

Date: 20 September 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 David Cox – Portfolio Holder, Finance  
Councillor Ray Bloxham - Portfolio Holder, Corporate Business  
Councillor Ian Thomas – Portfolio Holder, Corporate Services  
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 Governance Committee**  
**Thursday 29 September 2011 at 2.30pm**

The above meeting will be held in the Council Chamber 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 Public question time – standard agenda item (15 minutes)<br>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 30 June 2011.   | 4 - 6  |
| 3 To receive any apologies for absence.   |        |

Protective Marking: UNCLASSIFIED

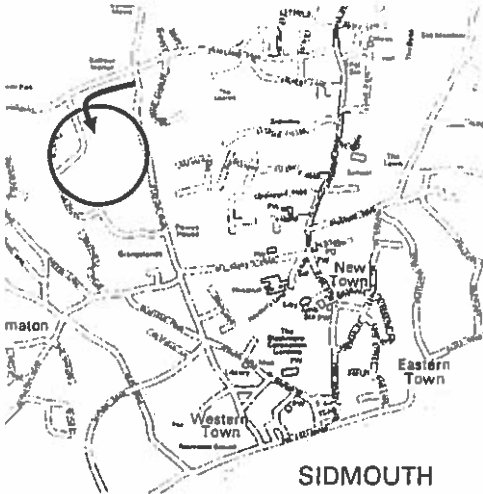
Chief Executive: Mark Williams · Deputy Chief Executives: Denise Lyon · Richard Cohen

- 4 To receive any declarations of interests relating to items on the agenda.
- 5 To consider any items which in the opinion of the Chairman, should be dealt with as matters of urgency because of special circumstances.
- (Note: Such circumstances need to be specified in the minutes; any Member wishing to raise a matter under this item is requested to notify the Chief Executive in advance of the meeting).
- 6 To agree any items to be dealt with after the public (including the press) have been excluded. There are no items which Officers recommend should be dealt with in this way.
- 7 Statement of Accounts 2010/11 Report 7 – 10
- |  |                                   |           |
|--|-----------------------------------|-----------|
| a) Financial Statement                     | Head of Service – Finance         | To Follow |
| b) Annual Governance Statement             | Head of Service – Finance         | 11 - 17   |
| c) Letter of Representation                | Head of Service – Finance         | 18 - 20   |
| d) Report to those charged with Governance | External Auditors, Grant Thornton | 21 – 52   |
- 8 Regulation of Investigatory Powers Act and policy update Corporate Manager, Legal and Democratic Services 53 – 67
- 9 Internal Audit Activity – Quarter 2 2011/12 Internal Audit, SWAP 68 – 84
- 10 Future of Local Audit – To note the email from Audit Commission Head of Service – Finance 85 - 86
- 11 Forward Plan Head of Service - Finance 87

### 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.

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

# EAST DEVON DISTRICT COUNCIL

## Minutes of a Meeting of the Audit and Governance Committee

held at Knowle, Sidmouth, on Thursday 30 June 2011

<b>Present:</b>	Councillors: Ken Potter (Chairman) Peter Bowden (Vice-Chairman) David Atkins Roger Boote Steve Hall Anthony Howard Geoff Pook
<b>Also Present:</b>	David Cox, Portfolio Holder for Finance Vivien Duval Steer Peter Halse Helen Parr Peter Sullivan
<b>Officers:</b>	Simon Davey, Head of Finance Christopher Holland, Democratic Services Officer
<b>Internal Auditors:</b>	Tony Brown, South West Audit Partnership Chris Gunn, South West Audit Partnership
<b>External Auditors:</b>	Sophie Brown, Grant Thornton John Golding, Grant Thornton
<b>Apology:</b>	Councillor: Steve Gazzard

The meeting started at 2.30 pm and ended at 3:52 pm.

\*1 **Chairman's Welcome**

The Chairman, Councillor Ken Potter welcomed everyone to the first meeting of the Audit and Governance Committee since the Local Government Elections in May. He especially welcomed new Members to the Committee and looked forward to their contributions in the future.

\*2 **Public Questions**

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

\*3 **Minutes**

The minutes of the meeting of the Audit and Governance Committee held on 17 March 2011 were confirmed and signed as a true record.

\*4 **Revenue and Capital Outturn Report 2010/11**

Consideration was given to the report of Simon Davey, Head of Finance regarding the Revenue and Capital Outturn Report 2010/11 which had already been acknowledged by Cabinet on 15 June 2011. Members noted that During 2010/11 monthly budget monitoring reports to the Cabinet had informed of the anticipated year end position. The report contained the final position for the year and compared that outturn position against the budgets set for 2010/11.

The report detailed the effect the results had had on the Council's reserves and balances and made proposals for any actions required to ensure the Council was acting in accordance with its Reserves and Balances Policy.

**\*4 Revenue and Capital Outturn Report 2010/11 (cont'd)**

The final position would be incorporated into the Council's Statement of Accounts and presented to the Committee in September.

**RESOLVED:** that the outturn position be acknowledged.

**\*5 Annual Report and Opinion 2010-2011**

Consideration was given to the report from Chris Gunn of the South West Audit Partnership on the Annual Report and Opinion 2010-2011.

Members noted that the Accounts and Audit Regulations (England) 2011 required public authorities to publish an Annual Governance Statement (AGS). The Statement was an annual review of the Systems of Internal Control and gathered assurance from various sources within the authority to support it. One such source was Internal Audit. It was noted that the Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. The purpose of the report was to satisfy that requirement and Members were asked to note the content.

Members discussed the report in detail. Some Members were concerned at the number of satisfaction opinions given as 'partial'.

It was requested that the scope of an audits could be included on the reports where possible in order to assist members understanding each area of concern.

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

**\*6 Report of Internal Audit - Quarter 1, 2011/12**

Consideration was given to the report of Tony Brown of the South West Audit Partnership which outlined the activity of the internal audit team.

Members were given a brief introduction to the audit process. It was noted that the Internal Audit service for East Devon District Council was provided by South West Audit Partnership (SWAP). SWAP had adopted and worked to the Standards of the Institute of Internal Auditors, but also followed the CIPFA Code of Practice for Internal Audit. The Partnership was also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 17th March 2011. Internal Audit provided an independent and objective opinion on the Council's control environment by evaluating its effectiveness.

Internal Audit work was driven by an Annual Audit Plan. This was approved by the Head of Finance, 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 were undertaken in accordance with that Plan to assess current levels of governance, control and risk.

Consideration was given to appendix A which contained a list of all audits as agreed in the Annual Audit Plan 2011/12. It was important that Members were aware of the status of all audits and that the information provided aimed to give them confidence on the work of Internal Audit and its ability to complete the plan as agreed.

The Chairman asked if the Audit Plan was being adhered to in the light of slippage the previous year when SWAP took over the process. Chris Gunn answered that the team had made a very good start and there had been excellent progress so far.

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

**\*7 External Auditor's 2010-11 Interim report**

Members gave consideration to the report of the Council's external Auditors, Grant Thornton which provided additional information on their audit approach as well as an update on their response to key risks following interim audit work.

It was noted that the report had been prepared to update Members on matters arising from interim work and was only a snapshot of work to date.

John Golding of Grant Thornton explained the majority of the work of the external auditors was to examine two main areas namely the Annual Audit of Accounts and Value for Money arrangements in place. He stressed that the Council had been very good progress towards achieving compliance with the new International Financial Reporting Standards (IFRS).

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

**\*8 Forward Plan**

Members noted the contents of the new forward plan which would be developed during the year, with the next meeting of the Committee scheduled for 29 September 2011.

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

## Agenda Item 7

**Audit & Governance Committee**

**29 September 2011**

**SD**



### Statement of Accounts 2010/11

#### Summary

The Council's Statement of Accounts for 2010/11 has now been audited and is attached for presentation to the Audit & Governance Committee for approval.

A number of amendments have been made following the audit undertaken by the Council's external auditors Grant Thornton, details of this work and a full report to members is contained on this Agenda.

This report compares the final position on the Council's Accounts compared with the position presented to members in June in the 2010/11 Outturn Report to Committee.

#### Recommendation

**Members Approve the 2011/12 Statement of Accounts.**

#### a) Reasons for Recommendation

There is legal requirement for the Council to approve the Council's Statement of Accounts by 30 September; the Council has delegated this function to the Audit & Governance Committee.

#### b) Alternative Options

The Authority is required to have its accounts approved by 30 September, this is a legislative requirement.

#### c) Risk Considerations

It is a legal requirement for the Statement of Accounts to be approved by the Council; this has been delegated to the Audit and Governance Committee. The Council would not wish from a legal or reputation point of view not to meet this requirement.

#### d) Policy and Budgetary Considerations

The Statement of Accounts, although amended through audit, does not materially alter the financial position outlined to members of the Audit & Governance Committee and Cabinet in previous reports. Decisions made at that time by the Council do not require to be revisited in light of the audited Accounts.

e) **Date for Review of Decision**

Not applicable

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**1. Introduction**

- 1.1 The Accounts and Audit Regulations 2011 set out the requirements for the production and publication of the Annual Statement of Accounts.
- 1.2 Within the regulations there is a requirement that a representative group of Members approve the Annual Statement of Accounts, by 30 September. The Council has delegated this responsibility to the Audit and Governance Committee.

