

Date: 14 September 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 23 September 2010 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

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 5 July 2010. 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 are no items which Officers recommend should be dealt with in this way.

7 Letter of Representation Diccon Pearse, Corporate Director 9 – 11

8 Audit of Accounts 2009/2010 Grant Thornton 12 – 37

9 Value for Money Conclusion 2009-10 Grant Thornton 38 – 50

10 Internal Audit activity report for the period 1 April 2010 to 30 September 2010 Internal Audit 51 – 54

11 Corporate Governance Action Plan Internal Audit 55 - 60

12 ICT Audit Report – a Clarification Internal Audit 61 – 63

13 Counterfeit Coins - Update Head of Finance 64 – 70

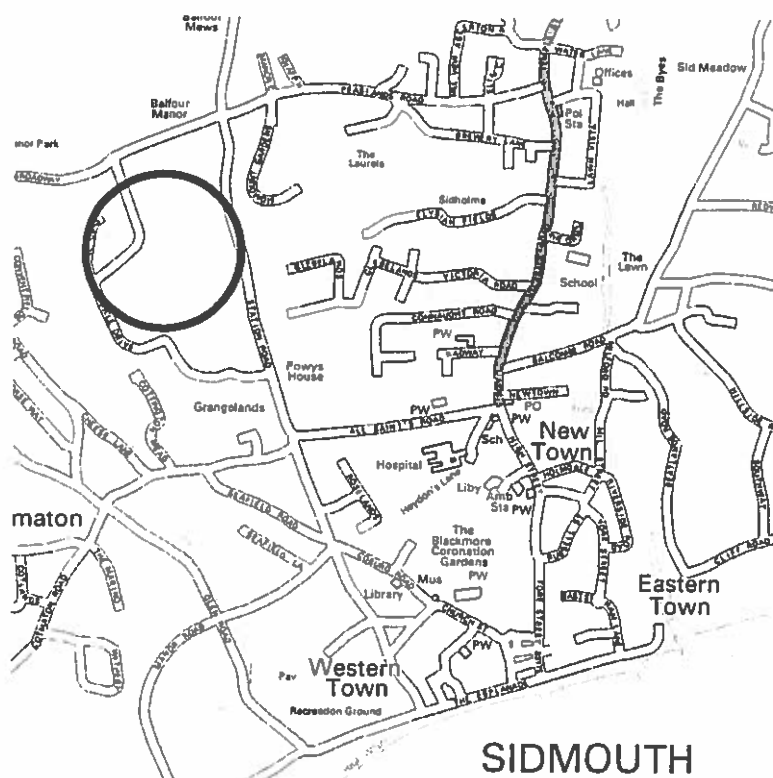
14 Transfer of internal audit function to South West Audit Partnership Diccon Pearse, Corporate Director 71 - 76

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.

Getting to the Meeting – for the benefit of visitors



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.

The following bus service stops outside the Council Offices on Station Road:
From Exmouth, Budleigh, Otterton and Newton Popleford – 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 Knowle, Sidmouth,
on Thursday 5 July 2010

Present:

Councillors:

Ken Potter (Chairman)
Tim Wood (Vice-Chairman)
David Atkins
Peter Bowden
Bob Buxton
Chris Gibbings

Also Present:

Councillors:

Graham Troman – Member Champion for Data Quality

External Auditors:

Kate Jefferies, Grant Thornton
Barrie Morris, Grant Thornton

Officers:

Tanith Cox, Internal Audit and Governance Manager
Diccon Pearse, Corporate Director
Simon Davey, Head of Finance
Mark Williams, Chief Executive
Chris Lane, Democratic Services Officer
Graham Stubbs, Auditor
Moya Moore, Auditor
Chris Powell, Head of ICT

Apologies:

Councillors:

Stephanie Jones
Andrew Moulding – Portfolio Holder, Resources

The meeting started at 2.30pm and ended at 4.35pm

*5

Public Questions

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

*6

Minutes

The minutes of the meeting of the Audit and Governance Committee held on 24 June 2010 were confirmed and signed as a true record.

*7

Exempt Information

RESOLVED

that the classification given to the document to be submitted to the Sub-Committee be confirmed and that the report relating to exempt information be dealt with under Part B of the agenda.

*8

External audit - interim report

Members noted the interim report produced by Grant Thornton summarising findings from the interim audit which had principally been focussed on accounts' audit responsibilities under the Code of Audit Practice. In addition the audit had included the key risks facing the Council, the effectiveness of the internal audit service and a review of financial reporting controls, including information technology controls, journal entry controls, financial accounting systems and closedown procedures.

***8 External audit - interim report (cont)**

At this stage the audit was to examine the 'mechanics' of the Council, to determine what controls were in place, whether its systems were sufficiently robust and the extent to which these could be relied upon. This would form the basis of a detailed review of the Council's audit work which would be available in late summer 2010.

Members noted the key messages to the Council contained in the report, in summary:

- ... The overall arrangements in place for the delivery of the Internal Audit programme met the minimum standard,
- ... There was no material weakness in the Council's general IT control environment which could adversely impact on the Council's financial statements.
- ... No material weaknesses had been identified through the review of the key financial systems.
- ... Arrangements for closedown and financial reporting were considered adequate for the Council to meet its statutory requirements regarding financial reporting.

They also considered a number of significant opportunities for improvement identified in Section 2.5 of the report.

Members noted that the Council had made good progress in completing the recommendations made in the interim report last year, the majority of which had been fully implemented. With the change in Government in May it had been announced that Comprehensive Area Assessment would end with immediate effect. The Department for Communities and Local Government had instead issued guidance requesting value for money conclusions on Council's work to be produced and for which a brief summary had been included in the review. The audit had indicated that the Council had particularly good practice with regard to its use of natural resources.

The Committee expressed their thanks to Barrie Morris and Kate Jeffries from Grant Thornton for presenting the Interim Audit Report 2009-10.

RESOLVED that the external audit interim report for 2009/10 be noted,

***9 Draft letter from the Chairman of the Risk Management Group**

Members considered the draft letter from the Chairman of the Corporate Risk Management Group which highlighted the activities undertaken by the Group during the Council year. Members noted the assistance given during the course of the year by the Internal Audit and Governance Manager to populating the risk register.

Councillor Peter Bowden, Chairman of the Risk Management Group reported that more work needed to be done with the Council's members to get them more involved with the Risk Register. He would ensure that it continued to be a working and evolving document.

The Chairman of the Corporate Risk Management Group was thanked for his report.

RESOLVED: that the report be noted.

***10 Internal audit annual report for 2009/10**

Consideration was given to the annual report of the Internal Audit & Governance Manager, which summarised the work completed by the service during the 2009/10 year. The Internal Audit Annual Report provided an independent opinion on the adequacy and effectiveness of the Council's Systems on Internal Control including:

- The key controls operating within core financial systems;
- Financial management both corporately and within each service area;
- Arrangements for the tendering of services;
- The controls within the Council's ICT service and infrastructure.

The Internal Audit and Governance Manager reported that in her opinion, the above arrangements were adequate and effective during 2009/10 subject to some areas for improvement which were being actioned – the Governance Statement - Action Plan provided an insight into some areas for improvement found during 2009/10.

The Internal Audit and Governance Manager then gave an overview of the report, the quality assurance of work carried out and feedback received from audit clients. and then took the Committee through each section of the report, referring specifically to the key messages. These were corporate governance, partnerships, corporate risk management, the review of data quality, probity work covered in the year, the reviews of core financial systems and other high risk audit areas. It was confirmed that high risk audits would feature in the audit plans for 2010/11.

The service had also contributed to the broader 'governance' role and had introduced a number of policies, strategies and codes during the year. Members noted that during 2009 the Council tendered part of its Internal Audit plan and two external providers were engaged. Exeter City Council delivered various core audits (Housing Benefits, Payroll, Treasury Management and Main Accountancy) and Lakespan Ltd delivered the computer audit plan.

Members noted the scope of the internal annual audit report and its key messages.

The Committee received a paper tabled by the Head of Finance updating Members on Counterfeit Coins referred to in the report, it was noted that a visit had been made to the Contract Security Services counting house in Andover. The visit had proved very productive and well worth the time invested, through additional information obtained and through seeing the procedures in place, a satisfactory level of assurance was obtained.

Members then discussed the summary report from Lakespan Ltd on ICT Services and noted a number of causes for concern that had been highlighted by the Audit. The Head of ICT assured Members that action had been taken to overcome concerns highlighted in the report. Graham Stubbs, Auditor from Lakespan Ltd confirmed that he expected to find a different situation within ICT Services when he reported again in January 2011. Members requested that a full copy of the Lakespan Ltd report on ICT Services be circulated to all members of the Committee.

Members also discussed issues relating to checks on invoices for Building Control and Planning Administration and also a variance between the number of properties required to pay Council Tax and the number of bills sent out. The Head of Finance responded to both of these points to the satisfaction of Members.

- RESOLVED**
- (1) that the internal audit annual report for 2009/10 be noted;
 - (2) that a report be considered at the next meeting of the Committee on the letter from Royal Mint regarding the Counterfeit Coin issue;

***10 Internal audit annual report for 2009/10 (cont)**

- (3) that the Head of Finance be requested to investigate whether Members' mileage claims had reduced since the results of the Audit Review of Members' Expenses were known;
- (4) that the level of problem identified by the Exeter City Council in Housing Benefits overpayment recovery and write off be quantified by the Head of Finance and report to the next meeting of the Committee;
- (5) that if a serious issue had been raised in a report on the agenda of the Committee then the relevant Portfolio Holder be requested to attend the meeting to talk to this item.

Tanith Cox, Graham Stubbs, Moya Moore and Chris Powell left the meeting after this item.

***11 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, 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.

12 Internal Audit Service

Consideration was given to the report of the Corporate Director on the future of the Internal Audit Service. Members noted that with the uncertainty of the Local Government Review having receded, it was now an appropriate time to consider the future delivery of the internal audit plan. As a consequence of finding it difficult to recruit and retain qualified staff the Authority had been obliged to rely on agency and contract staff to meet its requirements. The Committee had previously been advised by its external auditors to consider the longer term provision of the Internal Audit Service.

The Council was progressing a shared services agenda with South Somerset District Council with the aim of driving down management and service costs. It was considered appropriate to seek an arrangement for the audit service that complemented the shared service programme. The report proposed that the Council looked to become a member of the South West Audit Partnership (SWAP) and commented on the related staffing issues. SWAP currently had eleven other local authorities in its partnership, nine districts and 2 county councils.

Member expressed some concerns that the Corporate Governance and Risk Register role may suffer if there was no internal audit presence at the Council. Diccon Pearse, Corporate Director reassured Members that these roles would be taken up by other suitably senior officers within the Council.

RECOMMENDED:

1. that the transfer of the delivery of the Internal Audit function to the South West Audit Partnership be approved, through participation in a joint committee, and that the approval of the partnership agreement be delegated to the Council's Section 151 Officer in consultation with the Chairman of the Audit and Governance Committee;
2. that Contract Standing Orders be waived to allow the Council to seek an internal audit service for the South West Audit Partnership without competitive competition;
3. that Councillor Ken Potter, Chairman of the Audit and Governance Committee be provisionally nominated to represent the Council on the South West Audit Partnership Steering Board in the event of an application to join being successful;
4. that the SWAP Manager be invited to meet with members of the Committee to discuss Governance issues and the partnership arrangements.

