

Date: 12 January 2010  
Contact Number: 01395 571543  
Contact: Christopher Holland  
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)

Member Champion for Data Quality – Councillor Graham Troman  
Portfolio Holder, Communications – Councillor Stuart Hughes

Chief Executive  
Corporate Directors  
Internal Audit & Risk Manager  
Head of Finance  
Communications and Improvement Manager

East Devon District Council  
Knowle  
Sidmouth  
Devon  
EX10 8HL

DX 48705 Sidmouth

Tel: 01395 516551

Fax: 01395 517507

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

**Audit and Corporate Governance Committee  
Tuesday 21 January 2010  
Committee Room at 2.30pm**

Members of the public are welcome to attend this meeting.

- A period of 15 minutes has been provided to allow members of the public to raise questions.
- In addition, after a report has been introduced by the relevant Portfolio Holder and/or officer, the Chairman of the Committee will ask if any member of the public would like to speak in respect of the matter and/or ask questions.
- All individual contributions will be limited to a period of 3 minutes – where there is an interested group of objectors or supporters, a spokesperson should be appointed to speak on behalf of the group.
- The public is advised that the Chairman has the right and discretion to control questions to avoid disruption, repetition and to make best use of the meeting time.

**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 3 December 2009. 4 - 8
- 3 To receive any apologies for absence.

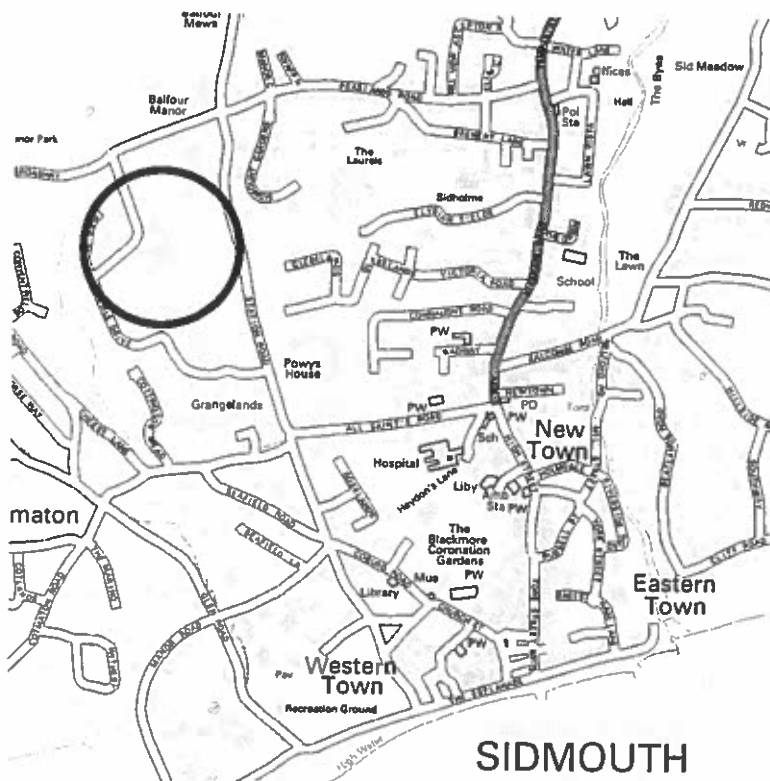
- 4 To receive any declarations of interests relating to items on the agenda.
- 5 To consider any items which in the opinion of the Chairman, should be dealt with as matters of urgency because of special circumstances.  
(Note: Such circumstances need to be specified in the minutes; any Member wishing 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 | Grants report 2008-09  | Grant Thornton                       | 9 - 22  |
| 8 | Financial Statements Plan 2009-10                              | Grant Thornton                       | 23 - 34 |
| 9 | Audit and Governance TaFF – progress in delivering action plan | Diccon Pearse,<br>Corporate Director | 35 - 40 |

**Members please note:**

You must declare any personal or prejudicial interests in an item whenever it becomes apparent that you have an interest in the business being considered.

- 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 you have obtained a dispensation from the Council's Standards Committee or where Para 12(2) of the Code can be applied. 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 at meetings where the public are also allowed to make representations. If you do remain, 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.
- You also need to declare when you are subject to the party whip before the matter is discussed.

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The entrance to the Council Offices is located on Station Road, Sidmouth. **Parking** is limited during normal working hours but normally easily available for evening meetings.

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**From Exmouth, Budleigh, Otterton and Newton Poppleford – 157**

The following buses all terminate at the Triangle in Sidmouth. From the Triangle, walk up Station Road until you reach the Council Offices (approximately ½ mile).  
**From Exeter – 52A, 52B**  
**From Honiton – 52B**  
**From Seaton – 52A**  
**From Ottery St Mary – 379, 387**

Please check your local timetable for times.

The Committee Suite has a separate entrance to the main building, located at the end of the visitor and Councillor car park. The rooms are at ground level and easily accessible; there is also a toilet for disabled users. The doors to the civic suite (meeting rooms) will be opened ¼ hour before the start time of the meeting. Councillors are reminded to bring their key fobs if they wish to access the area prior to that time. A hearing loop system will be in operation in the Council Chamber.

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

**EAST DEVON DISTRICT COUNCIL**  
**Minutes of a Meeting of the**  
**Audit and Corporate Governance Committee**  
**held at the Council Chamber, Knowle, Sidmouth,**  
**on Thursday 3 December 2009**

**Present:** Councillors:  
Ken Potter (Chairman)  
Tim Wood (Vice-Chairman)  
  
David Atkins  
Peter Bowden  
Bob Buxton  
Chris Gibbings  
Stephanie Jones

**Also Present:** Councillors:  
Andrew Moulding – Portfolio Holder – Resources  
Graham Troman – Member Champion for Data Quality

**External Auditors:** Simon Jones, Grant Thornton

**Officers:** Tanith Cox, Internal Audit and Governance Manager  
Steve Cross, Health and Safety Manager  
Bob Darbourne, Communications and Improvement Manager  
Simon Davey, Head of Finance  
Christopher Holland, Democratic Services Officer  
Diccon Pearse, Corporate Director  
Chris Powell, Head of ICT  
Mark Williams, Chief Executive

**Apologies:** Councillors:  
Derek Button

The meeting started at 2.30 pm and ended at 4.24 pm

**\*20 Public Questions**

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

**\*21 Minutes**

The minutes of the meeting of the Audit and Governance Committee held on 29 September 2009 were confirmed and signed as a true record.

**\*22 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.

**\*23 Annual Audit Letter 2008-09**

Members considered the Annual Audit Letter 2008-09 which had been received from Grant Thornton, the Council's external auditors. Presenting the letter, Simon Jones commented that the Annual Audit Letter summarised the key issues arising from the work undertaken by Grant Thornton during the 2008/09 audit of the authority. The annual audit had included work undertaken regarding the audit of the 2008/09 accounts, assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

**\*23 Annual Audit Letter 2008-09 (cont'd)**

Members noted that the Council had made good progress to improve the accuracy of its accounts. Members also highlighted areas of concern including risk management and internal control which had been commented on in the report. Members felt that recently introduced measures and procedures which would be reported in the 2009/10 audit would tackle any areas of concern.