**2. Statement of Accounts 2010/11.**

- 2.1 The Statement of Accounts for 2010/11 is attached. The explanatory foreword on pages 2 to 7 gives a brief summary as to the layout of the Accounts and the purpose of each of the main statements. Comment is also given on the key financial points to be drawn from the Accounts and assists in making comparisons from the standard budget and Outturn reports presented previously to members and the prescribed format of the Statement of Accounts.
- 2.2 The Revenue and Capital Outturn report presented to this Committee and to the Cabinet in June (where figures are prepared by mid May to meet report deadlines) detailed for members the position on the Councils finances compared with the budgets set.
- 2.3 The Outturn report focuses on key figures relating to the Council's finances and is presented at an earlier stage than the production of the Statement of Accounts. Below comparisons are made between those figures presented at Outturn with the corresponding figures now included in the Audited Statement of Accounts.

**General Fund**

Outturn Position of Reserve at 31/3/2011	£4.373m
Statement of Accounts	<u>£4.388m</u>
Increase in Reserve	<u>£0.015m</u>

The difference relates to (£49,000) of costs required to be transferred out of the General Fund Balance relating to pension costs associated with redundancies agreed in 2010/11 which the Council had deemed were to be met from the Transformation Reserve. £34,000 related to income taken on investments which will not materialise until 2011/12.

The net effect being a difference of £15,000.



### Transformation Reserve

Outturn Position of Reserve at 31/3/2011	£1.687m
Statement of Accounts	<u>£1.608m</u>
Decrease in Reserve	<u>£0.079m</u>

The difference relates to £49,000 of costs required to be transferred out of the General Fund Balance relating to pension costs associated with redundancies agreed in 2010/11 which the Council had deemed were to be met from the Transformation Reserve. £30,000 related to additional costs incurred on Pension costs associated with redundancies paid out in 2011/12 which should have been accrued into 2010/11.

The net effect being a difference of £79,000.

### Housing Revenue Account

Outturn Position of Reserve at 31/3/2011	£0.395m
Statement of Accounts	<u>£0.395m</u>
No Difference	<u>£ 0m</u>

### Capital Reserve

Outturn Position of Reserve at 31/3/2011	£5.303m
Statement of Accounts	<u>£5.303m</u>
No Difference	<u>£ 0m</u>

2.4 The Unaudited Statement of Accounts presented for audit have been amended through the audit process and details are included on the Agenda in a report from Grant Thornton, the Council's external auditors. The main alterations made are in the areas of;

- The Valuation of the Council Dwellings – The Council employed the Valuation Office Agency (VOA) to value its Council Dwellings. In preparing the valuation figures for the Council an error was made by the VOA in the discount factor applied to reflect the properties are occupied by tenants. This resulted in an over valuation of the stock by £80 million on the Balance Sheet, this error was rectified by the VOA (once identified by the Auditor) and the Finance Team have made the necessary amendments to the Accounts. Unfortunately this has had a significant effect on a number of statements in the Accounts.

The original estimate given for this work by the VOA was £12,000, the Council has received a written apology for the error and no charge has been made for this work. We are aware of at least one other authority affected by this error.

- Finance Team errors/reclassification on pension costs, the collection fund and debtors and creditors. Further details are given in the Grant Thornton report.

The need to amend the Accounts for items found during audit is frustrating for the Finance Team and disappointing. The error made by the VOA was not identified by the Team, however, a full apology and admission of error has been received in writing from the VOA and email evidence is available showing that the Council did send the VOA a copy of the latest guidelines including the latest factors to use for valuing the Council dwellings, this was not followed by the VOA.

The other accounting errors/reclassifications will be reviewed in our working practices to ensure more accurate accounts are produced in future; recent staff appointments have been made to the Team in the acknowledgement of the team being under resourced in certain areas.

A positive area was the introduction of International Financial Reporting Standards (IFRS) which was a challenging process for local authorities with number of changes required to the Accounts presentation, including the restatement of the previous year's Accounts; this was dealt with well with no significant audit corrections around this area.

Although amendments have been made to the Accounts it needs to be stressed that this does not affect to any significant degree the net financial position of the Council as reported previously, details of which have been identified in 2.3 above.

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### **Legal Implications**

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

### **Financial Implications**

Details are included in the report.

### **Consultation on Reports to the Cabinet**

None

### **Background Papers**

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Simon Davey  
Head of Finance

Audit & Governance Committee  
29 September 2011

## **ANNUAL GOVERNANCE STATEMENT**

For the year ended 31<sup>st</sup> March 2011

### **Scope of Responsibility**

East Devon District Council is required to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

East Devon's Council's Audit & Governance Committee has approved a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at [www.eastdevon.gov.uk](http://www.eastdevon.gov.uk). This statement explains how East Devon District Council has complied with the code. The Council is required under the Accounts and Audit Regulations 2011 to have an approved annual governance statement which accompanies its statement of accounts.

### **Purpose of the Governance Framework**

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore only provides reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of East Devon District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively and economically.

### **The Governance Framework**

The governance framework described has been in place for the year ending 31 March 2011 and up to the date of the approval of the statement of accounts.

Some of the key features of the governance framework are set out in the following paragraphs:

- The Council has a Corporate Strategy setting out 3 corporate priorities. The Strategy along with the objectives and targets were reviewed in May 2010 to ensure their continuing relevance in the light of the changing economy and other circumstances.
- Delivery of the Corporate Strategy is supported by service plans and individual targets for staff agreed through the annual appraisal process which is recorded and monitored through the Council's performance management systems. Each of the 3 corporate priorities is monitored by Overview and Scrutiny Committee (in 2010/11 this was monitored through the Service Delivery and Performance Overview and Scrutiny Committee). This Committee drives the scrutiny process on behalf of the public with a view to improving the delivery of public services.
- A Standards Committee is in place to promote and maintain high standards of conduct by members, to consider reports and make recommendations concerning the governance and ethical standards of the Council and advice on the adoption or revision of the Council's Code of Conduct for members, officers and any other related codes or protocols. The Committee meet quarterly if required.
- Audit & Governance Committee exists with wide-ranging terms of reference including the requirement to consider the effectiveness of the Authority's governance arrangements, taking into account corporate risk management, the control environment and associated anti-fraud and anti-corruption arrangements.
- The Council has designated the Deputy Chief Executive as Monitoring Officer (with an advising and deputy role through the Corporate Legal & Democratic Services Manager) to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and Chief Finance Officer the Monitoring Officer will report to the full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- Maintenance of an internal audit service through the South West Audit Partnership which operates to the standards set out in the Code of Practice for Internal Audit in Local Government in the UK. Internal audit are responsible for monitoring the effectiveness of systems of internal control. The Service operates to an audit plan approved by the Audit and Governance Committee. The Council's Internal Audit function is subject to regular inspection by the Council's external auditors (Grant Thornton UK LLP).
- The Council has a whistle-blowing and anti-fraud and corruption policy.

## Below is an overview of the Council's Governance Framework

As stated the Council has an adopted Code of Corporate Governance which is inline with CIPFA/SOLACE documentation on delivering good governance in local government. This defines the corporate governance framework and sets out six core principles of good governance as shown below.

Corporate Governance Framework		
Corporate Governance comprises the systems and processes, cultures and values, by which the council is directed and controlled, and through which we account to, engage with and where appropriate, lead the community.		
1. Focus on purpose of the Council, vision for local area and outcomes for the community.	2. Members and officers working together to achieve a common purpose.	3. Promoting values and upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions scrutinised and risk managed.	5. Developing capacity of Members and Officers to be effective.	6. Engaging with local people to ensure public accountability.