Chairman Date

Date: 14 September 2010
Contact number: 01395 517490
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Dear Sirs

Financial Statements for the Year Ended 31 March 2010

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers and members with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements

- i We acknowledge our responsibilities for ensuring that financial statements are prepared which give a true and fair view of the financial position of the Council in accordance with the SoRP and for making accurate representations to you.
- ii As far as we are aware:
 - a there is no relevant audit information of which you are unaware; and
 - b we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information.
- iii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iv All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly recorded in the accounting records and reflected in the financial statements.
- v All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.
- vi We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the 2009 SoRP, we selected the estimation technique

considered to be the most appropriate to the Council's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for FRS 17 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- viii The financial statements are free of material misstatements, including omissions.
- ix We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xi We are not aware of any irregularities, including fraud, involving management or employees of the Council. We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the Council suffering significant penalties, other loss or affecting the financial statements. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice.
- xii We have disclosed to you all related parties and there were no transactions with officers, members or other related parties which should be disclosed in the financial statements except as disclosed in note 10.
- xiii Except as stated in the accounts:
 - a there are no unrecorded liabilities, actual or contingent;
 - b none of the assets of the Council has been assigned, pledged or mortgaged; and
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- xiv There are no claims, legal proceedings or other matters which may lead to a loss falling on the Council or which could result in the creation of an unrecorded asset, that should be disclosed in the financial statements.
- xv The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- xvi We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements, other than as required by the restatement of accounts under International Financial Reporting

Standards in accordance with the 2010 Code.

- xvii No significant events having an effect on the financial position of the Council have taken place since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto.
- xviii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
- xix We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to the ISA 260 Report to those charged with governance as Appendix C, as we consider that they do not materially affect the financial statements and will be reflected appropriately in the following year of account.

Approval

The approval of this letter of representation was minuted by the Audit and Corporate Governance Committee at its meeting on 23 September 2010.

Signed on behalf of East Devon District Council.

Name Diccon Pearse

Name Ken Potter

Position Chief Finance Officer

Position Chairman of Audit & Governance Committee

Date 23 September 2010

Date 23 September 2010



Grant Thornton

East Devon District Council

**Audit of Accounts 2009-10
Annual Report to those Charged with Governance**

September 2010 - Agenda Item 8

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1 Executive summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

Purpose of the report

- 1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of East Devon District Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.
- 1.3 The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial statements opinion

- 1.5 The Council produced its draft 2009-10 accounts and presented them to the Audit Committee on 24 June 2010, in advance of the deadline of 30 June.
- 1.6 We identified a significant number of adjustments to the accounts, particularly in relation to capital accounting. The most significant adjustment was a reclassification of community assets to infrastructure of £3.42 million. This resulted in a reduction in the value of assets of £2.02 million due to the accumulated depreciation which should have been charged in previous years. The full effect of this has not impacted the 2009-10 position reported in the income and expenditure account because it has been accounted for as a prior year adjustment.
- 1.7 Whilst the Council has continued to improve the quality of its working papers, we have identified a relatively large number of adjustments to the accounts this year. Whilst the Council has taken account of the underlying reasons for these adjustments during the course of our audits, to ensure these are processed accurately and not repeated, we consider that the accounts preparation process needs to be strengthened further.
- 1.8 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit Committee on 23 September 2010.
- 1.9 Further details of the outcome of our financial statements audit are given in Section Two and Appendix B and C (adjustments to the financial statements).

Value for money conclusion

- 1.10 As well as providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). We are pleased to report that we propose to issue an unqualified Value for Money conclusion and our detailed findings are included within a separate value for money conclusion report, also presented at this meeting.

The way forward

- 1.11 Matters arising from the financial statements and Value for Money audit have been discussed with the Head of Finance. We have made a number of recommendations, which are set out in the action plan at Appendix D. This has been discussed and agreed with the Head of Finance and his senior finance team.

Use of this report

- 1.12 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation, also presented at this meeting.

Acknowledgements

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

Grant Thornton UK LLP

September 2010

2 Detailed findings

Introduction

- 2.1 This section provides a summary of findings arising from our audit of the financial statements and Value for Money (VFM) audit.

Financial statements audit

Status of the audit

- 2.2 We carried out our audit in accordance with the Financial Statements Plan presented to the Audit Committee on 21 January 2010. Our audit is substantially complete, subject to the following audit work and finalisation procedures:
- audit of the cashflow statement, to be completed following receipt of the amended accounts;
 - completion of our review of the Annual Governance Statement;
 - review of the final version of the financial statements;
 - obtaining and reviewing the Council's Letter of Representation; and
 - updating our post balance sheet events review, to the date of signing the accounts.

Key audit risks

- 2.3 Our 2009-10 Financial Statements Plan set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the audit risks identified and reported our findings in our Interim Audit Report. Our work at that time enabled us to conclude on a number of key risk areas. As part of our final accounts audit, we reviewed the remaining audit risks and have set out, in Exhibit One, the outcome of work completed. Our review of the audit risks facing the Council has not identified any additional risk areas.

Exhibit One: 2009-10 Key audit risks

Key audit risk	Conclusion
Accounting for National Non-Domestic Rates and Council Tax under the Statement of Recommended Practice (SoRP) 2009	
<p>The 2009 SoRP introduced changes in accounting for national non-domestic rates and council tax. Local authorities are now 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>The risk was that the Council would not account correctly for these changes.</p>	<p>Our detailed testing has provided us with assurance that the Council has correctly accounted for National Non-Domestic Rates and Council Tax in accordance with the revised requirements of the SoRP 2009.</p>
International Financial Reporting Standards (IFRS)	
<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 from 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 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 satisfied that the Council is making adequate progress in restating its accounts as part of the transition to International Financial Reporting Standards. Whilst the Council is currently behind the timetable proposed by CIPFA, we continue to engage in dialogue with the Council over areas that require restatement.</p> <p>Looking forward, we urge the Council to ensure that sufficient resources are allocated to this work to ensure it is completed accurately and in a timely manner. We recognise that this is required during a time when the finance team and Council officer's are under increased demand to focus on the budget setting process in the current challenging financial environment.</p>

Key audit risk	Conclusion
Internal audit service	
<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. There were a number of associated risks to the delivery of the 2009-10 audit plan.</p>	<p>In our interim report presented to the Audit and Corporate Governance Committee in July 2010, we provided the outcome of our update on the previous review of the internal audit service.</p> <p>We made a number of recommendations in relation to the Council's own work and the use of contractors. The Council completed the programme of work for 2009-10 prior to the issue of the Head of Internal Audit opinion.</p> <p>Since that date, it has made a decision regarding the future delivery of the service, after considering the range of options available. The new service from South West Audit Partnerships should ensure the Council's audit plan for 2010-11 is adequately resourced and effectively delivered.</p>
Amendments to the 2008-09 accounts	
<p>Following our audit of the Council's 2008-09 accounts, a number of amendments were made before the final version was approved. There was a risk that appropriate arrangements and processes, including management review, had not been put in place to avoid similar amendments being identified again.</p>	<p>Through our interim and final accounts audit work, we have identified that there continue to be errors in the accounting for a number of the Council's transactions.</p> <p>Further details and included in paragraphs 2.10 to 2.57 below, and the related adjustments and recommendations are included in appendices B to D.</p> <p>Whilst improved arrangements are being put in place to address the issues identified, we are discussing with officers opportunities where arrangements can be further improved in future years.</p>

Key audit risk	Conclusion
Local Government Reorganisation	
The Boundary Committee recommended to the Secretary of State to form a single unitary council in Devon, although the final decision and timescale for change had not been announced. This created a risk of uncertainty for staff and the possibility of key staff leaving.	The Boundary Commission announced its decision on the Local Government Reorganisation in Devon on 10 February 2010. Following the subsequent government announcement to maintain the status quo, this risk was eliminated.

- 2.4 The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

Matters arising from the financial statements audit

- 2.5 We were presented with the draft financial statements on 24 June 2010, in advance of the statutory deadline of 30 June 2010. The supporting working papers were provided at the start of our on-site work.
- 2.6 Whilst the working papers files provided included relevant supporting information prepared by members of the finance team, they did not, consistently, include all information required to support figures provided by services outside finance. As a result, we spent additional time identifying and locating these working papers. We recommend that all working papers to support figures in the accounts should be reviewed by a member of the finance team and retained on the accounts working paper files. This will make the audit more efficient and more easily facilitate the review process in finance.
- 2.7 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts and throughout the audit fieldwork. This enabled early resolution of emerging issues during the year. We would like to place on record our appreciation to those officers involved in this process.
- 2.8 However, despite this liaison, our final accounts audit work identified a significant number of misstatements to the accounts. Some of these may have been detected and resolved prior to approval of the draft accounts by members, if a thorough management review had been undertaken. We recommend that the time allocated to the accounts preparation timetable is reviewed, ensuring adequate time is allocated to the accounts preparation process. Specific time should also be allocated to the management review process, which should be formally documented.
- 2.9 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix D.

Fixed assets - reclassification of community assets

- 2.10 The SORP defines community assets as those which the Council intends to hold in perpetuity, have no determinable useful life and that may have restrictions on their disposal. During our audit of fixed assets, we identified a number of assets within the community category which did not appear to be appropriately classified, predominantly because they have a useful economic life.

- 2.11 We requested that the Council undertake a review of all of the assets included within this category which identified £3.42 million that were incorrectly classified as community assets but should have been accounted for as infrastructure assets. In addition, there were further assets which could not easily be classified within the time available and have not been reclassified this year. We are satisfied that the value of these assets are not material.
- 2.12 Infrastructure assets are required to be depreciated over their useful economic life. Therefore, the life of each transferred asset has been determined and the related depreciation charge for 2009-10, along with the accumulated depreciation which should have been incurred to date, have been calculated. The accumulated depreciation equates to is £2.02 million, which is a material amount, and a prior year adjustment has been made to the accounts. This writes out £2.0 million of the value of infrastructure assets.
- 2.13 The depreciation which should have been charged in 2009-10 to reflect the use of infrastructure assets was £58,000. This should be included in the income and expenditure account and the reconciliation of movement on the general fund balance.
- 2.14 The Council should undertake a full review of all its assets to ensure they are categorised, and appropriately valued, in accordance with the requirements of both the SORP and IAS 16 on accounting for property, plant and equipment under IFRS.
- 2.15 In addition, the land at Stowford Rise was incorrectly reclassified to community assets during the year, prior to its sale. This was an error because the land should have remained in non-operational land and buildings until it was disposed of.
- 2.16 The Council has amended the accounts to reflect the correct accounting treatment for these assets, as set out in appendix B.

Fixed assets - sale of Stowford Rise land

- 2.17 The Council disposed of a piece of land, Stowford Rise, in March 2010 for £1.33 million. In September 2009, the land was revalued on the basis that it would be sold for 67% affordable housing at between £1.3 million and £1.5 million. This was significantly lower than the previous valuation because it reflected that a higher proportion was required to be used for affordable housing. This resulted in a fall in the valuation of £2.86 million. The Council approved the decision to sell the land because the development helped support its priority around the delivery of affordable housing.
- 2.18 We consider that where a range of values is provided by a valuer, the mid point should be used when recording the asset in the Council's asset register and when calculating the gain or loss on disposal. The Council recorded the valuation in its records as the sale price of £1.33 million rather than the mid point of the values of £1.4 million. This would have resulted in a loss on disposal of £75,000.
- 2.19 The Council has amended the accounts to reflect the correct accounting treatment, as set out in appendix B.
- 2.20 The sale contract between the Council and the housing association who purchased the land includes an overage clause, which states when the developer completes and sells all of the housing, the Council will be entitled to a proportion of any profits. It is our view that this meets the definition of a contingent asset and an appropriate disclosure should be made in the accounts to reflect this.

- 2.21 The Council have added a contingent asset disclosure to the accounts to reflect the potential to receive future income from this arrangement.

Fixed assets - housing capital spend

- 2.22 Our testing of fixed asset additions identified capital expenditure where invoices were received after the year end but the total of capital accruals was less than the expenditure incurred. After taking account of the Council's capitalisation threshold of £5,000, the understatement of fixed assets and accruals is £41,000.
- 2.23 All of the accruals relate to housing capital expenditure and are recorded on the housing system, which is separate from the general ledger. The Council should ensure that all capital expenditure incurred across the Council is recognised in its accounts.
- 2.24 The Council has not amended the accounts to reflect the correct accounting treatment, as set out in appendix C.

