

Date: 21 June 2011  
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To: Members of the Audit and Corporate Governance Committee  
(Councillors: David Atkins, Roger Boote, Peter Bowden,  
Steve Gazzard, Steve Hall, Anthony Howard, Geoff Pook, Ken Potter)

Councillor Ray Bloxham - Portfolio Holder, Corporate Business  
Chief Executive  
Deputy Chief Executive – Transformation and Systems Thinking  
Head of Service - Finance  
South West Audit Partnership

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Dear Sir/Madam,

**Audit and Corporate Governance Committee**  
**Thursday 30 June 2011 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 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	<b>Public question time</b> – 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 17 March 2011.	4-7
3	To receive any apologies for absence.	
4	To receive any declarations of interests relating to items on the agenda.	

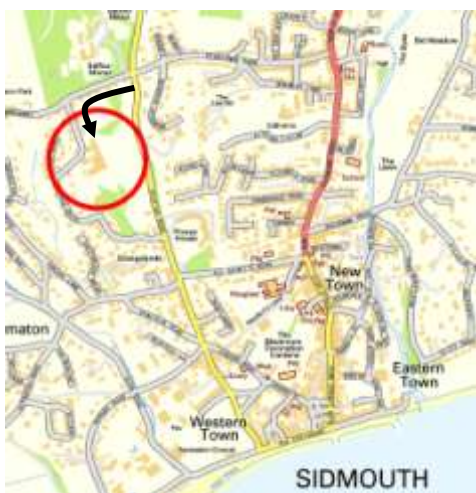
- 5 To consider any items which in the opinion of the Chairman, should be dealt with as matters of urgency because of special circumstances.  
(Note: Such circumstances need to be specified in the minutes; any Member wishing to raise a matter under this item is requested to notify the Chief Executive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

		<b>Page/s</b>
7	Revenue and Capital Outturn Report 2010/11	Head of Service - Finance 8-20
8	Annual Audit Report and Opinion	Internal Audit, SWAP 21-46
9	Internal Audit Activity – Quarter 1 2011/12	Internal Audit, SWAP 47-53
10	2010/11 Interim Audit Report	External Auditors, Grant Thornton 54- 74
11	Forward Plan	Head of Service - Finance 75

### 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



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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.

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**EAST DEVON DISTRICT COUNCIL**  
**Minutes of a Meeting of the**  
**Audit and Governance Committee**  
**held at Knowle, Sidmouth, on Thursday 17 March 2011**

- Present:** Councillors:  
Ken Potter (Chairman)  
Tim Wood (Vice-Chairman)  
David Atkins  
Peter Bowden  
Derek Button  
Bob Buxton  
Chris Gibbings  
Stephanie Jones
- Also Present:** Graham Troman, Member Champion for Data Quality
- Officers:** Simon Davey, Head of Finance  
Chris Lane, Democratic Services Officer  
Diccon Pearse, Corporate Director
- Internal Auditors:** Fiona Casey, South West Audit Partnership  
Tony Brown, South West Audit Partnership  
Chris Gunn, South West Audit Partnership
- External Auditor:** Jenny Dwyer, Grant Thornton
- Apology:** Councillor:  
Andrew Moulding Portfolio Holder, Resources

The meeting started at 2.30 pm and ended at 4.20 pm.

**\*45 Diccon Pearse**

The Chairman and Members of the Committee thanked Diccon Pearse, Corporate Director for his valued assistance with the Committee over the years and wished him well in his forthcoming retirement.

**\*46 Public Questions**

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

**\*47 Minutes**

The minutes of the meeting of the Audit and Governance Committee held on 20 January 2011 were confirmed and signed as a true record.

**\*48 Transformation Reserve**

Consideration was given to the report of Simon Davey, Head of Finance outlining the expenditure incurred from the Transformation Reserve. Members noted that from a review of the Council's Reserves and Balances at the end of 2008/09 the Council established the Transformation Reserve. The sum allocated to this Reserve was £2.517m.

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 included: redundancy and pension strain costs associated with staffing restructures, ICT investment to produce future savings, and other schemes and projects to facilitate a

**\*48 Transformation Reserve (Cont)**

more efficient running of the business. The opening balance of the fund was £.517m and expenditure to date was £357,000, leaving a balance in the fund of £2.160m.

Additional costs were 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 would be reported through to the Executive Board as part of the budget monitoring reporting.

Members questioned whether the expenditure to date from the Transformation Reserve budget included the money spent by Heads of Service to facilitate the integration with South Somerset District Council. Simon Davey, Head of Finance responded that the figure only included the money spent on the cost of the shared Chief Executive. All other costs were included in Departmental Budgets and it would not be possible to provide accurate details of these costs.

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

**\*49 Internal Audit Charter**

Consideration was given to the report of Diccon Pearse, Corporate Director which sought Members approval for the existing terms of reference in the shape on the Internal Audit Charter governing the work of the South West Audit Partnership at East Devon District Council.

Members noted that the internal audit service provided by the South West Audit Partnership (SWAP) worked to a Charter that defined its roles and responsibilities and the roles and responsibilities of the district Council's managers. Best practice in corporate governance required that the Head of Internal Audit should develop 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.

**RESOLVED:** that the Internal Audit Charter be approved as set out in the report.

**\*50 Draft Accounts and Audit Regulations (England) 2011**

Consideration was given to the report of Diccon Pearse, Corporate Directors on the Draft Accounts and Audit Regulations (England) 2011. Members noted that the Accounts and Audit Regulations contained 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 had been taken to rewrite and publish the draft for comment. The consultation period ran for 6 weeks from 24 January to 4 March 2011. The regulations were subject to Audit before they would be presented and the highlights report would be referred to the June meeting of the Committee.

**RESOLVED:** that the schedule of committee meetings make provision for an Audit and Governance Committee meeting in late September in accordance with the revised publication of annual accounts timetable.

**\*51 Internal Audit Activity Report**

Consideration was given to the report from Fiona Casey, South West Audit Partnership on the report of Internal Audit Activity 2010/11 plan update. Members noted that audit assignments were undertaken in accordance with the 2010 Annual Audit Plan. Key recommendations contained in the Audit Plan, including issues raised in the areas of Housing Benefits and Payroll would be brought back to the next meeting of the Committee on 30 June 2011. The issue of Audit of Emergency Planning would also be discussed and follow up work was being undertaken on Section 106 agreement funding.

Members requested that the Internal Audit Plan should include further investigation into Councillor and Officer expense claims. Fiona Casey was thanked by Members for her report.

- RESOLVED:**
1. that the report be noted;
  2. that a request to take another look at Councillor mileage claims be added to the Internal Audit Plan.

**\*52 Internal Audit Plan 2011/12**

Members considered the report of Simon Davey, Head of Finance on the Internal Audit Plan 2011/12. It was noted that there was a requirement that authorities made arrangements for the proper administration of their financial affairs and were 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 gave the Council assurance over these matters.

An effective internal 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 had been prepared which outlined the likely areas of activity for the coming year. The report presented the Internal Audit programme of work for 2010/11 as detailed in the Appendix to the report. Members indicated a wish to include in the plan details of whether a service was considered to be a corporate risk or not.

- RESOLVED:** that the Internal Audit Plan 2011/12 be accepted as presented.

**\*53 Adoption of new accounting practice (IFRS)**

Consideration was given to the report of Simon Davey, Head of Finance on adoption of the new accounting practice (IFRS). Members noted that there was a need to obtain Member approval for the adoption of the new IFRS (International Financial Reporting Standards) based on accounting policies to be used in the Council's accounts for the year ending 31 March 2011. As the Audit and Governance Committee did not meet again until the end of June it was recommended that a small working party of the Committee meet on Thursday 13 April 2011 at 10.00am in Simon Davey's office to approve the new policies.

- RESOLVED:** that a small working party consisting of Councillors Ken potter, Tim Wood, David Atkins and Chris Gibbings be formed to review and agree the new accounting policies.

**\*54 Audit Fee Letter 2011/12**

Jenny Dwyer, of Grant Thornton, presented Members with the Annual Audit Fee letter for 2011/12, which set out the scope of the work and the fee. She outlined the planned work and reported that the proposed fee for 2011-12 represented a reduction of 5% on 2010-11. This reflected no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rate for certifying claims and returns. There was also 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.

**RESOLVED:** that the Annual Audit Fee letter for 2011/12 be noted.

**\*55 Review on IFRS Progress**

Members considered the verbal report of the Jenny Dwyer, Grant Thornton reviewing progress on introduction of the International Financial Reporting Standards (IFRS). She reported that a lot of work had been done on preparing accounts under the IFRS this year. Grant Thornton had no direct responsibility for this but had looked at the arrangements the Council had put in place. This had involved significant changes to accounting practices and extra work for the District Council's accountancy staff. It was hoped that the accounts would be more understandable when prepared under the IFRS.

Members raised the issue of the significant Section 106 monies that EDDC held and expressed concern over the difficulties that had been experienced by the authority in spending this money. It was hoped that the money could be spent on local projects before it was clawed back by developers and that the Localism Bill may help in this regard.

- RESOLVED:** 1) that the report be noted;
- 2) that the Committee's concern over the barriers experienced by the authority when trying to spend the considerable amount of Section 106 monies that it held, be noted.

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

## Agenda Item 7

**Audit & Governance**

**30 June 2011**

**SD**



## Revenue and Capital Outturn Report 2010/11

### Summary

During 2010/11 monthly budget monitoring reports to the Cabinet have informed members of the anticipated year end position. This report contains the final position for the year and compares this outturn position against the budgets set for 2010/11.

The report details the effect these results have had on the Council's reserves and balances and makes proposals for any actions required to ensure the Council is acting in accordance with its Reserves and Balances Policy.

The summary position is given below:

- **General Fund position**

A sum of £0.604m was required to be taken from the General Fund balance in order to balance the 2010/11 budget, it was envisaged however that officers would look in year to reduce the need for this sum. The final year end position is that we made savings of £0.946m, thereby making a contribution to the General Fund balance of £0.342m.

- **Housing Revenue Account (HRA) position**

The HRA balance now stands at £0.511m; £0.542m below the recommended level. The service is to review its 2011/12 budgets in order to correct this position.

- **Capital Position**

Based on current estimates of the future programme for 2011/12 and 2012/13, the Capital reserve is likely to be fully utilised in 2012/13. This issue has been raised in previous reports and members have approved actions to address this issue.

### Recommendation

1. **The Audit & Governance Committee acknowledge the outturn position.**

#### a) Reasons for Recommendation

The Outturn position is now known in relation to the Council's approved budgets for General Fund Services, Housing Revenue Account and Capital Expenditure. This final position will flow through to the Council's Statement of Accounts presented to this Committee on 29 September. Members are asked to note the variations from the budgets identified within the report and consider the final position.



## **b) Alternative Options**

The Outturn position is the final year end position for members to note and to be satisfied on the explanations given in the variations reported compared with the plans and budgets they originally approved for the year.

## **c) Risk Considerations**

The 2010/11 budget was set with a sum of £0.6m to be taken from reserves to balance the budget. The aim for budget managers was to reduce costs within the year to lessen the need to use reserves. Significant progress and success in this area has been achieved but work still remains going forward with further reductions in Government funding.

In light of these issues this report also looks at the monies the Council holds in reserves and considers these in the light of recent economic events and future Government funding cuts.

Consideration is also given to the Council's financial track record, internal and external audit reports on financial controls and is reflective of occurrences from external factors which affect the Council's finances.

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

This report outlines the financial results for 2010/11 and states the impact on the Council's reserves and balances.

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

The Council's Statement of Accounts will be presented to this Committee on 29 September 2011.

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## **1. Introduction**

- 1.1 This report compares the outturn position against budgets set for the financial year 2010/11 for General Fund Services, the Housing Revenue Account and the Capital Programme.
- 1.2 A summary position is given in this report for each of these areas and comments on significant variations or other matters to be drawn to members' attention.
- 1.3 The report looks at the effect the outturn figures have had on the Council's balances and reserves and considers any necessary actions that might be required.

## **2. General Fund**

- 2.1 A sum of £0.604m was required to be taken from the General Fund balance in order to balance the 2010/11 budget, it was envisaged however that officers would look in year to reduce the need for this sum. The final year end position is that we made savings of £0.946m, thereby making a contribution to the General Fund balance of £0.342m.
- 2.2 A summary of net position is shown below, with the main variations are identified in Appendix A.

