

Date: 7 March 2011
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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)

Portfolio Holder, Resources – Councillor Andrew Moulding
Member Champion for Data Quality – Councillor Graham Troman
Chief Executive
Corporate Director
Head of Finance
South West Audit Partnership

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Audit and Corporate Governance Committee

Thursday 17 March 2011

Council Chamber at 2.30pm

Members of the public are welcome to attend this meeting.

- A period of 15 minutes has been provided at the beginning of the meeting to allow members of the public to raise questions.
- In addition, the public may speak on items listed on the agenda. After a report has been introduced, 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 interest 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

- | | 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. 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. | |
| 2 To confirm the minutes of the meeting of the Audit & Governance Committee held on 20 January 2011. | 3 - 6 |
| 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.

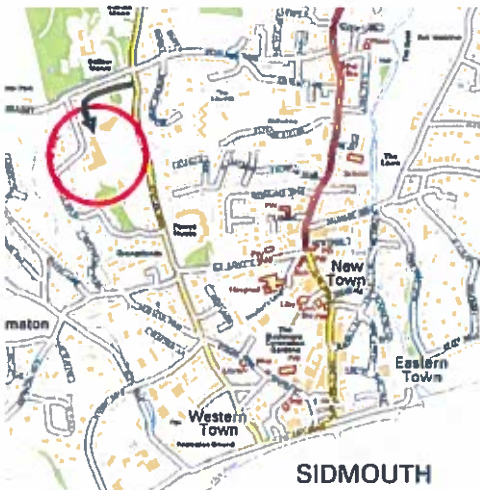
(Note: Such circumstances need to be specified in the minutes; any Member wishing to raise a matter under this item is requested to notify the Chief Executive in advance of the meeting). | |
| 6 To agree any items to be dealt with after the public (including the press) have been excluded. There are no items which Officers recommend should be dealt with in this way. | |

		Page/s
7	Transformation Reserve	Simon Davey 7 - 8
8	Review of Internal Audit Charter	Internal Audit, Chris Gunn, SWAP 9 – 13
9	Draft Accounts and Audit Regulations (England) 2011	Diccon Pearse 14 – 16
10	Internal Audit Activity Report	Internal Audit, Chris Gunn, SWAP 17 – 27
11	Internal Audit Plan 2011/12	Simon Davey 28 – 33
12	Accounting Policies	Simon Davey 34 – 35
13	Audit Fee Letter 2011/12	External Auditors, Grant Thornton 36 – 38
14	Review on IFRS Progress	External Auditors, Grant Thornton verbal report

Members remember!

- You must declare the nature of any personal or prejudicial interests in an item whenever it becomes apparent that you have an interest in the business being considered.
- Where you have a personal interest because the business relates to or is likely to affect a body of which you are a member or manager as an EDDC nominee or appointee, then you need only disclose that interest when (and if) you speak on the item. The same rule applies if you have a personal interest in relation to a body exercising functions of a public nature.
- Make sure you say the reason for your interest as this has to be included in the minutes.
- If your interest is prejudicial you must leave the room unless 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.

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 20 January 2011

- Present:** Councillors:
Ken Potter (Chairman)
Tim Wood (Vice-Chairman)
David Atkins
Derek Button
Bob Buxton
Stephanie Jones
- Officers:** Simon Davey, Head of Finance
Christopher Holland, Democratic Services Officer
Chris Powell, Head of ICT
Sulina Tallack, Section 106 Officer
Mark Williams, Chief Executive
- Internal Auditors:** Fiona Casey, South West Audit Partnership
Chris Gunn, South West Audit Partnership
- External Auditors:** Jenny Dwyer, Grant Thornton
Barrie Morris, Grant Thornton
- Apologies:** Councillor:
Peter Bowden
Chris Gibbings
Andrew Moulding Portfolio Holder, Resources
Graham Troman, Member Champion for Data Quality

The meeting started at 2.30 pm and ended at 4.14 pm.

***36 Public Questions**

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

***37 Minutes**

The minutes of the meeting of the Audit and Corporate Governance Committee held on 11 November 2010 were confirmed and signed as a true record.

***38 Electoral Staffing and Payment Principles**

Consideration was given to the report of the Returning Officer on the draft electoral staffing and payment principles report. The document set out the basic principles and guidelines that the Returning Officer would use when appointing and paying employees undertaking election duties. The Returning Officer explained that there was a high degree of regulation around all elections and that the fee level set for nationally run elections was a good basis for locally run polls.

Members supported the use of such a document as it would ensure transparency of decision making and setting fees at election time.

RECOMMENDED: that the Electoral Staffing and Payment Principles document be approved for future elections.

39 **Audit Plan 2010-11**

Consideration was given to the report of the Council's external auditors, Grant Thornton regarding the Audit Plan 2010-11 document. The report set out the work that the external auditors would carry out in order to fulfil their responsibilities to give an opinion on the Council's financial statements and a conclusion on the authority's arrangements for achieving value for money. Presenting the report, Barrie Morris commented that the audit environment was ever changing with the abolition of the Audit Commission and new reporting Standards. He would continue to work with Officers to meet the new reporting criteria.

Members noted that the Council was making progress towards preparing its statement of accounts under the International Financial Reporting Standards (IFRS) based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA though there was much work still to do. Grant Thornton offered to provide training for Members on the new International Financial Reporting Standards. It was suggested that this should take place after the Local Elections on May 5 2011.

Members raised the issue of asset valuation and supported the acceleration of the Asset Register project to create an up to date data base of Council assets which Members could view themselves. Members asked that the appropriate level of resources be made available to complete the project as soon as possible.

- RESOLVED:** 1) that the report be noted.
- 2) that Grant Thornton provide training for Members after the forthcoming elections on the new International Financial Reporting Standards.

RECOMMENDED: that the Council provides adequate resources to the completion of the Asset Register project in order that the register be completed as soon as possible.