Capital financing

- 2.25 The reconciliation of the movement on the general fund includes capital expenditure charged in the year to the general fund and the net change in the balance of earmarked reserves. The draft accounts reported that a net figure of £0.85 million was transferred to earmarked reserves during 2009-10. However, the note on earmarked reserves showed an increase in the balance of these reserves of just £14,000.
- 2.26 The Council has reviewed the use of, and balances held in, earmarked reserves and identified that the 'general reserve capital' and 'RCCO refuse bins' were both used, as planned, to fund capital expenditure. However, they were not correctly accounted for within the statement of movement on the general fund balance. This has resulted in increased use of earmarked reserves of £0.86 million and a corresponding increase in capital expenditure charged to the general fund shown in the statement of movement on the general fund balance
- 2.27 In addition, the Council identified the 'Habitats assessment grant' of £34,000 and the capital element of the planning delivery grant of £11,000 which should not be treated as earmarked reserves. These reclassification on the balance sheet should have been accounted for as an unapplied government grants, which are shown as a liability, reducing earmarked reserves by £45,000. Of this balance, £11,000 was spent in year on capital assets, requiring a transfer from government grants unapplied to government grants deferred.
- 2.28 The Council has amended the accounts to reflect the correct accounting treatment for these items, as set out in appendix B.

Land disposal

- 2.29 During the year the Council disposed of land to a local resident which adjoined their property for £27,000. This was treated as other income in the income and expenditure account rather than a gain on disposal.
- 2.30 To correct this error, the income has been transferred from 'other income' to 'gain on disposal' and a corresponding entry has been made in the reconciliation of movement on the general fund balance to 'gain on disposal', as set out in appendix B.

Depreciation

- 2.31 The total depreciation charge in the income and expenditure account should match the charge in reserves. We identified £27,000 more depreciation in the capital adjustment account than had been charged through the income and expenditure account. This related to vehicles, plant and equipment in StreetScene.
- 2.32 To correct this error, a further £27,000 depreciation has been charged to environment services to reflect the full amount which should have been charged and, included in the reconciliation of movement on the general fund, as set out in appendix B.

Section 106 receipts

- 2.33 At the year end, the Council held a balance of £1.98 million of section 106 receipts received from developers which have yet to be spent. Before the funds are received, an agreement is drawn up which identifies, very specifically, what the funds are to be spent on, where they are to be spent, and by when, if there is time limit on when the funds need to be spent or reimbursed. These receipts are usually capital, although some revenue elements are received to support the ongoing costs of the capital assets.
- 2.34 Our sample testing of over £1 million of this balance found that signed agreements were in place for all of the funds held. The Council had only recognised the amounts relating to East Devon District Council and had correctly excluded amounts that related to Devon County Council. We are satisfied that the Council is within the specified deadlines to incur the expenditure for the items we tested.
- 2.35 The balance of £1.98 million held in capital contributions should only include capital receipts. However, the Council's monitoring records identify that revenue amounts are included within the capital balance, which overstates the amount available for capital schemes. Revenue funds should be accounted for as receipts in advance and then released to the income and expenditure account in the year in which the expenditure is incurred.
- 2.36 The Council has not been able to quantify the total value of revenue receipts in the timeframe available. Consequently, an adjustment between the liabilities categories has not been proposed or made. The Council consider the revenue amount to be significantly below materiality. We concur with this view based on our review of the balances tested and consider this appropriate for 2009-10. However, in future years, the Council should clearly distinguish between capital and revenue receipts and account for them in accordance with the SORP.

Housing rent arrears and receipts in advance

- 2.37 The housing system operates on a weekly rent and is calculated based on the annual rent charge. This means that each year a full year of rent is included in the accounts. However, the year end does not always fall on the end of a week and therefore the Council includes all transactions up to the end of the first week after the year end.
- 2.38 For 2009-10, the end of the first rent week after the year end was 5 April 2010. All receipts from tenants between 1 April 2010 and 5 April 2010 are included in the Council's accounts, despite being received after the year end. As a result rent arrears (debtors), of £70,000, are understated in the accounts and receipts in advance (creditors), of £60,000, are overstated.
- 2.39 The housing system is "live" and updates on a daily basis. Consequently, it is not now possible to generate a report as at 31 March 2010. This could have been used to determine

the cash received after the year end to adjust the related balance of rent arrears and receipts in advance at the end of the following rent week.

- 2.40 The Council does not consider that determining the correct figures would have a material impact on the accounts in 2009-10, neither the asset or liability balance are material and both would reduce. We are not able to quantify a proposed adjustment and concur with the Council's view. However, we consider for 2010-11 that the balance sheet should reflect the correct position at the year end, rather than the end of the following rent week.
- 2.41 The Council should consider whether there is any related impact on the recognition of income and costs in relation to housing and council tax benefits. The related balances should also reflect the position at the year end.

Treatment of cash balances

- 2.42 The cash balance in the accounts should reflect the closing balance on all of the Council's bank accounts at 31 March 2010. When including one account, the Council included the credits in the period on the statement, rather than the closing balance resulting in cash being understated by £60,000. As a result, this cash had not been offset against the related debtor balances and, therefore, the corresponding entry was to reduce debtors by £60,000.
- 2.43 In addition, cash received in March 2010 of £92,000 was not matched to the related debtors and was instead posted to creditors in error. Consequently, both debtors and creditors were overstated by £92,000.
- 2.44 The Council has amended the accounts to reflect these adjustments, as set out in appendix B.

Growth point funding

- 2.45 The Council has received £4.29 million from the Department for Communities and Local Government to fund the growth point between East Devon and Exeter, including the Cranbrooke development. At the year end £0.27 million of this had been spent, leaving a balance remaining of £4.02 million, which has been classified as a government department creditor. This balance includes both capital and revenue funding.
- 2.46 The SORP requires that capital grant funding from the government, which has been received but not spent, is treated as government grants unapplied. To correct the treatment in the draft accounts, government creditors have been reduced by £4.02 million and government grants unapplied increased by the same amount, as set out in appendix B.

Provision for uncollectible debts

- 2.47 Under financial reporting standards, the provision for uncollectible debts should be calculated using reliable data, for example historic collection rates on each category of debt, to assess potential future recovery. The Council has estimated the provision for sundry debtors at £60,000, based on the view of the Payment Officer.
- 2.48 In previous years, the provision was calculated using subjective percentages according to the age of the debt. Applying the same percentages to the 2009-10 debt would have resulted in a provision of £126,000, some £66,000 higher. The officer's view was that this was too high because the write off of debts each year is significantly lower. This reinforces the requirement to use appropriate methods, such as historic collection rates, to calculate the provision rather than subjective figures.

- 2.49 We requested that the Council recalculate its provision for uncollectible debts during our audit but data on historic collection rates was not available within the timeframe. The Council does not consider that the revised methodology would have a material impact on the accounts in 2009-10. We are satisfied that that the provision accounted for in 2009-10 is not materially misstated but we have agreed with the Council that it will adopt the revised methodology from 2010-11.

Cash flow statement

- 2.50 As a result of the Council processing the amendments set out above, there were a number of related adjustments to the cash flow statement. These have affected both the statement itself and the related notes.

Housing revenue account impairments

- 2.51 We identified that the impairment of the land at Stowford Rise of £2.86 million was incorrectly included within the housing revenue account (HRA). To correct this error, £2.86 million was removed from the impairment charge in the HRA income and expenditure account and from the reconciliation of movement on the HRA balance, as set out in appendix B.

Other accounts issues arising

- 2.52 In addition to the matters raised above, there were a number of presentational changes that were identified during the course of our audit and these have been made to the accounts.

Adjusted misstatements

- 2.53 Our audit identified a number of adjustments as a result of the items set out above. In addition we identified a debit balance in creditors of £43,000, which incorrectly reduced creditors instead of being shown as a debtor.
- 2.54 The overall effect of the above misstatements is to decrease net assets on the balance sheet by £2.13 million and reduce the deficit in the Council's income and expenditure account by £0.08 million. The reduction in deficit has no impact on the general fund balance because it is reversed through the statement of movement on general fund balance.
- 2.55 The adjusted misstatements are included at Appendix B.

Unadjusted misstatements

- 2.56 Our audit work identified a proposed amendment to the accounts of £41,000 which has not been processed by management on the basis of materiality. The adjustment relates to capital expenditure which was not accrued for in the accounts. The overall effect of the unadjusted misstatement would have no impact on the reported deficit. The unadjusted misstatement is included at Appendix C.
- 2.57 The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust these items and to minute its decision.

Financial statements opinion

- 2.58 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit Committee on 23 September 2010.

Matters raised by local electors

- 2.59 There was only one issue raised by a local elector which related to the use of section 106 monies. We have reported, as part of our findings on the final accounts, pertinent issues arising from this area and there are no further issues that need reporting.

Evaluation of key controls

- 2.60 We have undertaken 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 present a material risk to the accuracy of the financial statements.

IT controls

- 2.61 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts, but some minor recommendations were identified and these were included in our interim report presented to the Audit and Corporate Governance Committee in July 2010.

Internal audit

- 2.62 We have reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was adequate to provide assurance on the effective operation of controls. We have therefore taken assurance from the work of internal audit in our evaluation of controls.
- 2.63 We are aware of the current developments in relation to internal audit and are continuing with regular discussion with management to ensure that appropriate arrangements are maintained.

Journal authorisation

- 2.64 Following our interim audit we recommended that journal authorisation procedures should be introduced. We are pleased to report that two senior accountants now spot check journals processed on a monthly basis.

Annual Governance Statement

- 2.65 We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Council.
- 2.66 We have concluded that the Council has adequate arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

Value for Money

- 2.67 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.
- 2.68 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009-10 Audit Plan.
- 2.69 On the basis of the work completed, we propose to issue an unqualified Value for Money conclusion. Our detailed findings and recommendations arising from the review are set out in a separate value for money conclusion report.

Next steps

- 2.70 The Audit Committee is required to approve the financial statements for the year ended 2009-10. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the required Letter of Representation.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;
- to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
- to provide to those charged with governance constructive observations arising from the audit process.

ISA260 requirement	Key messages
<p>Independence</p>	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements. • We comply with the Auditing Practices Board's Ethical Standards. • The fee charged for 2009-10 was £109,500 in accordance with our audit fee letter approved by the Audit and Corporate Governance Committee on 26 March 2009. • As a result of the additional audit work required due to the issues identified during the audit, £10,543 of further costs beyond those planned have been incurred. We have discussed these with management and have agreed to absorb these costs, but agreed that improved arrangements will be required for 2010-11 if additional costs are not to be recharged on to the Council in the future. • We have not provided any non audit services in 2009-10.

ISA260 requirement	Key messages
<p>Audit Approach</p>	<p>Our approach to the audit was set out in our 2009-10 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Council for financial statement audit purposes. • In 2009-10 we have been able to take assurance from the work of internal audit in respect of the key accounting systems.
<p>Accounting Policies</p>	<p>The Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SoRP 2009.</p> <p>The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by IAS 8.</p> <p>We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.</p>
<p>Material Risks</p>	<p>The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.</p> <p>We have requested from the Council a Letter of Representation, to state that there are no additional material risks and exposures as at 23 September 2010, which should be reflected in the financial statements.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at 28 September 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months to 23 September 2011.</p>

ISA260 requirement	Key messages
Audit Adjustments	<p>We have discussed with management the adjustment to the accounts, primarily to improve the presentation of the financial statements, as well as the clarity and presentation of disclosure notes.</p> <p>This adjustment is summarised at Appendix B.</p>
Unadjusted Errors	<p>We have identified one unadjusted error to the accounts which requires reporting to those charged with governance. The unadjusted error relates to £41,000 of capital expenditure which was not accrued for in the accounts.</p> <p>The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust and to minute its decision.</p> <p>This adjustment is summarised at Appendix C.</p>
Other Matters	<p>We have made recommendations in respect of some areas for improvement in internal control. Recommendations and agreed action are listed in the Action Plan at Appendix D.</p>

B Adjustments to the financial statements

The table below lists all significant audit adjustments which have been processed and agreed with the Head of Finance.

Adjustment Type

Misstatement - A change to the value of a balance presented in the financial statements.