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

**\*24 Use of Resources Action Plan 2009**

Members considered the report received from Grant Thornton, the Council's external auditors regarding the Council's Use of Resources and associated action plan. Presenting the report, Simon Jones commented that 2009 was the first full year of the new Use of Resources regime and consequently authorities had needed to adjust the methods of data collection and presentation. Members noted that in most areas the Council had scored 2 which was comparable with other local authorities although disappointing from many of the previous year's scores. Members were pleased that the authority scored on comparable levels to other authorities in the key areas of Managing Finances, Governing the business and Managing Resources.

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

**\*25 Implementation of International Financial Reporting Standards (IFRS)**

Members considered the report of the Head of Finance concerning the International Financial Reporting Standards which were being adopted by the Council.

Members noted that International Financial Reporting Standards (IFRS) would be applicable for the 2010/2011 Statement of Accounts. 2009/2010 figures will need to be restated to comply with IFRS, making it necessary to collect data from 1 April 2009. It was noted that in order to successfully convert to IFRS support would be required from several areas of the Council and would have a significant impact on the Finance team. The report highlighted the key issues, the risks involved and the possible resource implications. Members commented that although the exercise was costly and time consuming it was a statutory requirement.

**RESOLVED:** that the requirement to implement IFRS and the potential resource implication issues involved be noted.

**\*26 Health & Safety responsibilities of Elected Members**

Members considered the report of the Health and Safety Manager which detailed the Health and safety responsibilities of Councillors.

It was noted that Members had a responsibility for ensuring the Council's health and safety arrangements were adequate. Members also needed to consider health and safety implications when making decisions on behalf of the Council or their electorate. It was noted that the Council's insurers, AIG, had been asked to provide a half-day course "Health and Safety briefing for Elected Members" which would take place at the Council free of charge.

**RESOLVED:**

- 1) that the report be noted.
- 2) that all members of the Council be invited to attend the Health and Safety briefing for Elected Members to be run by the Council's insurers, AIG.

**\*27 Response to ICT Action Plan – ICT Services**

Members considered the report of the Audit & Governance Manager relating to the audit the ICT service. Members noted that the audit into the Council's ICT arrangements during 2008/09 had culminated in a report and action plan being presented to the Committee in January 2009. Following this, Internal Audit's Annual Report presented to the Committee in June 2009 had highlighted the weaknesses found in this area and the fact that there was currently no ICT audit expertise to conduct the follow up to the review to ensure that the recommendations made and agreed were being implemented. At that meeting the Chief Executive confirmed that it was appropriate to seek an interim report from the Head of ICT on the progress being made in implementing recommendations.

Members were particularly concerned regarding the Novell-Microsoft migration which had a cost estimate of £47,000 (business case), an agreed Budget of £50,000 but the total cost at the date of the audit was £157,509 (October 2008). The Head of ICT, reporting to Members, explained that a major factor was that a large number of items had been miscoded against other projects. There was still an overspend but after correction had been made to the coding the level of the overspend was much less. The Head of ICT stated that although there had been overspends, the total budget provision for the service and portfolio had been within budget. Members requested that a more detailed financial report showing expected and actual expenses for ICT be presented to the next meeting of the Committee.

Members were disappointed that the Portfolio Holder, Communications was again not present for the ICT related item.

- RESOLVED:**
- 1) that the report and action plan be noted.
  - 2) that the Head of ICT provide a detailed financial report showing ICT expected and actual expenses for 2008 and 2009 at the next meeting of the Committee.
  - 3) that that the Portfolio Holder, Communications be asked to attend the next meeting of the Committee when discussing the report agreed in (2) above.

**\*28 Internal Audit activity report for the period:  
1 October to 31 December 2009**

Members considered the report of the Audit & Governance Manager which highlighted Internal Audit activity for the third quarter, indicating where audits were progressing well and identified those that had slipped against the internal audit plan.

Members noted the progress made and were also informed of the audits that remained outstanding. The report also gave a brief details on the staffing situation within the Council's Audit and Governance section.

After reviewing the attached Audit Report Executive Summaries, Members were concerned at the use of the Constructionline system within Housing Services. It was noted that the use of Constuctionline and the associated procedures within the service had already been discussed with the relevant Officers. Members requested however, that the matter be drawn to the attention of the Portfolio Holder, Communities.

Members expressed concern regarding the issue of counterfeit £1 coins collected from car parking ticket machines. It was noted that the Royal Mint did not provide the Car Parks Contractors with receipts for coins returned and therefore no appropriate monitoring was in place. Members noted that Internal Audit would write a follow up report for the next meeting of the Committee after additional enquiries.

**\*28 Internal Audit activity report for the period:  
1 October to 31 December 2009 (cont'd)**

- RESOLVED:**
- 1) that the report be noted.
  - 2) that the Portfolio Holder, Communities be made aware of the Audit report on the use of Constructionline lists and tendering processes within the Housing Service.
  - 3) that Internal Audit produce a follow-up report on the level of counterfeit coins received from Car Parks.

**\*29 Corporate Governance activity for the period:  
1 October to 31 December 2009**

Members considered the report of the Audit & Governance Manager 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.

The Member Champion for Risk Management noted reported that new Corporate Risk Register had been placed online on the Members Home Page for viewing and would be updated weekly. He also made reference to an instruction document which would guide members when using the online CRR on the Members' webpage.

The issue of anti fraud and security checks for new employees, particularly agency workers was highlighted by Members who felt that there should be a low level of checking when employees started with the authority.

Progress was reported on the National Fraud Initiative work being completed in the Council and the complementary work now being undertaken relating to the Council's counter-fraud arrangements. Members were made aware of some improvements that could be made, primarily within Housing Services and a summary report detailing these improvements has been submitted to the Council's Chief Executive. Final reports detailing both the outcome of the NFI exercise for 2008/09 and the complementary counter-fraud arrangements report would be submitted to the Audit & Governance Committee in March 2010.

- RESOLVED:**
- 1) that the report be noted.
  - 2) that the establishment of the new Corporate Risk Register be supported.
  - 3) that the Chief Executive ensures minimal antifraud/security checks are carried out by Human Resources when new employees commence a contract with East Devon District Council.
  - 4) That a report detailing the outcome of the NFI exercise be presented to the Committee in March 2010.
  - 5) That a report detailing the improvements the Council should make to its counter-fraud arrangements be presented to the Committee in March 2010.

**\*30 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).

**\*31 Results of Computer Audit and Internal Audit Tender Exercise**

Members of the Committee considered the report of Internal Audit and Governance Manager regarding the award of the Computer Audit Tender and an Internal Audit Tender.