(A) Key Documents: Regular/Annual Review or Production	(B) Key Documents: Ad hoc Review or Production	(C) Contributory Processes/Regulatory Monitoring	
<ul style="list-style-type: none"> <li>• Corporate Strategy</li> <li>• Financial Strategy (Medium Term Financial Plan)</li> <li>• Annual Revenue &amp; Capital Estimates</li> <li>• Service Plans</li> <li>• Statement of Accounts</li> <li>• Internal/External Audit Protocol</li> <li>• Council Tax Booklet</li> <li>• Performance Monitoring Reports (Measure Reports &amp; performance indicators)</li> <li>• Financial Monitoring Reports</li> <li>• East Devon talk</li> <li>• External Audit Report to those charged with Governance</li> <li>• External Audit Review report</li> <li>• Management Assurance Statements</li> </ul>	<ul style="list-style-type: none"> <li>• Constitution including Financial and Contract Standing Orders</li> <li>• Scheme of Delegation</li> <li>• Code of Corporate Governance</li> <li>• Anti-Fraud and Corruption Policy</li> <li>• Complaints Procedure</li> <li>• Communications Strategy</li> <li>• Community Engagement Policy</li> <li>• Customer Service Strategy</li> <li>• Procurement Strategy</li> <li>• Freedom of Information Policy</li> <li>• Health Safety, Welfare and Employment Policies</li> <li>• Data and Information Quality Policy</li> <li>• Information Security Policy</li> <li>• ICT Strategy</li> <li>• Protocol – Member Officer Relations</li> <li>• Members Code of Conduct</li> <li>• Employees Code of Conduct</li> <li>• Reporting</li> <li>• Partnership Working Guidelines</li> <li>• Risk Management Policy</li> <li>• Published Agendas, Reports and Minutes of Committees</li> <li>• Whistleblowing Policy</li> <li>• Money Laundering Policy</li> <li>• Retention and disposal of documents Guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Governance Committee</li> <li>• Standards Committee</li> <li>• Overview &amp; Scrutiny Committee</li> <li>• Housing Review Board</li> <li>• Independent Remuneration Panel for Members Allowances</li> <li>• Strategic Management Team</li> <li>• Monitoring Officer appointed</li> <li>• S151 Officer Appointed</li> <li>• Head of Paid Service appointed</li> <li>• Customer Complaints/Feedback Process</li> <li>• Procurement &amp; Efficiency Group</li> <li>• Resident's Panel consultation</li> <li>• Asset Management Forum</li> </ul>	<ul style="list-style-type: none"> <li>• Job Descriptions and Person Specifications</li> <li>• Job Evaluation Process</li> <li>• Employee Induction</li> <li>• Employee Surveys</li> <li>• Learning and Development Programme – Employees/Members</li> <li>• Performance Excellence Review</li> <li>• Criminal Conviction Checks</li> <li>• Health &amp; Safety Officers</li> <li>• Fraud Forum</li> <li>• External Audit</li> <li>• Internal Audit</li> <li>• Gift and Hospitality Registers for Employees</li> <li>• Members Register of Interest</li> <li>• Annual Review of Internal Audit, Risk Management &amp; Governance Arrangements</li> </ul>

## Review of Effectiveness

East Devon District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of:

- Internal Audit Annual Report and Opinion 2010/11.
- Internal and external audit and inspection.
- A specific review of the effectiveness of internal control and compliance to the governance framework undertaken in June through the completion of assurance statements by the Strategic Management Team. These were then reviewed by the Group Auditor for SWAP, the Head of Finance, the Monitoring Officer and Corporate Legal and Democratic Services Manager for compliance and any apparent organisational improvements are included in the Governance Action Plan.
- The mechanisms for maintaining and reviewing the effectiveness of the system of internal control throughout the year include.
  - Cabinet (previously Executive Board) Committee is responsible for considering overall financial and performance management and receives comprehensive budget monitoring reports on a monthly basis and council service performance reports.
  - Overview & Scrutiny Committee holds the Cabinet Committee to account.
  - The Standards Committee meets quarterly when required and at every meeting considers an update report on complaints against councillors which includes learning points and recommended actions. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
  - The Audit & Governance Committee meet five times a year to provide independent assurance to the Council in relation to the effectiveness of the risk management and internal control environment.
  - The South West Audit Partnership provides an independent and objective assurance service to the Council and completes a programme of reviews each year to inform an opinion on the internal control, risk management and governance arrangements. In 2010/11 this programme included governance audits. The service undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred.

Improvements made in Governance arrangements to note include;

- The appointment of South West Audit Partnership (SWAP) as the Council's audit team took place within the year giving the authority a more cost effective and efficient means of carrying out the internal audit function.
- The timing of Overview and Scrutiny Committee meeting dates have been changed to allow consideration of items which are going to be debated by the Cabinet.
- Portfolio Holders and Member Champions have been aligned to the officer management structure to identify clearer lines of reporting and responsibility.

In July 2010 the Council experienced a data breach involving personal details of employees, councillors and others whose details were stored on the Council's payroll system in 2008. Full details were reported to the Audit & Governance Committee (not for publication reports); reports were made to our External Auditors and to the Information Commissioner who carried out an investigation.

A number of recommendations following this breach were implemented and monitored through the Audit & Governance committee; including restrictive access to data to those who previously had open access for review and audit purposes, review and update of Data Retention Policy, deletion of payroll data no longer required on systems and an update in employment contracts to ensure they were robust in terms of "garden leave" being granted where required. In 2011/12 additional work has been undertaken with the protective marking scheme for emails and the recent implementation of a Data Loss Prevention System.

#### **Significant Governance and Control Issues Identified – Governance Action plan**

Council Members and Officers have been continually updated and advised on the implications of reviews of the effectiveness of the Council's systems of internal control. Plans have been devised and put in place to ensure continuous improvement. The Council's annual review of the governance framework, including the system of internal controls and associated reviews during the year, identified some areas where action is appropriate to enhance the governance and internal control environment and ensure continuous improvement. These are listed below, along with the proposed actions to remedy or improve the position.

Area for Improvement	Suggested Action	Responsible Officer Response	Officer Resp.
Assets information	An Asset Management database is required to bring together asset details including description, condition, & financial information.	This project is near completion and at testing stage. It draws upon 7 different databases across the Council to bring together information on Council Assets in one reporting place in order for members to make decisions on their future.	MW
Financial Regulations & Standing Orders	<p>These need reviewing to update in terms of organisation restructure, contract process and values need updating.</p> <p>Refresher training for staff is required in this area as there are concerns over the need to embed the importance of this document with staff.</p>	To be completed in 2011/12	SD
Corporate Risk Register	<p>The register needs reviewing following organisation structure changes and updates and monitoring procedures need embedding into the process.</p> <p>Improvements need to be made in the reporting structure through to members.</p>	To be completed in 2011/12	SD
Main Accounting	<p>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.</p> <p>Lack of compliance with documented procedures increases the risk of inappropriate virements being made.</p> <p>It is recommended the Accountants ensure all virements are authorised in accordance with the Financial Operating Procedures prior to being processed.</p>	The Senior Accountants ensure all virements are authorised in accordance with the Financial Operating Procedures prior to being processed.	LG



Payroll	<p>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 ready for payment, the payroll team are notified and the BACS file is activated for payment.</p> <p>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.</p> <p>It is recommended that the Payroll Services &amp; 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.</p> <p>The BACS payment process should also be subject to senior management review to provide additional assurance over this process.</p>	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.	KJ
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Signed & Dated



**Chief Executive**

Signed & Dated



**Leader of the Council**

Date: 29<sup>th</sup> September 2011  
Contact number: 01395 517490  
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Dear Sirs

**East Devon District Council  
Financial Statements for the Year Ended 31 March 2011**

This representation letter is provided in connection with the audit of the financial statements of East Devon District Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

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

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for

(including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- viii All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- ix We have not adjusted the misstatement brought to our attention on the audit differences and adjustments summary, attached to the ISA260 Report to those charged with governance as Appendix C, as we do not consider that it materially affects the financial statements.
- x Except as stated in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent; and
  - b. none of the assets of the Council have been assigned, pledged or mortgaged there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- xi We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

#### Information Provided

- xiii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- xiv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xviii We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xix We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xx We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

**Other statements**

xxi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Yours faithfully

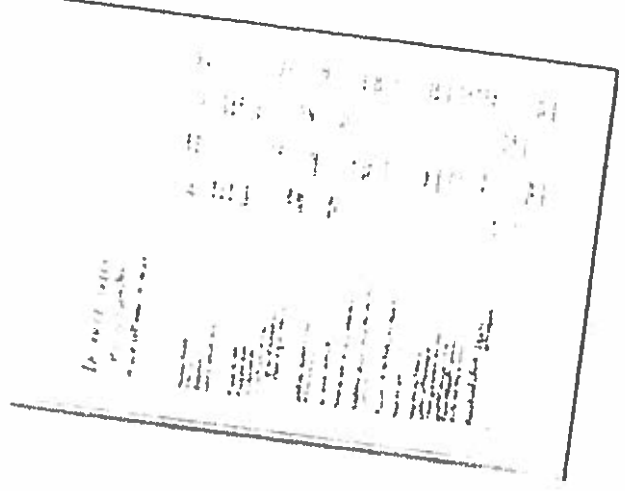
A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke.

Simon Davey  
Head of Finance

# East Devon District Council

Annual report to those charged with governance (ISA 260)

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# 1 Executive summary

## **Purpose of this report**

This report has been prepared for discussion between Grant Thornton UK LLP and the Audit and Governance Committee of East Devon District Council (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Audit conclusions**

### **Financial statements opinion**

Following certification by the Council's Head of Finance, we were presented with draft financial statements for audit by the statutory deadline of 30 June 2011.

A number of material adjustments have been made to the financial statements that impact both on the Council's income and expenditure position (comprehensive income and expenditure statement) and the Council's reported assets and liabilities in the balance sheet. In addition, a significant level of other audit adjustments have been made, resulting in considerable changes to the financial statements.

The most significant adjustments required to the financial statements are in relation to:

- the accounting for council dwellings;
- incorrect accounting for pension costs;
- Collection Fund accounting; and
- debtors and creditors.

Subject to the required audit adjustments being made, we anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit and Governance Committee on 29 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

### **Value for Money Conclusion**

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

Further details of the outcome of our value for money review are given in section 3.

### **The way forward**

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

### **Audit Fees**

The audit fees that we charge to the Council each year are based on the scale fees determined by the Audit Commission. For the 2010-11 audit, these were communicated to you in our Annual Audit Fee 2010-11 Fee letter dated 24 February 2010. The basis for the scale fee represents the Audit Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and, it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers, within agreed timeframes.