Classification - The movement of a balance from one location in the accounts to another.

Disclosure - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	£'000	Accounts balance	Impact on financial statements
Misstatement	3,423	Reclassification of community assets We identified a number of assets within the community category which did not meet the definition. The Council identified these should be infrastructure assets.	Decrease community assets and increase infrastructure assets.
	2,023	The reclassified assets should have been depreciated since the date they were brought into use.	Prior year adjustment to reduce total assets and the capital adjustment account.
	58	They should also have been depreciated in 2009-10.	Decrease infrastructure assets and increase depreciation costs.
	1,325	The land at Stowford rise was incorrectly reclassified from other land and buildings to community assets during the year.	Remove reclassification and related disposal from other land and buildings to community assets.

Adjustment type		£000	Accounts balance	Impact on financial statements
Misstatement	75	Sale of Stowford Rise land The average valuation received for Stowford Rise was not reflected in the asset register or loss on disposal calculation.	Decrease impairment of fixed assets and increase loss on disposal.	
Misstatement	859	Capital financing Earmarked reserves were used in the year to fund capital expenditure, this was not reflected in the reconciliation on movement on the general fund balance.	In the reconciliation of movement on the general fund balance, increase use of earmarked reserves and capital expenditure charged in year to the general fund balance.	
Misstatement	45	Earmarked reserves Two earmarked reserves should have been accounted for as government grants unapplied.	Reduced earmarked reserves and increase government grants unapplied.	
	11	Of these grants, part of the balance had been used in the year to fund capital expenditure.	Reduced government grants unapplied and increase government grants deferred.	
Misstatement	27	Land disposal An error was made in processing the income from the disposal of land.	Reduce other income and increase gains on disposal. In the reconciliation of movement on the general fund balance, increase gain on disposal and reduce capital expenditure charged in year to the general fund balance.	
Misstatement	27	Depreciation Depreciation for some StreetScene assets was not included in the income and expenditure account.	Increase depreciation charged to environment services and increase depreciation included in the reconciliation of movement on general fund balance.	

Adjustment type		£000	Accounts balance	Impact on financial statements
Misstatement	60		Error in cash balance An error was made when processing the cash balance for a bank account.	Increase cash and reduce debtors.
Misstatement	92		Cash received Cash received was not matched to debtors, it was coded to creditors in error.	Decrease debtors and increase creditors.
Misstatement	4,294		Growth point funding Capital government funding was accounted for as a creditor instead of as government grants unapplied.	Decrease government creditors and increase government grants unapplied.
Misstatement	-		Cash flow statement Due to the misstatements identified above, there were a number of related adjustments to the cash flow statement.	Various changes to the cash flow statement and related notes.
Misstatement	2,857		Housing revenue account (HRA) impairments The impairment of land at Stowford Rise was incorrectly included in the HRA.	Decrease impairment charge in the HRA and the reconciliation of movement on the HRA balance.
Misstatement	43		Debit balances Debit balances were included in creditors instead of debtors	Increase debtors and increase creditors.

Adjustment type		£000	Accounts balance	Impact on financial statements
Disclosure	-		Contingent asset The contract for the sale of Stowford Rise includes an overage clause, the Council is entitled to a proportion of the developers profits.	Contingent asset disclosure.
Disclosure	-		Pension increases Following a recent government announcement for annual pension increases to be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI), the Council obtained from the actuary a calculation of the impact this has on the pension liability.	Disclosure of a non-adjusting post balance sheet event note. No impact on the primary statements.
Disclosure	-		Land charges There has been a change to the charges for land searches, resulting in the Council needing to repay fees received for these searches since 2005, where these are reclaimed by individuals. The amount to be repaid is uncertain until claims are received.	Contingent liability disclosure.
Disclosure	-		Other presentation changes A number of other changes were made to improve the presentation and SORP compliance of the accounts.	Disclosure only. No impact on primary statements.

The overall effect of the above misstatements is to decrease net assets on the balance sheet by £2.13 million and reduce the deficit in the Council's income and expenditure account by £0.08 million. The reduction in deficit has no impact on the general fund balance because it is reversed through the statement of movement on general fund balance.

C Summary of unadjusted differences

Adjustment Type

Misstatement - A change to the value of a balance presented in the financial statements.

Classification - The movement of a balance from one location in the accounts to another.

Disclosure - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	£,000	Accounts balance	Impact on financial statements
Misstatement	41	Housing capital spend We identified invoices were received after the year end for capital expenditure in relation to 2009-10 in the housing department.	Increase fixed asset additions and increase capital accruals. No impact on the income and expenditure account.

D Action plan

Rec. No.	Para Ref	Recommendation	Priority	Council response	Responsibility & implementation date
1	2.3	IFRS Adequate resources should be allocated to the IFRS restatement, current allocations should be reviewed in light of budget setting commitments.	Medium	The recommendation is accepted and the Council's need to meet this requirement is acknowledged. This will however be challenging and needs careful consideration on how best to address as there is likely to be a reduction in staffing in this area.	Head of Finance Currently ongoing
2	2.6	Working papers All working papers to support figures in the accounts should be reviewed by a member of the finance team and retained on the accounts working paper files.	High	Agree.	Head of Finance 2010/11 final accounts preparation
3	2.8	Review of accounts Management should review the time allocated to the accounts preparation process to ensure it is adequate. A robust review of the accounts should be undertaken and formally documented prior to approval by members	High	Practices will be reviewed against better performing authorities in this area. The allocation of additional time to this process is going to be challenging and needs careful consideration on how best to address as there is likely to be a reduction in staffing in this area.	Head of Finance Currently ongoing

Rec. No.	Para Ref	Recommendation	Priority	Council response	Responsibility & implementation date
4	2.14	Asset classification All assets should be reviewed to ensure they are classified in accordance with the requirements of both the SORP and IAS 16 on accounting for property, plant and equipment under IFRS.	High	Agree.	Head of Finance 2010/11 final accounts preparation
5	2.23	Housing capital expenditure All capital expenditure recorded in the housing system should be reflected in the Council's accounts and the year end.	Medium	Agree.	Head of Finance 2010/11 final accounts preparation
6	2.36	Analysis of section 106 receipts Section 106 receipts should be clearly distinguish between capital and revenue receipts and accounted for appropriately.	Medium	Agree.	Head of Finance 2010/11 final accounts preparation
7	2.40	Housing rent arrears and receipts in advance Housing rent arrears and receipts in advance in the accounts should reflect the position at the year end rather than the following rent week. The related impact on housing and council tax benefit should be considered and accounted for on the same basis.	Medium	Agree.	Head of Finance 2010/11 final accounts preparation
8	2.49	Provision for uncollectible debts Provisions for uncollectible debts should be calculated using reliable data to inform future estimated recovery.	Medium	Agree.	Head of Finance 2010/11 final accounts preparation



Grant Thornton

East Devon District Council

VFM conclusion 2009-10

September 2010 - Agenda Item 9

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1 Introduction

Introduction

- 1.1 In carrying out our audit, we comply with statutory requirements governing our duties, in particular, the Audit Commission Act 1998 and the Code of Audit Practice (the Code).
- 1.2 The Code of Audit Practice emphasises the respective responsibilities between audited bodies and their auditors. The Council is responsible for putting in place proper arrangements for the preparation of its accounts, governance of its affairs and for making adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources. We are required to form an opinion on the Council's annual financial statements and whether the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.
- 1.3 In May 2010, the Government announced that the Comprehensive Area Assessment (CAA) would be abolished. Following this the Audit Commission confirmed that our work for the Use of Resources assessment (UoR) should cease with immediate effect.
- 1.4 Whilst there will not be a scored UoR assessment for 2009-10, the work completed has been used to inform our value for money conclusion.
- 1.5 In August 2010 the Audit Commission set out its new approach to assessing the Council's value for money arrangements. From 2010-11, our assessment will be based on a more targeted approach, focussing on specific local risks and issues, concentrating on the Council's arrangements for securing financial resilience and prioritising resources within tighter budgets.
- 1.6 The areas for further improvement identified within this report have, therefore, been framed to address these areas

Scope

- 1.7 We have completed the work in connection with our value for money conclusion in accordance with our agreed audit strategy as set out in our Annual Audit Fee Letter for 2009-10 presented to the Audit and Corporate Governance Committee on 26 March 2009. The scope of our audit was an assessment of the Council's arrangements for:
 - financial management;
 - commissioning and governance; and
 - management of natural resources, assets and people.

Overall conclusions

- 1.8 Overall the Council has made strong progress against the areas for improvement identified in last years review. As well as addressing the specific areas we identified, arrangements have continued to be strengthened and, in particular, we found that good arrangements were in place in respect of the use of natural resources, we have assessed for the first time this year.

- 1.9 Our report has highlighted a number of areas where arrangements could be strengthened further and we have set these against the context of the Audit Commission's new approach for assessing use of resources from 2010-11.

Financial management

- 1.10 The Council has carried out a thorough review of its budget for 2010-11, incorporating feedback from local residents. Along with the ongoing programme of service redesign, this has given the organisation a good understanding of the cost it incurs in delivering services, although more extensive use of benchmarking would assist the Council in understanding how its costs compare to similar organisations.
- 1.11 A project team is in place to oversee the transition to International Financial Reporting Standards (IFRS), which has been introduced for the 2010-11 accounts. Arrangements could be improved further by ensuring that progress against the approved action plan for the implementation of IFRS is monitored and appropriate resource allocated to meet the deadlines in the Council's timetable.

Commissioning and governance

- 1.12 The appointment of a dedicated procurement specialist has resulted in an increased focus on the way supplies of goods and services are obtained. The Council could further enhance its arrangements by using market-testing to a greater extent identifying further opportunities to maximise the financial savings achieved.
- 1.13 Significant progress has been made in improving the Council's risk management arrangements, but there remains scope to further improve the accountability for, and timely review of, identified risks.

Management of natural resources, assets and people

- 1.14 The Council has produced a comprehensive baseline assessment of its use of natural resources and the consideration of environmental issues at the Cranbrook development has been recognised by the South-West Renewable Energy Agency. Further reductions in emission will be achieved through setting targets for the reduction in the use of natural resources and to monitoring progress against these.

Use of this report

- 1.15 This report has been prepared to advise you of the matters arising from our audit work in relation to our value for money conclusion and should not be used for any other purpose or be given to third parties without our prior written consent.
- 1.16 Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.
- 1.17 We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

- 1.18 Matters arising from our Value for Money audit have been discussed with the Chief Executive, Communications and Improvement Manager and other relevant officers. Our recommendations are set out in the action plan at Appendix A. This has been discussed and agreed with officers.

Acknowledgements

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

Grant Thornton UK LLP

September 2010

2 Detailed findings

Financial management

- 2.1 This theme focuses on sound strategic and financial management, that is, whether the Council plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance and whether its financial reporting is timely, reliable and meets the needs of its population.

Financial planning

- 2.2 The Council carried out a thorough review of its budget for 2010-11, involving a Task and Finish Forum where officers and members gave specific consideration to the views of local residents collected through the 'Budget 2010' online consultation. There is clear evidence of the Council realigning resources to meet its identified priorities, particularly rejecting cuts to the street cleaning budget and allocating additional funds to support the roll-out of the new recycling service.
- 2.3 The organisation has continued to develop its planning for the longer-term and, this year carried out a review of both its use of earmarked reserves and its treasury management strategy. In 2009-10, £2.5million was allocated from reserves to a transformation fund to ensure that the Council can deliver effective services in the medium to long term. The capital programme is also focused on identified priorities, for example the purchase of additional recycling bins to reduce the amount of household waste sent to landfill.
- 2.4 There is scope for the Council to make increased use of scenario planning and sensitivity analysis when setting the budget, to demonstrate the impact of changes in funding levels, lower than expected collection rates for income of other receipts as well as or higher than anticipated demand for services or greater costs.