*40 **Certification work report 2009-10**

Members noted the report of the Council's external auditors, Grant Thornton regarding the certification work report 2009-10. The report was required for claims for grant or subsidy and returns of financial information. For the financial year 2009-10 six claims had been certified which amounted to £70 million. The report outlined the Council's performance in applying, claiming and the preparation of information used in claims.

RESOLVED: that the report be noted.

41 **Progress report on Data Breach Actions**

Members considered the report of Chris Powell, Head of ICT which provided an update on the progress of agreed actions connected with the Data Breach report to the Committee held on 2 October 2010.

Members were supportive of the actions taken so far and the proposals put forward to help prevent data loss in the future.

41 **Progress report on Data Breach Actions (cont'd)**

- RECOMMENDED:** 1) that the committee supports the proposal to purchase Data Loss Prevention software and that provision for its acquisition be made in the 2011-12 capital budget subject to funding being available.
- 2) that the actions taken and proposed to be taken outlined in the report to remedy identified deficiencies, be supported

RESOLVED: that a further report be presented to the Committee on a suitable alternative to webmail.

*42 **Section 106 Developer Contributions**

Members noted the report of the Sulina Tallack, Section 106 Officer who had been asked by the Committee to report to the Committee on work since her appointment as Section 106 Officer.

Members noted that the new post of Section 106 Monitoring Officer was established in 2008 within the Development Management Team. The post was created to negotiate with and monitor developments that generated Section 106 contributions, to develop and maintain a new Section 106 database, to invoice developers and to support the community in identifying their priority needs and to facilitate the participative budgeting spend process.

It was noted that between April 2009 and March 2010, a total of 167 new planning applications were subject to formal Section 106 Legal Agreements or Unilateral Undertakings. During that time, the Council has received financial and in-kind obligations in respect of a number of previously outstanding planning agreements, including interest payments where applicable. At the end of the 2009/10 financial year the Council's Section 106 account held a balance of £1,976,663.20. At the start of the financial year it held £2,146,529.77, it had received an additional £215,001.10 during the year, whilst £384,867.67 had been spent.

Members thanked Sulina Tallack for her work to date and asked that all Members receive a regular update of S106 monies available within their ward.

- RESOLVED:** 1) that the report to be noted.
- 2) that all Members receive a regular update of S106 monies available within their ward.

43 **Corporate Governance Action Plan**

Members considered the report of Diccon Pearse, Corporate Director. Members noted that at its meeting on 24 June 2010 the Committee received a Corporate Governance report which contained an action plan on matters to be addressed. Presenting the report, Simon Davey, Head of Finance stated that the report reflected on progress made since June 2010.

It was noted that the only remaining area remaining was the Disaster Recovery Plan. In relation to this, Members highlighted their concern on the issue of reducing the flood prevention budget by £40,000 as proposed by the Service Planning and Budget Task and Finish Forum on 17 January 2011. They felt that any savings would be lost if a flood occurred due to increased costs and maintenance and/or compensation.

43 **Corporate Governance Action Plan (cont'd)**

RESOLVED: that the report to be noted.

RECOMMENDED: that the Audit and Governance Committee is seriously concerned at the reduction of the flood prevention budget by £40,000 as proposed by the Service Planning and Budget Task and Finish Forum on 17 January 2011 as any savings may be lost in potential costs and maintenance arising from flooding.

*44 **Internal Audit Activity Report**

Members considered the report of the Council's Internal Auditors which outlined the work of the audit team and the work undertaken in 2010/2011 as part of the Internal Audit Work Programme. Members were advised that at the next meeting of the Committee an Audit plan would be submitted highlighting planned audits for 2011/12.

During discussion, it was suggested that Members be updated on how the Transformation Reserwet had been used.

- RESOLVED:**
- 1) that the Audit Activity Report and progress on significant items be noted.
 - 2) that a report outlining the expenditure of the Transformation Reserve be submitted to the next meeting of the Committee.

Chairman Date

Agenda Item 7

Audit & Governance

17 March 2011

SD



Transformation Reserve

Summary

The Committee at its last meeting requested that a report be presented outlining the expenditure incurred from the Transformation Reserve.

Recommendation

That the Committee consider if any further details or actions are required.

a) Reasons for Recommendation

As requested by the Committee information has been provided on the use of the Transformation Reserve.

b) Alternative Options

Not applicable.

c) Risk Considerations

The report presents information to the Committee as requested, no actions are being proposed.

d) Policy and Budgetary Considerations

The report presents information to the Committee as requested, no actions are being proposed.

e) Date for Review of Decision

Not Applicable.

1. The Transformation Reserve

- 1.1 From a review of the Council's Reserves and Balances at the end of 2008/09 the Council established the Transformation Reserve (although technically an allocation within the General Fund Balance). The sum allocated to this Reserve was £2.517m.

1.2 The agreed purpose of the Reserve was to assist the Council's transformation programme by meeting upfront costs necessarily incurred in order to produce savings in future years. This would include; redundancy and pension strain costs associated with staffing restructures, ICT investment to produce future savings and other schemes and projects to facilitate a more efficient running of the business.

1.3 The schedule of expenditure to date is as follows;

	£'000	Payback Period
Opening Balance 1/4/2009	(2,517)	
Costs of entering into shared Chief Executive arrangement with SSDC	166	29 months
Closing Balance 31/3/2010	(2,351)	
Cost of redundancy (12 officers) to date in 2010/11; Revenues & Benefits, Human Resources, ICT, Legal and Audit – as reported to Executive Board 2/3/2011 budget monitoring report	191	Less than 12 months
Balance as at 31 January 2011	(2,160)	

1.4 Additional costs are expected to be met from the reserve in the next few months with further redundancies being made as a consequence of decisions taken through the budget process. These costs will be reported through to the Executive Board as part of the budget monitoring reporting.

