	January 2011	Not yet started		0	0	0	0	0	0
l Tax follow up	January 2011	Not yet started		0	0	0	0	0	0
s follow up	January 2011	Not yet started		0	0	0	0	0	0
and Cashiers follow	January 2011	Not yet started		0	0	0	0	0	0
	January	Not yet		0	0	0	0	0	0



## Audit Framework Definitions

### Control Assurance Definitions

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

### Categorisation Of Recommendations

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

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

## Definitions of Risk

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