**RESOLVED:** that the appointment of the successful Computer Audit and Internal Audit providers be approved.

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





Grant Thornton

East Devon District Council

Grants Report 2008-09

January 2010

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<b>2 Detailed findings</b>	<b>3</b>

#### **Appendices**

- A Approach and context to certification**
- B Details of claims and returns certified in 2008-09**
- C Action plan**

# 1 Executive summary

## Introduction

- 1.1 The Council received six grant claims and returns from government departments and other bodies requiring external audit certification in 2008-09, representing income in excess of £57 million.
- 1.2 Grant Thornton, as the Council's external auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-9 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, who agree the scope of the work with each relevant government department or agency and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 A summary of all claims and returns subject to certification is provided at Appendix B, together with the certification fee and outcome of our review.
- 1.7 The key messages from our review are summarised in Exhibit one below, and set out in detail in the next section of the report.

### Exhibit one: Key messages

Aspect of certification arrangements	Action
Compared to 2007-08, the Council's has successfully reduced the number of claims subject to amendment and qualification, and has submitted a higher percentage of claims within the required deadline. We commend the Council for the significant progress that has been made.	The Council can further improve this performance through implementing the recommendations included at Appendix C.

#### Arrangements for certification:

- amounts claimed below £100,000 - no certification
- amounts claimed between £100,000 - £500,000 - agreement to underlying records
- amounts claimed over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Aspect of certification arrangements	Action
Opportunities for improvement have been identified in the Council's working papers and overall management arrangements, which can help the Council further reduce the claims subject to amendment or qualification.	The Council can further improve the accuracy of claims and returns by introducing a formal working paper structure and management review process.
The Council has made significant progress in the accuracy of its housing revenue account base data return, addressing the full qualification in 2007-08. However there remain two points where qualification remains extant.	<p>The following evidence should be provided to support entries in the claim form:</p> <ul style="list-style-type: none"> <li>• construction dates for the Council's dwellings; and</li> <li>• rent caps and limits for each dwelling, as required by the 'Caps and Limits Model' provided by Communities and Local Government.</li> </ul>

### The way forward

- 1.8 We have made a number of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will further assist the council in compiling accurate and timely claims for certification. This will reduce the possible risk of penalties for late submission, potential repayment of grant and additional certification fees, in the event of any amendments or qualifications.
- 1.10 The new use of resources assessment in 2009 required auditors to consider the results of certification work when undertaking the use of resources assessment, including, in particular, the impact of housing and council tax benefit testing on data quality. The 2010 assessment will be further integrated with grant certification work, including consideration of the outcome of a wider range of grant claims.

### Acknowledgements

- 1.11 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

January 2010

## 2 Detailed findings

### Introduction

- 2.1 This section of the report summarises our detailed findings arising from the certification of grants and returns in 2008-09. Further details of the individual grants that have been certified are provided at Appendix B and the Action Plan at Appendix C sets out our recommendations and improvement opportunities arising from the certification of individual grants.

### Performance against targets

- 2.2 Exhibit two summarises the Council's performance against key certification performance targets for the six claims and returns submitted for certification in 2008-09 compared to the nine claims and returns in 2007-08.

#### Exhibit two: Performance against key certification targets

Performance measure	Target	Achievement in 2008-09		Achievement in 2007-08		Direction of travel
		No.	%	No.	%	
Number of claims submitted on time	100%	5	83%	7	78%	↑
Number of claims certified on time *	100%	6	100%	9	100%	↔
Number of claims amended by the auditor	0%	3	50%	8	89%	↑
Number of claims qualified by the auditor	0%	1	17%	4	44%	↑

\* The certification deadline is that prescribed by the grant paying body as advised by the Audit Commission, or if a claim is received after the submission deadline, within three months of receipt. For 2008-09 this includes the HOU02 claim certified within the extended deadline as agreed with Communities and Local Government.

- 2.3 This analysis of performance against targets shows that:
- the Council has significantly reduced the number of claims subject to amendment or qualification, reflecting improved accuracy in completing the claim forms and, adherence to the terms and conditions of each scheme;

- the nature and value of amendments made were not significant and have no ongoing impact and, therefore are not expected to reoccur in 2009-10;
- there was commendable improvement in the quality of the one remaining claim subject to qualification, as a large number of cells were qualified in 2007-08 compared to two remaining points in 2008-09;
- the percentage of original signed claims received by Grant Thornton by the Council's deadline has improved, however one claim was submitted late in 2008-09. An original signed claim form should be received by Grant Thornton's Bristol office by the deadline specified by the relevant Government department; and
- all claims were certified by the deadlines agreed with the Government department, as in 2007-08, including the processing of amendments.

2.4 We charged a total fee of £31,275 against a budget of £26,000 for the certification of claims and returns in 2008-09, this budget was estimated prior to our 2007-08 certification work. The figure charged is consistent with the fee of £30,221 charged in 2007-08 and reflects additional work performed to ensure:

- that an unqualified opinion was issued for the housing and council tax benefit scheme; and
- that the number of cells qualified on the housing revenue account subsidy base data return was minimised.

2.5 Details of fees charged for specific claims are included within Appendix B.

### **Management arrangements**

2.6 Good arrangements are required for successful management of the certification of grant claims and returns. The results of our review of aspects of the management arrangements in place are set out below. Associated recommendations for improvement are included at Appendix C.

#### **Grants co-ordination**

2.7 The majority of the Council's claims and returns are prepared by finance, however there is no overall grants co-ordinator in place. Without a central contact managing the submission of claims, there is an increased risk that the Council will not meet the required deadlines.

2.8 Following our recommendation to nominate a grants co-ordinator in 2007-08, the Council decided to introduce a central register of claims and returns to be updated by the officer responsible for submitting each claim.

#### **Submission procedures**

2.9 In order to meet the Council's submission deadline an original, signed, version of the claim form must be received by external audit by the deadline specified by the relevant department. Missed deadlines can cause in delays to certification and may result in penalties being imposed by the awarding body.

- 2.10 The Council should ensure that original, signed, version of each claim form is received in Grant Thornton's Bristol office before the specified deadline.

#### Compilation procedures

- 2.11 An adjustment was required to the disabled facilities grant as a result of changes to the terms and conditions of the scheme not being noted. If guidance is not monitored for changes to the terms and conditions associated with each grant, amendments or qualification may be required and, adjustments may be made to the funding awarded to the Council.

#### Quality of working papers

- 2.12 Working papers have been provided for all claims subject to certification and, whilst the required information is initially provided for most claims, the overall standard of documentation varies and is not consistently of a high standard. Incomplete working papers result in increased auditor time and, require additional officer time to address queries raised.
- 2.13 Working papers should be provided in a standard file format, including evidence to support each cell subject to certification, dated and referenced to the claim and, should include the preparer's name.

#### Independent review

- 2.14 There is limited evidence of independent review for the majority of claims submitted for certification. Independent review can identify errors that may otherwise result in adjustment or qualification as a result of our work. We also consider the extent of review when determining the amount of detailed testing to perform.
- 2.15 Each claim form and its associated working papers should be subject to independent review by another officer prior to submission for certification.