	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variation £000's</b>
<b>Total all Portfolios – Details given in Appendix A</b>	<b>17,825</b>	<b>17,866</b>	<b>41</b>
Interest paid & received	(268)	(264)	4
Use of Collection Fund surplus	(22)	(22)	0
<b>Agreed transfers from reserves to offset expenditure incurred in Portfolios:</b>			
LABGI (Local Authority Business Growth Incentive)	(24)	(209)	(185)
Asset Management & Maintenance Reserve (to meet one off significant asset maintenance costs)	-	(129)	(129)
Asset Management & Maintenance Reserve (payment of VAT refund into reserve)		224	224
Planning Delivery Grant Reserve		(15)	(15)
Transformation Reserve (to meet redundancy costs)		(664)	(664)
Manor Pavilion Donation		(6)	(6)
LPSA2 Reserve		(25)	(25)
Habitats Assessment Reserve		(9)	(9)
Revenue contribution to capital – environment		8	8
Reversal of accumulated employee benefits (leave etc) included for accounts but excluded for surplus		(172)	(172)
<b>Area Based Grant in respect of Climate Change</b>	<b>(23)</b>	<b>(41)</b>	<b>(18)</b>
<b>Total</b>	<b>17,488</b>	<b>16,542</b>	<b>(946)</b>

2.3 The overall effect on the General Fund balance is as follows:

**General Fund Balance at 31 March 2010      £4.085m**

Actual surplus for year      £0.342m

**General Fund Balance 31 March 2011      £4.427m**

The General Fund Balance is currently above the minimum level by £2.9m. It is considered sensible at this stage, to be reviewed in setting the 2012/13 budget, to hold such a sum because of areas of uncertainty in the current economic climate. Other areas of concern are:

- A number of budgets, particularly maintenance provisions, have been reduced significantly in 2011/12 with a possibility of requests coming forward in the course of the year for supplementary estimates for legitimate reasons where expenditure can not be capped within the tight budgets.
- A further risk relates to future grant settlements in the final 2 years of the current Comprehensive Spending Review period and predicted deficits showing on our Medium Term Financial Plan calculations over the next 4 years.
- Future funding of the Capital Programme is of concern and if schemes are deemed essential there maybe a need to fund through revenue contributions and a need to utilise the General Fund balance.

In addition the Council started the year with £2.351m in a **Transformation Reserve**. In 2010/11 one-off redundancy costs of £0.664m were met from this Reserve. This leaves a current balance on the Reserve of **£1.687m**.

## 2.4 Asset Management & Maintenance Reserve

There was a balance of £1.210m in the reserve at the start of the year. In 2010/11 a total of £0.129m has been spent primarily on temporary boiler plant at Exmouth Sports Centre (£0.097m), reroofing work at Seaton Town Hall (£0.015m), the Knowle accommodation review (£0.006m) and various other smaller works (£0.005m). A windfall vat refund of £0.224m in respect of the sports centres was received during the year and this has been transferred into the reserve. This leaves a balance of **£1.305m** in the reserve.

## 3. Housing Revenue Account

3.1 A summary of the net position and the major variations at the year end is shown below:

	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variations £000's</b>
<b><u>Repairs &amp; Maintenance</u></b>			
Day to day repairs (09/10 slippage)	1,200	1,658	458
Painting Programme	572	477	(95)
Programmed Maintenance	434	401	(33)
Improvements	451	290	(161)
<b><u>Supervision &amp; Management</u></b>			
Vacancies within management teams	1,460	1,329	(131)
Mobile Support Officers – vacancies, reduced agency costs, higher supporting people income	486	324	(162)
Net other over/(under)spends within Supervision & Management	510	524	14
<b><u>Other Expenditure</u></b>			
Tenant participation/training/scrutiny	40	44	4
Minor Management Schemes	12	2	(10)
Road Repairs	16	22	6
Signs on Estates	9	2	(7)
Removal of Rubbish	10	15	5
Sewage disposal – planned maintenance	33	14	(19)
Net other over/(under)spends	90	91	1
<b><u>Major Repairs</u></b>			
Net overspend mainly on Change Of Tenancy and replacement kitchens & bathrooms	2,702	2,912	210
<b><u>Income</u></b>			
Property & garage rents underachievement of income due to incorrect calculation of budget, audit requirement that income accounted for to 31 March instead of end of rent year & new builds not completed until late in the year but full year included in the budget	(14,602)	(14,252)	350

<b>Net other over/underspends</b>	6,590	6,568	(22)
Reversal of accumulated employee benefits (leave etc) included for accounts but excluded for surplus		(26)	(26)
<b>Total</b>	<b>13</b>	<b>395</b>	<b>382</b>

- 3.2 The recommended level for the HRA balance, at £245 per dwelling, is currently £1.053m. The balance is now £0.511m; £0.542m below the recommended level.
- 3.3 This position has been discussed with the Housing Service and is the same position as last year when we dropped below our recommended level. The service considers it is operating close to the minimum recommended level to optimise the amount spent on tenants' homes and services. Budget savings are required in 2011/12 to raise the balance level and a need to exercise tighter financial controls as we approach the self-financing regime.
- 3.4 The main issue is with rents income and several issues have contributed to the situation:
- Rents in the budget were set at the preliminary CLG guideline formula rent and not adjusted downwards when the actual rent increase were announced.
  - In previous years we have closed the HRA at the end of our rent year; however proper accounting dictates this should be at the end of the financial year, which has had the effect of losing 6 rent days in 2010/11 accounts equivalent to around £0.250m.
  - The 2010/11 budget assumed a full year of rental income in respect of council own build when the schemes were not programmed to complete until the end of the financial year. However, we did not draw loans down until the end of the year so this had no noticeable impact.
- 3.5 Corrective action is needed to replenish the HRA balance and the Head of Service proposes that we build up a slightly higher sum so in future years we are not operating so close to the minimum level. The balance is maintained to cushion such variations as described above, but corrective action has to be taken the following year to maintain the surplus at the recommended level.

#### **4. Capital Programme**

- 4.1 Appendix B provides a summary of capital expenditure for all portfolios during the year, comparing the revised estimate and the outturn figure. This shows that compared with the revised budget of £6.501m, the outturn figure is £4.166m, creating an underspend in 2010/11 of £2.335m. Projects totalling £1.685m are being slipped (carried forward) into 2011/12.

The main areas of variation are summarised below:

<b>Areas of main variation</b>	<b>£'000</b>
ICT projects – £115k of which has slipped to 11/12	(200)
Energy efficiency schemes grants – slipped to 11/12	(156)
Exmouth regeneration projects slipped to 11/12	(574)
Growth Point – offset by Grants received	67
Combined Heat & Power plant	(29)
Seaton regeneration – slipped to 11/12	(41)
Pennington Point – awaiting review	(10)
Flood alleviation schemes – slipped to 11/12	(53)
Ottery St Mary cycle path - slipped into 11/12	(377)
Grounds maintenance equipment – slipped to 11/12	(79)
Public conveniences - slipped to 11/12	(28)
Refuse contract grant not in budget	(139)
Make it Local Grant for Axe wetlands not in budget	(69)
17 social rent homes in the HRA - £398k savings – balance to 11/12 for retention	(583)
Other scheme variations – net amount	(64)
<b>Total Variations</b>	<b>(2,335)</b>

4.2 The final outturn position and funding position is shown below:

<b>Net Capital Programme Budget (Exec Board 10/02/10)</b>	<b>£</b>	<b>£</b>
Previous Revisions including 2009/10 underspend	660,990	<b>6,223,000</b>
Month 10 Programme revisions	(383,180)	
Year End variations	(2,334,920)	
<b>Outturn Requirement</b>		
<b>Financed by</b>	<b>£</b>	<b>£</b>
Capital Receipts	(770,650)	<b>(4,165,890)</b>
PWLB Loans for Refuse & Social Housing	(1,244,500)	
S.106 contributions	(350,850)	
General Fund Contribution	(119,640)	
Grants and contributions received in advance	(142,160)	
Homes and Communities Agency Grants	(238,030)	
HRA Contribution (includes interest)	(274,060)	
Predicted Capital Reserve requirement	(1,026,000)	
<b>Total Funding</b>		

4.3 This leaves a **net shortfall of £1.026m** to be taken from the Capital Reserve in 2010/11:

<b>Capital Reserve</b>	<b>£m's</b>
<b>Capital Reserve as at 31 March 2010</b>	6.329
Use in year	(1.026)
<b>Capital Reserve as at 31 March 2011</b>	5.303
Budgeted use of Reserve in 2011/12	(4.108)
<b>Estimated Capital Reserve 31 March 2012</b>	<b>1.196</b>

Based on current estimates of the future programme for 2011/12 and 2012/13, this reserve is likely to be fully utilised in 2012/13.

### **Legal Implications**

No legal implications have been identified

### **Financial Implications**

Details are contained within the report

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

Not applicable

### **Background Papers**

- Accountancy working papers

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Simon Davey  
Head of Finance

Audit & Governance  
30 June 2011

## APPENDIX A

<b>General Fund - Main Variations per Portfolio</b>	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variation £000's</b>
<b><u>Communications Portfolio</u></b>			
<b>Licensing Section</b>			
Employees – vacancy	181	162	(19)
Increase in income due to Licensing Act	(162)	(174)	(12)
<b>ICT PC Support</b> – capital salaries – less time spent on ICT capital projects, staff charged to revenue	942	1,033	91
<b>IT Communications</b> – reduced costs of phones/broadband	37	24	(13)
<b>Customer Services Centre</b> – staff savings	446	419	(27)
<b>Net other over/(under)spends</b>	(489)	(474)	15
<b>Total Communications Portfolio</b>	<b>955</b>	<b>990</b>	<b>35</b>
<b><u>Communities Portfolio</u></b>			
<b>Homeless Persons</b>			
Vacancy & reduction in Goldmax properties (leased from private sector)	1,045	932	(113)
Reduced income from fewer Goldmax properties, voids & write offs	(555)	(452)	103
<b>Homesafeguard</b>			
Employees – higher cost of agency staff than expected	322	334	12
<b>Public Health Services</b>			
Supplies & Services – overspend mainly due to consultants & legal costs in respect of Dunkeswell noise case	169	231	62
<b>Net other over/(under)spends</b>	884	835	(49)
<b>Total Communities Portfolio</b>	<b>1,865</b>	<b>1,880</b>	<b>15</b>
<b><u>Economy Portfolio</u></b>			
<b>Amenity Facilities</b>			
Underspends on seats & shelters and Axmouth Harbour	59	49	(10)
<b>Car Parks</b>			
Employees – vacant post	466	446	(20)
Supplies & Services – increased cash collection costs	121	131	10
Income – increase in number of parking permits sold	(3,253)	(3,363)	(110)
<b>Concessionary Fares</b> – number of journeys higher	1,576	1,601	25

<b>General Fund - Main Variations per Portfolio</b>	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variation £000's</b>
than anticipated			
<b>Economic Development</b>			
Supplies & Services – overspend mainly on LABGI (Local Authority Business Growth Incentive) initiatives which will be funded from the LABGI Reserve	158	372	214
Income – occupancy at E D Business Centre down but offset by recovery of costs in respect of Seaton Regeneration	(158)	(174)	(16)
<b>Public Halls</b>			
Premises – planned maintenance at Seaton Town Hall to be funded from Asset Management & Maintenance Reserve (AMMR)	111	132	21
<b>Sports Grounds</b>			
Income higher than anticipated, additional bookings and rent increases.	(41)	(54)	(13)
<b>Arts Development</b>			
Thelma Hulbert Gallery income – 2 months trading lost due to refurbishment of Elmfield House	(50)	(24)	26
<b>Sports Centres &amp; Swimming Pools</b>			
Net overspend includes £97k for boiler at Exmouth to be funded from AMMR	2,072	2,240	168
<b>Corporate Buildings</b>			
Premises – overspend on property maintenance partially offset by saving on electricity	372	391	19
Income – reduction in rent income offset by Exmouth Town Hall recharge	(109)	(121)	(12)
<b>Accountancy Section</b> – recovery of training costs from former staff member	331	317	(14)
<b>Internal Audit</b> – vacancy offset by audit contractor & SWAP contract	177	224	47
<b>Net other over/(under)spends</b>	196	195	(1)
<b>Total Economy Portfolio</b>	<b>2,028</b>	<b>2,362</b>	<b>334</b>
<b><u>Environment Portfolio</u></b>			
Balance received from the Seaton & Exmouth Visitor Centres Trust – note 1	0	(61)	(61)
<b>Building Control</b>			
Employees – reduction in working hours & incorrect budget for NI & pension	453	436	(17)
Supplies & Services – underspends on stationery &	45	34	(11)



<b>General Fund - Main Variations per Portfolio</b>	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variation £000's</b>
consultants Fee income greater than expected	(506)	(550)	(44)
<b>Cemeteries</b> Underclaimed revenue grants for churchyard maintenance	53	35	(18)
<b>Corporate Director</b> Salary saving as Director left at end of February plus recharge income received from Exeter City Council	136	96	(40)
<b>Net other over/(under)spends</b>	1,236	1,201	(35)
<b>Total Environment Portfolio</b>	<b>1,417</b>	<b>1,191</b>	<b>(226)</b>
<b><u>Resources Portfolio</u></b>			
<b>Housing &amp; Council Tax Benefits Payments</b> Increased volumes of rent allowances and council tax benefit due to economic climate	24,570	27,766	3,196
Reduction in rent rebates due to lower rent increase than budgeted	8,282	8,130	(152)
Reduction in overpayments recovered due to reduction of overpayments created	(350)	(290)	60
Housing Benefit subsidy increased to match increased payments	(32,429)	(35,730)	(3,301)
<b>Revenues, Housing &amp; Council Tax Administration</b> Employees – agency costs partially offset by vacancies	1,707	1,721	14
Supplies & Services – reduction in printing costs	349	329	(20)
Income – additional grant received towards costs of software changes offset by reduction in summons costs recovered	(1,136)	(1,169)	(33)
<b>Democratic Representation</b> Supplies & Services – saving on printing costs due to greater use of email and website	482	426	(56)
<b>Public Accountability &amp; Corporate Fees</b> Reduction in external audit fees and income from ordnance survey licence fees offset by higher bank fees	212	188	(24)
<b>Chief Executive &amp; Support Staff</b> Net saving on shared post with South Somerset DC	0	(56)	(56)
<b>Net other over/(under)spends</b>	1,461	1,447	(14)