Legal Implications

There are no legal implications requiring comment

Financial Implications

Details are contained within the report

Consultation on Reports to the Executive

N/A

Background Papers

N/A

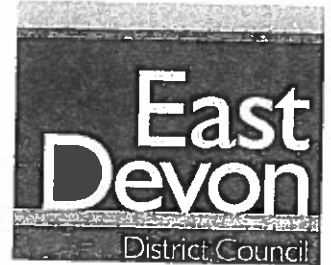
Simon Davey
Head of Finance

Audit & Governance
17 March 2011

Agenda Item 8

Audit and Governance Committee

17 March 2011



Internal Audit Charter

Summary

This report sets out to seek member approval for the existing terms of reference in the shape of the Internal Audit Charter governing the work of the South West Audit Partnership at East Devon District Council.

Recommendation

That members review and formally approve the Internal Audit Charter as stated in this report.

a) Reasons for Recommendation

The regular SWAP update and review of the Internal Audit Charter will allow this Committee to monitor the work of the Internal Audit Service provided by the South West Audit Partnership.

b) Alternative Options

Members are invited to comment on the detail provided within the Charter.

c) Risk Considerations

No new risks identified.

d) Policy and Budgetary Considerations

None considered.

e) Date for Review of Decision

Annually.

1 Main Body of the Report

Background

The internal audit service, provided by the South West Audit Partnership (SWAP), works to a Charter that defines its roles and responsibilities and the roles and responsibilities of the District Council's managers. Best practice in corporate governance requires that the Head of Internal Audit (at East Devon District Council the Group Audit Manager – South West Audit Partnership) should develop and maintain terms of reference for delivering the Internal Audit Service. The Charter should be reviewed and approved annually by the Audit & Corporate Governance Committee. The Charter was last reviewed by this

Committee at their meeting in September 2010. This year the Charter has been updated to reflect the move away from an historic 4 year strategic audit plan;

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

The Internal Audit Charter at Appendix A sets out those proposed terms of reference.

Legal Implications

There are no legal issues arising from this report.

Financial Implications

None considered.

Consultation on Reports to the Executive

None

Background Papers

Appendix A – Internal Audit Charter

Diccon Pearce
Corporate Director

Audit and Governance Committee
17 March 2011

EAST DEVON DISTRICT COUNCIL – INTERNAL AUDIT CHARTER

Purpose

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

Approval

This Charter was approved by the Audit & Corporate Governance Committee on 23 September, 2010 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by this Committee on 23 September, 2010.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership (SWAP) on a 5 year 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 Section 151 Officer in consultation with the Head of Internal Audit Partnership.

1.1 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.

1.2 Responsibilities of Management and of Internal Audit

1.2.1 Management

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. 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 & Corporate Governance.

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

1.2.2 Internal Audit

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

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors. 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 department from other areas of East Devon District Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

1.2.3 Relationship with the External Auditors/Other Regulatory Bodies

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

1.3 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 & Corporate Governance Committee as set out below.

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

1.4 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;
- appraising the effectiveness and reliability of the enterprise risk management framework and recommending improvements where necessary;
- assisting 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 and corruption policy.
- at the specific request of management, internal audit may provide consultancy services, provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

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

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

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

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

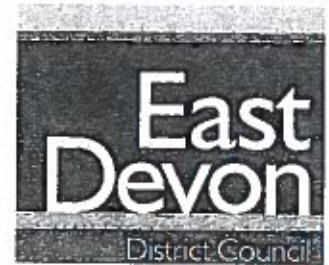
The Group Audit Manager will submit an annual report to the Audit & Corporate Governance Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

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 & Corporate Governance Committee, the Chief Executive Officer or the External Audit Manager.

Agenda Item 9

Audit and Governance Committee

17 March 2011



Draft Accounts and Audit Regulations (England) 2011

Summary

The Accounts and Audit Regulations contain important provisions on financial management, annual accounts and audit procedures affecting all local authorities. As changes proposed to the current regulations would add further difficulties for authorities working with them the opportunity has been to rewrite and publish the draft for comment. The consultation period ran for 6 weeks from 24 January to 4 March 2011.

Recommendation

That the schedule of committee meetings makes provision for an Audit and Governance in late September in accordance with the revised publication of annual accounts timetable.

a) Reasons for Recommendation

To comply with the publication timetable contained within the Regulations

b) Alternative Options

None considered

c) Risk Considerations

Inadequate resources or lack of skills required to produce the annual accounts by the required date.

d) Policy and Budgetary Considerations

None considered

e) Date for Review of Decision

The meeting timetable is reviewed annually

1 Main Body of the Report

The Accounts and Audit Regulations contain important provisions on financial management, annual accounts and audit procedures affecting all local authorities and a number of other local public bodies ("relevant bodies"). The 2003 Regulations have been substantially amended, in particular by an amending instrument made in 2006 and two made in 2009. The amendments presently being proposed would add further

been substantially amended, in particular by an amending instrument made in 2006 and two made in 2009. The amendments presently being proposed would add further difficulties to working with the 2003 regulations. Consolidation is therefore highly desirable so that there is a clear statement of these important provisions for the benefit of those they affect.

The aim of the consolidation has been to make the regulations easier to understand. They have been restructured to separate out provisions on the annual accounts applying to smaller and larger relevant bodies.

The opportunity has also been taken to simplify parts of the text of the regulations which the numerous amendments have made difficult to follow. Spent provisions have been removed, and references to statutory bodies updated. The draft regulations are attached to this report.

Although not affecting East Devon DC the proposal to raise the threshold defining smaller 'relevant bodies' would benefit the larger parish councils and many internal drainage boards, joint boards and joint committees.

Smaller relevant bodies are permitted by the regulations to prepare simpler published accounts than the larger bodies, and are also subject to less demanding procedural requirements. In addition, under arrangements made by the Audit Commission, such bodies are subject to a limited assurance audit regime. As part of the general move to reduce administrative burdens on public authorities, consideration has been given to raising the threshold for placing a body in the smaller category.

Currently, to be classed as a smaller relevant body, a body must have gross income or expenditure (whichever is higher) of less than £1m in the year of account or in either of the two preceding years. For the future it is proposed that the limit should be based on the thresholds laid down by companies' legislation in the definition of small companies.