#### Significant findings in relation to individual claims and returns

- 2.16 A summary of all claims and returns we have certified is attached at Appendix B, together with the certification fee and outcome of our review.
- 2.17 Of the claims and returns submitted for certification the most significant findings were in relation to the following claims:
- housing revenue account subsidy base data return; and
  - housing and council tax benefits scheme.
- 2.18 Specific details on these schemes follow and recommendations for improvement are included at Appendix C.

#### Housing revenue account subsidy base data return

- 2.19 This claim was qualified in 2007-08 as the Council was not able to support the classification of its dwelling stock between the categories required on the claim. The Council has invested significant time to carry out a stock survey, resulting in improvements in the accuracy of the data held relating to the Council's housing stock, however eight cells remain qualified in 2008-09.

- 2.20 The key issue relates to the date of construction of each dwelling. The Council has been unable to support the split of the total number of dwellings by date of construction on the claim form. Without further review of the Council's housing stock to determine the construction date of each property, these cells will continue to be qualified in future years.
- 2.21 In addition, a spreadsheet is provided by CLG to calculate the figure for the average weekly constrained transitional rent, however the Council does not have the data required for the calculation of this cell. Without this data, this cell will continue to be qualified in future years.

#### **Housing and council tax benefits scheme**

- 2.22 The Council requires benefits assessors to process all changes in circumstances on Academy, the benefits system, however our testing identified a small number of changes that do not affect claimants' entitlement that were not processed. If a further change in circumstances occurs, those previous changes that were not processed may affect the claimant's entitlement and therefore subsidy paid. We support the Council's policy to process all changes and recommend that staff continue to be reminded of the requirement to process such changes.



## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £100,000 - no certification required;
- for amounts claimed above £100,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council; and
- for amounts claimed over £500,000 - certifying that the claim agrees to underlying records of the Council and an assessment of the control environment. Where reliance is not placed on the control environment, detailed testing is performed.

### Roles and responsibilities

The following table sets out the roles and responsibilities of the parties involved in the certification of claims and returns.

Party	Role and responsibility
Grant paying body	Sets grant conditions and the deadlines for submission of the pre-certificated and certified claim
Audit Commission	Issues certification instructions
Council	Submits claims and returns to the Appointed Auditor within grant paying body submission deadlines. Ensures adequate documentation is maintained to support compilation of claims and returns.
Appointed Auditor	Certifies claims in accordance with Audit Commission instructions and within certification deadlines.

### Scope

We assess the Council's arrangements for submission of grant claims for certification. We do not review the Council's wider arrangements for managing external funding or maximising its entitlement to external funding.

## B Details of claims and returns certified in 2008-09

Ref	Claim	Claim value (£)	Amended? Y/N	Amendment value (£)	Qualified? Y/N	Budgeted fee (£)	Actual fee (£)
BEN01	Housing and council tax benefits scheme	28,468,727	N	N/A	N	-	19,633
CFB06	Pooling of housing capital receipts	166,241	Y	(25)	N	-	895
HOU01	Housing revenue account subsidy	5,358,394	N	N/A	N	-	1,860
HOU02	Housing revenue account subsidy base data return	Non-financial	Y	Non-financial	Y	-	4,538
HOU21	Disabled facilities	381,915	Y	0 *	N	-	835
LA01	National non-domestic rates return	22,938,132	N	N/A	N	-	3,515
<b>TOTAL</b>		<b>57,313,409</b>	<b>-</b>	<b>(25)</b>	<b>-</b>	<b>26,000</b>	<b>31,275</b>

\* Note that two cells were amended on the HOU21 claim, as a result of a reclassification of £19,538 which had no overall effect on the claim value.

## C Action plan

Ref	Claim	Recommendation	Priority	Management response and implementation details
-	All schemes	The Council should ensure that original, signed versions of each claim form is received by Grant Thornton's Bristol office before the specified deadline.	Medium	This will be done. Officer responsible for making the claim Now
-	All schemes	A standard working paper file structure should be introduced that includes: <ul style="list-style-type: none"> <li>• terms and conditions for each grant claim and evidence of compliance with them;</li> <li>• working papers to support each cell subject to certification, dated and referenced to the claim, and should include the preparer's name; and</li> <li>• evidence of independent review prior to submission for certification.</li> </ul>	High	This will be done although a view will be taken on a claim by claim basis on the appropriateness of an independent review depending on risk and additional staff time required. Head of Finance Now
BEN01	Housing and council tax benefit scheme	The Council should continue to ensure that assessors comply with the Council's policy to process all changes in a claimant's circumstances, even if the change does not affect entitlement, at the time it is made.	Medium	Will continue with this policy. Head of Finance Already in place

Ref	Claim	Recommendation	Priority	Management response and implementation details
BEN01	Housing and council tax benefit scheme	The Council should further investigate whether an SQL (Structured Query Language) report can be generated from Academy showing all the system parameters being used. If run, this should be included in the working papers for this claim.	Low	We will enquire if SQL available when completing the 2009/10 subsidy claim. Benefits Systems Officer (MLJ) Next claim submission
HOU02	Housing revenue account subsidy base data	Construction dates for the Council's dwellings should be obtained and evidenced to demonstrate the classification between the categories on the claim form is correct.	High	Confirmation is to be sought from the DCLG as to the necessity of this information. Details are held on the Council housing system but no independent confirmation is available. The only method of verification would be survey work at a cost to the Council. Head of Finance Letter to be sent to DCLG January 2010
HOU02	Housing revenue account subsidy base data	The Council should ensure that information is available to complete the 'Caps and Limits' spreadsheet provided by CLG.	High	Confirmation is to be sought from the DCLG as to the necessity of this information. This information was not required previously and has now become a new requirement. Although raised by our auditors no action was required from DCLG, however confirmation is required for future claims. Head of Finance to confirm with DCLG if information is required for future claims. If so the responsibility to provide this information rests with the Rental Team which is managed by the Head of Housing. Letter to be sent to DCLG January 2010. If spreadsheet required then to be completed for next claim submission.

**Financial Statements Plan**  
**East Devon District Council**  
**For the year ended 31 March 2010**

Barrie Morris  
Engagement Lead  
T 0117 305 7708  
E [barrie.morris@gluk.com](mailto:barrie.morris@gluk.com)

Kate Jefferies  
Audit Manager  
T 0117 305 7678  
E [kate.jefferies@gluk.com](mailto:kate.jefferies@gluk.com)



To the Audit and Governance Committee of East Devon District Council

The purpose of this plan is to highlight the key elements of the audit work to be undertaken on the financial statements of East Devon District Council for the year ended 31 March 2010. This report has been written for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the expectations of the Audit Commission.

We set out in this report our statutory responsibilities under the Code of Audit Practice. Most significant is our responsibility to provide an opinion on the Council's financial statements, including the Annual Governance Statement, which should be issued by 30 September 2010.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention.

We look forward to continue working with the Council over the next year.