We reported to the Audit and Governance Committee at the conclusion of the 2009-10 audit that the number of issues and audit adjustments arising from our audit of the financial statements for that year resulted in significant additional audit work. We agreed that, for the 2009-10 year, these costs would be absorbed and that we would work proactively with the Council's finance team to ensure that similar issues would not recur in future years.

However, as identified in this report, there have been a significant number of issues and audit adjustments identified in the 2010-11 accounts. This has resulted in additional audit work being required beyond that assumed in the Audit Commission's scale of fees. The cost of the additional audit work is £10,500. We will discuss with management and agree with the Audit and Governance Committee the extent to which these costs will be recovered from the Council.

### **Use of this report**

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

### **Acknowledgements**

We would like to recognise the significant task that the Council's officers have faced in preparing these accounts under International Financial Reporting Standards for the first time this year. Further, we would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

September 2011



## 2 Key audit issues

### Matters identified at the planning stage

We report our findings in line with our planned approach to the audit which was communicated to you in our Audit Plan 2010-11 presented to the Committee in January 2011.

Our response to the matters identified at the planning stage are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
<p>2010-11 financial statements do 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 undertook an initial review of the Council's restatement of its opening balance sheet and as part of our accounts audit have reviewed in detail the material areas which are impacted by IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>Whilst our work identified a significant number of adjustments to the financial statements, the majority of these were not due to the introduction of IFRS. The only adjustments directly due to the introduction of IFRS were in relation to assets held for sale which are discussed in further detail under 'other matters arising from the financial statements audit'. We have therefore gained assurance that the adjusted 2010-11 financial statements comply with the Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS.</li> </ul>

**Assurances gained**

**Work completed**

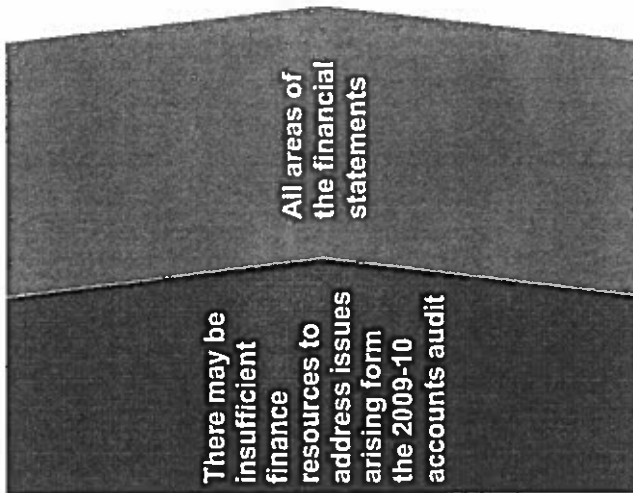
Issue	Audit areas affected
<p><b>Financial performance pressures affecting the Council's ability to deliver its budget and provide services</b></p>	<p><b>All areas of the financial statements</b></p> <ul style="list-style-type: none"> <li>We have reviewed the Council's financial performance for 2010-11 against its agreed budget, noting an underspend of £946,000.</li> <li>Our audit work was tailored to address the risk of understatement of expenditure and overstatement of revenue.</li> </ul>
<p><b>Incorrect accounting for borrowing</b></p>	<ul style="list-style-type: none"> <li>We have reviewed the accounting transactions processed by the Council during 2010-11 to ensure that the Public Works Loan Board borrowing has been appropriately accounted for.</li> </ul>
<p><b>The revaluation of fixed assets is not conducted or accounted for correctly</b></p>	<ul style="list-style-type: none"> <li>We have reviewed the valuations undertaken in the year to assess whether they comply with the requirements of IFRS and that they are appropriately reflected in the financial statements.</li> </ul>

- Our audit has identified a number of adjustments increasing the reported deficit on the provision of services reported in the Comprehensive Income and Expenditure Statement by £55,598,000. These are detailed in Appendix B.

- Our testing confirmed that borrowing of £1,245,000 taken out in the year has been correctly accounted for within the 2010-11 financial statements.

- Our work identified that the valuation of Council dwellings in the accounts was not based on the current guidance, leading to an adjustment of £80 million. Further details are set out below under the section 'capital accounting'.

- Following adjustments to the financial statements we have gained assurance that the revaluation is correctly accounted for.



We have assessed the progress of implementation of the recommendations made following our 2009-10 accounts audit.

- Our 2010-11 audit has highlighted a significant number of issues which has resulted in a considerable number of adjustments to the financial statements. We recognise that this has led to finance resources being diverted into resolving these issues as a result of our audit.
- Whilst the Council has implemented a number of recommendations, some have been raised again as a result of our 2010-11 audit. Further details are set out in Appendix D.

## Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Plan 2010-11. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the Council's letter of representation; and
- reviewing post balance sheet events, up to the signing of the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit and Governance Committee on 29 September 2011.

A number of issues arose during the course of the audit, some of which are considered material to the reported financial performance, which should be considered by the Audit and Governance Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the action plan at Appendix C.

As a result of the significant number of issues being identified during the course of the audit, which has resulted in a large number of amendments to the financial statements, we were required to undertake additional audit work beyond that originally planned and assumed by the Audit Commission in setting the scale fee. As a result, once all of our work has been completed, we will discuss with management, and agree through the Audit and Governance Committee, the extent to which these additional costs will be recovered from the Council.

## Other matters arising from the financial statements audit

We were presented with draft financial statements for audit, following certification by the Council's Responsible Finance Officer, by the statutory deadline of 30 June 2011. Whilst these were accompanied by working papers which were provided for the start of our audit work, we found that they did not, in all cases, reflect the information disclosed in the financial statements. As a result, we needed to spend additional time to identify the correct version of the working papers. We recommend that as part of the accounts closedown procedures a review is undertaken to ensure that the working papers provided to support the financial statements are the correct version.

## Capital Accounting

### Disposals

The Council disposed of a number of properties during 2010-11 and as part of our testing of these disposals, we identified a number of issues:

- the financial statements disclosed that £435,000 of Council dwellings were disposed of in the year, but this figure did not reflect the correct balance sheet value of those assets; and
- the disposals reported did not take account of three dwellings with a balance sheet value of £154,000 that had been sold in the year.

These errors also led to the incorrect calculation of the losses on disposal and incorrect calculation of the revaluation adjustment. Adjustments have been processed to correct these errors and to ensure all assets that have been written off or disposed of have been accounted for in the financial statements.

### Assets held for sale

IFRS has required a reclassification of assets due to the different categories of property, plant and equipment that are now recognised. In particular, it has introduced a new category 'Assets held for sale'. These are items of property, plant and equipment whose carrying amount is expected to be principally recovered through a sale rather than continued use by the Council.

When it becomes probable that an asset will be sold it should be assessed to identify whether it should be reclassified as an 'asset held for sale' based on the criteria set out in IFRS 5- Non-current assets held for sale and discontinued operations. None of the assets that were sold in 2010-11 had been reclassified 'as held for sale', despite meeting the definition as interpreted through the Code. The financial statement disclosures have been updated to show the reclassification of assets into 'assets held for sale'.

In addition, we identified one property valued at £45,000 that was disposed of in early 2011-12 that should have been classified as an 'asset held for sale' at the year end. This has not been adjusted by the Council.

### Housing Revenue Account revaluation

A full revaluation of the Council's dwellings was undertaken by the District Valuer as at 31 March 2011. Council dwellings are valued using the Beacon approach, which is based on the vacant possession value of the properties, adjusted to reflect occupation by a tenant. The valuation guidance issued by the Department for Communities and Local Government (DCLG) was updated in January 2011 and is appropriate for all HRA valuations from April 2010. Within this adjustment, factors to reflect occupation have been revised to take account of significant changes in the residential housing market. The relevant adjustment factor for the South West is 31%, which represents a decrease from the 44% which was set out in the previous version of the valuation guidance issued in 2005.

Our work identified that the valuation reflected in the financial statements was based on the previous adjustment factor of 44%. The Council discussed this with the District Valuer who provided a further valuation certificate based on the correct adjustment factor of 31%. This resulted in a further reduction in the value of Council dwellings of £80 million, with £71 million of this being charged to the net costs of services. This has been adjusted in the financial statements.

Depreciation is charged against assets as an accounting estimate of changes in value due to the consumption of assets, whose cumulative effect is confirmed by formal valuations reflecting the actual conditions. As these estimates can be considered redundant by the valuation, it is expected that accumulated depreciation is eliminated when an asset is revalued. However, our work identified that accumulated depreciation on Council dwellings had not been eliminated following previous revaluations. The Council have restated their accounts with accumulated depreciations now written out on revaluation.

We have also identified a control risk in the Councils arrangements for recording property, plant and equipment. The Council has a computerised fixed asset register which is used to record asset details and calculate movements. However, this is not used for Council dwellings and land, which are separately recorded on a spreadsheet based asset register. This increases the risk of assets being incorrectly accounted for as they may be recorded on both systems or missed off either system. There is also the increased risk of human error, as it is subject to less automated controls. We recommend that all items of property, plant and equipment are recorded within one fixed asset register to help minimise similar issues to those noted above.