Based on the current requirements the limit would be £6.5m. We propose that a body would be classed as smaller if its gross income or expenditure (whichever was the higher) was no more than that figure in the year of account or either of the two preceding years.

A second proposed change relates to the publication of annual accounts, a matter pertinent to the business of this Committee.

The current regulations require members to approve the annual accounts before they have been reviewed by the external auditor. This is out of step with requirements in the private sector and elsewhere in the public sector, where directors or board members will be aware of the findings of the audit before they approve the accounts. It is considered more appropriate for bodies covered by the regulations to follow the general practice of other bodies, so that members give their approval in the knowledge of the audit findings.

To facilitate this it is proposed that, for the larger relevant bodies, the regulations should include the following provisions on the procedure for approval and publication of the annual accounts:

- no later than 30 June following the financial year end the responsible financial officer must certify the presentation of the annual accounts in accordance with the current requirements of regulation 10(2)

- the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members. The body must use its best endeavours to secure approval and publication by no later than 30 September
- the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given.

The draft regulations, which have been published in order that relevant bodies might comment, are available at <http://www.communities.gov.uk/publications/localgovernment/revisionaccountsregs2003consult>.

Legal Implications

The statutory framework, as amended by the new regulations, is set out in the report.

Financial Implications

None considered.

Consultation on Reports to the Executive

N/A

Background Papers

The draft Accounts and Audit Regulations (England) 2011.

Diccon Pearse
Corporate Director

Audit and Governance Committee
17 March 2011



East Devon District Council

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

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Head of Internal Audit Partnership
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Chris Gunn
Group Audit Manager
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Fiona Case
Audit Manager
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Summary	2
Internal Audit Work Programme:	3
Operational Audits	4
Managed Audits	4
Governance, Fraud and Corruption	5
Future Planned Work	6
Conclusions	6

Summary

Our audit activity is split between:

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

Role of Internal Audit

The Internal Audit service for East Devon District Council is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23rd September 2010. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

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

Overview of Internal Audit Activity

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

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

Internal Audit Work Plan - 2010/11

Progress Report:

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

Internal Audit Work Programme

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

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

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

Internal Audit Work Plan - 2010/11

Progress Report:

Completed Audit Assignments In The Period

Operational Audits

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

In the fourth quarter, mainly Managed Audits are completed. Further details of these are contained in the section below.

We are in addition completing a review of Housing Benefits systems to appraise their resilience in relation to fraud. An update on our findings will be given at the Committee meeting. The scheduled audit on Countryside Services was substituted to allow this audit to progress.

Managed Audits

Managed Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. The managed audits being carried out this quarter are Main accounting, Housing rents follow up, Debtors, Income and cashiers follow up, Creditors, Payroll, Treasury management, Housing/Council Tax benefits, Council Tax/NNDR.

At the time of writing, draft reports had been issued for the following audits:

Payroll— key findings relate to the transition of the BACS file for payment each month to reduce the risk of any amendment to this data. Storage of the text file, prior to transfer to BACS Active is a recognised issue by Payroll, due to limitations on the file path that can be allocated. They are working with IT to resolve this issue.

Council Tax/NNDR—the issue of greater division of duties over checking amendments to bills where required and processing changes has been acknowledged in previous audits and is being considered again by the Service Manager.

Internal Audit Work Plan - 2010/11

Progress Report:

Completed Audit Assignments In The Period

Governance, Fraud and Corruption Audits

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

Internal Audit Work Plan - 2010/11

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

Future Planned Work

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

Conclusions

For those audits still required by the client, SWAP are on target to complete those audits as planned. For the audits completed to report stage each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of Recommendations section in Appendix B.

Final reports and progress updates are given to the S.151 Officer who has a role in monitoring the implementation of recommendations made.

Appendix A - Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations					Comments	
							5	4	3	2	1		
East Devon District Council	Operational Audit	Supporting People	April 2010	Completed	Partial	14	3	11					
East Devon District Council	Operational Audit	Environmental Health	April 2010	Completed	Comprehensive	2	1						
East Devon District Council	Operational Audit	Bus Services Unit	April 2010	Completed	Comprehensive	6	4						
East Devon District Council	Operational Audit	General Services Unit	April 2010	Completed	Partial	76	3	7	6				
East Devon District Council	Operational Audit	Car Parks	April 2010	Completed	Comprehensive	5			2				
East Devon District Council	Operational Audit	Fire and Road	Apr 2010	Completed	Comprehensive	3			3				
East Devon District Council	Operational Audit	Business and Purchase of Assets	April 2010	Completed	N/A	N/A							
East Devon District Council	Operational Audit	Asset Management, Follow up	April 2010	Completed	Comprehensive	3	2	3					
East Devon District Council	Operational Audit	Planning and Development	April 2010	Completed	Partial	3	3						
East Devon District Council	Operational Audit	Statutory Functions	July 2010	Completed	Partial	3	3						
East Devon District Council	Operational Audit	General Audit: Plan (Completed with	July 2010	Completed	Reasonable	4							
East Devon District Council	Operational Audit	Democratic Services	July 2010	Completed	Reasonable	11							
East Devon District Council	Operational Audit	Legal Services	July 2010	Completed	Partial	11	4	4	3				
East Devon District Council	Operational Audit	Procurement (Completed with	July 2010	Completed	Reasonable	4							
East Devon District Council	Operational Audit	Customer Service Centre	October 2010	Removed		0	0	0	0	0			Removed at request of management.
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	5	3	3					Reported to Committee in Jan.
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	2	4	0					Reported to Committee in Jan.
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	2	0	1					Reported to Committee in Apr.
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	7	0	3					The time allowed for this doubling the
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	7	0	3					audit below were recommendations for the
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	7	0	3					audit below were recommendations for the
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	7	0	3					audit below were recommendations for the
East Devon District Council	Operational Audit	Building Works	October 2010	Completed	Reasonable	7	0	3					audit below were recommendations for the
East Devon District Council	Operational Audit	Grants	October 2010	Deferred		0	0	0	0	0			Deferred at request of management until
East Devon District Council	Operational Audit	Countryside	October 2010	Removed		0	0	0	0	0			11/12.
East Devon District Council	Operational Audit	Exeter Growth Area	October 2010	Removed		0	0	0	0	0			To allow time for the Housing benefits
East Devon District Council	Operational Audit	Leisure East Devon	October 2010	Removed		0	0	0	0	0			fraud audit.
East Devon District Council	Operational Audit	Council Tax/MNDR	October 2010	Removed		0	0	0	0	0			Removed at request of management.
East Devon District Council	Operational Audit	Main Accounting	January 2011	In progress	Reasonable	9	0	1	5	3			
East Devon District Council	Operational Audit	Debtors	January 2011	In Progress		0	0	0	0	0			
East Devon District Council	Operational Audit	Payroll	January 2011	Draft	Partial	7	0	1	5	1			