Grant Thornton UK LLP

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT  
T +44 (0)117 305 7600  
F +44 (0)117 305 7784  
DX 78112 Bristol  
www.grant-thornton.co.uk

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# 1 Our audit approach

## 1.1 Introduction

This plan sets out the work to be undertaken for the audit of the 2009-10 financial statements. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- our Code of Audit Practice responsibilities;
- current national risks relevant to the Council's local circumstances; and
- our assessment of the Council's local risks and improvement priorities, based on outcomes of our recent audit of its 2008-09 financial statements.

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended Practice (SORP).

We are required to audit the financial statements and to give an opinion as to whether:

- they present fairly the financial position of the Council and its expenditure and inform for the period in question;
- they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

From 2010-11, the Council is required to prepare its statement of accounts under International Financial Reporting Standards (IFRS) based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. Therefore 2009-10 will be an important year in this process as the Council will be required to restate its balance sheet as at 1 April 2009 and its 2009-10 financial statements to provide the comparatives for its first IFRS accounts.



## 1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff.

Our audit strategy comprises:

- updating our understanding of the Council through discussions with management and Internal Audit;
- reviewing the Council's Internal Audit service, to determine whether it complies with the requirements of CIPFA's Code of Practice on Internal Audit and the extent to which we can take assurance from its work;
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements;
- reviewing the adequacy of the Council's general controls in respect of its information technology (IT);
- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures;
- testing the operating effectiveness of the internal financial controls, where we consider it appropriate to rely on controls;
- reviewing the adequacy of material disclosures in the financial statements;
- maintaining regular contact with officers to discuss emerging issues and any new accounting or auditing requirements;

- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams; and
- ensuring that balances reported in the Council's Whole of Government Accounts (WGA) consolidation pack are consistent with the financial statements.

## 1.3 Identified high risk areas

In summary, our audit approach, in respect of high risk areas will be as follows:

- we will work with the Council regarding accounting developments that will impact on the 2009-10 financial statements, in particularly relating to the 2009 SORP and International Financial Reporting Standards (IFRS); and
- we will discuss with the Council the arrangements it has put in place to address any recommendations arising from the outcomes of our 2008-09 audit, particularly in relation to Internal Audit and audit amendments.

These are detailed further in section 2 below.

## 1.4 Materiality

We consider an item to be material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer present fairly the transactions, assets and liabilities of the Council.

Materiality is set at the planning stage of the audit to ensure that an appropriate level of work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed both individually and in aggregate, discussed with you and, if you decide not to adjust the financial statements for them, we will request that you confirm in

your letter of representation to us your view that they are not material to the financial statements.

Even if an item or balance is of low value, below the level of materiality, it might be judged material because of its nature, for example any item that affects the disclosure of individuals' emoluments. Equally, an item of higher value may be judged not material if it does not distort the fairness of the financial statements.

### **1.5 Internal controls**

We are required to evaluate the design of the Council's internal controls over risks, which could lead to material misstatement in the financial statements and determine whether they have been implemented effectively. Our emphasis will be on identifying and obtaining an understanding of control activities that address the areas where we consider material misstatements are more likely to occur.

We plan to carry out this work prior to the financial year end, i.e. undertake an interim audit visit in advance of when we carry out our audit of the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our audit, we identify any control weaknesses, we will report these to the Council.

In consequence, our work cannot necessarily be relied upon to disclose deficiencies or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

### **1.6 Use of the work of Internal Audit**

We review Internal Audit's overall arrangements against the CIPFA Internal Audit Standards to ensure that they are adequate to produce robust and reliable work. Where the arrangements are considered to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that, the service in itself, is contributing positively to the internal control environment and overall governance arrangements within the Council.

In accordance with professional standards and our audit approach, a comprehensive review of the Internal Audit service is only undertaken every three years, unless there is an indication that a more frequent review is required.

We completed a full review of the Council's Internal Audit service in 2007-08. For 2009-10, our work will involve reviewing the Council's progress in implementing the recommendations raised from our full assessment and ensuring that there have been no significant changes to the Internal Audit service. With the involvement of external service providers, we will undertake specific work in relation to their use and the work they perform.

In addition, where Internal Audit has completed specific work and detailed testing on an area that we have determined as representing an accounts risk to the Council's financial statements, we will review this work in detail, to establish whether we can place reliance upon the testing undertaken and the conclusions reached. Where we seek to place reliance on specific areas, we undertake re-performance work to ensure that we would have drawn the same conclusions from the testing undertaken and resultant findings. This approach ensures that we maximise the assurance gained from Internal Audit's work in addressing the risk factors we have identified from our overall review of the financial statements and minimises the duplication of audit work.

### **1.7 Audit of IT systems**

Our audit approach requires a review of the Council's internal controls in the IT environment, as the Council uses computer systems for accounting applications that process a large number of transactions.

As in previous years, we will involve our information specialists to undertake this element of the audit.

## 2 Key audit issues and financial reporting matters

We have set out below our detailed risk assessment for our audit of the 2009-10 accounts. This risk assessment reflects both national developments and issues as well as local risks that have emerged during the course of our 2008-09 audit and the year to date. We will keep our risk assessment under review, and if necessary, amend this plan.

We will report to you in our annual report to those charged with governance (ISA260) our findings and conclusions in respect of each of the risks that we have identified at the planning stage of the audit. We plan to present our ISA260 report to the Council's Audit and Governance Committee following the conclusion of our financial statements audit in September 2010.

### 2.1 National and other financial reporting matters

Issue	How we plan to respond
<p><b>SORP 2009 - Accounting for national non-domestic rates and council tax</b></p> <p>The 2009 SORP has introduced changes in the accounting for national non-domestic rates and council tax. Local authorities will now be required to account for transactions on an agency basis, meaning the Council should only account for its own share of debtors and creditors in the balance sheet.</p> <p>There is a risk that the Council does not correctly account for these changes.</p>	<p>We will discuss with the Council this new accounting requirement and provide feedback on any changes in accounting and disclosures that are needed to comply with the SORP.</p>

Issue	How we plan to respond
<p><b>International Financial Reporting Standards (IFRS)</b></p> <p>CIPFA confirmed that local authorities are required to account under International Financial Reporting Standards from 1 April 2010. The 2009-10 accounts will require restatement on an IFRS basis to provide the comparative data for the first set of IFRS accounts for the financial year 2010-11.</p> <p>There is a risk that the Council has not put adequate arrangements and systems in place to manage this transition and collate the required information to address new accounting and disclosure requirements. In particular, risk areas include asset valuation, leasing, component accounting and employee benefits.</p>	<p>We are working with the Council's finance team to ensure that arrangements are in place to implement its IFRS transition plan and we will monitor progress against this plan throughout the year. We will engage in regular dialogue over areas that require consideration, as identified in the Council's transition plan.</p> <p>We will provide advice and support to the Council on the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experience of IFRS transition from other public sector bodies and the commercial sector.</p> <p>If requested, we can undertake work to review restated figures before the 2010-11 accounts are prepared, the scope of which could be determined by the Council.</p>