<b>General Fund - Main Variations per Portfolio</b>	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variation £000's</b>
<b>Total Resources Portfolio</b>	<b>3,148</b>	<b>2,762</b>	<b>(386)</b>
<b><u>StreetScene Portfolio</u></b>			
<b>Parks/Grounds Maintenance</b>			
Employees – reduction in overtime and seasonal vacancy	813	781	(32)
Premises/Supplies & Services – reduction in use of contractors, for example for hedgecutting & leaf clearance, offset by the purchase of bedding plants ordered in advance of the budget cuts	307	321	14
Income – includes contributions received from Exmouth Town Council towards grounds maintenance agency staff, Devon County Council re Phear Park oak plus additional miscellaneous income & rent increases	(124)	(174)	(50)
<b>Public Conveniences</b>			
Premises – reduction on water bills & planned maintenance	305	259	(46)
<b>Refuse &amp; Recycling</b>			
Employees – higher cost of Interim Waste Manager	144	154	10
Premises – no budget allowed for rates on new depot	152	168	16
Supplies & Services – Sita contract – cost of full rollout plus land registry charge for new depot	4,605	4,888	283
Income – additional recycling income following full roll out	(1,531)	(1,805)	(274)
<b>Street Scene Support Services</b>			
Employees – reductions in working hours & vacancies (including Head of Service)	811	737	(74)
<b>Street Cleansing</b>			
Employees – vacancies in React Team	693	650	(43)
Transport – repairs to vehicles & plant plus high cost of fuel	206	244	38
Supplies & Services – overspends on equipment hire offset by underspends on dog & litter bin purchases	228	218	(10)
Income – dog bin emptying recharges	(2)	(15)	(13)
<b>Net other over/(under)spends</b>	<b>291</b>	<b>311</b>	<b>20</b>
<b>Total Streetscene Portfolio</b>	<b>6,898</b>	<b>6,737</b>	<b>(161)</b>
<b><u>Strategic Planning &amp; Regeneration Portfolio</u></b>			
Employees – vacancies in Development Management & Planning Policy, reductions in working hours offset by redundancy payments in Admin Team	2,004	1,822	(182)
Additional income from planning fees due mainly to large scale applications	(879)	(1,050)	(171)
<b>Net other over/(under)spends</b>	<b>664</b>	<b>722</b>	<b>58</b>

<b>General Fund - Main Variations per Portfolio</b>	<b>Original Budget £000's</b>	<b>Outturn £000's</b>	<b>Variation £000's</b>
<b>Total Strategic Planning &amp; Regeneration</b>	<b>1,789</b>	<b>1,494</b>	<b>(295)</b>
<b>Other</b>			
<b>Procurement Savings</b> – savings of £150k have been made and are reflected in other budget areas	(75)	0	75
<b>Shared Services Savings</b> – savings of £0.096m have been made and are reflected in the figures above however the budget was based on the assumption that the whole senior management team would be shared	(200)	0	200
Reduction in Sundry Debtors bad debt provision	0	10	10
Redundancies costs – to be met from Transformation Reserve	0	664	664
VAT refund (final payment from HMRC claim) - Transfer to Asset Management & Maintenance Reserve as previously agreed by members		(224)	(224)
<b>Total all Portfolios</b>	<b>17,825</b>	<b>17,866</b>	<b>41</b>
Interest paid & received	(268)	(229)	39
Use of Collection Fund surplus	(22)	(22)	0
<b>Agreed transfers from reserves to offset expenditure incurred in Portfolios:</b>			
LABGI (Local Authority Business Growth Incentive)	(24)	(209)	(185)
Asset Management & Maintenance Reserve (to meet one off significant asset maintenance costs)	-	(129)	(129)
Asset Management & Maintenance Reserve (payment of VAT refund into reserve)		224	224
Planning Delivery Grant Reserve		(15)	(15)
Transformation Reserve (to meet redundancy costs)		(664)	(664)
Manor Pavilion Donation		(6)	(6)
LPSA2 Reserve		(25)	(25)
Habitats Assessment Reserve		(9)	(9)
<b>Area Based Grant</b> in respect of Climate Change	(23)	(41)	(18)
<b>Total</b>	<b>17,488</b>	<b>16,741</b>	<b>(747)</b>

There was a difference between the original approved budget for 2010/11 and the revised budget of £0.013m which relates to Executive Board approvals for a grant of £0.010m to East Devon Volunteer Support Agency and £0.003m for expenditure in respect of the Dog Control Order at Winters Lane Playing Field, Ottery St Mary. The expenditure on the latter has not yet been incurred but will now be spent in 2012/13.

**COMMUNITY PORTFOLIO - HOUSING REVENUE ACCOUNT**

Line	CEDAR Code	Project	Annual Budget B3	Actual Net Exp	Outturn (Under) / Over Spend	YE comments	2011/12 Budget per Mth 10 Exec	Year End Budget Revision	Proposed Budget
			2010/11	2010/11	2010/11		2011/12	2011/12	2011/12
			£'s	£'s	£'s		£'s	£'s	£'s
1	83511	17 Social Rent Homes Unallocated	2,087,000		(582,548)	Includes retention of £80k c/f		184,043	184,043
2	83511	01AFEXMB Exmouth Normandy Close		177,208		Total spend: £1,504k			0
3	83511	10AFLYMB Churchill Court Lympstone		752,011		Saving: £398k			0
4	83511	75AFAXMB Heals Field Axminster		261,229					0
5	83511	AFALLSTB Waggs Plot All Saints		314,003					0
6	85811	Vickery's Cottage Woodbury	219,000	212,417	(6,583)	Saving			0
7	85907	Globe House	0	0	0				0
8		<b>Other schemes</b>	<b>2,306,000</b>	<b>1,716,869</b>	<b>(589,131)</b>		<b>0</b>	<b>184,043</b>	<b>184,043</b>
9	<b>New Code</b>	River Otter flood & erosion protection Scheme	0		0		270,000		270,000
10	85906	Abritas CBL	2,020	1,520	(500)	Saving			0
11	85908	Millway Rise Play Area	47,510	87,746	40,236	Offset by income below. £825 c/f to 11/12.		825	825
12	85902	Major Improvements/Extensions to Existing D	140,000	180,863	40,863	Offset below	175,000		175,000
13	85903	Off Street Car Parking	15,000	14,933	(67)		50,000		50,000
14	85904	Re-modelling of Sheltered Schemes	200,000	182,225	(17,775)	Offset above	200,000		200,000
15	85890	Roadworks (Non Feasance Road Repairs)	20,000	19,660	(340)		10,000		10,000
16	85225	Sewerage Treatment works inc Waggs Plot	60,000	55,441	(4,559)	C/f oto 11/12		4,559	4,559
17	85213	Social Services Adaptations	200,000	205,615	5,615		200,000		200,000
18		<b>Building Works</b>	<b>684,530</b>	<b>748,003</b>	<b>63,473</b>		<b>905,000</b>	<b>5,384</b>	<b>910,384</b>
19		<b>GROSS EXPENDITURE</b>	<b>2,990,530</b>	<b>2,464,873</b>	<b>(525,657)</b>		<b>905,000</b>	<b>189,427</b>	<b>1,094,427</b>
20	83511	17 Social Rent Homes Unallocated	(1,043,500)		1,005	Underachieved income			0
21	83511	01AFEXMB Exmouth Normandy Close		(126,500)		Total income	0		0
22	83511	10AFLYMB Churchill Court Lympstone		(585,995)		(1,042,495)	0		0
23	83511	75AFAXMB Heals Field Axminster		(113,000)			0		0
24	83511	AFALLSTB Waggs Plot All Saints		(217,000)			0		0
25	85907	Globe House	0		0		0		0
26	85902	Major Improvements/Extensions to Existing Dwellings		(28,296)	(28,296)	DCC contribution offset above			
27	85908	Millway Rise Play Area	0	(41,061)	(41,061)	Offset above	0		0
28		<b>EXTERNAL FUNDING</b>	<b>(1,043,500)</b>	<b>(1,111,852)</b>	<b>(68,352)</b>		<b>0</b>	<b>0</b>	<b>0</b>
29		<b>NET EXPENDITURE</b>	<b>20 1,947,030</b>	<b>1,353,021</b>	<b>(594,009)</b>		<b>905,000</b>	<b>189,427</b>	<b>1,094,427</b>

ECONOMY PORTFOLIO									
Line	CEDAR Code	Project	Annual Budget B3	Actual Net Exp	Outturn (Under) / Over Spend	YE comments	2011/12 Budget per Mth 10 Exec	Year End Budget Revision	Proposed Budget
			2010/11	2010/11	2010/11		2011/12	2011/12	2011/12
			£'s	£'s	£'s		£'s	£'s	£'s
1	83247	<b>Regeneration</b> Exmouth Regeneration - Elizabeth Hall	0		0		6,000		6,000
2	83280	Exmouth Regeneration - Orcombe Point	20,000		(20,000)		0	20,000	20,000
3	83249	Exmouth Regeneration - Queens Drive Exmouth Master Plan Seafron /Town LAGBI/DCC Funded 000264	6,000		(6,000)	On hold re DCC detailed plan	220,000	6,000	226,000
4	83243	London Inn Car Park Exmouth 23010 LABGI to Analyse	148,000	0	(148,000)		0	148,000	148,000
5	83245	Seaton Regeneration	55,000	14,310	(40,690)		1,855,000	40,690	1,895,690
6	83211	Growth Point	0	67,304	67,304	Gvt Funded	0		
7	83210	Combined Heat & Light - Cranbrook Separate funding	200,000	170,722	(29,278)	Gvt Funded	0		0
8			<b>429,000</b>	<b>252,336</b>	<b>(176,664)</b>		<b>2,081,000</b>	<b>214,690</b>	<b>2,295,690</b>
		<b>Corporate Buildings &amp; Security</b>							
9	83344	Disability Access split below:	40,430		(40,430)	Pull back £2,150 from 11/	33,000	(2,090)	30,910
10	83344	010022B Exmouth Sprts Centre		11,061	11,061	No recharges	0		0
11	83344	600150B Honiton Sports Centre		1,667	1,667	40% recharge to School	0		0
12	83344	600160B Mackerness Hall		456	456	No recharges	0		0
13	83344	750171B Axe Valley Sports Centre		29,337	29,337	40% recharge to School	0		0
14	83285	External Property Advice linked to Capital Receipts	30,000	0	(30,000)	Saving	0		0
15	New Code	Capital Salaries Property Services	0		0		20,000		20,000
16	83244	The Strand Exmouth	400,000	0	(400,000)	Capital Commitment	0	400,000	400,000
17			<b>470,430</b>	<b>42,520</b>	<b>(427,910)</b>		<b>53,000</b>	<b>397,910</b>	<b>450,910</b>
		<b>Public Halls, Community Centres &amp; Pavilions</b>							
18	83207	Thelma Hulbert Gallery	68,700	60,834	(7,866)	Balance to 11/12	0	7,866	7,866
19	New Code	Manor Pavilion Theatre Mechanical & Electrical Refurbishment			0		10,000		10,000
20	83208	Honiton - Community Centre	11,000	11,000	0	No committment	275,800		275,800
21	83926	Chamber's Close Sidmouth Drill Hall replacement	253,000	257,424	4,424	£4.4k pulled back to 10/11	344,600	(4,424)	340,176
22			<b>332,700</b>	<b>329,258</b>	<b>(3,442)</b>		<b>630,400</b>	<b>3,442</b>	<b>633,842</b>
		<b>Sports Centres &amp; Swimming Pools</b>							
23	83106	Axe Valley SCentre - replace boiler/other plant 40% schools rech	5,000	5,795	795	40% recharge to School	125,000	0	125,000
24	83107	Broadclyst SCentre - replace boiler/other plant 40% schools rech	5,000	5,635	635	40% recharge to School	100,000	0	100,000
25	New Code	Axe Valley SCentre - replace roof					100,000	0	100,000
26	83189	ED Tennis Court Floor	0	0	0		60,000	0	60,000
27	83109	Exmouth Sports Centre - replace OZONE & other plant.	50,000	49,991	(9)	No bal left	0	0	0
	83188	Honiton Sports Centre - UV vired from 83108 below	24,000	24,667	667	Overspend	0	0	0
28	83108	Sidmouth Pool - Upgrade plant & aircon.	256,000	259,419	3,419	Overspend offset income	0	0	0
29			<b>340,000</b>	<b>345,507</b>	<b>5,507</b>		<b>385,000</b>	<b>0</b>	<b>385,000</b>
		<b>Industrial Sites</b>							
30	83321	Honiton Heathpark Unit 115 = Depot	22,100	23,963	1,863		0		0
31	83335	Honiton Heathpark Industrial Estate - Sewer Adoption	0	0	0		77,000		77,000
32			<b>22,100</b>	<b>23,963</b>	<b>1,863</b>		<b>77,000</b>	<b>0</b>	<b>77,000</b>
33		<b>GROSS EXPENDITURE</b>	<b>1,594,230</b>	<b>993,583</b>	<b>(600,647)</b>		<b>3,226,400</b>	<b>616,042</b>	<b>3,842,442</b>
		<b>Public Halls, Community Centres &amp; Pavilions</b>							
34	83926	Chamber's Close Sidmouth Drill Hall replacement ATC Funding	0		0		(100,000)		(100,000)
35			<b>0</b>	<b>0</b>	<b>0</b>		<b>(100,000)</b>	<b>0</b>	<b>(100,000)</b>
		<b>Sports Centres &amp; Swimming Pools</b>							
36	83106	Axe Valley Sports Centre - 40% recharge to DCC	(2,000)	(2,318)	(318)		(50,000)		(50,000)
37	83107	Broadclyst SCentre - 40% recharge to DCC.	(2,000)	(2,254)	(254)		(40,000)		(40,000)
38	83108	Sidmouth Pool - Upgrade plant & aircon.	0	(6,004)	(6,004)	Income not in budget.	0		0
39	83344	600150B Honiton Sports Centre	0	(667)	(667)	Income not in budget.	0		0
40	83344	750171B Axe Valley Sports Centre	0	(11,735)	(11,735)	Income not in budget.	0		0
41	New Code	Axe Valley SCentre - replace roof					(40,000)		(40,000)
42			<b>(4,000)</b>	<b>(22,978)</b>	<b>(18,978)</b>		<b>(130,000)</b>	<b>0</b>	<b>(130,000)</b>
43		<b>EXTERNAL FUNDING</b>	<b>(4,000)</b>	<b>(22,978)</b>	<b>(18,978)</b>		<b>(230,000)</b>	<b>0</b>	<b>(230,000)</b>
44		<b>NET EXPENDITURE</b>	<b>1,590,230</b>	<b>970,606</b>	<b>(619,624)</b>		<b>2,996,400</b>	<b>616,042</b>	<b>3,612,442</b>