### Reserves

The matters detailed above relating to accounting for property, plant and equipment have impacted on the Council's reserves and resulted in a number of adjustments to the Movements in Reserves Statement. In addition, a number of separate discrepancies were identified in relation to the Movement in Reserves Statement. For example, not all movements could be reconciled to the other disclosure notes within the financial statements and there were a number of casting errors. Appropriate amendments have now been processed by management to correct these errors and discrepancies.

### Accounting for pensions

#### Pension increases

Public service pensions are now up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Price Index (RPI), and as a result, the Council's pension liabilities have reduced by £7,376,000. In accordance with the Code, the Council should have recognised this as a past service gain. However, following production of the draft financial statements, the Council identified that this and curtailment costs of £66,000 had been incorrectly charged to the Comprehensive Income and Expenditure Statement, causing gross expenditure to be overstated by £14,620,000. This has been amended in the financial statements.

#### Valuation of Devon Pension Fund Net Assets

We received notification on 9 August 2011 from the auditors of the Devon Pension Fund that they had identified that the net assets as at 31 March 2011 had changed from the assumed value of assets used by the actuary in the IAS19 reports to the scheduled and admitted bodies. This situation arises every year due to the timing in the production of the financial statements. This year, there has been an underestimation in the assets of the fund. East Devon District Council's share of this difference has been calculated as £401,000 using the actuarial calculation of the percentage share of assets in the fund. This adjustment has been processed by the Council, reducing the overall net pension liability and pension reserve in the balance sheet.

#### Collection Fund

The Council are required to maintain a separate Collection Fund showing the council tax and national non-domestic rate (NNDR) transactions of the Council as a billing authority. As a result of our audit, adjustments have been made as summarised below.

### Council Tax

Council Tax is accounted for on an agency basis, reflecting the arrangements in place for the Council to collect council tax on behalf of the major preceptors and itself. Therefore, related transactions and balances need to be allocated between the Council and the major preceptors.

The precepts in respect of other bodies included not only the 2010-11 precept but also contributions towards the previous year's estimated surplus. These are required to be disclosed separately within the Collection Fund. This has no effect on the surplus for the year.

The notes to the Collection Fund disclose the split of the Collection Fund balance, the movement in year and the accumulated balance between the Council and the preceptors. The apportionment was based on the precept proportions but incorrectly excluded parish precepts from the calculation.

The Comprehensive Income and Expenditure Statement for the Council should only account for its own share of council tax transactions and an adjustment for the difference between the estimated and actual collection fund surplus. The Council had recognised £8,751,000 council tax income which matched the precept shown in the Collection Fund. This had not been adjusted to take account of the share of the surplus at 31 March 2010 and the amounts redistributed in respect of the previous surplus. As a result the council tax income has been adjusted to £8,836,000, and adjustments made to the Collection Fund Adjustment Account.

### National Non Domestic Rates

The Collection Fund accounts for the NNDR amounts collected from business ratepayers that is payable to central government, apart from an allowance that is retained as a contribution towards the costs of collection. These amounts are notified to central government through the NNDR3 return that is separately certified. We identified that the amounts accounted for in the Collection Fund differed to the NNDR3 return and both the NNDR collectable and the contribution were adjusted by £88,000 to correct this.

### Grant Revenue

There were a number of classification errors relating to grants received by the Council. Whilst these did not affect the total income recognised within the financial statements they did result in a number of adjustments to the Comprehensive Income

and Expenditure Statement and related disclosure notes. These are shown in Appendix B.

### Debtors and creditors

Our testing identified £790,000 in respect of 2011-12 income that had been inappropriately included within the debtors balance as amounts due to the Council at 31 March 2011. To ensure that the balance sheet was not overstated, these amounts were also treated as receipts in advance despite not being received at year end.

Our work also identified that both short term debtors and creditors had been overstated by a further £1,638,000. This related to amounts that were received before year end but which were incorrectly included as debtors, and also as creditors to ensure a nil effect on the balance sheet.

Adjustments have been made to the financial statements for both of these items.

### Financial instruments

The financial statements are required to contain detailed disclosures in respect of financial instruments. These are defined as contracts that give rise to a right to future economic benefits or an obligation to transfer economic benefits. The Council's disclosures have been amended in respect of the following:

- rights and obligations that would otherwise be financial instruments but that are exempt under the Code from the financial instrument disclosures as they are covered by more specific provisions about their recognition, measurement and disclosure. This included the pension fund liability and other obligations arising under employee benefits plans; and
- council tax and NNDR balances, as these arise under statute not under contract.

Further disclosure adjustments have been made to ensure that the amounts reported in Note 15 and Note 50 is consistent with other parts of the financial statements.

### Termination benefits

The Council has undertaken a restructuring of its senior management during the year and as a result a number of staff were made redundant as disclosed within Note 45 to the financial statements. Not all of the staff had left employment before the year end and liabilities have been recognised to reflect the termination benefits that the Council

is required to pay. These obligations include additional pension payments in addition to redundancy payments. However, £30,000 of pension strain costs had not been recognised. These amounts have now been fully accrued, correctly reflecting the full liability in place at 31 March 2011.

In addition, the amounts reported as being allocated for transforming, which was set aside for the purpose of meeting the costs of restructuring, did not reflect the pension strain costs of staff made redundant as a result of the restructure. This has led to an increase of £80,000 in the amounts being utilised from this element of the general fund.

#### **Remuneration of officers**

The Council is required to disclose the number of officers whose remuneration was over £50,000, grouped in £5,000 bands. We noted that the disclosures were not fully compliant with the Code due to one senior employee being omitted from the disclosures and only salary amounts being considered to determine the remuneration bandings. The remuneration bandings should take account of other employee benefits and any termination benefits. The Council have amended these disclosures to meet the statutory requirements.

#### **Segmental Reporting**

Under the requirements of the Code based on IFRS, Councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's Chief Operating Decision Maker ("CODM"), to assess the segment's performance and allocate resources. The Council disclosed nine operating segments in note 28 to its 2010-11 financial statements.

We have reviewed the disclosure presented in the accounts against the information presented to the Council's Cabinet regarding financial performance and note that the information is consistent. However, as a result of the adjustments arising from our audit, a minor number of adjustments were required to this note and to ensure the figures reported in the reconciliation were consistent with the Comprehensive Income and Expenditure Statement.

#### **Transition to IFRS**

As previously reported, the Council commenced its work to prepare its financial statements under IFRS early and we were able to review the arrangements for transition and many of the key accounting changes prior to the year end.

The key area where adjustments to the financial statements were required to ensure compliance with IFRS was in relation to assets held for sale as noted above under 'capital accounting'. However, the other key areas impacted by the transition, such as accounting for capital grants and accumulated absences were found to be appropriately accounted for. We recognise the additional pressure this transition placed on the finance team. Their approach of working with us at an early stage to discuss the key areas impacted by the transition enabled issues to be resolved promptly and efficiently.

The Council based its financial statements on the example given within the Code Guidance Notes. Whilst this provided a helpful framework, we recommend that for future years the Council seek to tailor the financial statements further and remove any accounting policies or disclosures that are not applicable to East Devon District Council, such as those relating to schools.

#### **Other accounts issues arising**

In addition to the matters raised above, there were a number of presentational changes that arose during the course of our audit which have now been processed through the financial statements.

#### **Misstatements**

Our audit identified a considerable number of adjustments as a result of the matters set out above under matters arising from the financial statements audit. These have resulted in a significant number of changes to the financial statements, requiring a significant amount of audit work and Council resources to resolve. The overall effect of the misstatements are:

- a decrease in net assets of £72,716,000;
- an increase of £55,598,000 in the deficit reported in the Comprehensive Income and Expenditure Statement; and
- a reduction of £64,000 on the general fund.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them. All misstatements are set out at Appendix B.

Our audit has identified one amendment to the financial statements that has not been processed by management on the grounds of materiality.

### **Evaluation of key controls**

**Internal Controls**  
We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit.

### **Journal entry controls**

Journals are used to process manual changes to data within the financial ledger. The Council has procedures in place that define which members of staff may input journals. As noted in previous years journals do not require separate authorisation, although spot checks have been introduced following a previous audit recommendations. Staff are also required to retain evidence to support the journal entries made.

We tested a sample of journals processed by the Council to ensure they have been appropriately posted and are supported by relevant information. For one of the journals in our sample, the supporting information had not been retained. The Council should ensure that appropriate supporting evidence is retained for all journals.

Although spot checks are undertaken on journals, our audit has identified a significant number of adjustments and we recommend that further controls are introduced to minimise the risk of inappropriate journals being posted at year end leading to errors in the financial statements.

### **Review of Information Technology**

We performed a high level review of the general information technology (IT) control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts. Our audit did identify a number of opportunities where the controls could be strengthened further, and these were reported to you in our 2010-11 Interim Report.

### **Review of internal audit**

We have reviewed the internal audit service against the requirements set out in the 2006 CIPFA Internal Audit Standards and assess the effectiveness of their work through a detailed review of their Payroll file and their Council Tax and NNDR file. From our review, we concluded that the internal audit service meets the requirements set out by CIPFA and we have been able to take assurance that the work of internal audit contributes to an effective control environment at the Council.