Audit Type and Area		No. of audit days	2011-12	Q1	Q2	Q3	Q4	Notes/Comments from HoS
Previous Year Audits								
To be confirmed								
Total			0.00	0.00	0.00	0.00	0.00	
Managed Audits								
1	Capital Accounting	5.00						
2	Council Tax/NDR	15.00						Follow up audit on the 10-11 audit.
3	Creditors	11.00						
4	Debtors	11.00						
5	Housing Benefit and Council Tax Benefits	15.00						
6	Housing Rents	11.00						
7	Main Accounting	11.00						
8	Income and cashiers	10.00						Review of 11/10 audit findings.
9	Payroll	11.00						Review of 11/10 audit findings.
10	Treasury Management	5.00						
Total			79.00	0.00	0.00	0.00	0.00	
Governance Audits								
11	Annual Governance Statement Review	10.00						
12	Contract Management - Monitoring and Compliance with Standing Orders	15.00						26 days spent in 10/11 on contract management generally.
13	Gifts and Hospitality - Register of Interests - Members and Staff	8.00						Combined review for staff and Members.
14	Information Governance	10.00						Will be covered in the operational review for Data Quality.
15	Managing complaints	10.00						Not to audit in 11/12, covered complaints in review of Coms and Improvement in 10/11.
16	Partnership arrangements	10.00						Review of key partnerships within Authority.
17	Performance management - meeting targets	5.00						Not to audit in 11/12, some scope covered in the 10/11 Coms and Improvement audit.
Total			41.00	0.00	0.00	0.00	0.00	
IT Audits								
18	Gov Connect	10.00						
19	IT audit	10.00						
20	Level 1 security audit	10.00		10.00				Scope and timing of audit to be agreed. AW has agreed this audit to start Apr 11 with Service Manager.
Total			30.00	10.00	0.00	0.00	0.00	
Operational Audits								
21	Streetscene	15.00						Follow up review on work completed by Bentley Jennison on contract management. Future areas to audit could be the other operations carried out within Streetscene.
22	Asset management	15.00						Review of asset management processes across the Authority.

East Devon District Council - Draft audit plan 2011-12
Last updated - 10 Feb 2011

Area Type and Area	No of days	2011/12	Q1	Q2	Q3	Q4	Notes/Comments from HoS
23 Procurement	15.00	12.00					Including some follow up on e-procurement processes.
24 Business continuity	10.00	10.00					Review of processes internally for EDDC.
25 Emergency planning	15.00	15.00					Review of framework to support emergencies across the District. EP officer is leaving and will be covered by SSDC officer as the lead officer. What support is in place with Devon County?
26 Data quality	10.00	10.00					How do officers use performance information to drive service standards and control over the data gathered.
27 Equalities and diversity	10.00	0.00					Not to audit in 11/12.
28 Risk management	10.00	10.00					Review of risk management operations.
29 Income	20.00	15.00	10.00				Review of income procedures across the organisation. Two part process, starting with a review of the strategic framework. Followed by another audit later in year to review compliance with this framework.
30 Building control	10.00	0.00					Not to audit in 11/12.
31 Community safety	15.00	0.00					Not to audit in 11/12.
32 Economic development	10.00	5.00					Monies are on hold in this area, review plans for how funds will be utilised in future within the scope of this audit.
33 Environmental protection	10.00	0.00					Not to review in 11/12.
34 Electoral systems management	10.00	10.00					Review in 11/12, assess transparency within current procedures, especially recruitment processes.
35 Development Control	15.00	0.00					Not to review in 11/12.
36 Fraud prevention	10.00	10.00					Review of policies and procedures to prevent fraud.
37 Grants	10.00	10.00					Review of Housing subsidy claim and Housing benefit claim.
38 Managing with reduced resources - including MTFP processes and service planning.	15.00	15.00					Review of service planning, MTFP and effect of reduced resources.
39 Health, safety and insurances	12.00	12.00					A combined review of key risks in these areas.
40 Housing rents	10.00	5.00					Audited in 09/10, review of Rent Deposit Scheme in 11/12.