ENVIRONMENT PORTFOLIO									
Line	CEDAR Code	Project	Annual Budget B3	Actual Net Exp	Outturn (Under) / Over Spend	YE comments	2011/12 Budget per Mth 10 Exec	Year End Budget Revision	Proposed Budget
			2010/11	2010/11	2010/11		2011/12	2011/12	2011/12
			£'s	£'s	£'s		£'s	£'s	£'s
		<b>Cemeteries</b>							
1	83172	Sidbury St Giles Church Wall	0	0	0		0		0
2	83104	Sidbury Cemetery Extension	1,070	0	(1,070)	Slip to 11/12	0	1,070	1,070
3	83105	Woodbury Cemetry Wall	0	0	0		0		0
4			<b>1,070</b>	<b>0</b>	<b>(1,070)</b>		<b>0</b>	<b>1,070</b>	<b>1,070</b>
		<b>Coastal Protection</b>							
5	83332	Axmouth Hbr Low Water Corrosion	0	0	0		62,000		62,000
6	83888	Axmouth Harbour - Access Road	20,000	22,670	2,670	Over spend Cap sals	0		0
7	83155	Beer - surface Water Outfall	0	0	0		0		0
8	83893	Pennington Point	10,280	0	(10,280)	Slip to 11/12. SSmale to review	17,000	10,280	27,280
			<b>30,280</b>	<b>22,670</b>	<b>(7,610)</b>		<b>79,000</b>	<b>10,280</b>	<b>89,280</b>
		<b>Flood Alleviation</b>							
9	83349	Budleigh Salterton - Western Outfall	0	0	0		0		0
10	83810	Budleigh Salterton - TRUNK DRAIN Environment Agency					25,000		25,000
11	83896	Flood Alleviation - All Saints	0	0	0		50,000		50,000
12	83902	Flood Alleviation Beer 1a	0	0	0		450,000		450,000
		Flood Risk Assessment Orcombe Point Linked to Cap							
13	83903	Receipt	10,000	0	(10,000)	Slip to 11/12. SSmale to review	0	10,000	10,000
14	83407	Cont to new Bridge Improve Flood Water Flow	0	0	0		0		0
15	83192	The Glenn Flood Wall	0	0	0		0		0
16	83904	{ Feniton New Village Flood Allev	30,000	28,214	(1,786)	Slip to 11/12	0	1,786	1,786
17	83890	Flood Alleviation - OLD Feniton	10,000	0	(10,000)	Slip to 11/12	0	11,786	11,786
18	83806	Individual Protection Rockbeare	96,000	67,017	(28,983)	Slip to 11/12	0	28,983	28,983
19	83860	Enmainment watercourses EA scheme	25,000	0	(25,000)	Slip to 11/12	45,000	25,000	70,000
20			<b>171,000</b>	<b>95,231</b>	<b>(75,769)</b>		<b>570,000</b>	<b>77,555</b>	<b>647,555</b>
		<b>Other</b>							
21	83326	Capel Lane Railway Bridge	500	1,109	609	Complete	0		0
22			<b>500</b>	<b>1,109</b>	<b>609</b>		<b>0</b>	<b>0</b>	<b>0</b>
23		<b>GROSS EXPENDITURE</b>	<b>202,850</b>	<b>119,010</b>	<b>(83,840)</b>		<b>649,000</b>	<b>88,905</b>	<b>737,905</b>
		<b>Flood Alleviation DEFRA Funding</b>							
25	83349	Budleigh Salterton - Western Outfall Income DEFRA	0	0	0		0		0
26	83810	Budleigh Salterton - TRUNK DRAIN Environment Agency	0	0	0	£25k 11/12 per EA 11/2/11	(25,000)		(25,000)
27	83896	Flood Alleviation All Saints 2 Income DEFRA	0	0	0		(50,000)		(50,000)
28	83902	Flood Alleviation - Beer 1A only - Income DEFRA	0	0	0		(450,000)		(450,000)
29	83890	Flood Alleviation - Old Feniton Income DEFRA	0	0	0		0		0
30	83904	{ Feniton New Village Flood Allev Loca Levy Scheme	(22,500)	0	22,500		0	(22,500)	(22,500)
31	83806	Individual Protection Rockbeare Funding	(96,000)	(96,000)	0	Accrued	0		0
32			<b>(118,500)</b>	<b>(96,000)</b>	<b>22,500</b>		<b>(525,000)</b>	<b>(22,500)</b>	<b>(547,500)</b>
33		<b>EXTERNAL FUNDING</b>	<b>(118,500)</b>	<b>(96,000)</b>	<b>22,500</b>		<b>(525,000)</b>	<b>(22,500)</b>	<b>(547,500)</b>
34		<b>NET EXPENDITURE</b>	<b>84,350</b>	<b>23,010</b>	<b>(61,340)</b>		<b>124,000</b>	<b>66,405</b>	<b>190,405</b>

STREET SCENE PORTFOLIO									
Line	CEDAR Code	Project	Annual	Actual Net	Outturn (Under)	2011/12 Budget per Mth 10	Year End Budget	Proposed Budget	
			Budget B3	Exp	/ Over Spend				
			2010/11	2010/11	2010/11				
£'s	£'s	£'s	YE comments	2011/12	2011/12	2011/12			
£'s	£'s	£'s		£'s	£'s	£'s			
<b>Parks &amp; Pleasure Grounds</b>									
1	83186	Axe Wetlands Land Purchase = Cemetry/carpark		36,279		0			
2	83186	Axe Wetlands Land Purchase balance	139,000	88,242	(14,478)	0	14,478	14,478	
3	83195	Stafford Marsh Field Study Centre	0	46,702	46,702	0			
4	83193	Axe Wetlands Project Management	16,000	8,982	(7,019)	17,000	7,019	24,019	
5	83110	Coburg Gardens Sidmth Tennis courts resurface	0	0	0	35,000		35,000	
6	83184	Connaught Gardens Wall	0	373	373	0		0	
7	83242	Exmouth - Valley parks	10,000	5,900	(4,100)	0	3,727	3,727	
8	83187	Honiton Gissage Playing Fields	0	0	0	0		0	
9	83194	Ottery Cycle Path	917,860	88,628	(829,232)	0	829,232	829,232	
10	83734	Phear Park resurface 3 x courts	0	0	0	0		0	
11			<b>1,082,860</b>	<b>275,106</b>	<b>(807,754)</b>	<b>52,000</b>	<b>854,456</b>	<b>906,456</b>	
<b>Parks &amp; Pleasure Grounds - Play Equipment</b>									
12	83731	Parks Equipment Replacement	52,460	52,489	29	70,000		70,000	
13	New Code	Capital Salaries	0	0	0	23,000		23,000	
14	New Code	Land Drainage for Sidford Football Pitches				37,000		37,000	
15	New Code	Re-landscape rockery/waterfall Seafeld Gdns Seaton				38,000		38,000	
16	83932	Replacement of Children's Play Areas Safety Surface	31,700	25,436	(6,264)	40,000	6,236	46,236	
17	83733	Maer Play trail	38,500	46,431	7,931	0		0	
18			<b>122,660</b>	<b>124,356</b>	<b>1,696</b>	<b>208,000</b>	<b>6,236</b>	<b>214,236</b>	
<b>Public Conveniences</b>									
19	83833	Pc Renovation 330076B West End Cliff ath Budleigh	153,980	61,705	(92,275)	100,000	27,748	127,748	
20	83833	Pc Renovation 330084B East End Lime Kiln Budleigh	0	12,231	12,231	0		0	
21	83833	Pc Renovation 600152B Tail end 09/10	0	2,007	2,007	0		0	
22	83833	Pc Renovation 790175B Dolphin St Colyton	0	49,590	49,590	0		0	
23	83833	Pc Renovation 860261B West Walk Seaton	0	700	700	0		0	
24			<b>153,980</b>	<b>126,232</b>	<b>(27,748)</b>	<b>100,000</b>	<b>27,748</b>	<b>127,748</b>	
<b>Street Scene - Grounds Maintenance</b>									
25	83401	Replacement of Plant & Equipment GM	103,950	25,144	(78,806)	114,000	78,806	192,806	
26			<b>103,950</b>	<b>25,144</b>	<b>(78,806)</b>	<b>114,000</b>	<b>78,806</b>	<b>192,806</b>	
<b>Refuse and Recycling</b>									
27	83411	Step change in Contract - Containers for Kitchen Waste	699,380	682,071	(17,309)	0	12,990	12,990	
28	83403	Refuse Contract	123,000	127,320	4,320	0		0	
29	83350	Waste Transfer Depots Manstone/Camperdown	14,500	8,734	(5,766)	0	5,766	5,766	
30			<b>836,880</b>	<b>818,124</b>	<b>(18,756)</b>	<b>0</b>	<b>18,756</b>	<b>18,756</b>	
<b>Street Scene - Cleansing</b>									
31	83402	Replacement of Street Cleansing Plant & Equipment	45,000	45,223	223	108,000	(223)	107,777	
32	83352	New Scarab Minor and Merlin	0	0	0	59,780		59,780	
33			<b>45,000</b>	<b>45,223</b>	<b>223</b>	<b>167,780</b>	<b>(223)</b>	<b>167,557</b>	
34		<b>GROSS EXPENDITURE</b>	<b>2,345,330</b>	<b>1,414,186</b>	<b>(931,144)</b>	<b>641,780</b>	<b>985,778</b>	<b>1,627,558</b>	
<b>Parks &amp; Pleasure Grounds</b>									
35	83186	Axe Wetlands Land Purchase	0	(30,227)	(30,227)	0		0	
36	83195	Stafford Marsh Field Study Centre		(38,726)	(38,726)	0		0	
37	83194	Ottery Cycle Path income	(451,500)	0	451,500	0	(451,500)	(451,500)	
38			<b>(451,500)</b>	<b>(68,953)</b>	<b>382,547</b>	<b>0</b>	<b>(451,500)</b>	<b>(451,500)</b>	
<b>Refuse and Recycling</b>									
39	83403	Refuse Contract Equipment DCC Funding	0	(110,000)	(110,000)	0		0	
40	83411	Refuse Contract Equipment DCC Funding	0	(29,000)	(29,000)	0		0	
41			<b>0</b>	<b>(139,000)</b>	<b>(139,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	
42		<b>EXTERNAL FUNDING</b>	<b>(451,500)</b>	<b>(207,953)</b>	<b>243,547</b>	<b>0</b>	<b>(451,500)</b>	<b>(451,500)</b>	
43		<b>NET EXPENDITURE</b>	<b>1,893,830</b>	<b>1,206,232</b>	<b>(687,598)</b>	<b>641,780</b>	<b>534,278</b>	<b>1,176,058</b>	
				687,598					



## **East Devon District Council**

Annual Report and Opinion 2010-2011

**Internal Audit ■ Risk ■ Special Investigations ■ Consultancy**



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Summary of Key Actions Appendix B

Audit Plan 2010/11 Appendix C

## Annual Opinion:

**The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.**

## **Purpose of Report and Recommendation**

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS).

The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

## **Background**

The Internal Audit service for East Devon District Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the period since they were appointed to provide the internal audit service in October 2010 to March 2011.

## Summary of Work 2010/11

*The agreed Annual Audit Plan covers 5 key areas of Activity:*

- 1) OPERATIONAL AUDITS
- 2) INFORMATION SYSTEMS
- 3) KEY CONTROLS
- 4) GOVERNANCE & FRAUD
- 5) SPECIAL REVIEWS

## Audits Completed—Operational

Operational Audits—are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested; risks are assessed against the risk appetite agreed with the SWAP Management Board. Where weaknesses or areas for improvement are identified, actions are agreed with management, prioritised and target dated. Based on the findings of each review, an overall Control Assurance is offered.

Operational Audits completed by SWAP for the Period October 2010 to March 2011, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Audit Opinion
Building Control (Follow Up)	▲ ★ ★ ★ Reasonable
Planning Administration (Follow Up)	▲ ★ ★ ★ Reasonable
Development Control (Follow Up)	▲ ★ ★ ★ Reasonable
Communication and Improvement	▲ ★ ★ ★ Reasonable
Housing Needs	▲ ★ ★ ★ Reasonable
Customer Service Centre	Removed (Client request)
Grants	Deferred to 2011/12 (Client request)
Countryside	Removed (Client request)
Exeter Growth Area	Removed (Client request)
Leisure East Devon	Removed (Client request)

These reviews resulted in 24 recommendations for improvement to Internal Controls.