Understanding costs

- 2.5 The systems review carried out in housing benefits and planning departments has resulted in an increased understanding of the costs being incurred to deliver services, splitting these between those that create and add value and those that are fixed overheads. The budget Task and Finish Forum enabled members to scrutinise the expenditure incurred across the Council.
- 2.6 The Council set a specific target for achieving efficiency savings at £2.438million over three years from 2008-09, with £0.707million in the first year, which was met. Performance against this target is reported to the Executive Board twice yearly. The service redesign process is identifying potential savings and the Council has started to share services with South Somerset District Council, which is expected to deliver considerable savings. The joint chief executive was appointed from March 2010 and the Joint Integration Committee is progressing a review programme across all services areas. In addition, members have formed a Rationalisation Committee to further review the savings that can be achieved from East Devon alone.
- 2.7 The continued roll-out of the service redesign process will further enhance the Council's understanding of its costs and these should be monitored on an ongoing basis alongside the

performance levels being achieved by services to identify the scope for additional opportunities for savings. The costs incurred and performance achieved should also be benchmarked against other comparable organisations to assess how well the Council is performing in delivering value for money and identify where there may be scope for further efficiencies or improvements

Financial reporting

- 2.8 The Council monitors its budgets on a monthly basis, following up variances against budget with budget holders. It has a sound understanding of the reason for under and overspends and these are clearly reported during the year and through the annual outturn report in June. Officers respond to feedback from members on the format of reports and the organisation is in the process of linking financial and performance reporting in line with national best practice.
- 2.9 The 2008-09 statement of accounts was approved in accordance with statutory deadlines and received an unqualified opinion. The 2009-10 draft accounts were approved by 30 June 2010 as required and we anticipate providing an unqualified opinion. Whilst the Council has continued to improve the quality of its working papers, we have continued to identify a number of adjustments to the accounts each year. The Council has proactively tracked adjustments during the course of our audits to ensure these are processed accurately, but to avoid these in future years, the accounts preparation process needs to be further strengthened.
- 2.10 Officers are engaged in the transition to International Financial Reporting Standards and have set up a project team to oversee the process. However, the Council has not met the timetable suggested by CIPFA.
- 2.11 There is scope for the Council to further improve its budget monitoring arrangements through the integration of financial and performance reporting. In addition, progress against the approved action plan for the implementation of International Financial Reporting Standards should be monitored and appropriate resource allocated to meet the deadlines in the Council's timetable.

Opportunities for improvement

- 2.12 As a result of our review of this theme, we have identified the following areas for improvement:

Securing financial resilience

- Scenario planning and sensitivity analysis should be used as part of the annual and medium term budget setting process to enable the Council to more effectively plan for changes in income and demand for services.

Prioritising resources within tighter budgets

- Financial and performance reporting should be fully integrated to aid decisions where resources could be reprioritised.
- Greater use of benchmarking could be made to identify service areas where costs of the service are not proportionate to the benefits provided in order to generate further savings.

Commissioning and governance

- 2.13 This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people.

Commissioning and procurement

- 2.14 The Council has developed a procurement strategy alongside its corporate strategy, using its understanding of the needs of the local population, which is complemented by the use of 'Neighbourhood Assessments' and participatory budgeting to ensure that procurement meets the requirements of residents.
- 2.15 The appointment of a dedicated procurement officer during 2009-10 has raised the profile of the procurement function and resulted in a more formal consideration of options for the provision of Council services. Some of the initial success can be demonstrated by the identification of potential savings in the purchase of bailiff services, insurance and stationery. The proposals for provision of an internal audit service showed consideration of the wider options available for the delivery of services.
- 2.16 The organisation is actively working with other local councils through the Devon Procurement Partnership and the South-West Districts Procurement Group. It has also secured licenses for e-tendering software, which will allow opportunities to be advertised to local companies on the Council's website in line with the Council's identified priority of promoting local business.
- 2.17 There is scope for the Council to make increased use of market-testing to identify opportunities for further savings through procurement. This will be a key aspect in the delivery of the updated procurement strategy, which should be supported by an action plan with progress monitored by the Procurement Efficiency Group. In addition, the introduction of a formal scoring matrix, incorporating the Council's priorities, would assist in evaluating tenders.

Use of data

- 2.18 The Council has made further progress in the redesign of its priority services in 2009-10 and, as part of this process, has changed the reporting of performance measures to focus on outcomes; for example the Council now monitors user satisfaction with the planning process and end-to-end times rather than the average time taken to process an application.
- 2.19 Performance data is monitored on a quarterly basis and is reported to Overview and Scrutiny committee, with indicators relating to corporate priorities reported to the Executive Board along with significant variances from target. The format of these reports has been revised to ensure that they meet the needs of members and support the decision-making process.
- 2.20 The Council has identified opportunities to further enhance the service provided to local residents through the use of IT. For example, an electronic mapping system to plot graphically data, such as incidents of abandoned cars to identify areas of greatest frequency in order to inform decisions, including those with partners, like police patrols in areas of greatest need. The importance of Information Security has been recognised

and the Council is implementing an information management strategy in a format recognised as best practice.

- 2.21 To further strengthen the arrangements, the Council should consider the using its internal audit facility to review data quality on an annual basis, to provide assurance that the collection and reporting of performance data remains robust. Also, data quality training should be provided to all relevant staff.

Good governance

- 2.22 The Council has continued to improve its governance arrangements, a key element of this is member personal development plans being effectively used to support members fulfilling their role more effectively. This has been recognised by the award of the IDeA's Member Development Charter. Development opportunities can be easily identified through comparison of members current skills with the role of both members and officers which is clearly set out in the constitution. Close working relationships between officers and members are promoted through the 'Keep Members Informed' campaign.
- 2.23 Members' allowances, expenses and declarations of interest are published on the internet along with details of the format and work of the Standards committee, which is also published regularly in the Council's monthly magazine distributed across the district. All complaints were dealt with by the Standards committee and none required referral to the National Standards Board during the year.
- 2.24 The purpose of governance is to ensure the Council and its partners can fulfil their purpose effectively and achieve intended outcomes for the local community. The Council's seven priorities are reflected throughout their key documents and the Council demonstrates it is working to achieve these, for example, the accelerated roll-out of the recycling contract to support a 'safe, clean and green environment'.
- 2.25 There is an opportunity for the Council to further improve their governance arrangements covering partners through ensuring that risk registers are in place for all key partnerships, including relevant partnership risks on the Council's risk register and monitoring the governance arrangements of key partnerships and the outcomes achieved.

Internal control

- 2.26 The Council has completely updated its risk management approach in 2009-10, including the introduction of new risk management software that contains corporate and operational risks. Training to use this has been provided to relevant officers. A Corporate Risk Management Group has been set up and an officer and member champion for risk management have been appointed. Their role includes raising the profile of risk management across the Council.
- 2.27 A detailed review of the counter-fraud arrangements that the Council has in place was carried out by internal audit and a proactive work programme proposed, which is based on the Audit Commission's publication 'Protecting the Public Purse', in line with best practice. Where cases of fraud are suspected, the Council convenes a 'Fraud Forum' allowing for transparent investigation and timely resolution of the issues identified.

2.28 Internal audit facilities are recognised as having a key role in this process, through their proactive programme of reviews and participation in the 'National Fraud Initiative'. We reported through our accounts work that the internal audit service has provided the Council with a satisfactory service for 2009-10. In the summer of 2010, The Council has moved towards a new Internal Audit provision and resources have been secured to deliver the agreed programme of reviews for the year. The Audit and Corporate Governance Committee meets regularly and receives updates on, and robustly challenges, the work performed to improve the Council's governance arrangements.

2.29 There is scope for the Council to further improve the risk management process by ensuring that risks continue to be identified, regularly reviewed and are assigned to a single responsible officer. The proactive counter-fraud work programme should be supported by an action plan and progress against the plan should be monitored. In addition, a periodic review of the effectiveness of the Audit and Corporate Governance Committee would demonstrate the contribution it makes to the Council's assurance arrangements.

Opportunities for improvement

2.30 As a result of our review of this theme, we have identified the following areas for improvement:

Prioritising resources within tighter budgets

- Full implementation of the new procurement strategy, along with use of e-procurement and e-tendering, should be used to ensure costs incurred deliver the Council's priorities.
- More detailed analysis of the financial contribution and outcomes achieved for the Council's key partnerships should be undertaken to ensure that adequate governance arrangements are in place and value for money is being consistently achieved.

Management of natural resources, assets and people

2.31 Assessment of this theme was being phased in over a three-year period. In 2009-10 our work focussed on whether the Council understands and can quantify its use of natural resources and whether it is managing performance to reduce its impact on the environment.

Use of natural resources

2.32 The Council has produced a comprehensive baseline assessment of its consumption of gas, electricity, fuel and water, including the consumption of resources by partners, such as the fuel used by the waste contractor. The Council's targeted focus on reducing resource use has resulted in specific improvements at a number of sites, including reductions in gas and electricity usage at leisure centres, which are provided by a strategic partner Leisure East Devon, achieved through providing staff with incentives to reduce emissions. Loft insulation has been added to Council-owned dwellings where possible, along with double-glazing and cavity wall insulation.

2.33 The current development of homes at Cranbrook has won backing from the South West's Renewable Energy Agency, who have selected the development as one of only five across the region to receive their support in maximising the reduction in use of natural resources.

- 2.34 A proactive diversity strategy has been adopted, with key achievements including the hosting of the Devon Water Vole Recovery project and the creation of a saline lagoon on the Axe wetlands. Due to its success, additional funding has been received to expand the Council's work on the wetlands.
- 2.35 In order to achieve further improvements, progress against the action plan associated with the Council's Carbon Management Strategy should be regularly reported and the organisation should adopt specific targets for the reduction in its use of natural resources to maximise potential financial savings in energy costs.

Opportunities for improvement

- 2.36 As a result of our review of this theme, we have identified the following areas for improvement:

Prioritising resources within tighter budgets

- Formal targets for reductions in emissions should be established and monitored to demonstrate success year on year, with the focus being on those assets with the highest levels of emissions.

A Action plan

The following recommendations arise from our work and should be considered in the context of significant change as a result of a reduction in resources going forward.

Recommendations	Priority	Management comments	Responsibility & implementation date
<p>Budget setting Scenario planning and sensitivity analysis should be used as part of the annual and medium term budget setting process to enable the Council to more effectively plan for changes in income and demand for services.</p>	Medium	A new financial model has already been built to assess these types of scenarios and their effect on services for use in the 2011/12 budget and service planning process.	Head of Finance 2011/12 budget and service planning process
<p>Integrated reporting Financial and performance reporting should be fully integrated to aid decisions where resources could be reprioritised.</p>	Medium	Further progress towards full integration will be made for the 2011/12 budget and service planning process.	Head of Finance and Communications and Improvement Manager 2011/12 budget and service planning process

Recommendations	Priority	Management comments	Responsibility & implementation date
<p>Benchmarking costs and performance Greater use of benchmarking could be made to identify service areas where costs of the service are not proportionate to the benefits provided in order to generate further savings.</p>	Medium	Use of SPARSE continues and other services are making use of benchmarking clubs, e.g. Finance and CIPFA/LGA VFM toolkit. An audit of the information that services collect for Benchmarking will be completed before good practice is shared and promoted. A cost vs performance comparison model will be tested.	Head of Finance and Communications and Improvement Manager During 2010/11
<p>Procurement Full implementation of the new procurement strategy, along with use of e-procurement and e-tendering, should be used to ensure costs incurred deliver the Council's priorities.</p>	Medium	A new procurement strategy is in the workplan for 2010/11, e-procurement commenced in 2010/11 and licenses have been secured with RIEP funding for e-tendering which will be rolled out during 2010/12.	Head of Finance During 2010/11 and 2011/12
<p>Partnerships More detailed analysis of the financial contribution and outcomes achieved for the Council's key partnerships should be undertaken to ensure that adequate governance arrangements are in place and value for money is being consistently achieved.</p>	Medium	A report on the issues and options will be presented to SMT in early 2011/12.	Corporate Director (DP) and Head of Finance Early 2011/12
<p>Emissions Formal targets for reductions in emissions should be established and monitored to demonstrate success year on year, with the focus being on those assets with the highest levels of emissions.</p>	Medium	Delays in generating data on emissions need to be overcome before targets are established and monitored.	Corporate Director (KH) During 2010/11

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Audit and Governance Committee

23 September 2010

MM



Internal Audit activity report for the period 1st April 2010 to 30th September 2010, to include:

- **Audit Plan Monitoring to 30 September 2010**

This report gives brief details on the staffing situation within the Council's Audit and Governance section and highlights Internal Audit activity for the first quarter and into the second quarter, indicating where audits are progressing well and identifies those that have slipped against the internal audit plan. Members will note the progress made and also be informed of the audits that remain outstanding.