Audit Type and Area		No. of audit days	2011-12	Q1	Q2	Q3	Q4	Notes/Comments from HoS
41	Land charges	10.00	0.00					Not to be audited in 11/12
42	Licensing - taxis, alcohol and other licences	10.00	10.00					11/12 - review of licensing processes overall.
43	Legal Services	10.00	0.00					Reviewed in 09/10.
44	Pest control	10.00	0.00					Reviewed in 09/10.
45	Public conveniences	8.00	0.00					Reviewed in 09/10.
46	Play and youth facilities	10.00	0.00					Reviewed in 09/10.
47	S. 106 agreements	15.00	15.00					Overall review of procedures in this area.
48	Property Services	15.00	15.00					11/12 - review of processes for property management in the light of budget cuts, how are properties being utilised effectively? Project in progress re future of The Knowle. See also audit above scheduled for review of asset management processes across the organisation.
49	VAT	10.00	10.00					Audit in 11/12.
50	Whistleblowing and Money Laundering	10.00	10.00					Review of policies and compliance with them in practice.
51	Car loans	5.00	0.00					Not to audit in 11/12.
52	Waste & Recycling	15.00	0.00					See audit of Streetscene above.
	Total		229.00	10.00	0.00	10.00	0.00	
	Previous Year Audits		0.00	0.00	0.00	0.00	0.00	
	Managed Audits		79.00	0.00	0.00	0.00	0.00	
	Governance Audits		41.00	0.00	0.00	0.00	0.00	
	IT Audits		30.00	10.00	0.00	0.00	0.00	
	Operational		229.00	10.00	0.00	10.00	0.00	
	TOTAL AUDIT TIME		379.00	20.00	0.00	10.00	0.00	
53	Corporate Advice		5.00					
54	Corporate Meetings		5.00					
55	External Audit (Audit Commission)		3.00					
56	General Advice		14.00					
57	Contingency		10.00					
58	Follow up audits		6.00					10-11 audits with partial assurance
59	NFI		0.00					
60	Cash Spot Checks		0.00					
	Total Plan Days (inc Advice etc)		422.00	20.00	0.00	10.00	0.00	

Agenda Item 12

Audit & Governance

17 March 2011

SD



Adoption of new accounting policies (IFRS)

Summary

There is a need to obtain Member approval for the adoption of new IFRS (International Financial Reporting Standards) based accounting policies to be used in the Council's accounts for the year ending 31 March 2011.

As the Audit and Governance Committee do not meet again until the end of June it is recommended that a small working party of the Committee meet towards the end of March to approve the new policies.

Recommendation

That the Committee agree to small working party being formed from Members of the Audit and Governance Committee to review and agree new accounting policies.

a) Reasons for Recommendation

New policies are being drafted and will be completed shortly; unfortunately they are not available to meet this agenda deadline. Members may also find it more useful and appropriate to review such work in a smaller group.

b) Alternative Options

Members could wait until the June meeting to review the policies but in terms of accounts preparation an earlier review date would be more appropriate.

c) Risk Considerations

A significant amount of work is required in order to comply with the new standards, this work is currently in progress and budget provision does exist if additional assistance is required or staff overtime is necessary.

d) Policy and Budgetary Considerations

Budget provision is in place for the Accountancy Team and additional sums were set aside to deal with additional assistance if required.

e) Date for Review of Decision

If the Committee agree it is intended that the Working Party recommendations will be presented to the next meeting of Audit & Governance Committee.

1. Changes to accounting policies – IFRS (international Financial Reporting Standards)

- 1.1 There is a need to obtain Member approval for the adoption of new IFRS (International Financial Reporting Standards) based accounting policies to be used in the Council's accounts for the year ending 31 March 2011.
- 1.2 As the Audit and Governance Committee do not meet again until the end of June it is recommended that a small working party of the Committee meet towards the end of March to approve the new policies.
- 1.3 In summary the main changes from the existing policies will impact;
- Property, Plant & Equipment
Changes in asset categories mainly in relation to definition of investment properties, assets held for sale and component accounting (separate elements of assets).
 - Government Grants and other contributions
Different treatment through the accounts.
 - Leases & Lease type arrangements
 - Employee Benefits
 - Operating Segments
How the Council's services/activity financial information is presented.
 - Cash and cash equivalents
- 1.4 Members will also see on this agenda details of proposed changes to the adoption of the accounts by this Committee; in that accounts will signed off by the Chief Finance Officer the end of June and then presented to Committee by the end of September once the audit opinion has been received.

Legal Implications

There are no legal implications set out within the report.

Financial Implications

Details are contained in the report

Consultation on Reports to the Executive

None

Background Papers

N/A

Our Ref BM/JD - EDDC1112

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25 February 2011

Dear Mark

ANNUAL AUDIT FEE 2011-12

I am writing to confirm the audit work that we propose to undertake for the 2011-12 financial year at East Devon District Council (the Council) and the associated fee. This is based on the Audit Commission's work programme and scale of fees for 2011-12 published in February 2011.

As in previous years, the Audit Commission publishes its work programme and scale of fees on a national basis. However, for 2011-12, instead of providing a scale fee with fixed and variable elements, it has published the scale fee for each local government organisation. The published fees are based on the proposed 2010-11 fee adjusted to provide a reduction in scale fees of 5% for district councils to reflect:

- no inflationary increase in 2011-12 for audit and inspection scales of fees and the hourly rate for certifying claims and returns;
- a reduction in scale fees resulting from the new approach to local value for money audit work; and
- a reduction in scale audit fees of 3% for local authorities reflecting lower ongoing costs after implementing IFRS.

However, in the case of the Council, the Audit Commission has calculated the fee as being a 5% reduction on the original fee of £126,300 for 2010-11. As you know we reduced the fee for that year by £9,000 to £117,300 as a result of deferring work we planned to undertake in relation to shared service arrangements. We therefore propose to reduce this fee by 5% to £111,435 (exclusive of VAT). We shall need to seek the Audit Commission's approval for this further variation.

Audit fee summary

Audit area	Proposed fee 2011-12	Agreed fee 2010-11	Actual fee 2009-10
Financial statements and value for money conclusion	£111,435	£117,300	£109,500
Certification of claims and returns (estimate)	£30,000	£30,000	£35,199

Chartered Accountants
 Member firm within Grant Thornton International Ltd
 Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
 A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

As we have not yet completed our audit for 2010-11, the audit planning process for 2011-12 will continue as the year progresses and fees will be reviewed and updated as necessary, with the approval of the Audit Commission. A separate plan for the audit of the financial statements will be issued in late 2011, once the outcomes of the 2010-11 audit are known.

Our value for money work will be based upon two reporting criteria specified by the Audit Commission:

- whether the Council has proper arrangements in place for securing financial resilience; and
- whether the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

This work will be underpinned by a robust risk assessment to ensure that we focus on those areas where we need specific assurance in order to give our value for money conclusion or where arrangements at the Council need to be strengthened.