Summary of Work 2010/11

*Continued.....*

## Audits Completed — Information Systems

Information Systems—IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given. The following IS audit was in the plan for 2010/11:

Audit Area	Audit Opinion
Corporate Information Security Controls - Level 1	Deferred to 2011/12

Summary of Work 2010/11

*Continued.....*

## Audits Completed—Key Controls

Key Control Audits — The Key Control Audit process focuses primarily on key risks relating to the Council’s major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. The findings from these reviews are considered by the External Auditors when they assess the Council’s Financial Statements at year end.

Key Control Audits completed by SWAP for the period October 2010 to March 2011 as follows:

Audit Area	Opinion
Income and Cashiers (Follow Up)	▲ ★★ ★ Reasonable
Council Tax & NNDR	▲ ★★ ★ Reasonable
Housing /Council Tax Benefits	▲ ★★ ★ Reasonable
Housing Rents (Follow Up)	▲ ★★ ★ Reasonable
Main Accounting	▲ ★★ ★ Partial
Payroll	▲ ★★ ★ Partial
Debtors	▲ ★★ ★ Reasonable
Creditors	▲ ★★ ★ Partial
Treasury Management	▲ ★★ ★ Reasonable

In all there were 54 actions resulting from these reviews which have been assigned to responsible officers and target dates for completion have been agreed. It is likely that the External Auditors will focus on these findings when they carry out their work to sign off the Council’s Accounts.

Summary of Work 2010/11

*Continued.....*

**Audits Completed — Governance and Fraud**

Governance and Fraud Reviews — These reviews focus on the key controls in the areas of Governance or activities where it is perceived there is greater opportunity for Fraud or Corruption. There were no audits of this type included within the 2010/2011 Internal Audit Plan.

**Performance:**

**The Head of Internal Audit Partnership reports performance on a regular basis to the SWAP Management and Partnership Boards.**

## SWAP Performance

The beginning of last year saw the introduction of a second County Council into the South West Audit Partnership. SWAP now covers the two County Councils of Somerset and Dorset, the five Somerset Districts, two District Council's in Dorset, one District in Devon and one District Council in Gloucester. In addition to these 11 key partners, SWAP also provides an internal audit service to a number of subsidiary bodies.

With regards to the 2010/11 Annual Plan for East Devon District Council, there were a total of 21 reviews planned covering the period October to March. At client request 5 audits were deferred or removed — 4 Operational Audits and 1 IS Review. However 1 Special Review was carried out at the request of Management covering Housing Benefit Fraud.

All audits have been completed to final report stage.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 75% would represent good. The latest Scorecard for the Partnership shows the current average feedback score to be 81%. For East Devon District Council the average feedback score for audits covering the period October 2011 to March 2012 (for which questionnaires were returned) was 76%

## Annual Opinion:

**The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.**

## **Group Audit Manager's Opinion**

As a result of the work undertaken by SWAP during 2010/11 I feel able to offer management a 'reasonable' level of assurance in relation to the internal control environment but this is based on a limited scope for the year.

For a summary of Control Assurance Definitions, Categorisation of Recommendations and Definitions of Risk Levels, please refer to Appendix 'A'.

Management have recognised the need to monitor completion of audit recommendations. Regular reports will be submitted to this Committee for any recommendations scoring a level 4 or 5 . A summary of all significant risks for audit work carried out by SWAP has been attached as Appendix 'B'.

Specific areas for improvement resulting from our work, which should, in my opinion, form part of the Annual Governance Statement include:

Creditors: improving the management controls over the use of use of Procurement Cards .

Main Accounting: ensuring adequate authorisation of budget changes within the year.

Payroll : improving the security of the BACS payroll files prior to releasing payment .



Annual Opinion:

Continued.....

## Group Audit Manager's Opinion - Continued

It is not possible for the Annual Internal Audit Plan to cover and provide assurance on all areas of the Council's business. In order to seek assurance, the Head Of Finance seeks the assurance of Senior Managers as to the adequacy of the internal control environment for their service areas. These procedures have been reviewed for 2010/11 and internal audit have provided advice on a revised methodology for gathering information against a matrix of parameters for assessment. This process will inform the Annual Governance Statement for 2010/11.

Over the period since appointment as internal auditors for East Devon District Council SWAP have found the Senior Management to be supportive of SWAP findings and responsive to the recommendations made.

I have considered the balance of audit work and outcomes against this environment and feel able to offer 'Reasonable Assurance' that the systems of internal controls are in place and working well. I am confident that where weaknesses have been identified, management have confirmed that they have or will take the necessary action to address these findings.

## Audit Framework Definitions

### Control Assurance Definitions

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

### 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.

**APPENDIX B**

**Schedule of Key Actions identified from internal audit work completed by SWAP in 2010/11**

Date of Report.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
January 2011	Housing Needs	It was found that some strategies could be more effective. However, in general, steps were already well under way to understand why, and make necessary improvements. This included the administration of adaptation funds and the Downsizing Package. In other cases the Housing Needs Manager had identified where efficiencies could be made, for example, through direct administration of a portion of the Discretionary Housing Payment fund, but had yet to instigate changes.	Weaknesses in formulation of strategy leads to reduced effectiveness.	<ul style="list-style-type: none"> <li>• The Downsizing Scheme should be more clearly advertised on the website and funds made available for recommendations approved at Committee.</li> <li>• Adaptation funds should continue to be closely monitored.</li> </ul>	<p>Monies have yet to be allocated from the budget for the Downsizing scheme. It will be advertised on the website more clearly.</p> <p>A new Adaptation Fund policy is currently being drafted.</p>	31 March 2011
January 2011	Housing Needs	Customers are advised to inform Housing Needs of changes in circumstance. Sample checking showed that occupancy checks appear to take place regularly, although one case had not been checked recently and one never followed up when the tenant was out and failed to respond to a letter. In addition, the	Lack of robustness in carrying out occupancy checks leads to reduction in effectiveness.	<ul style="list-style-type: none"> <li>• The EDDC website should be improved to highlight the importance of advising Housing Needs of changes in circumstance.</li> <li>• All occupancy checks should be followed up.</li> <li>• All occupancy checks should be carried out quarterly.</li> </ul>	<p>The East Devon Website will be updated.</p> <p>Occupancy checks are now carried out by 1 officer which makes it easier to follow up cases and complete checks on time.</p>	31 January 2011

Date of Report.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		purpose of a home visit was unclear. The forms completed during the visit included nothing which could not have been confirmed over the phone. When the tenant is out during the time of the occupancy visit, the form is completed over the phone instead. The need for actual visits is questionable. The Occupancy Check policy needs updating also.		<ul style="list-style-type: none"> <li>The Occupancy Check Policy requires updating.</li> <li>The purpose of the Occupancy Check should be clarified since it appears that the necessary information could be obtained over the phone, without the need for a visit.</li> </ul>	The Occupancy Check Policy will be updated to reflect the reasons for the visits to be made. For example, include checks on whether the occupants are as expected and whether the accommodation is in a decent condition etc.	
February 2011	Council TAX/NNDR	Bills can be amended by Council Tax staff directly, without the need for manager authorisation. No review of amendments is performed by managers.	Increases the risk that inappropriate amendments to accounts may go undetected	Sample checking of bill amendments over a defined threshold should be undertaken by management to confirm all changes are appropriate for Council Tax bills.	Agreed	April 2011
February 2011	Payroll	The BACS payroll file is produced from Trent by one of the three payroll officers. This file is then transferred to the officer's desktop to be uploaded into the BACS Active file for authorisation for payment. The Accountancy team receive an e-mail from BACS Active to notify them that the BACS file needs to be checked prior to releasing the file for payment. Once the accountancy team are satisfied that the file is	When the BACS file is stored on the desktop, it is at risk of being amended. Were the file to automatically pass into a hard coded file path it could be prevented from such a risk. The monthly total for payment via BACS is significant, at around £3/4 million.	That the Payroll Services & Employee Benefits Manager ensures the BACS file data, when first produced, is "locked" to prevent any changes to the data. This may be achieved by transferring the payroll file to a networked location, with limited access for Accountancy or IT and they upload the pay file to BACS Active for payment.  The BACS payment process should also be subject to senior management review to provide additional	This issue has been passed to ICT for a solution. They have confirmed that a Business Change request is being raised to formally look at a solution.	31 July 2011

Date of Report.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		ready for payment, the payroll team are notified and the BACS file is activated for payment.		assurance over this process.		
March 2011	Treasury Management	The process for borrowing was reviewed. Although it was agreed that there is a separation of duties between those performing the borrowing transaction and those approving it, approval usually took place after the deal had been done.	This could mean that mistakes are not identified in advance of borrowing and deals are being placed that are not authorised by senior management. This could lead to losses being incurred by the Authority.	That approval for borrowing should be sought from senior management prior to the deal being committed to and placed with the lender.	Agreed. The Daily Cash Flow Decision Record sheet will be amended to record the approval of the decision to borrow (which should be prior to the transaction taking place) and confirmation that the borrowing transaction itself was satisfactory.	1 March 2011
March 2011	Creditors	A sample of ten cardholders was reviewed to ensure limits had been set for both the individual transactions and monthly spend and all were found to be satisfactory  Should a Cardholder require that a merchant category be unblocked, they would request this through a telephone call to the Income and Payments Officer. The Income and Payments Officer will then call the bank to request the category be unblocked. This process does not require any further authorisation from	Without this senior authorisation, there is a risk that inappropriate purchases will be made against unapproved merchant categories.	The Income and Payments Officer ensures that all requests for amendments to merchant categories be authorised by a manager.  If current blocked categories are felt to be restrictive then access should be reviewed.	It is considered that the control in place is adequate until new procurement cards with automated procedures are introduced. An independent officer in Finance will currently authorise category changes as requested by the procurement card holder, if considered reasonable, the finance office will approve the request and contact the card provider to update the card either on a temporary or permanent basis. This decision is documented and available for checking.	N/A

Date of Report.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		the Cardholder's Manager or Budget Holder who authorised the original application.			Any expenditure on a card is subsequently authorised by the budget manager.	
April 2011	Main Accounting	A sample of two virements was reviewed to ensure they had adequate explanation and authorisation prior to processing. These were both related to 'Budget 2' and although both were found to have a valid explanation, neither had approval as per the interpretation of the guidance.	Lack of compliance with documented procedures increases the risk of inappropriate virements being made.	The Senior Accountants ensure all virements are authorised in accordance with the Financial Operating Procedures prior to being processed.	Agreed. Evidence of the authorisation of Budget 2 virements is to be kept by the relevant Accountants.	01 April 2011

**EDDC Internal Audit Plan 2010/11**

**Appendix C**

Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						5	4	3	2	1
Operational Audit	Supporting People	April 2010	Completed	Partial	14					
Operational Audit	Environmental Health	April 2010	Completed	Comprehensive	2					
Operational Audit	Bus Concessions	April 2010	Completed	Comprehensive	6					
Operational Audit	Street Scene Plan	April 2010	Completed	Partial	16					
Operational Audit	Car Parks	April 2010	Completed	Comprehensive	5					
Operational Audit	Print and Post	April 2010	Completed	Comprehensive	3					
Operational Audit	Disposal and Purchase of Assets + Asset Register - follow up	April 2010	Completed	N/A	N/A					
Operational Audit	Learning and Development	April 2010	Completed	Comprehensive	5					
Operational Audit	Section 106 Monies	July 2010	Completed	Partial	5					
Operational Audit	Contract Audit Plan (combined with Procurement)	July 2010	Completed	Reasonable	4					
Operational Audit	Democratic Services	July 2010	Completed	Reasonable	11					
Operational Audit	Legal Services	July 2010	Completed	Partial	11					
Operational Audit	Procurement (Combined with Contract Audit)	July 2010	Completed	Reasonable	4					
Operational Audit	Customer Service Centre	October 2010	Removed		0	0	0	0	0	0
Operational Audit	Building Control follow up	October 2010	Completed	Reasonable	0	0	0	0	0	0
Operational Audit	Planning Administration follow up	October 2010	Completed	Reasonable	0	0	0	0	0	0
Operational Audit	Development Control follow up	October 2010	Completed	Reasonable	0	0	0	0	0	0
Operational Audit	Communication and Improvement	October 2010	Completed	Reasonable	7	0	0	3	4	0
Operational Audit	Housing Needs	October 2010	Completed	Reasonable	7	0	2	3	2	0
Operational Audit	Grants	October 2010	Deferred		0	0	0	0	0	0

Operational Audit	Countryside	October 2010	Removed		0	0	0	0	0	0
Operational Audit	Exeter Growth Area	October 2010	Removed		0	0	0	0	0	0
Operational Audit	Leisure East Devon	October 2010	Removed		0	0	0	0	0	0
Managed Audits	Council Tax/NNDR	October 2010	Completed	Reasonable	8	0	1	4	3	0
Managed Audits	Main Accounting	January 2011	Completed	Partial	7	0	1	5	1	0
Managed Audits	Debtors	January 2011	Completed	Reasonable	5	0	0	4	1	0
Managed Audits	Payroll	January 2011	Completed	Partial	7	0	1	5	1	0
Managed Audits	Treasury Management	January 2011	Completed	Reasonable	2	0	1	0	1	0
Managed Audits	Income and Cashiers follow up	January 2011	Completed	Reasonable	0	0	0	0	0	0
Managed Audits	Creditors	January 2011	Completed	Partial	19	0	1	15	3	0
Managed Audits	Housing/Council Tax Benefits	January 2011	Completed	Reasonable	6	0	0	3	3	0
Managed Audits	Housing Rents follow up	January 2011	Completed	Reasonable	0	0	0	0	0	0
ICT Audit	Computer	October 2010	Deferred		0	0	0	0	0	0
Special Reviews	Housing Benefit Fraud	January 2011	Completed	Non opinion	36	0	0	29	7	0