Recommendations

Members are asked to note and keep under review the:

- **Internal Audit performance against the audit plan**

a) Reasons for Recommendation

To ensure that progress is made on the plans of Internal Audit in line with Member expectations.

b) Alternative Options

None

c) Risk Considerations

Local authorities are required to "make arrangements for the proper administration of their financial affairs" and/or "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

The Operational (Service) Risks are:

AUD-RK-0027 – The provision of an efficient and effective audit and governance service

AUD-RK-0081 – Fraud, Theft and/or irregularity of financial resources

AUD-RK-0082 – Fraud, Theft and/or irregularity of physical assets

d) Policy and Budgetary Considerations

None

e) Date for Review of Decision

N/a

Audit Staffing

Following the departure of the Internal Audit and Risk Manager in early August 2010, the department has been staffed by the part time Principal Auditor (who returned from Maternity Leave at the start of the second Quarter) and the part time Contract Computer Auditor who has been in place since March 2010. Work continues on the existing audit plan as far as possible, with regular contact with the Corporate Director.

The completion of the existing audit plan relied on having one other audit contractor available. This contractor left at the end of Quarter 1 and his replacement did not commence work, following cancellation of his services by the Internal Audit and Risk Manager.

Audit Activity

Completed Audits

The percentage of completed audits against the audit plan as at 31 August 2010 is 61% (11 out of 18), compared to 66% this time last year. It is anticipated that this should rise to 83% (15 out of 18) by the end of Quarter 2, compared to 100% this time last year. Of the 11 audits completed as at 31 August, 3 took longer than expected and 3 took less time than expected. 93 actions have been agreed in Quarters 1 and 2 for far this year, with 4 audits still underway. 71 actions were agreed in Quarters 1 and 2 last year.

Audits Brought Forward from 2009/10					
Audit	Audit Opinion	Completed	Planned Days	Actual Days	Reason
2009/10 ICT Audit brought forward	Neutral – 43 Actions Agreed	Qtr 1	6 (In 2010/11 budget)	33	The Computer Auditor did not commence work until 16 March 2010.

The completion of the 2009/10 computer audit in the first quarter of 2010/11 resulted in several Quarter 1 audits being completed later than expected:

Audits delivered later than planned						
Audit	Audit Opinion	Planned Quarter	Delivered Quarter	Planned Days	Actual Days	Reason
Supporting People	Neutral-	1	2	10	11	Computer Audit was Priority
Environmental Protection	Positive –	1	2	8	8	Postponed from Qtr 1 to Qtr 2 by IARM
Street Scene	Neutral, with Refuse and Recycling – Positive	1	2	40	54	Contractor left without finalising audit
Print and Post	Positive –	1	2	4	4.5	Computer Audit was Priority
Disposal and purchase of Assets follow up	N/A	1	2	4	0.25	Computer Audit was Priority

Audits completed on time and within budget				
Audit	Audit Opinion	Completed as planned	Planned Days	Actual Days
Bus Concessions	Positive	Qtr 1	8	8
Car parks	Positive	Qtr 1	10	10
Learning and Development	Positive	Qtr 1	8	4
Section 106 Monies	Neutral	Qtr 2	15	15
Contingency Theft of Purse Transition Uniform/CAPS/ AIMS review	N/A	Qtr 2	33	2 15 2

Audits not yet completed

Audits Postponed Indefinitely			
Audit	Planned Completion	Planned Days	Notes
Communication & Improvement	Qtr 2	10	Not considered a priority audit.
LED	Qtr 2	8	Audit last done 2008/9. No significant issues identified and no changes to systems or processes this year. Not considered a priority audit.
Housing Needs	Qtr 2	10	Audit last done 2009/10. No significant issues identified. Not considered a priority audit.

The above audits have been postponed due to reduced Internal Audit capacity. The total number of days postponed is 28 days which roughly equates to the 30 days included in the existing audit plan for the additional audit contractor, who did not start work.

It is the intention of the Service to minimise the number of audits in progress at the time the South West Audit Partnership take over. Therefore, it is necessary to postpone some audits to ensure as many as possible ongoing audits are completed by the expected handover date at the beginning of October.

The postponement of the above 3 audits reduces our "percentage of planned audits commenced" performance indicator to 83%, compared to 100% this time last year.

Audits currently underway

Audit	Planned Completion	Expected Actual Completion	Notes
Contracts and procurement	Qtr 2	Qtr 2	This audit has 34 days allocated to it. Expected time needed: 20 days due to combining Contract and Procurement audits together as 1 audit. 5 days used so far
Democratic Services	Qtr 2	Qtr 2	4 days used so far
Legal Services	Qtr 2	Qtr 2	3 days used so far
Grounds Maintenance	Qtr 1	Qtr 2	7 days used so far

Audit Day reconciliation

Total Days for Quarters 1 and 2 as per Audit Plan	218
Add Computer audit Brought Forward from 2009/10	33
Less Audits postponed indefinitely	(28)
Total Days available	223
Days used to date	186
Remaining days needed	37
Actual Days available	28
Difference	(9)

Explanation

The difference is slightly less than might be expected because the audit plan includes 30 days for the audit contractor in Quarter 2 who was never employed. It is hoped that by combining the Procurement and Contract audits some savings on the number of days needed may be made. A preliminary review of the audit suggests only 20 as opposed to 34 days planned may be sufficient. The audit plan itself predicted a shortfall of 5 days for Quarters 1 and 2.

Conclusion

This report covers the period 1st April 2010 to 30th September 2010.

Legal Implications

No legal observations

Financial Implications

No financial observations

Consultation on Reports to the Executive

None

Background Papers

Car Parks Executive Summary – refers to counterfeit coins. For background information only.

Moya Moore – 2688

Principal Auditor

Audit & Governance Committee
23 September 2010

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CORPORATE GOVERNANCE ACTION PLAN

This action plan was presented in June 2010 to the Audit and Governance Committee as an appendix to the Annual Governance Statement 2009/10.

Area for Improvement	Suggested Action	Officer Resp.	Officer Response
<p>ICT Services and Street Scene Services</p> <p>Disaster Recovery Plans and Business Continuity Planning is not adequate to protect the Council or its assets.</p>	<p>Outstanding since 2007/08 and appeared on the 2007 Action Plan and the 2008/09 Action Plan.</p> <p>The Gov. Connect programme took precedence over the redesign of the Disaster Recovery plans in 2009.</p> <p>The Council must decide whether to involve South Somerset in the choice of Disaster Recovery location or stick to the original choice of the Honiton Business Centre.</p>	<p>CP</p> <p>CP</p>	<p>The contract with ICM to deliver servers and storage on site is still in place and this make ICT Service Continuity just tenable.</p> <p>The East Devon Business centre was in the process of being set up as a better base for the equipment and to allow us to remove the contract.</p> <p>However, the partnership with South Somerset means that a new method of disaster recovery is being planned. Each site will act as the disaster recovery data centre for the other.</p> <p>This design will not be implemented until there the shared leadership has been sorted out.</p>
<p>ICT Services</p>	<p>Resolution of Internal Audit & Governance Committee (March 2010) should prevent many</p>	<p>CP</p>	<p>All changes are in place and have been operational for several months successfully.</p>

<p>Controls over project management, including budgets, overspends, delivery and budget variations and approval.</p>	<p>of these issues by ensuring that budget overspends and slippage are monitored and challenged.</p> <p>Internal Audit have recommended that the full anticipated cost of a project, including labour is made clear at the outset.</p>		
<p>Financial Services - Housing Benefits.</p> <p>Checking accuracy of system calculations</p>	<p>Procedures for selecting claims for accuracy checking is reviewed and a full risked-based approach is used.</p> <p>Team leaders to check a minimum of 5% of assessed claims each month.</p> <p>Regular reports from team leaders on the number and results of the accuracy checks and where the number of checks or accuracy drops, appropriate action is promptly taken to address the situation.</p>	<p>SD</p> <p>SD</p> <p>SD</p>	<p>Awaiting response</p>
<p>Financial Services - Housing Benefits.</p> <p>Overpayment Recovery and write</p>	<p>The Housing Benefit System reports used to calculate the overpayment recovery figures are reviewed and the reasons for the discrepancies identified</p> <p>After review, if the Housing Benefit System</p>	<p>SD</p>	

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<p>off (outstanding invoices do not agree with the Housing Benefit debt management system). (Misinterpretation of guidance on calculating indicators and errors in the calculation process has resulted in incorrect figures being reported to Members)</p>	<p>reports are found to be inaccurate, alternative methods of calculating the figures should be found Members are advised of the errors in the reported figures.</p>	<p>SD SD</p>	<p>Dealt with under item 2 of this agenda – previous meetings minutes</p>
<p>Street Scene Services Flood Alleviation and Coast Protection Strategy The Strategy links to both national and regional plans and would draw down funding for protection</p>	<p>Outstanding since 2008/09 and appeared on the 2009 Action Plan. This has serious work capacity issues in the delivery of Engineering services in particularly those associated with Land Drainage, Flood Alleviation and Coastal Defence works. Failure to fill this post will mean work will need to be prioritised with some work areas not being carried out.</p>	<p>PJ</p>	<p>The Post of Principal Engineer remains vacant at the request of the Rationalisation Panel and will also be reviewed as part of service sharing with South Somerset District Council. Prioritisation continues. Review work now needs to happen for Flooding by Devon County Council with EDDC input. On coastal works we await SMP2 and Coastal Pathfinder results.</p>

<p>schemes. Due to lack of resources in Street Scene, (Engineering) the capacity of the staff to deal with these issues is limited.</p>			
<p>Street Scene Services / Financial Services</p>	<p>Audit & Governance Committee already aware, steps being taken to recalibrate our ticket machines to increase the number of coins rejected, and to reduce the number of coins lost due to counterfeit. Issue to be kept under review and an internal audit is scheduled for 1st/2nd quarter of 2010.</p>	<p>PJ/SD</p>	<p>The Problem seems to be easing. Recalibration is taking place.</p> <p>Internal Audit carried out review and released a report in June 2010.</p>
<p>Organisational Development</p>	<p>Address of prospective employees should be verified.</p>		<p>Both these practices are now in place.</p>
<p>Corporate Anti-Fraud, Employment Screening</p>	<p>"Character and Criminal Record Declaration Form" used by the DWP should be implemented.</p>	<p>KJ</p>	
<p>Internal Audit & Governance</p>	<p>The Council did enter into an arrangement with Exeter City Council and a specialist computer audit provider to provide extra audit resources,</p>		<p>Governance responsibilities have been reallocated following the departure of the Internal Audit and Risk Manager in August</p>

<p>The Council's Internal Audit Service has suffered from a lack of resources and does not have adequate resources to monitor the governance arrangements of the Council</p>	<p>however the Unitary status has affected this arrangement.</p> <p>The Council needs to re-consider their options for the delivery of this service.</p>	<p>TC/DP</p>	<p>2010.</p> <p>It is expected that Internal Audit Services will be transferred to the South West Audit Partnership from October 2010. Until then, progress is made against the existing audit plan by the Principal Auditor and Audit Contractor.</p>
<p>Housing Services</p> <p>Housing Needs</p> <p>Corporate Anti-Fraud,</p> <p>Tenancy Fraud</p>	<p>Online tenant photograph gallery to be implemented (as soon as technology allows)</p> <p>Update evidence capturing procedures, including the quality of evidence (eg: original birth certificates photocopied and placed on file or scanned to disk</p>	<p>JG</p> <p>JG</p> <p>JG</p>	<p>We collect a photograph of new tenants when signing up for tenancy. This is sometimes a new photograph, or a copy of passport photo or drivers licence. It may be worth asking for an up to date photo if passport or drivers licence is old. Not sure we ever agreed to an online photo gallery. I would be concerned about this from a data protection point of view.</p> <p>We have improved our 'sign up' process and should be collecting relevant evidence to confirm household and their housing need before we hand over the keys. We could consider doing more 'home visits' before we actually make a verbale offer of a tenancy, but this is very staff resource intensive work and not sure we can do this everytime. We are doing it for the 'new'</p>

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	<p>Use of Experian to check status of prospective tenants – including residency, financial and other background checks</p>		<p>build we are letting over the next few months.</p> <p>When we looked at Experian in depth, it does not give us more than the basic financial worthiness. We are not able to access the kind of info that HB and CT get and they will not share it with us.</p>
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Agenda Item 12

Audit & Governance

23 September 2010

ICT Audit 2010



ICT Audit Report – a Clarification

Summary

When the ICT report was presented to the Committee in July 2010 it was apparent that there was a lack of clarity in the purpose of the report and that some points may have received undue emphasis which would give a false impression to Members as to the perceived levels of risks within the ICT organisation.