The quoted fee for certification of grant claims and returns is an estimate based upon our previous experience and knowledge of forthcoming developments or changes in requirements. The fee charged is based on the prescribed rates set out in the Audit Commission proposed work programme and scales of fees 2011-12. These rates have not increased over the level prescribed for 2010-11. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Head of Finance and then prepare a report outlining the reasons why the fee has changed for discussion with the Audit Committee.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The proposed fee excludes any work that may be requested by you that we agree to undertake using our advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The contact details for key members of the audit team for 2011-12 are:

Engagement Lead	Barrie Morris	0117 305 7708
Audit Manager	Jenny Dwyer	0117 305 7647

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the Head of Government Audit, Sarah Howard at sarah.howard@uk.gt.com.

Yours sincerely

Barrie Morris
Director and Engagement Lead
For Grant Thornton UK LLP

T 0117 305 7708
F 0117 305 7784

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Corporate Governance Committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Audit approach memorandum	April 2012
ISA260 report to those charged with governance	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Value for money conclusion report	September 2012
Annual audit letter	November 2012
Certification work report	December 2012





Appendix A - Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations					Comments
							5	4	3	2	1	
East Devon District Council	Operational Audit	Supporting People	April 2010	Completed	Partial	14	0	0	0	0	0	
East Devon District Council	Operational Audit	Supporting Health	April 2010	Completed	Comprehensive	2	0	0	0	0	0	
East Devon District Council	Operational Audit	Local Councils	April 2010	Completed	Comprehensive	6	0	0	0	0	0	
East Devon District Council	Operational Audit	Street Scene Plan	April 2010	Completed	Partial	16	0	0	0	0	0	
East Devon District Council	Operational Audit	Car Parks	April 2010	Completed	Comprehensive	5	0	0	0	0	0	
East Devon District Council	Operational Audit	Highway Works	April 2010	Completed	Comprehensive	4	0	0	0	0	0	
East Devon District Council	Operational Audit	Support and Purchase of Assets - Asset Register - follow up	April 2010	Completed	N/A	N/A	0	0	0	0	0	
East Devon District Council	Operational Audit	Learning and Development	April 2010	Completed	Comprehensive	5	0	0	0	0	0	
East Devon District Council	Operational Audit	Section 105 Minutes	July 2010	Completed	Partial	5	0	0	0	0	0	
East Devon District Council	Operational Audit	Contract Audit (combined with	July 2010	Completed	Robust	6	0	0	0	0	0	
East Devon District Council	Operational Audit	Democratic Services	July 2010	Completed	Reasonable	11	0	0	0	0	0	
East Devon District Council	Operational Audit	Legal Services	July 2010	Completed	Partial	11	0	0	0	0	0	
East Devon District Council	Operational Audit	Procurement (Combined with	July 2010	Completed	Reasonable	7	0	0	0	0	0	
East Devon District Council	Operational Audit	Customer Service Centre	October 2010	Removed		0	0	0	0	0	0	Removed at request of management.
East Devon District Council	Operational Audit	Grants	October 2010	Deferred		0	0	0	0	0	0	Deferred at request of management until 11/12.
East Devon District Council	Operational Audit	Countryside	October 2010	Removed		0	0	0	0	0	0	To allow time for the Housing benefits fraud audit.
East Devon District Council	Operational Audit	Exeter Growth Area	October 2010	Removed		0	0	0	0	0	0	Removed at request of management.
East Devon District Council	Operational Audit	Leisure East Devon	October 2010	Removed		0	0	0	0	0	0	Removed at request of management.
East Devon District Council	Managed Audits	Council Tax/NNDR	October 2010	Draft	Reasonable	9	0	1	5	3	0	
East Devon District Council	Managed Audits	Main Accounting	January 2011	In progress		0	0	0	0	0	0	
East Devon District Council	Managed Audits	Debtors	January 2011	In Progress		0	0	0	0	0	0	
East Devon District Council	Managed Audits	Payroll	January 2011	Draft	Partial	7	0	1	5	1	0	

East Devon District Council	Managed Audits	Treasury Management	January 2011	In Progress		0	0	0	0	0	0	0	0
East Devon District Council	Managed Audits	Income and Cashiers follow up	January 2011	In Progress		0	0	0	0	0	0	0	0
East Devon District Council	Managed Audits	Creditors	January 2011	In progress		0	0	0	0	0	0	0	0
East Devon District Council	Managed Audits	Housing/Council Tax Benefits	January 2011	In progress		0	0	0	0	0	0	0	To include a review of purchasing cards.
East Devon District Council	Managed Audits	Housing Rents follow up	January 2011	In progress		0	0	0	0	0	0	0	0
East Devon District Council	ICT Audit	Computer	October 2010	Deferred		0	0	0	0	0	0	0	Deferred to Q1 of 2011/12, Q1 will have a level 1 security audit.
East Devon District Council	Special Reviews	Housing Benefit Fraud	January 2011	In progress		0	0	0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

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

Categorisation Of Recommendations

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

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

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

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

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

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

Definitions of Risk

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

Agenda Item 11

Audit & Governance

17 March 2011

SD



Internal Audit Plan 2011/12

Summary

There is a requirement that authorities make arrangements for the proper administration of their financial affairs and are specifically required to maintain an adequate and effective internal audit of their accounting records and control systems. The internal audit service provided through the South West Audit Partnership gives the Council assurance over these matters.

An effective internal audit is a key element of a council's corporate governance and internal control framework. The audit plan assists the Council's Section 151 Officer in discharging his statutory responsibilities in respect of the proper administration of the Council's financial affairs.

In line with good practice a programme of work or audit plan has been prepared which outlines the likely areas of activity for the coming year. This report presents the Internal Audit programme of work for 2010/1 as detailed in appendix A.