EDDC AUDIT PLAN 2011/12

APPENDIX A

Directorate/Service	Audit Area	Quarter	Audit Days	Status	Opinion	No. of recs	Recommendations					
							1	2	3	4	5	
							1 = Minor → 5 = Major					
Governance, Fraud & Corruption	Contract Management - Monitoring and Compliance with Standing Orders	1	15									
Governance, Fraud & Corruption	Partnership arrangements	1	8	Draft Report								
Operational Audits	Emergency planning	1	15	Completed	Partial	14	0	3	8	3	0	
Operational Audits	Grants	1	10	Draft Report								
Operational Audits	Income	1	15	In Progress								
Operational Audits	S. 106 agreements	1	15	Discussion Document								
IT Audits	Level 1 Security Review	1	10	Completed	Non Compliant	21	2	4	12	3	0	
Operational Audits	Follow Ups	1	6	In Progress								
Governance, Fraud & Corruption	Annual Governance Statement Review	1	10	In Progress								
Governance, Fraud & Corruption	Bribery Act 2010	1	5									
Operational Audits	Property Services	2	15									
Governance, Fraud & Corruption	Gifts and Hospitality - Register of Interests - Members and Staff	2	8									
Operational Audits	Streetscene	2	15									
Operational Audits	Procurement	2	12									
Operational Audits	Risk management	2	10									
Operational Audits	Economic development	2	5									
Operational Audits	Fraud prevention	2	10									
Operational Audits	Health, safety and insurances	2	12									
Operational Audits	Licensing - taxis, alcohol and other licences	2	10									
Operational Audits	Whistleblowing and Money Laundering	2	10									
IT Audits	Gov Connect	3	10									
Key Control Audits	Capital Accounting	3	5									
Key Control Audits	Council Tax/NNDR	3	15									
Key Control Audits	Creditors	3	5									
Key Control Audits	Debtors	3	5									
Key Control Audits	Housing Benefit and Council Tax Benefits	3	15									
Key Control Audits	Housing Rents	3	11									
Key Control Audits	Main Accounting	3	8									
Key Control Audits	Income and cashiers	3	5									

Key Control Audits	Payroll	3	5								
Key Control Audits	Treasury Management	3	5								
Operational Audits	Expenses claims - Members, officers and others	4	5								
Operational Audits	Asset management	4	15								
Operational Audits	Housing rents	4	5								
Operational Audits	Business continuity	4	10								
Operational Audits	Data quality	4	10								
Operational Audits	Managing with reduced resources - including MTFP processes and service planning.	4	15								
Operational Audits	VAT	4	10								
IT Audits	IT audit (to be agreed)	4	10								
Operational Audits	Electoral systems management	4	10								

APPENDIX B

Schedule of Key Actions Identified from Internal Audit Work completed in quarter 1 2011/12

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
May 2011	Emergency Planning	The Manstone Depot was visited to assess the emergency stores held there. A stock check is clearly needed as some equipment (such as sleeping bags) appeared to be missing, while others were not usable (such as torches without batteries). Emergency plans and contact lists were dated 2007.	Theft is a problem at the depot as the same key unlocks both the main gate and the emergency depot. It was also noticed that it could be difficult to locate the depot if the site was unfamiliar.	<ul style="list-style-type: none"> <li>•The Emergency Depot at Manstone should be stock checked on a regular basis and restocked as necessary by the Emergency Planning Officer.</li> <li>•The Emergency Planning Officer should ensure that relevant officers should be shown the site so that they are clear where to get equipment in an emergency.</li> <li>• The Emergency Planning Officer should ensure plans and contact lists in the depot should be kept up to date.</li> <li>• Casual access (and theft) could be limited by installing a combination lock on the depot, or using a separate key. The need for this should be investigated by the Emergency Planning Officer.</li> <li>• Spot checks should be carried out by the Emergency Planning Officer to assess whether relevant officers are carrying their emergency equipment with them at all times.</li> </ul>	<p>Manstone Depot to be stock checked approx. 6 monthly.</p> <p>Relevant officers will be shown the site, although a decision has yet to be made as to whether the site should be transferred to Knowle.</p> <p>If the depot is to remain at Manstone, the preferred option is for a separate key.</p>	End Sept 2011
May 2011	Emergency Planning	The current plan is largely deficient and does not meet statutory requirements. There has not historically been a system for reviewing	The lack of a coherent bundle of policies and procedures relating to emergencies	•Following completion of the revised Emergency Plan, a formal schedule of review and update by the Emergency Planning Officer	Annual review of Plan envisaged.	End July 2012

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		<p>and updating the plan on a periodic basis. The Emergency Planning Officer is looking to complete a re-write of the plan (and other associated plans such as the Media Plan) by July 2011, when it is intended that it will be approved by Members. Until an agreed Emergency Plan is completed and available, there is a risk that knowledge held by the Emergency Planning Officer could be unavailable in the event of an emergency.</p> <p>It could not be established that the existing Emergency Plan had ever been formally approved at Committee level by EDDC. The Emergency Planning Officer intends to present the revised Emergency Plan following the Council Elections in May 2011.</p> <p>Although the Emergency Planning Officer maintains an Emergency Contact Database, it is still in the process of being updated. Without a clear and up to date contacts list, it is impossible to quickly identify relevant staff in an emergency.</p> <p>The Emergency Planning</p>	<p>means that time may be wasted looking for information that does not exist, does exist but is missing, or inappropriate alternative workarounds may be implemented.</p>	<p>should be implemented.</p> <ul style="list-style-type: none"> <li>•The revised Emergency Plan should be formally approved by Committee as soon as is practicable.</li> <li>•The Emergency Contacts Database should be updated as soon as possible by the Emergency Planning Officer, identifying relevant officers, their training needs and resources such as procedures and equipment.</li> <li>•The Emergency Planning Officer should ensure that the Emergency Plan, associated plans and databases should be made available on the intranet, with appropriate Citrix access to relevant officers. Encrypted data sticks should be used where intranet access is not available, with appropriate procedures for updating them regularly.</li> <li>•The Emergency Planning Officer should ensure that training should take place for all relevant officers named on the contacts list which includes access and distribution of the Emergency Plan, as well as their role in an emergency situation.</li> <li>•The revision of the emergency plan includes all statutory responsibilities.</li> <li>•Formal deputising arrangements are put in</li> </ul>	<p>ICT will be contacted to discuss feasibility</p>	<p>End July 2011</p> <p>End Sept 2011</p> <p>End June 2011</p> <p>End Sept 2011</p>

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		<p>Officer could not supply a list of policies or procedures which should be available to staff performing emergency duties.</p> <p>The plans are not currently communicated and the Contacts Database is held solely by the Emergency Planning Officer. In order to ensure updates and changes are effectively communicated in future, the Emergency Planning Officer is proposing that the plans and databases be made available on the EDDC intranet under password protection to relevant officers.</p>		<p>place in the event that the Emergency Planning Officer is not available, which includes immediate access to the Emergency Contacts Database.</p>	<p>Area Manager – East will be the next point of contact if the Emergency Planning Officer is unavailable.</p>	<p>End July 2011</p> <p>End July 2011</p>
<p>May 2011</p>	<p>Emergency Planning</p>	<p>The Emergency Planning Officer has performed an initial review of EDDC risk assessments and found them to be inadequate. None were available at the time of audit.</p> <p>Some threats are dealt with by other agencies and can therefore be ignored by EDDC (e.g. flooding which is dealt with by Environment Agency and DCC.) Also an initial review carried out for vulnerable sites has</p>	<p>A lack of up to date risk assessments means that the Council may be wasting resources on preparing for unlikely events, or preparing for likely events in the wrong way, wasting resources and endangering the environment, lives, property or security. It also means that statutory duties are</p>	<p>Risk assessments should be completed as a matter of urgency by the Emergency Planning Officer, which include the following:</p> <ul style="list-style-type: none"> <li>• set out what resources may be lost</li> <li>• how they will be replaced or covered, both in the short and long term</li> <li>• replacement resources prioritisation</li> <li>• set out how critical resources are in different scenarios</li> </ul>	<p>To be completed in July 2011 and updated over time.</p> <p>Approval will be included as part of the annual review of the Emergency Plan.</p>	<p>End July 2011</p>

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		identified that there are no major risks: ie there are no COMAH (Control of Major Accident Hazards) sites which warrant detailed on and off site emergency plans.	not being complied with	<ul style="list-style-type: none"> <li>I recommend that the Emergency Planning Officer timetables all risk assessments for formal approval by senior management, to reduce the risk that anything is omitted.</li> </ul>		
May 2011	Level Security Review	1 One of three local machines tested had its ESET Antivirus protection disabled.	Without this antivirus protection there is a risk that the machine may become infected, and viruses could consequently spread throughout the network.	The ICT Design & Compliance Manager ensures all local machines are fully protected with appropriate antivirus software.	Agreed, investigation underway to correct issues with the Anti-Virus Monitor	31 May 2011
May 2011	Level Security Review	1 There is no caller authentication process involved when resetting network passwords.	To give out information such as this over the phone without any authentication process may further aid the caller should they be attempting to conduct fraudulent activity. In addition, it was established through discussion with another EDDC officer that the temporary password allocated is always the same combination of characters.	The Head of ICT ensures all callers to the ICT helpdesk are subject to an authentication process prior to having their password reset. ICT helpdesk officers should also be reminded not to divulge any additional information about the user or account unless it is wholly necessary.	Agreed, will look to implement key word	31 December 2011

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
May 2011	Level Security Review	1 Review of the topology suggests that segmentation is not used by the authority.	<p>There is a risk that if either the DCC pensions or HSBC AIM machines were compromised it could provide a back door into the EDDC corporate network.</p> <p>Segmentation of networks could allow for an increase in security and a reduction in security costs, especially where Gov Connect is concerned.</p>	The ICT Design and Compliance Manager reviews the current network configuration with a view to ensuring that a firewall is installed between the PSTN connections and the rest of the corporate network.	Agreed, all PSTN connections have been removed from the network and the diagrams updated accordingly.	N/A

## Audit Framework Definitions

### Control Assurance Definitions

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

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



Housing Needs						
Name	Description	Priority	Status	Target Implementation Date	Owner	Manager Update
Strategies to avoid homelessness	<ul style="list-style-type: none"> <li>•Downsizing Scheme more clearly advertised on the website and funds made available for recommendations approved at Committee.</li> <li>•A portion of DHP administered by Housing Needs</li> <li>•Adaptation funds continue to be closely monitored.</li> </ul>	4	Agreed	31/03/2011	Housing Needs and Strategy Manager	Website information is being reviewed and this scheme will be clearly advertised. Funds have been provided by HRB and a new post has been created to administer the downsizing policy. Discussion with HB have been taken place. Revised HB policies/practices being developed, however, at this stage no portion of DHP will be administered by Housing Needs. Improved working relations between Housing Needs and HB including involvement in decision making process on DHP. Adaptation funds continue to be closely monitored.
Ongoing review of customer housing need	<p>I recommend that:</p> <p>The EDDC website could be improved to highlight the importance of advising Housing Needs of changes in circumstance.</p> <p>All occupancy checks should be followed up.</p> <p>All occupancy checks should be carried out quarterly.</p> <p>The Occupancy Check Policy requires updating.</p> <p>The purpose of the Occupancy Check should be clarified since it appears that the necessary information could be obtained over the phone, without the need for a visit.</p>	4	Agreed	31/01/2011	Housing Needs and Strategy Manager	Website is being reviewed and changes will emphasise the importance of advising Housing Needs of changes in circumstance. Ongoing action is being undertaken by staff in relation to occupancy checks. Occupancy Checks are carried out quarterly. The Occupancy Check policy is in the process of being updated. It is accepted that a great deal of information could be gathered by telephone, but part of the reasons for doing occupancy checks is to determine that the household is residing in the property – that requires a physical check.
Main Accounting						
Name	Description	Priority	Status	Target Implementation Date	Owner	Issue Manager
Virement Authorisation	I recommend that the Senior Accountants ensure all virements are authorised in accordance with the Financial Operating Procedures prior to being processed.	4	Agreed	01/04/2011	Financial Services Manager	This is the procedure going forward.
Council Tax/NNDR						
Amendments to Council Tax bills.	I recommend that sample checking of bill amendments over a defined threshold should be undertaken by management to confirm all changes are appropriate for Council Tax bills.	4	Agreed	01/04/2011	Support Team Leader	The recommendation is agreed but has not been implemented as yet. An extension to the deadline of 30 September is required. Consideration is being given to how this check can be implemented and time is required to ensure correct reports are produced by the system and to consider what we are going to check against”
Treasury Management						
Name	Description	Priority	Status	Target Implementation Date	Owner	Issue Manager
Borrowing approval	I recommend that approval for borrowing should be sought from senior management prior to the deal being committed to and placed with the lender.	4	Agreed	01/03/2011	Financial Services Manager	Implemented.