In addition, the responses to the draft report from the Head of ICT had not been fully incorporated.

Consequently this addendum to the report aims to succinctly highlight the key areas of risk identified by the auditor.

Recommendation

That the report be noted

- a) **Reasons for Recommendation**
Clarification of report
- b) **Alternative Options**
None
- c) **Risk Considerations**
N/A
- d) **Policy and Budgetary Considerations**
N/A
- e) **Date for Review of Decision**
N/A

1 Main Body of the Report

Network Security

During the course of the audit it was possible to access areas on the network which a general user should not have access to. These were reported to ICT who reacted in a positive, professional manner and took appropriate action within 2 days of it being reported to them.

As this is a normal part of the audit, ICT, with tight resources, are content to rely on Internal Audit to find anything that has slipped through their own security net.

It should also be stated that security weaknesses of this nature are not uncommon especially in organisations where 3rd party software is extensively used.

User access control of temporary staff

The audit identified two issues

- 1) Network user accounts of non-permanent users for instance contractors, agency workers, auditors etc can be left "live" after the person has left the Council.
Although it is unlikely that this will fully eradicated as ICT are dependent on being informed when non-permanent personnel leave a "back-stop" solution was identified where all temporary accounts are set up for a maximum of three months only. This will ensure this area is better controlled and the vulnerability considerably reduced;
- 2) A similar problem was identified with user access to application systems, which is controlled by system administrators. The audit identified that system administrators are not guaranteed to be included in the information flow when someone leaves which can mean that accounts can be left live.

An improved communication method is being worked on to include all system administrators.

The issue is mitigated to some effect by the yearly review of user access that is carried out by the Application Management Teams.

This is another area where ICT, in effect, use Internal Audit as an additional resource to carry out these checks and thus it is not altogether surprising to see issues identified.

Operations

- 1) The audit identified inconsistencies related to backup data retention. This is a much wider issue relating to document retention across the council and is to be picked up through the Information Management Group. This is a completely acceptable way to address this issue.
- 2) The efficiency of IT Service Continuity has been an outstanding issue which has been raised in the last 2 audit reports. The current improvement plan (to use East Devon Business Centre as a backup data centre) has been shelved. It remains an audit view that this risk should be addressed soon and potentially make use of the Data centre at South Somerset for disaster recovery.

Project Reporting

The information contained in the summary report produced by the IA Manager was based on historic information, all of which has been actioned and does not reflect the situation at present.

Risk Register

The review of the Risk Register was not carried out by the auditor assigned to the ICT audit and knowledge of this part of the report is limited. As far as I understand the current contents of the Risk Register were agreed between the IA Manager and the Head of ICT.

The item about the risk register in the report appears to indicate a divergence from the currently accepted purpose of being a high level corporate risk management tool and suggests its use should

be more as a low level checklist. This is, in my opinion, outside of the scope of this ICT audit.

I am unaware of the full background behind the set up of the Risk Register. However, the comments indicate that some further clarity may be required as to the design of the Risk Register and so my recommendation is that the Corporate Risk management Group be asked to clarify the purpose of the register and the level of detail they expect to see documented as part of the controls for the risks identified. If this results in a change from the original concept then a programme of re-training would need to be implemented.

The above reflect the salient points of the ICT audit report.

Legal Implications

None

Financial Implications

None

Consultation on Reports to the Executive

None

Background Papers

None

Graham Stubbs - 2689
Contract Auditor

Audit & Governance
23 September 2010

Agenda Item 13

Audit & Governance Committee

23 September 2010

SD



Counterfeit Coins – car park machines

Summary

The issue of counterfeit coins from our car park machines has been on going for sometime with differing updates and reports to members of this Committee.

From the last update there was one loose end to tie up in the process concerning the confirmation that we had had genuine receipts from Royal Mint confirming counterfeit coin deposits made by our contractor, Contract Security Services. This confirmation has now been received.

There is however a new issue to draw to members attention in that we have received a £2,000 refund from the contractor for coins previously declared counterfeit which are now deemed proper currency.

Recommendation

Members note the situation and are satisfied with the controls and procedures in place.

a) Reasons for Recommendation

It is believed through investigation and questioning that the processes adopted by Contract Security Services relating to EDDC car park machine banking is sound. It is also considered that the procedures in place for monitoring those banking by the Council are also proper and sound.

b) Alternative Options

None

c) Risk Considerations

Because of the inaccuracy found in the counting machines used to verify counterfeit coins the Council can never be sure that the right amount of coins are being deducted from its banking.

d) Policy and Budgetary Considerations

None

e) Date for Review of Decision

Not applicable

1 Introduction

- 1.1 The issue of counterfeit coins from our car park machines has been on going for sometime with differing updates and reports to members of this Committee.
- 1.2 From the last update, copied in Appendix one, there was one lose end to tie up in the process. This concerned the confirmation that we had had genuine receipts from Royal Mint relating to deposits made by Contract Security Services.
- 1.3 A further issue since the last report is that we have recently received a £2,000 refund from the contractor for coins previously declared counterfeit which are now deemed proper currency. Although good news on the face of it, it does bring into question how this was previously counted as counterfeit/rejected coinage which has now been counted as valid.
- 1.4 This report covers the following;
- The Council's counterfeit coin losses compared with the national picture.
 - The processes in place
 - Recent refund of £2,000 and what conclusion can be reached.

2 Council counterfeit coin losses in context

- 2.1 It is believed that roughly **3%**, or £41 million worth, of £1 coins in circulation are counterfeit (government press release 28 July 2010 http://www.direct.gov.uk/en/NI1/Newsroom/DG_189612).
- 2.2 Attached in Appendix 2 is a detailed weekly analysis from the beginning of the calendar year to date of the number of £1 coins taken by our car park machines and those identified as counterfeit/foreign/damaged by our contractor. This shows in the period we have taken 1,270,729 coins of which 2,612 were rejected, or **0.2%**. This is significantly below what would be expected from the national picture.
- 2.3 It was agreed by this Committee to recalibrate 12 of our top used car park machines in order to reject more of these coins in first instance. 11 of the machines have been done, with 1 remaining. This was started on 9th August and we have since seen a fall in counterfeit coins recorded by the contractor from these machines, down to only a few as a norm per day. As can be seen from the weekly analysis this has brought the overall rejected rate of £1 coins down to under **0.1%**.
- 2.4 These percentages are monitored on a weekly basis by the car parking service and any variations causing concern will be explored with the contractor.

3 Contractor processes in place

- 3.1 The processes in place by the contractor were outlined in the last report to members (Appendix One), however there was a question remaining as to whether the receipts provided to us by the contractor were in fact issued by the Royal Mint and that they were part of Royal Mint's procedures. This has been confirmed by Royal Mint and the sample receipts we sent to them have been verified as genuine.

4. Refund of £2,000 previously deemed as counterfeit.

- 4.1 In an email to the Council dated 14th July we were informed by the Contractor that the last bulk delivery they made of counterfeit coins to Royal Mint, which contained £3,000 from EDDC, had been returned to them for rechecking as Royal Mint sampling had found a quantity of these coins genuine. Royal Mint has confirmed that this is part of their process. On passing these coins back through the counting machine again the Contractor has found that 2,252 of these coins are valid.

- 4.1 This £2,252 was to be submitted to us as a refund; however in the processes of banking this money in order to refund us (2 bags of £1,000 and 1 part bag of £252) the contractor's bankers (HSBC) put the part bag (£252) through their machine to count and check for counterfeit and rejected all but £11 of the bag.

- 4.2 This really does give a confusing picture and questions the accuracy of the machines used in the industry to identify these coins. In explanation to us after querying this position the contractor stated;

"All coin from Car Park Boxes is processed by our Scancoin 4000 high speed processing machines. All our machines are fully maintained under contract with Scancoin. Scancoin state that no two machines will mirror each other exactly despite being the same models and with the same calibration setting. Furthermore, Scancoin have stated that the industry agreed calibration setting will only identify and reject up to 35% of counterfeit £1 coins due to a number of factors. They state that this is due to the speed of processing, the high quality of some counterfeits, the weight/metal density/wear and tear of the coins.

We undertake regular throughout the day performance checks on the accuracy of the machine and check weigh all bulk coin bags produced. As previously stated, Royal Mint have also provided us with a bag of £500 genuine coin in order to complete regular performance checks on the accuracy of the equipment. Any processing concerns including that of rejected coins are escalated to our Depot Coordinators/Supervisors and where necessary Scancoin engineers are called to investigate and correct any problems. Where necessary, we will suspend processing until the accuracy of our equipment is confirmed.

We were concerned by the results from Royal Mint on sampling a small percentage of our most recent consignment delivery. In order to protect our clients and that of Contract Security, we arranged to collect and re-process this coin. Prior to re-processing the coin we called Scancoin Engineers who confirmed that the calibration settings on our machines remained accurate and no changes to the settings were necessary. Upon processing it was identified that £2,252 of the re-processed coin was now being cleared as genuine through our machine. This was duly notified to East Devon DC and a credit prepared for this amount. Upon delivery to our client

banking partners, HSBC, their processing agent, Vaultex (UK) Ltd has processed the part bag of £252 and reduced the credit down to only £11.00 as they state there were £241 in counterfeit £1 coins rejected by their Scancoin 4000 machine. The £2,000 in full bags was credited to the account.

- 4.3 They also went on to say that they have reprocessed EDDC counterfeit coin they were holding in their safe to be taken to the Royal Mint, 2,161 coins rejected during the course of 2010. They found that £1,199 of this was now shown as genuine with 962 still being shown as counterfeit. This is also to be refunded to us. The contractor has raised our concerns and theirs about the reliability of these machines with the supplier and Royal Mint who together have agreed the industry standard for these counting machines.

5. Conclusion

- 5.1 The identification of counterfeit coins is not 100% accurate, as can be clearly seen from above. The processes adopted by our contractor are sound and we are seeing a very low percentage of coins being counted as counterfeit, particularly when the refunds are taken into account.

- 5.2 It is difficult to see what else can be achieved, bearing in mind officer time already expended on this issue, to pursue this matter any further. Tight monitoring is in place and any higher than norm rejected coin percentages will be pursued with the contractor, which they are fully aware of.

Legal Implications

The Legal Section will detail any implications here. If there are none, this should also be stated by the Legal Section.

Financial Implications

Details contained within the report

Consultation on Reports to the Executive

Not applicable

Background Papers

- Emails from Royal Mint and Contract Security Services
- Reconciliations and paperwork held in the car parking services office

Simon Davey
Head of Finance

Audit & Governance
23 September 2010

Audit and Corporate Governance Committee

Monday 5 July 2010

Committee Room at 2:30pm



Tabled paper – Counterfeit Coins Update Note

In summary

Members will recall issues raised previously relating to counterfeit coins being deducted from the Councils car park pay and display machine income by its cash collection contractor, Contract Security Services.