Recommendation

That members consider the Audit Plan presented and make any necessary amendments as considered appropriate.

a) Reasons for Recommendation

It is good practice to prepare an Audit Plan for the forthcoming year and members of the Audit & Governance Committee need to consider its appropriateness and once agreed monitor progress against it.

b) Alternative Options

Members may consider amendments to the Plan.

c) Risk Considerations

The development and agreement of an Internal Audit Plan is an essential element of the council's corporate governance and internal control framework. The plan has been prepared with reference to the Council's corporate risk register.

d) Policy and Budgetary Considerations

Provision is included in 2011/12 budget for 422 days of SWAP time.

e) **Date for Review of Decision**

The Plan will be monitored on regular basis through the Audit & Governance Committee.

1. Formulation of 2011/12 Plan

1.1 The 2011/12 annual plan has been compiled with the advice and assistance from SWAP (South West Audit Partnership). The programme of work has been compiled following an assessment of the Councils systems and consultation with the Strategic Management Team (Chief Executive, Directors and Heads of Service), internal audit officers, the Policy Manager (consideration of the Risk Register) and Grant Thornton our external auditors.

1.2 The Plan is divided into key areas of work and a summary of the days allocated is as follows;

- Managed Audits (key financial systems) = 79 days
- Governance Audits = 41 days
- IT Audits = 30 days
- Operational Audits = 229 days
- General advice, contingency etc = 43 days

The Detailed Plan is contained in Appendix A.

1.3 SWAP will be available at the meeting to discuss details of the Plan and will present future reports on progress against the Plan during the year. Where considered necessary the Plan maybe amended during the year to reflect current issues but this will require approval from this Committee.

Legal Implications

The strategic objective the Council's Audit service should provide is:

- To provide a professional and effective audit service that contributes to the economic, efficient and effective use of Council resources.
- To support the Council's s151 officer in the discharge of statutory responsibilities.
- To provide an independent appraisal function for reviewing the internal controls of the Council.
- Promote the application of sound governance arrangements and minimise exposure to fraud and misuse of resources.

- Provide an opinion on the Council's overall systems of control which will be incorporated into the Annual Governance Statement.

At an operational level, the objectives, scope and responsibilities of the Audit Service are based on, and should comply with;

- Professional standards
- Code of Practice for Internal Audit
- The Council's Constitution
- Local Government Act 1972 and the Accounts and Audit Regulations 2004.

The professional standards are derived from the Auditing Practices Board, and the Chartered Institute of Public Finance and Accountancy and the Institute of Internal Auditors.

Financial Implications

The 2011/12 Revenue Budget allows for 422 days of SWAP time

Consultation on Reports to the Executive

Strategic Management Team

Background Papers

N/A

Simon Davey
Head of Finance

Audit & Governance
17 March 2011



Our Ref BM/JD - EDDC1112

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Chief Executive
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4 March 2011

Dear Mark

ANNUAL AUDIT FEE 2011-12

I am writing to confirm the audit work that we propose to undertake for the 2011-12 financial year at East Devon District Council (the Council) and the associated fee. This is based on the Audit Commission's work programme and scale of fees for 2011-12 published in February 2011.

As in previous years, the Audit Commission publishes its work programme and scale of fees on a national basis. However, for 2011-12, instead of providing a scale fee with fixed and variable elements, it has published the scale fee for each local government organisation. The fee for the Council has been determined as £111,435 (exclusive of VAT). This is based on the proposed 2010-11 fee adjusted to provide a reduction in scale fees of 5% for district councils to reflect:

- no inflationary increase in 2011-12 for audit and inspection scales of fees and the hourly rate for certifying claims and returns;
- a reduction in scale fees resulting from the new approach to local value for money audit work; and
- a reduction in scale audit fees of 3% for local authorities reflecting lower ongoing costs after implementing IFRS.

Audit fee summary

Audit area	Proposed fee 2011-12	Agreed fee 2010-11	Actual fee 2009-10
Financial statements and value for money conclusion	£111,435	£117,300	£109,500
Certification of claims and returns (estimate)	£30,000	£30,000	£35,199

In its communication to audited bodies on 25 February 2011, the Audit Commission indicated that additional rebates will be made in 2011-12, leading to a further fee reduction compared to 2010-11. It is expected that the Council will be notified of the amount due to them in the summer.

As we have not yet completed our audit for 2010-11, the audit planning process for 2011-12 will continue as the year progresses and fees will be reviewed and updated as necessary, with the approval of the Audit Commission. A separate plan for the audit of the financial statements will be issued in late 2011, once the outcomes of the 2010-11 audit are known.

Our value for money work will be based upon two reporting criteria specified by the Audit Commission:

- whether the Council has proper arrangements in place for securing financial resilience; and
- whether the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

This work will be underpinned by a robust risk assessment to ensure that we focus on those areas where we need specific assurance in order to give our value for money conclusion or where arrangements at the Council need to be strengthened.

The quoted fee for certification of grant claims and returns is an estimate based upon our previous experience and knowledge of forthcoming developments or changes in requirements. The fee charged is based on the prescribed rates set out in the Audit Commission proposed work programme and scales of fees 2011-12. These rates have not increased over the level prescribed for 2010-11. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Head of Finance and then prepare a report outlining the reasons why the fee has changed for discussion with the Audit Committee.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The proposed fee excludes any work that may be requested by you that we agree to undertake using our advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The contact details for key members of the audit team for 2011-12 are:

Engagement Lead	Barrie Morris	0117 305 7708
Audit Manager	Jenny Dwyer	0117 305 7647

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the Head of Government Audit, Sarah Howard at sarah.howard@uk.gt.com.

Yours sincerely



Barrie Morris
Director and Engagement Lead
For Grant Thornton UK LLP

T 0117 305 7708
F 0117 305 7784

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Corporate Governance Committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Audit approach memorandum	April 2012
ISA260 report to those charged with governance	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Value for money conclusion report	September 2012
Annual audit letter	November 2012
Certification work report	December 2012