## **East Devon District Council**

Report of Internal Audit Activity  
Quarter 1 2011/12

# Contents

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The contacts at SWAP in connection with this report are:

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# Summary Page 2

Our audit activity is split between:

- **Operational Audit**
- **Managed Audit**
- **Governance, Fraud & Corruption**
- **Special Reviews**

## 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 17th March 2011. Internal Audit provides an independent and objective opinion on the Council'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 the Audit and Governance Committee at its meeting on 17th March 2011.

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

## Quarter 1 Outturn:

**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 2011/12. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “control assurance” opinions 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 C](#).

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.

## Quarter 1 Outturn:

### 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.

During the period we have completed three operational audits from the 2011\_12 audit plan:

- Emergency Planning
- Grants
- S106

A final report has been issued in respect of Emergency Planning and a draft report for the Grants audit. The audit on S106 is at discussion document stage.

Following agreement with the client the audit of Property Services originally scheduled for quarter 1 has been deferred to quarter 2 to allow for another audit to be included in quarter 1.

## Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. These audits are scheduled for later in the year to allow for audit transaction sampling to cover a greater proportion of the year. All these are normally scheduled to be carried out in Quarter 3.

All the key control audits agreed for 2010\_11 were completed to final report.

Quarter 1 Outturn:

**Completed Audit Assignments In The Period**

## Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level.

During quarter 1 one governance audits has been completed to draft report stage this being :

- Partnership Arrangements

One other governance audit is in progress:

- Annual Governance Statement Review

Two other audits are planned for the quarter one on Contract Management (Monitoring and Compliance with Standing Orders) and one on the implementation of the Bribery Act in July 2011. This audit is additional to the originally agreed audit plan for 2011\_12.

## Information Systems

Information Systems – IS audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.

There is one audit in the plan for 2011\_12 which is Level 1 Security Review . This has been completed in quarter 1.

## Special Reviews

There have been no special reviews carried out this quarter.

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 C](#).

SWAP have implemented a change to the audit process for operational reviews whereby an assessment on the management of each risk is included in reports. Any risks where the auditor's assessment of risk to the organisation is "Very High" will be reported to the Audit Committee.

Audit report findings for 2011\_12 which have priority scores 4 or 5 are highlighted in [Appendix B](#) together with recommendations and management responses. [Appendix D](#) highlights actions taken in all reports issued by SWAP to date which had priority scores of 4 or 5 and for which the agreed action date has passed .

EDDC management have responded positively to internal audit suggestions for improvements in all reports issued.



# East Devon District Council

## Interim report and update to Audit Plan 2010-11

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June 2011



**BALANCE SHEET**  
31st March 2011

	£	2010	2011
Current Assets			
Cash	100	100	100
Debtors	200	200	200
Creditors	(100)	(100)	(100)
Other	100	100	100
<b>Total Current Assets</b>	<b>300</b>	<b>300</b>	<b>300</b>
Fixed Assets			
Land & Buildings	1000	1000	1000
Plant & Equipment	200	200	200
Investments	100	100	100
Other	100	100	100
<b>Total Fixed Assets</b>	<b>1400</b>	<b>1400</b>	<b>1400</b>
<b>Total Assets</b>	<b>1700</b>	<b>1700</b>	<b>1700</b>
Current Liabilities			
Creditors	(100)	(100)	(100)
Other	(100)	(100)	(100)
<b>Total Current Liabilities</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>Total Liabilities</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>Total Equity</b>	<b>1500</b>	<b>1500</b>	<b>1500</b>

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# Introduction

## Introduction

This memorandum provides additional information on our audit approach, which was initially set out in our Audit Plan 2010-11 issued in December 2010, as well as an update on our response to key risks following our interim audit work.

## Use of this report

This report has been prepared to update you on matters arising from our interim work and should not be used for any other purpose or be given to third parties without our prior written consent.

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.

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.

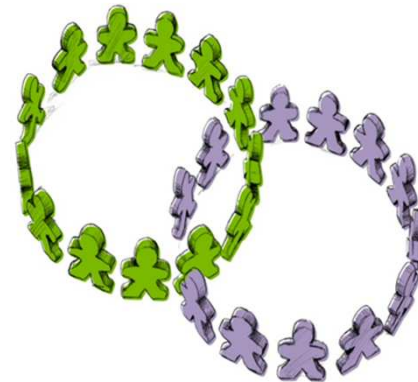
## The way forward

We have set out our findings and recommendations in the appendices to this report. These have been discussed with the Head of Finance.

## Acknowledgements

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

Grant Thornton UK LLP  
June 2011



# Executive Summary

The table below provides a summary for the Audit and Governance Committee of the work performed to date and our key findings. For further detail refer to the relevant section within the report. An explanation of how this work has been performed is outlined in the Audit Approach section of the report.

Audit Approach	<ul style="list-style-type: none"><li>• There have been no changes to our overall audit approach as set out in our Audit Plan. 2010-11</li></ul>
Risk assessments	<ul style="list-style-type: none"><li>• The audit risks were outlined in our 2010-11 Audit Plan 2010-11. To date, we have not identified any new risks facing the Council.</li></ul>
Review of internal controls	<ul style="list-style-type: none"><li>• We have evaluated the design effectiveness of internal controls over the financial reporting process through a combination of enquiry and observation procedures, and where appropriate, systems walkthroughs.</li></ul>
Review of internal audit	<ul style="list-style-type: none"><li>• We have concluded that the internal audit service provides an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.</li></ul>
IFRS arrangements review	<ul style="list-style-type: none"><li>• Our review identified that the Council has made adequate progress in its transition to IFRS. There is still some work being undertaken by the Council to collate all comparative information for the 2010-11 financial statements and we will review this work during the final accounts audit.</li></ul>

# Our accounts audit approach

## Audit approach

We will:

- work closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently;
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved;
- consider the materiality of transactions when planning our audit and when reporting our findings; and
- review the processes and position of the Council for its transition to International Financial Reporting Standards (IFRS).

The logistic details of our annual accounts audit, as agreed with the Finance Team, are detailed in Appendix A.

In summary our audit strategy comprises:

<b>Planning</b>	<ul style="list-style-type: none"> <li>• Updating our understanding of the Council through discussions with management and a review of the management accounts</li> <li>• Review of IFRS transition arrangements</li> </ul>
<b>Control evaluation</b>	<ul style="list-style-type: none"> <li>• Reviewing the design effectiveness and implementation of internal financial controls including IT, where they impact on the financial statements</li> <li>• Assessing audit risk and developing and implementing an appropriate audit strategy</li> <li>• Assessing internal audit against the CIPFA Code of Practice</li> </ul>
<b>Substantive procedures</b>	<ul style="list-style-type: none"> <li>• Performing analytical review</li> <li>• Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate</li> <li>• Reviewing material disclosure issues in the financial statements</li> </ul>
<b>Completion</b>	<ul style="list-style-type: none"> <li>• Performing an overall evaluation of the accounts and control environment</li> <li>• Determining an audit opinion</li> <li>• Reporting to the Audit and Governance Committee</li> </ul>

# Our accounts audit approach (continued)

## Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than **£11,000** (below which we consider the sum to be clearly inconsequential as defined by the International Standards on Auditing) will be recorded on a schedule of potential misstatements.

These potential misstatements are assessed individually and in aggregate, and discussed with you. If you decide not to adjust the misstatements identified, this decision will be confirmed by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements. We will then consider what impact this may have, if any, on our audit opinion.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of senior staff emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

## Reliance on internal audit

We will work with the internal audit function to ensure our audit approach takes account of the risks identified by them and the work they have conducted; subject to our review of their effectiveness.

## Review of IT

The Council makes extensive use of information technology (IT) to process financial transactions and to produce its financial statements. Accordingly, our approach requires a review of the Council's internal controls in the IT environment.

We have involved IT specialist team members during the audit. This approach is based on the complexity of IT used in the Council's significant transaction cycles and a control risk assessment.

## Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we focus our review of controls on the high risk areas of the financial statements.

## Our accounts audit approach (continued)

We are also required to assess whether controls have been implemented as intended. We have done this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthrough tests. However, we would emphasise that our work cannot be relied upon to identify all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

### **Transition to International Financial Reporting Standards (IFRS)**

The IFRS based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) has effect from 1 April 2010. The 'transition date' to IFRS is therefore 1 April 2009.

The Council is responsible for the preparation of a restated opening balance sheet as at 1 April 2009 following the introduction of International Financial Reporting Standards (IFRS) and in accordance with the Code.

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010-11 final accounts audit. This assessment has focussed upon material balances either in regard to their value or nature.

# Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the audit risks identified in our Audit Plan 2010-11 and have set out below the outcome of work completed to date and further work planned.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

Our update of the audit risks facing the Council has not identified any new risk areas.

Issue	Audit areas affected	Work completed	Further work planned
<p>The 2010-11 financial statements may not comply with the requirements under International Financial Reporting Standards (IFRS)</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> <li>We have reviewed the process put in place by the Council for completing the transition to IFRS.</li> <li>We have undertaken an initial review of the Council's restatement of its opening balance sheet and 2009-10 comparatives to IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>We will continue to discuss any implications of developing issues with the Finance Team.</li> <li>Material areas which are impacted by the transition to IFRS will be reviewed in detail during our final accounts audit visit.</li> </ul>
<p>Financial performance pressures may affect the Council's ability to deliver its budget and provide services to the public</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> <li>We have reviewed the Council's financial performance for the year against its agreed budget, noting that an underspend was forecast during the year.</li> </ul> <p>61</p>	<ul style="list-style-type: none"> <li>We will review the Council's financial performance outturn and its achievement of savings against plan.</li> <li>We will review the use of general reserves during the year during the final accounts audit.</li> <li>Our audit work will be tailored to address the audit risk of understatement of expenditure and overstatement of revenue.</li> </ul>



# Update on accounts audit risk assessment (continued)

Issue	Audit areas affected	Work completed	Further work planned
<p>The Council may not have accounted correctly for its borrowings</p>	<p>Borrowing</p>	<ul style="list-style-type: none"> <li>We have discussed the accounting requirements in relation to PWLB loans taken out and reviewed the accounting policies adopted by the Council for 2010-11 in relation to borrowing.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the accounting transactions processed by the Council during 2010-11 to ensure that borrowing is appropriately accounted for.</li> </ul>
<p>The revaluation of fixed assets is not conducted or accounted for correctly</p>	<p>Property, plant and equipment</p>	<ul style="list-style-type: none"> <li>No specific work has been carried out at this stage on the valuation methods and judgements adopted by the Council as we await the draft Statement of Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the valuations undertaken in the year to ensure that these comply with the requirements of IFRS and are appropriately reflected in the financial statements.</li> </ul>
<p>There are insufficient finance resources to address issues arising from the 2009-10 accounts audit</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> <li>We have confirmed that adequate closedown arrangements are in place for the production of the 2010-11 accounts and for preparation of comprehensive working papers.</li> <li>We have begun a review of the Council's progress against the recommendations made as part of our 2009-10 audit and will continue to assess as part of the final accounts audit.</li> </ul>	<ul style="list-style-type: none"> <li>We will perform a review of the outstanding recommendations from our 2009-10 ISA260 report during our final accounts audit visit.</li> <li>We will continue to liaise with the Finance Team on an on-going basis to discuss emerging issues and respond to technical queries.</li> </ul>

# Results of interim audit work

## Scope

As part of the interim audit, and in advance of our final accounts audit visit, we considered:

- the effectiveness of the internal audit service;
- internal audit's work on the Council's key financial systems;
- a review of closedown procedures in preparation for the final accounts under International Financial Reporting Standards (IFRS); and
- review of Information Technology controls.

We have set out recommendations identified by our work in the appendices to this report. We have agreed actions to implement the recommendations with the Head of Finance.

## The internal audit service

We reviewed internal audit's overall arrangements against the CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.

The South West Audit Partnership (SWAP) took over the provision of the Council's internal audit service from 1 October 2010. Through discussion with SWAP and Council Officers, we have conducted a detailed review of the service delivered to the Council by SWAP against the CIPFA standards.

We note that the Audit Commission had carried out a detailed review of SWAP against the CIPFA Standards in March 2010. As part of our review we have confirmed that action has been taken against all nine recommendations raised by the Audit Commission.

We have concluded that the internal audit service provides an independent and satisfactory service to the Council. Furthermore, we can take assurance from its work in contributing to an effective internal control environment at the Council.

In particular, we are pleased that the internal audit service at the Council has been strengthened since the appointment of SWAP as the internal audit provider. Set out below are the main areas of improvement identified by our review:

- internal audit have adopted a more proactive approach, actively taking the lead to develop relationships with management and ourselves;
- there is a more risk based approach to audit planning, engaging with the Head of Finance, senior management and members of the Audit and Corporate Governance Committee to identify areas of risk, which are subsequently built into the Annual Audit Plan; and
- the process for following up recommendations has also been strengthened. SWAP now maintain a listing of all recommendations made and actively monitor progress against each recommendation on a monthly basis with service managers.

As SWAP have only been the internal audit provider for the Council since 1 October 2011, a Head of Internal Audit Opinion on the System of Internal Control has yet to be produced for the Council. As such, we are unable to form a full judgement on the tenth CIPFA standard of 'Reporting'. As part of our final accounts work, we will review the Head of Internal Audit

## Results of interim audit work (continued)

Opinion to ensure the following are included:

- an opinion on the overall adequacy and effectiveness of the Council's internal control environment;
- disclosure of any qualifications to that opinion;
- a summary of the audit work undertaken;
- any issues that are relevant to the preparation of the Annual Governance Report; and
- a comparison of actual with planned work and summarise the performance of internal audit against its performance measures and targets.