The key concern was the lack of evidence to support the sums being deducted and Members were very strong that they were unhappy with the process as they understood it.

A visit was arranged to Contract Security Services counting house in Andover, with those attending from the Council being; Councillor Ken Potter (Chairman), Councillor Chris Gibbings, John Lacey (Assistance Parking Services Manager) and Simon Davey (Head of Finance). This visit proved very productive and well worth the time invested, through additional information obtained and seeing the procedures in place a satisfactory level of assurance was obtained.

For members information an order was placed on 14 April 2010 for 12 of our car park machines to be recalibrated to reject counterfeit coins at a higher level. These machines are to be updated this week and we be monitored; the car parks are Imperial Road and London Hotel in Exmouth, the Ham in Sidmouth and Lace Walk in Honiton.

Receipts no longer issued by Royal Mint for counterfeit coins deposited to them.

Members were previously informed by officers following a meeting they had had with James Horton from Contract Security Services (officers present Simon Davey, Tanith Cox and Len Wright) that he could not provide us with receipts from Royal Mint to verify the counterfeit coins they deposited on behalf of EDDC. This situation was correctly explained by Tanith in her report to A&G and confirmed by Len and myself at the meeting. This situation was also independently confirmed to the Council by Royal Mint.

It was this situation that members were not content with and with hind sight were right to push officers and the security company to reassure themselves that appropriate controls were in place.

The visit to the Counting House 13th May 2010.

A visit was therefore made to Contract Security Counting House in May by Members and officers to witness the procedures in place when dealing with counterfeit coins.

At our visit James Horton suddenly produced a form of receipt for consignments delivered to Royal Mint which included an EDDC element. My only reasoning for this suddenly being available is a misunderstanding between your 3 officers and James; he was right in that Royal Mint can not provide a receipt confirming EDDC amounts of counterfeit coins deposited with them, however he failed to tell us at the time that what he could give us was a sheet from Royal Mint stating a consignment had been received from Contract Security. The amounts are not checked by Royal Mint and the EDDC element within the total is not checked. However this sheet does give a level reassurance not previously obtained. It would have been useful if he had mentioned this at our meeting with him and not wait until we went to see him.

In combination of seeing the process; how coins are rejected and accounted for and the signed sheets from Royal Mint, and although not perfect, this should now give members the level reassurance they were looking for and were missing previously.

In an email exchange with Councillor Chris Gibbings he asked me to expand for members and give a bit of detail to the procedures in place, these were described by him which I copy below as I believe this contains the relevant elements;

"- You may wish to expand on the procedure we witnessed. The locked boxes being opened in front of a supervisor, machine counted and counterfeit coin being rejected. The counterfeit coins from our boxes were placed in "evidence sealed" numbered bags recorded in a ledger against our name and stored in a safe specifically kept for counterfeit coins. When coin to a face value of £500 from us, or any other client, was reached that was again placed in a numbered sealed bag and recorded in the ledger. We were permitted to examine that ledger. Sheets were then prepared to accompany the sealed and numbered bags to the Royal Mint. Each line on a sheet referred to an individual bag and was initialled (signed for) at the Mint although some of these initials were missing so procedures had slipped a little. The bottom of each sheet was fully signed and stamped by the Royal Mint. Therefore there is an audit trail and receipt in respect of our specific money. That is of course if these sheets are genuine and I know a letter has now been sent to the Mint asking just that question -".

In comment to the last sentence independent confirmation is being sought from Royal Mint that these receipts are genuine in order to complete our reliance on the procedures. The receipts from Royal Mint have now been sent to us and reconciled back to the deductions made of counterfeit coins. James Horton at our visit stated that these returns were being emailed to us; checking after the event two returns had been received going back, to a different office each time with no relevance or acknowledgement as to their purpose from the security firm.

Simon Davey
Head of Finance
5 July 2010

Appendix 2

WEEK BY WEEK ANALYSIS OF £1.00 COINS

DATE W/END	£1 COIN TOTAL ACCTUAL	£1 COIN TOTAL REJECTED	%
03.01.10	14141	30	0.21
10.01.10	17227	39	0.23
17.01.10	12404	36	0.29
24.01.10	15094	43	0.28
31.01.10	17028	46	0.27
07.02.10	16050	42	0.26
14.02.10	17141	61	0.36
21.02.10	17398	57	0.33
28.02.10	18688	49	0.26
07.03.10	19497	76	0.39
14.03.10	19097	106	0.56
21.03.10	21131	89	0.42
28.03.10	19201	110	0.57
04.04.10	30445	153	0.5
11.04.10	56127	260	0.46
18.04.10	45187	289	0.64
25.04.10	40084	65	0.16
02.05.10	31447	38	0.12
09.05.10	32847	41	0.12
16.05.10	30786	39	0.12
23.05.10	37304	44	0.12
30.05.10	44757	97	0.22
06.06.10	66340	97	0.14
13.06.10	38930	48	0.12
20.06.10	45373	69	0.15
27.06.10	53994	94	0.17
04.07.10	49946	119	0.24
11.07.10	46242	70	0.15
18.07.10	43846	44	0.1
25.07.10	45872	54	0.12
01.08.10	62136	63	0.1
08.08.10	65666	58	0.08
15.08.10	63018	39	0.06
22.08.10	60717	31	0.05
29.08.10	55568	16	0.028
05.09.10	0	0	
12.09.10	0	0	
19.09.10	0	0	
26.09.10	0	0	
03.10.10	0	0	
10.10.10	0	0	
17.10.10	0	0	
24.10.10	0	0	
31.10.10	0	0	
07.11.10	0	0	
14.11.10	0	0	
21.11.10	0	0	
28.11.10	0	0	
05.12.10	0	0	
12.12.10	0	0	
19.12.10	0	0	
26.12.10	0	0	
ACCUM.	1270729	2612	0.2

Agenda Item 14

Audit and Governance Committee

23 September 2010

DP



Transfer of internal audit function to South West Audit Partnership

Summary

The Council has resolved to transfer responsibility for the delivery of a managed internal service to South West Audit Partnership (SWAP). The report comments on certain matters associated with that arrangement, including the adoption of an Audit Charter which sets out the nature, role, responsibility, status and authority of internal auditing within the East Devon District Council, and to outline the scope of internal audit work.

Recommendation

That the committee notes the present position and adopts the Audit Charter.

a) Reasons for Recommendation

It is appropriate for the Committee to adopt an Audit Charter which sets out the roles and responsibilities for the provision of an effective internal audit function

b) Alternative Options

None considered

c) Risk Considerations

None associated with imminent transfer of responsibility for a managed audit service and adoption of the Audit Charter

d) Policy and Budgetary Considerations

N/A

e) Date for Review of Decision

It is anticipated that the Committee will review the effectiveness of the service annually.

1 Background

The Committee of 5 July recommended the transfer of the delivery of the internal audit function to the South West Audit Partnership (SWAP) through participation in a joint committee. This report comments on the actions taken/to be taken to achieve that objective and on the allocation of residual duties that will not transfer.

SWAP

SWAP will take over responsibility for delivering the Authority's internal audit function from 1 October 2010.

The Council's application to join the partnership will be formally considered by the partnership board on 19 October. In the event of that application being unsuccessful the Council will reimburse SWAP for audit work undertaken by them in the interim period.

The relationship between East Devon DC and SWAP will be incorporated in a Trading Agreement with day to day operational activity set out in an Audit Charter. The Charter, similar to the one adopted by the Committee in respect of the previous in-house arrangement, sets out the nature, role, responsibility, status and authority of internal auditing within the East Devon District Council, and to outline the scope of internal audit work. The Committee are required to adopt the Audit Charter.

SWAP's offices are located in Langport, Somerset and the Partnership is headed by Gerry Cox. The audit team will consist of 2 officers located in the Council offices, Knowle. An audit manager will also work onsite for a proportion of the year and will attend committee to present reports. The team will be supported by administrative and specialist staff working either on site or from a remote location.

One member of the existing audit team is to transfer to SWAP under the TUPE arrangements.

Audit Plan

SWAP will deliver 420 audit days. This is similar to the current Audit Plan approved by the Committee. In addition to the 420 'audit' days management and administrative support will be provided.

One of the first tasks to be undertaken will be a discussion with SWAP on the delivery of the remainder of the 2010-11 audit plan. Further a review of the 5 year audit plan previously adopted by members will be undertaken later in the year with a report being presented to the Committee.

A paper elsewhere on this agenda comments on the current position of the 2010-11 audit plan.

Residual duties

Not all activities presently performed by the internal audit service will transfer to SWAP. These have therefore been reallocated to officers currently employed by the Authority. The main activities, and the individuals to be responsible, are considered to be:

- Corporate Risk Register – Bob Darbourne
- Annual Governance Statement – S151 officer
- National Fraud Initiative – Douglas Rose
- Whistle Blowing fraud line – relocated to the Housing Benefits fraud team

- Constructionline (used in the preparation of tender lists) – Colin Slater, procurement officer.

The Fraud Forum will continue to function with the S151 officer, Head of Operational Development and the appropriate service manager meeting to review reported cases. A member of the audit team will be invited to attend when considered appropriate.

Cost

SWAP charge £280 per audit day therefore the new arrangement will cost the council £117,600. As advised above this sum includes the cost of management and administrative support. With residual duties allocated to existing members of staff, at no extra cost, joining the partnership will save the Council in the order of £35,000 pa.

In addition to the annual fee the Council will be responsible for the provision of basic ICT equipment and software, at an estimated one off cost of £3-4k, and the provision of a broadband connection. In addition the Council will also provide furnished office accommodation.

There will be an opportunity for the Council to reduce the number of audit days in future years should it share service teams with South Somerset DC.

Legal Implications

There are no legal issues requiring comment highlighted within the report.

Financial Implications

The decision to transfer responsibility for a managed internal audit service to SWAP, based on the current number of audit days, will result in a cost reduction in the order of £35,000. Whilst there is no budget provision for the set up costs estimated at £3-4,000 these can be found from the saving to be achieved.

Consultation on Reports to the Executive

The transfer has been considered by the Committee on a previous occasion and by the Rationalisation Panel.

Background Papers

- Working papers file
- The proposed Audit Charter is attached to this report

Diccon Pearse
Corporate Director

Audit and Governance Committee
23 September 2010

Internal Audit Charter

Purpose

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

Approval

Once approved by the Audit and Governance Committee, the Charter will be reviewed annually and referred to Audit and Governance Committee for confirmation.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership (SWAP) on contract expiring on 31 March, 2015. This charter should be read in conjunction with the Trading Agreement, which forms part of the legal agreement between the SWAP partners.

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

Role of Internal Audit

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

Responsibilities of EDDC Management and of Internal Audit

EDDC Management

EDDC Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. EDDC Management is responsible for ensuring SWAP has:

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

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

Internal Audit

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

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and International Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors. Internal Audit also complies with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Internal audit is not responsible for any of the activities which it audits. Members of SWAP will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the Partnership from other areas of ~~Forest of Dean~~ East Devon District Council will not be asked to review any aspects of their previous department's work until six months has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

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

Status of Internal Audit in the Organisation

The Head of the Internal Audit Partnership is responsible to the SWAP Management Board and the Partnership Board. The Head of Internal Audit Partnership and the Group Audit Manager also report to the Section 151 Officer, and report to the Audit and Governance Committee as set out below.

Appointment or removal of the Head of Internal Audit Partnership is the sole responsibility of the Partnership Board.

Scope and authority of Internal Audit work

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

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

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether East Devon District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the council's anti-fraud, theft and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:

- the internal auditors independence is not compromised
- the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
- the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
- EDDC management understand that the work being undertaken is not internal audit work.

Planning and Reporting

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

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

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

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

In addition to the reporting lines outlined above, the Head of Internal Audit Partnership and the Group Audit Manager have the unreserved right to report directly to the Leader of the Council, The Chairman of the Audit and Governance Committee, the Chief Executive or the External Audit Manager.

August 2010