## 2.2 Key local audit matters

Issue	How we plan to respond
<p><b>Internal Audit service</b></p> <p>In 2008-09, we made a number of recommendations in our interim report in relation to the Internal Audit service's compliance with the CIPFA Internal Audit Standards. In addition, during 2009-10 this service has continued to experience challenges in the delivery of the audit plan within the existing resources. As a result the Council has contracted two separate audit services to deliver the core financial audits and IT audit.</p>	<p>We have continued to discuss the Internal Audit service provision with the Council during the course of the year, supporting the progress made to ensure a full risk based audit plan is delivered.</p>
<p>There are a number of associated risks, which are:</p> <ul style="list-style-type: none"> <li>• our previous recommendations relating to full compliance with the CIPFA Internal Audit Standards have not been implemented;</li> <li>• the scope of the work to be completed by contracted services was not clear or sufficient resulting in the objectives of the review not being met;</li> <li>• the quality of the work provided by contracted services does not meet the standards required by the Council; and</li> <li>• the process to contract out services detracts from the delivery of the in-house service provision.</li> </ul>	<p>At our interim audit we will review progress against the recommendations made in previous years. In addition to this update, we will undertake specific work in relation to the work performed by the two external service providers. This will include a review of the audits undertaken to support the reports prepared and assurances given.</p>

Issue	How we plan to respond
<p data-bbox="395 1473 416 1924"><b>Amendments to the 2008-09 accounts</b></p> <p data-bbox="443 1108 598 1924">Following our audit of the Council's 2008-09 accounts, a number of amendments were made before the final version was approved. There is a risk that appropriate arrangements and processes are not put in place to avoid similar amendments being identified again. Key areas of risk and focus include:</p> <ul data-bbox="630 1108 845 1924" style="list-style-type: none"> <li>• earmarked reserves meeting the criteria for separate identification from the general fund;</li> <li>• cash flow statement being SORP compliant and fully reconciled; and</li> <li>• correct classification and disclosure of a number of balances, including government grants and capital contributions, financial statements and FRS17.</li> </ul>	<p data-bbox="395 280 502 1070">We have met with the Council's finance team to discuss the amendments identified in the 2008-09 audit and, to provide support for the Council's development of the preparations in these areas.</p> <p data-bbox="518 280 678 1070">As part of our interim audit we will review progress against the recommendations made in our 2008-09 ISA260 report. We will consider whether the Council has adequate arrangements in place to implement the recommendations when preparing the accounts, including whether time and resources are allocated in the closedown timetable.</p> <p data-bbox="694 280 774 1070">Following the final accounts audit we will report whether the Council has adequately prepared the accounts and, identify any areas for further improvement if necessary.</p>
<p data-bbox="922 1512 943 1924"><b>Local Government Reorganisation</b></p> <p data-bbox="970 1108 1189 1924">The Boundary Committee have now made their final recommendations to the Secretary of State to form a single unitary council in Devon. Whilst the final decision has yet to be made by the Secretary of State and the timescale for any change, should it be required, has yet to be determined, there creates a further risk of uncertainty for staff which may result in key staff leaving the Council resulting in insufficient capacity to produce high quality accounts.</p>	<p data-bbox="922 280 1061 1070">We will continue to monitor the developments in this area and assess the Council's response to emerging issues. We will highlight areas of concern with management and those charged with governance, where appropriate, to discuss the arrangements to be put in place to resolve any weaknesses.</p>

## 3 Administration

### 3.1 Engagement team

Our senior team for the audit is unchanged from last year and, we are reintroducing Chris Roach as the in-charge auditor. Contact details for them are shown below.

Name	Role	Contact details
Barrie Morris	Engagement lead	T: 0117 305 7708 E: <a href="mailto:barrie.morris@gtuk.com">barrie.morris@gtuk.com</a>
Kate Jefferies	Audit manager	T: 0117 305 7678 E: <a href="mailto:kate.jefferies@gtuk.com">kate.jefferies@gtuk.com</a>
Chris Roach	In charge auditor	T : 0117 305 7720 E: <a href="mailto:chris.roach@gtuk.com">chris.roach@gtuk.com</a>

### 3.2 Fees

We proposed our audit fee for 2009-10 in a separate fee letter to the Council dated 10 March 2009, which was agreed with management. This was ratified by the Council at its Audit and Governance Committee on 26 March 2009. The agreed fee in relation to the audit of the financial statements is £67,500, part of the total fee of £109,500. This is shown in the following table.

Audit area	Planned fee 2009-10	Actual fee 2008-09
Financial statements	£67,500	£62,500
Use of resources / VFM conclusion	£40,500	£39,400
Whole of government accounts	£1,500	Included above
<b>Total audit fee</b>	<b>£109,500</b>	<b>£101,900</b>
Grants fee	£30,000	£31,275

In setting the fee, we have assumed that:

- the Council will inform us of significant developments impacting on our audit;
- internal audit will meet the appropriate professional standards;
- internal audit undertakes sufficient appropriate work on all systems that provide material figures in the financial statements so that we can take necessary assurances from their work for the purposes of our audit;
- good quality working papers and records will be provided to support the financial statements by 30 June 2010;

- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports.

Sanderson, or Grant Thornton's National Head of Government Audit, Sarah Howard.

### 3.3 Information required

We will issue a client arrangements letter to the Council setting out the specific information and working papers requirements for our audit. We will issue this to the Council by 31 January 2010.

### 3.4 Specialist support

The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- IT audit specialists;
- governance and risk assurance specialists; and
- technical accounting specialists.

### 3.5 Independence

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix A.

### 3.6 Quality assurance

We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact Barrie Morris as engagement lead, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (Southern), Bill



## A The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement lead and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Governance Committee. The auditor reserves the right, however, to communicate directly with the Executive Board matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and

- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as non Code work in the plan.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Engagement Lead;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;

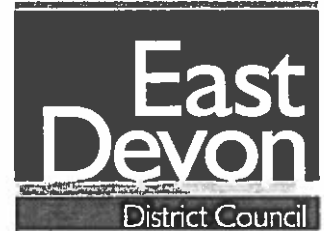
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the Engagement Lead and the Manager to be changed on each audit at least once every five years;
- audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and
- the Commission must be notified of any change of Manager within one month of making the change. Where a new Engagement Lead or Manager has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

## Agenda Item 9

**Audit and Corporate Governance Committee**

**21 January 2009**

**DP**



### **Audit and Governance TaFF – progress in delivering action plan**

#### **Summary**

Members received the final report of the Audit and Governance Taff at its meeting on 25 September 2008. Attached to this report is a commentary on the actions taken in respect of the recommendations adopted by the Committee.

#### **Recommendation**

**That the progress made to action the recommendations of the Audit and Governance TaFF be noted.**

#### **a) Reasons for Recommendation**

Having adopted a number of recommendation it is important for Members of the committee to be satisfied with the actions taken to date and the proposed timetable for implementing those still to be addressed.

#### **b) Alternative Options**

None considered

#### **c) Risk Considerations**

Grant Thornton, in their Use of Resources (UoR) judgement, advised the Council of the need to implement the recommendations contained within the TaFF report. Failure to follow advice of this nature will reflect in the UoR score achieved by the Council.