We draw on this work in forming our overall Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

Further details of our review of the internal audit service was given in our interim report, presented to the Audit and Governance Committee in June 2011. We would like to record our appreciation for the positive approach adopted by internal audit in supporting our work and our enquiries of them during the year.

### **Head of internal audit opinion**

The Council's internal audit manager has issued his opinion on the effectiveness of the system of internal control and provided a reasonable level of assurance based on a limited scope for the year.

### **Management of the risk of fraud**

We have sought assurances from the Head of Finance and the Chair of the Audit and Governance Committee in respect of processes in place to identify and respond to the risk of fraud at the Council. From these enquiries we have established that those charged with governance have sufficient oversight over these processes to give them the assurances they require in regard to fraud.



In the course of our accounts audit work, we did not uncover any evidence of fraud or previously undisclosed control weaknesses which might undermine the Council's process for mitigating the risk of fraud.

### **Annual Governance Statement**

We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we have read the AGS and considered whether the statement is consistent with our knowledge of the Council.

We reviewed the draft AGS and, subject to a further disclosure being made concerning data breaches in 2010-11, consider the document to be satisfactory in terms of content, a fair representation of Council operations during the year and in line with the Code.

### **Public questions**

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

We confirm that we have not received any questions from the public in respect of the financial statements for the year ended 31 March 2011.

### **Next steps**

The Audit and Governance Committee is required to approve the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

# 3 Value for money

## Value for money conclusion

The Audit Commission Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For 2010-11 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

In order for us to provide an unqualified conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

## Programme of work - review of proper arrangements

Ours work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed below:

Code criteria

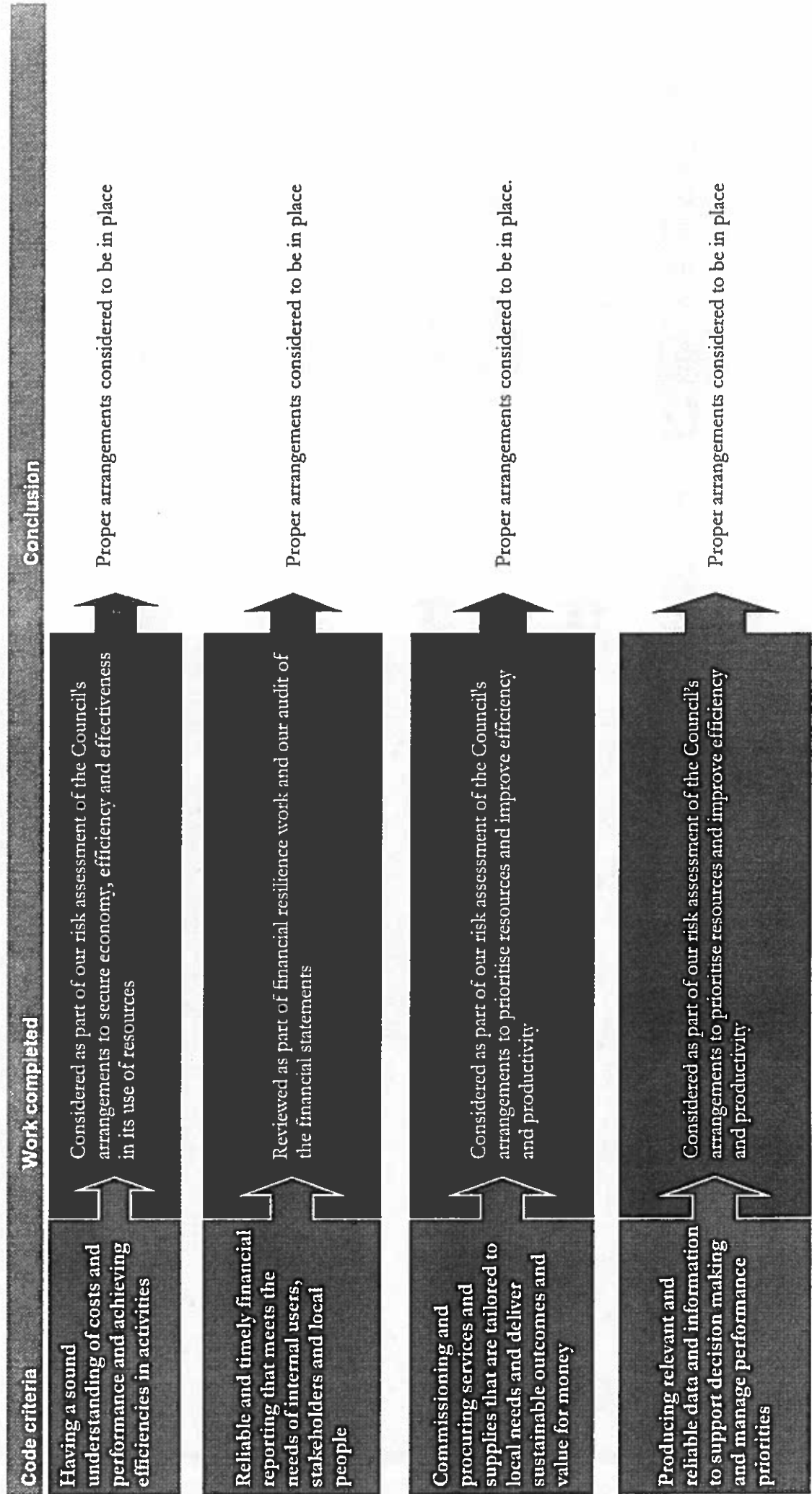
Planning finances effectively to deliver strategic priorities and secure sound financial health

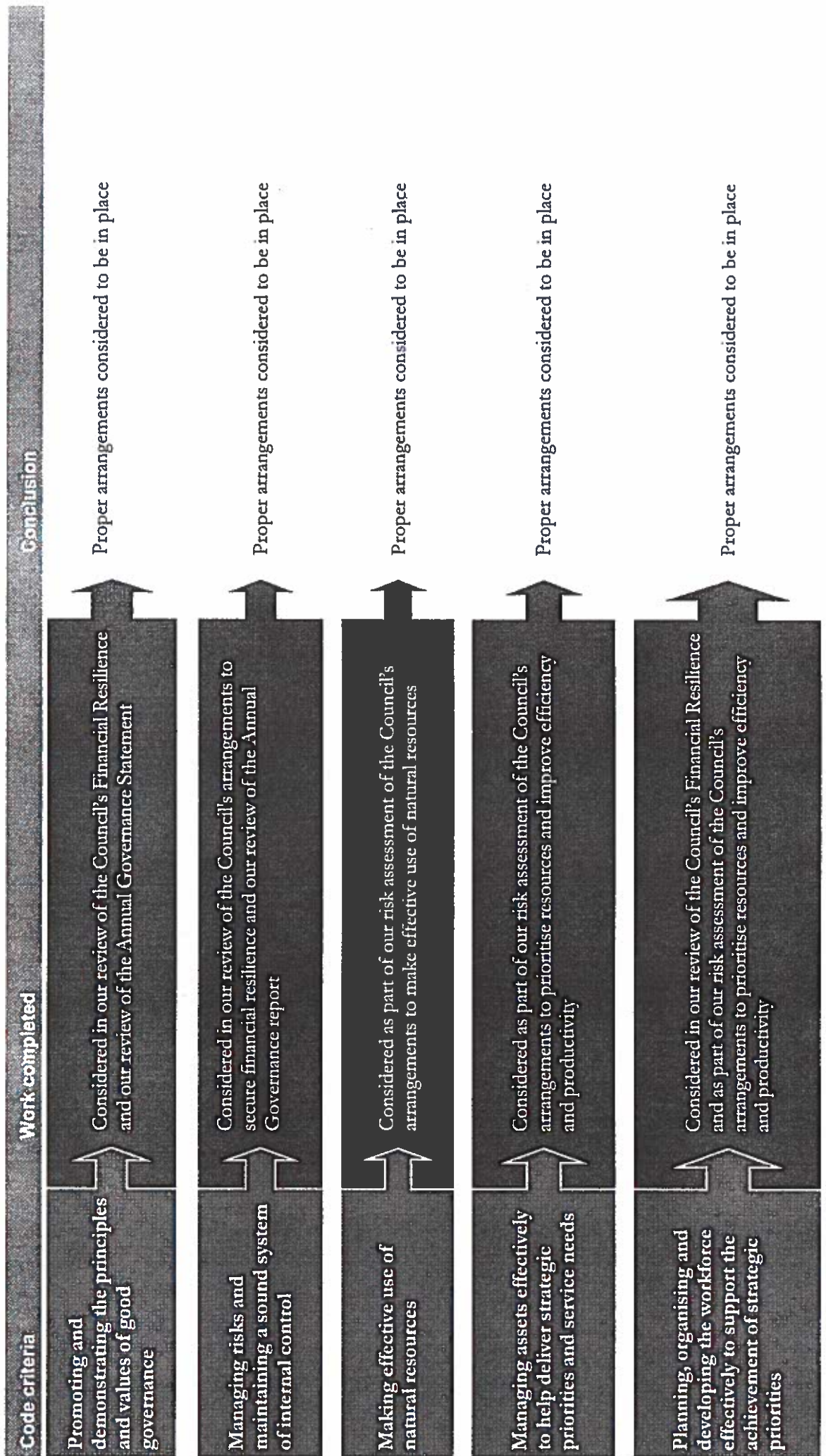
Work completed

Reviewed as part of financial resilience work and from our overall review of Council performance against its strategic targets

Conclusion

Proper arrangements considered to be in place





### **Matters arising from the review of Value for Money**

Key outcomes from our local programme of work are detailed below. These will be reported in more detail in our Annual Audit Letter in Autumn 2011.