We have identified one area where the current arrangements could be strengthened further. The Code recommends that the following information is collated within an audit strategy document:

- internal audit objectives and outcomes;
- how the Head of Internal Audit will form and evidence an opinion on the control environment / Annual Governance Statement;
- how the work of SWAP will identify and address significant local and national issues;
- how the service will be provided; and
- the resources and skills required to deliver the strategy.

Whilst we note that all of the above information is contained within the Internal Audit Charter, the Annual Audit Plan, and the Trading Agreement, there is no formal Audit Strategy that draws this together in a single, self-contained document.

### Recommendation 1

SWAP should produce an audit strategy, a high-level statement bringing together all relevant information regarding how the internal audit service will be delivered as per the terms of reference.

In assessing the effectiveness of internal audit work, we reviewed two internal audit files:

- Council Tax and National Non Domestic Rates; and
- Payroll.

We selected these files as these were the two managed audits completed by SWAP at the date of our review. Through our review we have ensured that:

- systems were adequately documented;
- key controls have been identified and evaluated
- key controls have been tested; and
- weaknesses have been reported to management.

We were pleased to note that, from these two files, the work completed by internal audit was of a good standard and in compliance with CIPFA standards.

# Results of interim audit work (continued)

## Key financial systems

As part of our audit, we document the processes and activities for key significant financial systems. We review the controls over the key financial systems where we consider it reasonably possible that a risk of material misstatement in the financial statements could occur. We do this to assess whether there are any major control weaknesses that could affect the level of testing required at our final accounts audit. Where appropriate, we review and rely on the work undertaken by internal audit to do so.

For 2010-11, we have focussed on those areas where we consider there to be a higher risk of a misstatement occurring in the financial statements. These relate to:

- Revenue existence;
- Property, plant and equipment revaluation measurements; and
- Expenditure completeness.

We have evaluated the design effectiveness of these internal controls through a combination of inquiry and walkthroughs. From our work, we have not identified any significant weaknesses in the design of these controls operating at the Council in addition to the work of internal audit.

## Closedown procedures

We have reviewed the annual accounts closedown schedule and guidance issued to the Finance Team. The closedown schedule is comprehensive and outlines the necessary information required and the timescale for the preparation of the financial statements. In addition, we have provided the Council with an arrangements letter which sets out our working paper requirements for the final accounts audit.

## Journal entry controls

Journals are used to process manual changes within the financial ledger. Whilst journals do not require separate authorisation prior to posting to the general ledger, the Council have introduced a process for undertaking spot checks of journals that are processed. However, there still remains a risk that inappropriate journals may be processed that impact on the financial statements.

As part of our interim work we requested a listing of journals posted to the financial ledger between 1 April 2010 and 4 March 2011 and identified that there were a number of journals for which the recorded journal date was in the future. It was confirmed that listed journal dates are not an automated marker of the journal input date but are manually entered by the journal inputter. There is a potential risk that fraudulent journals could be concealed by manipulation of the journal date.

### Recommendation 2

The journal input date should be automatically populated by the financial ledger software, and the facility to change this date should be removed from the system.

# Results of interim audit work (continued)

## Review of Information Technology controls

The Council makes use of Cedar Open Accounts (COA) eFinancials, a finance package purchased from a third party, to administer its accounts. COA eFinancials is administered by the Business Solutions Team within the ICT department and is part of the Council's main IT network, which is managed by the ICT department.

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system, and concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

We have, however, identified a number of areas where improvements could be made. These relate to areas which were identified in our 2009-10 review but have not yet been fully implemented.

## Direct database access

Direct access to the SQL and Oracle databases underlying the financial applications, for example, Oracle for COA eFinancials and SQL for Trent, is restricted to staff within the ICT department. While there are audit logs within the applications themselves, there is no independent review or monitoring of the audit logs to ensure changes made directly at the SQL and Oracle database level are appropriate. Without adequate monitoring of access, unauthorised changes to the Council's critical data / data structures have the potential to go unnoticed.

## Recommendation 3

Management should implement a process to monitor any changes made to the critical financial data tables to ensure the changes have been appropriately authorised.

## Network intrusion detection and prevention

There is some limited intrusion prevention as part of the Council's firewalls, but there is no separate and dedicated system for intrusion detection or prevention.

In all computer systems, weaknesses can be discovered in both hardware and software on a daily basis that may compromise the security of Council's information systems.

## Recommendation 4

The Council should consider implementing an intrusion detection or prevention system.

We will revisit these areas in 2011-12 and follow up the actions taken by the Council.

## Results of interim audit work (continued)

### **Prior year recommendations**

As part of our planned programme of work, we have begun a review of the Council's progress against recommendations made in our 2009-10 reports. From our work to date, we note that work to implement these is progressing and that a number of recommendations are planned for completion as part of the accounts closedown process. Our review will be followed up as part of the final accounts audit.

# Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

## Introduction and Background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010-11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009-10 accounts and full published IFRS accounts for 2010-11.

## Basis of assessment

This report details the findings of our review. For each significant balance sheet item, we have considered the Council's arrangements against each of the following questions:

- Are the Council's arrangements for identifying and reporting their accounting policy adequate?
- Are the Council's arrangements for identifying and reporting their adjusted UK GAAP values at 1 April 2009 and 1 April 2010 adequate?
- Are the Council's arrangements for reporting IFRS values adequate?
- Are the Council's arrangements for restating their notes to the balance sheet adequate?
- Are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green rating using the following definitions:

**Green  
(G)**

Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.

**Amber  
(A)**

Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. Evidence that the Council is taking forward areas where arrangements need to be strengthened.

**Red  
(R)**

The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

# Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	G	G	G	G	G	G
Current and non-current investments	G	G	G	A	G	G
Trade & other receivables	G	G	G	A	G	G
Cash & cash equivalents	G	G	G	A	G	G
Trade & other payables	G	G	G	A	G	G
Current borrowings	G	G	G	A	G	G
Other current and non-current liabilities	G	G	G	A	G	G
Non-current financial liabilities	G	G	G	A	G	G
Taxpayers' equity	G	G	G	A	G	G

KEY: G - Green rating A - Amber rating R - Red rating



# Review of arrangements for implementation of International Financial Reporting Standards (IFRS) - overall conclusion

## Overall project planning arrangements

Overall, we are satisfied that the Council's approach to project planning was appropriate and resulted in a controlled conversion process.

Our review identified that the Council has made adequate progress in its transition to IFRS. The restated balance sheet was supported by working papers which clearly set out the approach adopted by the Council and IFRS compliant accounting policies have been drafted and considered by members of the Audit and Governance Committee.

Whilst the Finance Team are aware of the requirements for preparation of the 2010-11 financial statements under IFRS by 30 June 2011, full skeleton accounts disclosing all the required comparative information had not been prepared at the date of our review.

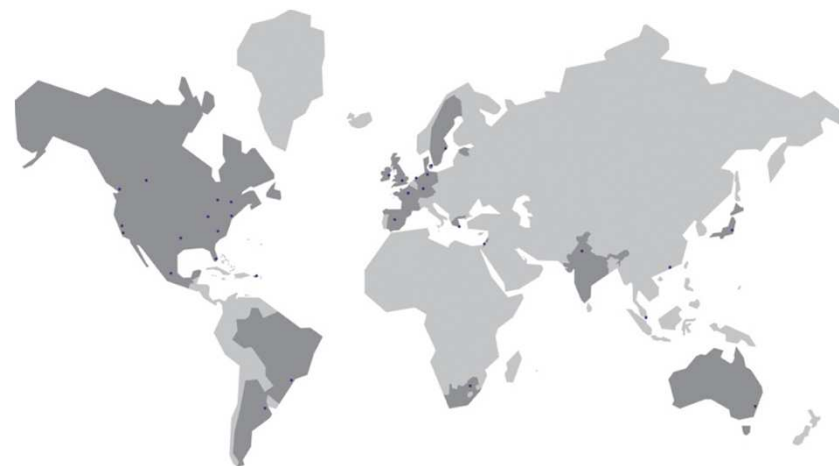
We have concluded from our review that the Council's arrangements are adequate for compliance with the requirements of the Code and we only identified a small number of issues which had not already been considered by the Council.

## Conclusion

Overall, at this stage, we are satisfied that the processes undertaken by the Council have enabled management to highlight the accounting, explanatory, and presentational adjustments required for restatement to IFRS. Understandably there is more work to do to and we are continuing to work closely with the Finance Team in its preparation of full IFRS accounts for 2010-11.

## Acknowledgements

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



# Appendix A Logistics

## Timetables and milestones

The following proposed timetable and deadlines have been set:

<b>Event</b>	<b>Date</b>
Pre year end fieldwork including internal controls review	March 2011
Interim audit report	June 2011
Commence accounts audit fieldwork	July 2011
Financial statements report - to those charged (ISA 260)	September 2011
Annual Audit Letter	November 2011

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

## Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the Finance Team within our Arrangements Letter, which was issued February 2011.

## Engagement team

In accordance with our Audit Plan 2010-11 issued December 2010, the main engagement team for the accounts audit will include:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
Barrie Morris	Engagement Partner	T: 0117 305 7708 M: 07771 976684 E: barrie.morris@uk.gt.com
Jenny Dwyer	Engagement Manager	T: 0117 305 7647 M: 07785 287893 E: jenny.dwyer@uk.gt.com
Sophie Brown	In Charge Auditor	T: 0117 305 7649 E: sophie.brown@uk.gt.com

# Appendix B Action plan

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1.	<p><b>Internal Audit - Audit Strategy</b></p> <p>SWAP should produce an audit strategy; a high-level statement, bringing together all relevant information regarding how the Internal Audit service will be delivered as per the terms of reference.</p>	<b>Medium</b>	<p>In discussions with SWAP it is felt that all necessary elements are in place and it is considered that such a document is not necessary and has not been raised by any other of their clients auditors.</p> <p>If further evidence is supplied that information is missing from SWAP's documentation then further consideration will be given to this request.</p>	Not considered applicable
2	<p><b>Journal entry controls</b></p> <p>The journal input date should be automatically populated by the financial ledger software, and the facility to change this date should be removed from the system.</p>	<b>Low</b>	<p>Two instance have been highlighted on a report from the system. Further investigation is required as to why this has occurred, the risks involved and the implications of requesting changes to third party software.</p>	<p>Initial review September 2011.</p> <p>Financial Services Manager</p>
3	<p><b>Direct database access</b></p> <p>Management should implement a process to monitor any changes made to the critical financial data tables to ensure the changes have been appropriately authorised.</p>	<b>Medium</b>	<p>The audit logs of certain tables in Cedar and Trent has been turned on and the outputs are able to be viewed by the Design and Compliance Team within ICT. However, these log reports are meaningless without some form of interpretation and this is the next step.</p> <p>CoCo require that many other such logs are viewed for suitable action and, in partnership with other councils in the South West, we are investigating a suitable monitoring product with the aim of implementation this year.</p>	<p>31 March 2012</p> <p>Corporate Manager - ICT</p>

Rec. No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
4	<p><b>Network intrusion detection and prevention</b> The Council should consider implementing an intrusion detection or prevention system.</p>	<p><b>Low</b></p>	<p>We have reviewed implementing an IDS and have taken into consideration the following:</p> <ul style="list-style-type: none"> <li>• the security processes and systems we currently operate mitigate for several areas which would be further covered by the implementation of a stand-alone IDS;</li> <li>• one of our security systems does have an element of IDS built in which we use;</li> <li>• CoCo currently recommend an IDS but it is not a “must do” for a Local Authority as long as other security measures are in place;</li> <li>• an IDS implementation and operation is not a trivial or cheap affair; and</li> <li>• an IDS, unless operated perfectly, can potentially create more risk and inefficiency through the generation of “false positives” which could lead to unnecessary or even inappropriate actions being taken.</li> </ul> <p>The outcome is that we believe an IDS is not absolutely necessary for the Council at this time. If the risk profile changes in the future this situation may well alter.</p>	<p>Completed</p>



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## Agenda Item 11

**Audit and Corporate Governance Committee**

**30 June 2011**



### **Audit and Corporate Governance Committee**

#### **Forward Plan 2011/12**

<b>Date of Committee</b>	<b>Report</b>	<b>Lead Officer</b>
30 June 2011	<ul style="list-style-type: none"><li>• Revenue and Capital Outturn Report 2010/11</li><li>• Internal Audit Activity – Quarter 1 2011/12</li><li>• Annual Audit Report and Opinion</li><li>• 2010/11 Interim Audit Report</li></ul>	Head of Service - Finance SWAP SWAP Grant Thornton
29 September 2011	<ul style="list-style-type: none"><li>• Internal Audit Activity – Quarter 2 2011/12</li><li>• Audit of Accounts 2010/11</li><li>• Letter of Representation</li><li>• VFM Conclusion</li></ul>	SWAP Grant Thornton Grant Thornton Grant Thornton
10 November 2011	<ul style="list-style-type: none"><li>• Internal Audit Activity – Quarter 3 2011/12</li></ul>	SWAP
19 January 2012	<ul style="list-style-type: none"><li>•</li></ul>	
15 March 2012	<ul style="list-style-type: none"><li>• Internal Audit Plan 2011/12</li></ul>	SWAP