#### **d) Policy and Budgetary Considerations**

None identified

#### **e) Date for Review of Decision**

N/A

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### **1 Main Body of the Report**

- 1.1 At its meeting on 25 September 2008 the Committee gave consideration to the report of Diccon Pearce, Corporate Director, regarding the recommendations arising from the Audit and Corporate Governance Task and Finish Forum.
- 1.2 The TaFF had been established to review the structure and conditions of the Internal Audit and Governance team and to address the matters (real or perceived) listed in a report to the committee on 27 March, together with corporate governance and risk management issues.

- 1.3 Members agreed that the recommendations of the Audit and Corporate Governance Task and Finish Forum be adopted by the Council. They further agreed that 4 members be appointed to the Corporate Risk Management Group.
- 1.4 The attachment lists the recommendation adopted by the Committee together with a commentary of the actions taken against those where it was appropriate to do so.
- 1.5 Of the matters raised perhaps the most pressing concern for Members was the ability of the Council to deliver the Annual Audit plan. The TaFF were advised the JE exercise had resulted in lower grades in a number of support services, including Internal Audit, and that the market supplement policy had been applied in order to help in the recruitment and retention of staff to hard to fill posts. The service also had difficulty in attracting and at times retaining suitably qualified contract auditors.
- 1.6 The decision to recruit 2 trainee auditors and retain the services of a contract auditor was only partially successful. To address the position the Committee resolved to reduce the number of audits undertaken, restricting activity to higher risk areas, and to supplement internal resources by contracting out a range of audits. The results of that exercise are reported elsewhere on this agenda.
- 1.7 Of those recommendations adopted 2 remain unactioned at the time of reporting.

### **Legal Implications**

There are no legal implications highlighted within the report.

### **Financial Implications**

There are no financial implications identified.

### **Consultation on Reports to the Executive**

N/A

### **Background Papers**

- Report to the Audit and Corporate Governance Committee 25 September 2008
- Appendix A – Recommendations of the Audit and Governance TaFF.

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Diccon Pearse  
Corporate Director

Audit and Corporate Governance Committee  
3 December 2009

Recommendations of the Audit and Governance TaFF adopted by the Committee on 25 September 2009

	Recommendations	Comment
1.	<p><u>Staffing</u></p> <p>1.1 That the option "to proceed with interviewing candidates for 'trainee auditor' and retain the existing contractor on an 18 – 24 month fixed term contract with a view to training two trainees" be the preferred option; with a review of the remaining options if the first option is unsuccessful.</p>	<p>Recommendation acted upon with the appointment of 2 trainees. The contractor at that time terminated their contract late summer 2008 and one of the trainees resigned early 2009. The contractor was replaced but not the trainee. It was recognised having 2 junior members of staff placed a heavy burden on the team with the external contractor bearing the brunt of the day to day supervision and mentoring. This was not a particularly good use of resources. In recognition of the staffing position the A&amp;G committee revised the 2009-10 audit plan with resources being used to complete high risk audits. In addition the committee resolved to place a number of audits with an external contractor.</p>
1.2	<p>That the Auditor post be removed from the establishment to leave three grades namely, 'trainee auditor (scale 4), senior auditor (scale 6), and principle auditor (scale 7), plus the Internal Audit and Governance Manager.</p>	<p>Noted</p>
2.	<p><u>Role of Finance Director and Independence of Internal Audit</u></p> <p>To facilitate effective internal auditing and the independence of the audit service the principles set out in section 9.26 of the Statement on the Role of the Finance director in local government, published by the Chartered Institute of Public Finance and Accountancy</p>	<p>Adopted</p>
3.	<p>The Corporate Director reviews the Financial Regulations to clarify the reporting line between the Internal Audit and Governance Manager and the Audit and Governance committee.</p>	<p>The Financial Operating Provide acknowledges the independence of the position of Internal Audit and Governance Manager. Section 3.56 provides:</p> <p>The key controls for internal audit are: (a) that it is independent in its planning and operation</p>

		<p>(b) the Internal Audit and Risk Manager has direct access to the Head of Paid Service, all levels of management and directly to elected members</p> <p>This is considered to be appropriate.</p>
4.	The Internal Audit and Governance Manager to attend 'Heads up' meetings.	<p>In 2008-09, with local government review high on the agenda, the Chief Executive enlarged his Strategic Management Team (SMT) with the inclusion of Heads of Services who had previously attended 'Heads Up'.</p> <p>Much of what is debated at SMT appears on the agenda of the forum for senior managers referred to as 'News and Views'. This meets on a regular basis, is Chaired by the Chief Executive and routinely attended by Heads of Service and Corporate Directors who will lead on many of the items. The Internal Audit and Governance Manager has attended these meetings.</p>
5.	The Internal Audit and Governance Manager to produce an Internal Audit Strategy, containing a forward signed by the Chief Executive/Chairman of the Audit and Governance Committee.	<p>Not yet actioned due to other work commitments.</p> <p>Responsible officer: T Cox</p>
6.	Once produced, the Internal Audit Strategy be circulated throughout the Council.	See above
7.	New starter packs include Internal Audit guidance documents.	<p>New starter induction packs are now held on the intranet and not in a hard copy format. This to be updated in due course with a section dedicated to the internal audit service.</p> <p>Responsible officer: T Cox</p>
8.	That the Risk Management Group consisting of the Member Champion for Risk Management; the Chairman and/or Vice Chairman of the Audit and Corporate Governance Committee; the Internal Audit and Governance Manager; and appropriate Heads of Service be reconvened;	<p>The group has met on a number of occasions and has undertaken a review of the Corporate Risk Management Policy, Strategy and Toolkit. Attendance by Heads of Service is on a needs basis.</p>
9.	That the risk management group be tasked with responsibility for reviewing the adequacy of the current risk register and, if	<p>The CRM group agreed with officers that the current risk register should be replaced. As the Council already uses the Spar.net</p>

<p>appropriate, its replacement with one that meets the following principles</p> <ul style="list-style-type: none"> <li>• that the corporate risk register must be updated annually when necessary and reviewed;</li> <li>• that individual service heads and managers must take responsibility for identifying risks within their service areas and actions required to mitigate them;</li> <li>• that the corporate risk register must be: <ul style="list-style-type: none"> <li>▪ easy to use</li> <li>▪ visible</li> <li>▪ a live system, to identify potential areas for action</li> <li>▪ completed and updated by the relevant head of service and/or manager</li> </ul> </li> <li>• that the risk register should incorporate: <ul style="list-style-type: none"> <li>▪ corporate risks that are common across services</li> <li>▪ operational risks specifically related to a service</li> </ul> </li> <li>• that the risk register must be accessible to internal audit in full</li> <li>• that the risk assessment on corporate level strategies should be undertaken by senior management.</li> <li>• audit's role is to review the risk register to ensure procedures are carried out correctly.</li> </ul>	<p>system it was further agreed the risk register module be utilised. It was also agreed Heads of Service would be responsible for populating and maintaining the register and that internal audit would review risks as part of system reviews. The register has been populated with corporate and operational risks. These will be amended, as appropriate.</p>
<p>10.</p>	<p>Heads of Service and selected members given the opportunity to attend a risk register training session.</p>
<p>11.</p>	<p><u>Fraud, Theft and Corruption</u></p> <p>The presentation be made to Strategic Management Team before being presented in its final form to the Audit and Corporate Governance Committee.</p> <p>Presentation to both the SMT and members of the Audit and Governance committee (26 June 2008). The Fraud Forum has met on a number of occasions to determine the most appropriate course of action to follow in investigating matters brought to its attention.</p>