#### **Securing financial resilience and economy, efficiency and effectiveness**

As part of the work informing our 2010-11 Value for Money (VFM) conclusion we have considered whether the Council has appropriate financial systems and processes in place to manage its financial risks and opportunities and to ensure that there are robust medium to long term financial planning arrangements to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- key indicators of financial performance;
- its approach to strategic financial planning;
- its approach to financial governance; and,
- its approach to financial control.

The Council's financial performance indicators are in line with expectations and overall compare favourably in the context of other district councils. The Council has adequate arrangements around financial planning, governance and control.

The Council ensures a strategic approach to financial planning, through a rolling Financial Strategy which is updated on an annual basis and is used as a financial framework for the delivery of services in order to meet objectives set out in the Corporate Strategy. The strategy incorporates a Medium Term Financial Plan (MTFP) which sets out estimated budget surpluses or shortfalls for the current financial year and the following five years. This then drives the annual budget setting process.

The MTFP was updated in July 2010 following announcements by the Government that the level of government funding would be cut on average by 25% over the next

four years. The MTFP initially assumed a 5% reduction causing a budget deficit of £1,532,000 for 2011-12. Appropriate actions were put in place to address this gap with services reviewed and savings identified through the work of a Rationalisation Panel and a Budget Working Party leading to a balanced budget being set despite the final grant allocation reflecting a 15.7% reduction.

The current Financial Strategy, covering the five year period 2012-13 to 2016-17, has been developed and is being presented to the Cabinet in September 2011 for adoption. Whilst this currently highlights a budget gap of £587,000, the strategy sets out savings targets in order for a balanced budget to be set in February 2012. This is currently considered adequate in preparation for the 2012-13 budget setting process, based on the Council's financial planning for 2011-12.

Appropriate governance arrangements are in place to ensure financial performance is monitored and that Members are kept informed of the financial challenges to be faced. Cabinet receive regular financial monitoring reports that summarise the Council's financial position. The latest available report, showing the financial position at month four of 2011-12, highlights that a net overspend of £169,000 is predicted by year end and that this will be met through use of the general fund balance. However, despite audit adjustments to the 2010-11 financial statements, the general fund balance is still significantly above the approved minimum level of £1,519,000 and a balanced 2011-12 budget was set with only £66,000 planned use of the general fund.

The main reason for the predicted 2011-12 overspend is that car park income is expected to £180,000 below budget and this is being closely monitored and will inform the 2012-13 budget setting process. Members are kept informed and are aware of the risks and financial challenges that the Council faces and have demonstrated commitment to identify actions in response.

The Council forecasts that there is sufficient capital reserves to balance the 2011-12 capital programme, however it is acknowledged that this will leave a limited balance for future years. Whilst, the Council has plans to consider asset disposals, there still remains significant challenges in the medium term in funding the capital programme.

### **Follow up of prior year recommendations**

As part of our planned programme of work, we considered progress against the recommendations made in our 2009-10 VFM report and have been able to gain assurance that these have been given appropriate consideration.

prioritising its resources to take into account budget constraints and has appropriate arrangements in place to ensure that value for money is delivered in priority service areas.

On the basis of our work, having regard to the specified criteria published by the Audit Commission, we have concluded that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

### **Overall conclusion**

Whilst the Council faces significant risks and challenges in 2011-12 and beyond its current arrangements for achieving financial resilience are adequate. The Council is

# A The reporting requirements of ISA 260

## **Purpose of report**

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

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

The Council is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Council

confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

## **Clarification of the roles and responsibilities with respect to internal controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit and Governance Committee that it has done so.

The Audit and Governance Committee is required to review the Council's internal financial controls. In addition, the Audit and Governance Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit and Governance Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify any control weaknesses, we will report these to you.

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

We would be pleased to discuss any further work in this regard with the Audit and Governance Committee.

ISALUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

### Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

### Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

	£
Financial statements and Value for Money	117,300
Rebate from Audit Commission	(6,992)
<b>Total audit fee</b>	<b>110,308</b>
Certification of claims and returns (estimate)	30,000

### Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.



## B Audit adjustments

### Adjustment type

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

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

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

### Adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	79,511	<b>Council dwellings valuation</b> The valuation of Council dwellings at 31 March 2011 was not based on the correct discount factor and the associated impairment had been incorrectly calculated.	Reduction in Council dwellings held in balance sheet of £79,511,000, with a reduction in the revaluation reserve of £9,121,000 and increase in revaluation decreases recognised in the Comprehensive Income and Expenditure statement of £70,390,000.  Corresponding adjustments to the Movement in Reserves Statement and disclosures in note 7, note 12, note 24 and HRA note 6 updated.
Misstatement	43	<b>HRA depreciation</b> Depreciation had not been calculated on all relevant assets.	Increase in depreciation charge to the Housing Revenue Account and the Comprehensive Income and Expenditure Statement and decrease in asset values in the Balance Sheet.  Corresponding disclosures in note 7, note 12, note 24 and HRA note 6 updated.
Misstatement	9,359	<b>Council dwellings depreciation</b> Accumulated depreciation had not been cleared following previous revaluations.	Council dwellings at 1 April 10 restated in balance sheet due to a reduction in the opening cost of £6,279,000 and a reduction in accumulated depreciation of £9,359,000.  Disclosures in note 12 and HRA note 6 updated.

<b>Adjustment type</b>	<b>£000</b>	<b>Account balance</b>	<b>Impact on financial statements</b>
Misstatement	90	<b>Council dwellings disposals</b> Not all disposals of Council dwellings had been reflected in the financial statements.	Reduction of £90,000 in Council dwelling disposals.  Disclosures in note 12, note 20 and HRA note 6 updated.
Misstatement	253	<b>Gains and losses on disposals</b> Incorrectly calculated due to other capital accounting errors.	Further loss recognised in Housing Revenue Account and Comprehensive Income and Expenditure Statement.  Disclosures in note 7, note 9 and HRA note 1 updated.
Classification	3,592	<b>Classification of HRA assets</b> Other land and building assets were incorrectly classified as council dwellings.	Disclosures in note 12 and HRA note 6 updated.
Disclosure	470	<b>Note 20 Assets held for sale</b> Disclosure updated to show movements in assets held for sale in the year.	Disclosures in note 12, note 20 and HRA note 6 updated.
Disclosure	16	<b>Note 12 Assets under construction</b> Additions and disposals were overstated, and did not agree to the fixed asset register.	Note 12 disclosure updated.
Misstatement	88	<b>Collection Fund - Non domestic rates</b> Amounts reported in respect of NNDR did not agree to the final return.	Increase in NNDR collectable from business ratepayers and corresponding increase in contribution to the national pool.
Misstatement	-	<b>Split of Collection Fund</b> Apportionment did not take account of parish precepts.	Increase of £33,000 in the Council's share .

<b>Adjustment type</b>		<b>Account balance</b>		<b>Impact on financial statements</b>	
	<b>£000</b>				
Misstatement	85	<b>Council tax income</b> The Council's 2010-11 precept was recognised within the Comprehensive Income and Expenditure Statement and did not take account of timing adjustments.		Increase in council tax income of £85,000, and increase in collection fund adjustment account.  Disclosures in note 11 and note 24 updated.	
Misstatement	401	<b>Pension Fund liability</b> The auditors of the Devon Pension Fund have identified that the net assets at 31 March 2011 have changed from the assumed value used by the actuary to inform the Council's accounts.		Reduction in pensions liability and pensions reserve of £401,000 and corresponding increase in actuarial gains on pension assets and liabilities of £401,000.  Disclosures in note 47 updated.	
Misstatement	14,620	<b>Past service gain</b> The past service gain had been incorrectly charged to the Comprehensive Income and Expenditure Statement.		Reduction in non-distributed costs of £14,620,000.	
Misstatement	30	<b>Termination benefits</b> Not all pension strain payments had been recognised as an expense.  In addition, the amount funded from the Transformation Reserve did not take account of all relevant costs.		Increase in sundry creditors and corresponding increase in employee costs charged to net cost of services.  Note 45 disclosure updated to reflect additional liabilities and related funding from Transformation Reserve.	
Misstatement	790	<b>Short term debtors and creditors</b> The debtors balance incorrectly included amounts in respect of 2011-12 and that were also treated as receipts in advance to ensure a nil effect in net assets.		Reduction in short term debtors and creditors of £790,000.	