12.	<p><u>Annual Corporate Governance Statement</u></p> <p>Members agreed that the presentation should be made to the Audit and Corporate Governance Committee.</p> <p><u>Other matters</u></p>	Undertaken.
13.	<p>The adequacy and location of the office accommodation occupied by internal audit to be reviewed</p>	<p>Initially the possibility of moving staff to an Exmouth office looked like it might ease office congestion and provide an opportunity to review the location and space allocated audit. That move was put on hold once LGR became a serious issue for the Council.</p> <p>Without the prospect of freed up space elsewhere within the Knowle it did not prove possible to move the audit team without disrupting a number of other sections. As a consequence the manager was required to share an office for periods. For a period the small adjacent office was used by contract auditors. By default (resignation of trainee and maternity leave) there is currently sufficient space for the team. The position to be kept under review</p>



## Urgent Agenda Item

Audit and Governance Committee

21<sup>st</sup> January 2010

TC



### Loss of Income due to Counterfeit Coins

In December 2009 the Committee was made aware of the issue surrounding counterfeit £1 coins, in that after collection from our car park machines, the contractor returns 'counterfeit coins' to the Royal Mint and the Council is not re-imbursed. Members expressed concern with the amount of lost income (at the time this was £6,064, this figure has now risen to approximately £7,300). Members asked Internal Audit to investigate this further and produce a follow up report for the next Audit & Governance Meeting.

The Council's car park income is collected by "Contract Security Services Ltd" who have a depot for cash processing in Andover. A meeting was arranged with Mr James Horton, the managing director of this company to ascertain the system surrounding the collection and processing of our income and the process they use to identify counterfeit coins and to discuss what measures, if any, could be put in place to reduce the Council's losses.

#### Recommendations

**That the Car Parks Manager obtains a quotation from our cash machine suppliers for further validation equipment to help reduce the number of counterfeit coins.**

**That a letter is written to Royal Mint asking for their confirmation that our monies will be separately receipted**

**That the CRR is updated with the risk relating to loss of income from counterfeit coins.**

#### a) Reasons for Recommendation

To ensure that members are fully apprised of the issue.

#### b) Alternative Options

None.

#### c) Risk Considerations

The Council has lost income due to counterfeit coins in the region of approximately £7,300. The internal audit surrounding this identified that there is no evidence to verify that the coins collected by the contractor are counterfeit or that have been sent to the Royal Mint.

The Operational (Service) Risks are:

FIN-RK-0058 – Failure to collect all income due to the Council (although nothing specifically about car park income)

**d) Policy and Budgetary Considerations**

Budgetary considerations are yet to be determined.

**e) Date for Review of Decision**

N/a

**Main Body of the Report**

**Background**

In December 2009 Members expressed concern with the amount of lost income (at the time this was £6,064, this figure has now risen to approximately £7,300). Members asked Internal Audit to investigate this further and produce a follow up report for the next Audit & Governance Meeting.

A meeting was arranged with Mr James Horton, the managing director of "Contract Security Services Ltd" to ascertain the system surrounding the collection and processing of our income and the process they use to identify counterfeit coins and to discuss what measures, if any, could be put in place to reduce the Council's losses.

**The Royal Mint, SOCA<sup>1</sup> and HM Treasury**

Counterfeit coins have been a long-standing problem for many years; there is a common consensus that there are around £30 - £40 million £1 coins currently in circulation in the UK. For this reason, the various central government bodies have required all financial institutions and specialist service providers (such as money processing/cash collection companies), to calibrate their counting machines to reject counterfeit coins.

The Royal Mint require all coins to be returned to their Cardiff plant for destroying.

**Contract Security Services Ltd' Procedures**

Contract Security Services use equipment supplied by Scan Coin Ltd to identify counterfeit coins. Scan Coin Ltd is well known for its world-leading sensor technology to identify foreign, damaged or counterfeit coins.

After calibrating Scan Coin will identify and reject between 18 – 35% of counterfeit coins. Those that remain undetected may be bagged up and supplied to the bank, where a further loss may be incurred.

Contract Security Services' will scan all coins twice to remove counterfeit coins, any identified coins must be returned to the Royal Mint in multiples of £1,000.

During 2009 Contract Security Services had an agreement with the Royal Mint that our monies submitted to them (as counterfeit) would be ring-fenced to their respective clients, ie they would issue Contract Security Services with a receipt detailing the amount they had received and from which organisation. It was confirmed at that meeting that Contract Security Services had received these receipts, but that they had failed to pass them on to the Council. The Audit & Governance Manager asked that they be forwarded.

**Refunded Monies**

As mentioned in our original report to Members the Council has been re-imbursed some monies during 2009. One payment from Contract Security of £160 on 6th April 2009, and another two payments from the Royal Mint of £1,003 on 29th July 2009 and £578 on 30th July 2009. Making the total losses £6,064 as previously reported.

**The future**

Unfortunately, this situation is unlikely to improve because the Royal Mint have now decided that they will not use their resources to verify coins sent in by specialist collection agencies. They have made it clear that all coins returned will be destroyed, irrespective of whether or not the coinage is actually counterfeit.

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<sup>1</sup> Serious Organised Crime Agency

Mr Horton from Contract Security Services Ltd was also unsure as to whether his original agreement with them; to ring-fence individual clients' monies will be honoured and he is awaiting a response from a letter sent to them in December 2009.

#### **What action can we take?**

The Car Park Manager asked our car park ticket supplier to supply additional validation equipment for our car park ticket machines in early 2009, in an attempt to minimise the Council's losses, however he was told that they were not able to do this as counterfeit coins must be collected and destroyed in order to prevent their continued circulation in the UK.

Mr Horton was surprised at this response and did confirm that most clients have calibrated their car park ticket machines very tightly in order to reduce their losses. The Car Park Manager has been asked to research this again and to report back.

We agreed to write to the Royal Mint to clarify their procedures and to ask them to consider honouring their previous agreement to ring-fence Contract Security Services' clients in order that we can verify the amount sent to them for destruction.

The Corporate Risk Register does not contain any risks relating to the car park service, this should either be completed by the Head of Street Scene who manage the service or by the Head of Finance who administers the income.

#### **Legal Implications**

tbc

#### **Financial Implications**

There is likely to be some financial implications if the recommendation to supply additional validation equipment for our car park ticket machines is accepted.

#### **Consultation on Reports to the Executive**

None

#### **Background Papers**

- Internal Audit Report – Car Parks 2009
- Audit & Governance Minutes – December 2009