Adjustment type		£000	Account balance	Impact on financial statements
Misstatement	1,638	Short term debtors and creditors The debtors balance incorrectly included amounts that had been received before year end, with a corresponding creditor recognised to ensure a nil effect on net assets.	Reduction in short term debtors and creditors of £1,638,000.	
Classification	33	Housing and council tax benefit income Housing and council tax benefit income had been incorrectly analysed between service lines.	Increase in central services to the public income and decrease in other housing services income.	
Classification	46	Non-specific grant income £46,000 of non-ringfenced government grants had been incorrectly classified as redistributed non domestic rates.	No overall effect on reported financial position. Disclosure on face of Comprehensive Income and Expenditure Statement and note 11 updated.	
Classification	247	Collection fund precepts Precepts by other bodies included contributions towards the previous year's estimated surplus which should have been separately recognised.	Reduction of £247,000 in precepts and increase of £247,000 in contributions towards previous year's estimated surplus. No overall effect on reported financial position.	
Disclosure	-	Note 12 Property, plant and equipment revaluations Note enhanced to disclose the names and qualifications of valuers.	No effect on primary financial statements. Updated disclosure only.	
Disclosure	7,349	Note 15 Financial instruments Disclosure included amounts that are exempt from financial instrument disclosures in the Code and amounts that are arise under statute.	No effect on primary financial statements. Updated disclosure only.	

<b>Adjustment type</b>	<b>£000</b>	<b>Account balance</b>	<b>Impact on financial statements</b>
Disclosure	13	<b>Note 15 Financial instruments</b> Interest income incorrectly stated.	No effect on primary financial statements. Updated disclosure only.
Disclosure	650	<b>Note 19 Cash and cash equivalents</b> Amounts incorrectly classified between short term deposits with building societies and bank current accounts.	No effect on primary financial statements. Updated disclosure only.
Disclosure	-	<b>Note 31 Agency services</b> The narrative within note 31 incorrectly referred to the 2009-10 amounts.	No effect on primary financial statements. Updated disclosure only.
Disclosure	-	<b>Note 35 Officers' remuneration</b> Disclosures did not meet all the requirements of the Code, and did not include all relevant officers.	No effect on primary financial statements. Updated disclosure only.
Disclosure	38	<b>Note 38 Grant income</b> Amounts incorrectly analysed between housing benefits admin grant and other grants and contributions.	No effect on primary financial statements. Updated disclosure only.
Disclosure	-	<b>Note 39 Related parties</b> Disclosures did not fully disclose the value of transactions and outstanding balances in respect of related parties.	No effect on primary financial statements. Updated disclosure only.
Disclosure	-	<b>Note 43 Impairment losses</b> Note updated to reflect the losses in 2010-11 reported elsewhere within the financial statements.	No effect on primary financial statements. Updated disclosure only.

Adjustment type	£000	Account balance	Impact on financial statements
Disclosure	166	<p>Note 50 Risks arising from financial instruments</p> <p>Financial assets disclosed did not agree with the balances disclosed in note 18 debtors.</p>	<p>No effect on primary financial statements. Updated disclosure only.</p>
Disclosure	-	<p>Collection Fund Note 1</p> <p>The rateable value at year end should be disclosed within the financial statements.</p>	<p>No effect on reported financial position. Updated disclosure only.</p>
Disclosure	-	<p>Explanatory Foreword</p> <p>Additional details required to provide an overview of significant assets and liabilities.</p>	<p>Additional disclosures added.</p>
Disclosure	-	<p>Various disclosures</p> <p>A number of other minor disclosure and presentational adjustments have been processed by the Council which do not need to be brought to the attention of the Audit Committee.</p>	<p>No effect on reported financial position.</p>

**Unprocessed adjustments to the financial statements**

<b>Adjustment type</b>	<b>£000</b>	<b>Account balance</b>	<b>Impact on financial statements</b>
Classification	45	Assets held for sale One property that should have been classified as an asset held for sale at 31 March 2011.	No effect on net assets or reported financial position.

# C Action Plan

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	<p><b>Working papers</b> We recommend that as part of the accounts closedown procedures a review is undertaken to ensure that the working papers provided are the latest versions supporting the amounts reported in the financial statements.</p>	High	<p>Agree. Additional resources will be allocated to the accounts closure procedure including additional time for reviewing the accuracy of the statements and the working papers.</p>	<p>Statement of Accounts preparation 2011/12. Head of Finance</p>
2	<p><b>Review of draft financial statements</b> A robust review of the accounts should be undertaken to identify areas of inconsistency within the financial statements.</p>	High	<p>Agree. Additional resources will be allocated to the accounts closure procedure including additional time for reviewing the accuracy of the statements and the working papers.</p>	<p>Statement of Accounts preparation 2011/12. Head of Finance</p>
3	<p><b>Tailoring of financial statements</b> Future financial statements should be tailored further to remove any accounting policies or disclosures that are not applicable to East Devon District Council.</p>	Low	<p>Agree. Full disclosures were left in accounts as the first year under IFRS and it was felt that this would make it easier for the auditors to check full compliance with the Code.</p>	<p>Statement of Accounts preparation 2011/12. Financial Services Manager</p>
4	<p><b>Property, plant and equipment records</b> All assets should be recorded on the fixed asset register to facilitate accurate calculation of depreciation and revaluation adjustments.</p>	High	<p>Agree. This was the intention for 2010/11 but resources had to be allocated to IFRS changes instead. The intention is this work will now take place with the Housing Assets being transferred to the IPF asset register in readiness for the 2011/12 accounts closure.</p>	<p>Statement of Accounts preparation 2011/12. Financial Services Manager</p>



Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
5	<p><b>Assets held for sale</b> The Council should consider the reclassification of assets as held for sale when it becomes probable that they will be disposed of through sale, assessing against the criteria set out in IFRS5.</p>	Medium	<p>Agree. Closer communication will be required with services when decisions are made on assets which effect their possible classification for the balance sheet.</p>	Statement of Accounts preparation 2011/12. Financial Services Manager
6	<p><b>Journals</b> Further controls should be introduced to minimise the risk of inappropriate journals being posted at year end leading to errors in the financial statements.  In addition, supporting information should be retained for all journals.</p>	Medium	<p>Agree. Additional resources will be allocated to the accounts closure procedure including additional time for reviewing the accuracy of the statements and the working papers; this will include reviewing year end journals.</p>	Statement of Accounts preparation 2011/12. Head of Finance

## D Follow-up of prior year issues

2009-10 recommendation	Priority	Management comments	Further audit comments
<p><b>IFRS</b> Adequate resources should be allocated to the IFRS restatement, current allocations should be reviewed in light of budget setting commitments.</p>	Medium	The recommendation is accepted and the Council's need to meet this requirement is acknowledged. This will however be challenging and needs careful consideration on how best to address as there is likely to be a reduction in staffing in this area.	Whilst our work identified a significant number of adjustments to the financial statements, the majority of these were not due to the introduction of IFRS. The only adjustments directly due to the introduction of IFRS are in relation to assets held for sale which are discussed in further detail under 'other matters arising from the financial statements audit'.
<p><b>Working papers</b> All working papers to support figures in the accounts should be reviewed by a member of the finance team and retained on the accounts working paper files.</p>	High	Agree.	<p>Whilst working papers were provided for the start of our on-site audit work, there were a number of instances where the working papers did not support the information disclosed in the financial statements. As a result, additional time was spent to identify the correct version of the working papers.</p> <p>A further recommendation has been raised in Appendix C.</p>
<p><b>Review of accounts</b> Management should review the time allocated to the accounts preparation process to ensure it is adequate. A robust review of the accounts should be undertaken and formally documented prior to approval by members.</p>	High	Practices will be reviewed against better performing authorities in this area. The allocation of additional time to this process is going to be challenging and needs careful consideration on how best to address as there is likely to be a reduction in staffing in this area.	<p>A significant number of adjustments have been made to the financial statements, some of which could have been picked up through a review of the financial statements to ensure consistency between different parts of the financial statements, casting errors.</p> <p>A further recommendation has been raised in Appendix C.</p>

2009-10 recommendation	Priority	Management comments	Further audit comments
<p><b>Asset classification</b> All assets should be reviewed to ensure they are classified in accordance with the requirements of both the SORP and IAS 16 on accounting for property, plant and equipment under IFRS.</p>	High	Agree	<p>Asset classifications were reviewed as part of the Council's transition to IFRS. However, we identified that assets disposed of were not correctly reclassified as assets held for sale in the year.</p> <p>A related recommendation has been raised in Appendix C.</p>
<p><b>Housing capital expenditure</b> All capital expenditure recorded in the housing system should be reflected in the Council's accounts and the year end.</p>	Medium	Agree	<p>We did not identify any capital expenditure that had not been reflected in the Council's financial statements, although we did identify that not all disposals of property, plant and equipment had been reflected.</p> <p>Adjustments were made to the financial statements as a result, and a related recommendation has been raised in Appendix C.</p>
<p><b>Analysis of section 106 receipts</b> Section 106 receipts should clearly distinguish between capital and revenue receipts and accounted for appropriately.</p>	Medium	Agree	Our testing of section 106 receipts did not identify any amounts that had not been incorrectly accounted for,
<p><b>Housing rent arrears and receipts in advance</b> Housing rent arrears and receipts in advance in the accounts should reflect the position at the year-end rather than the following rent week. The related impact on housing and council tax benefit should be considered and accounted for on the same basis.</p>	Medium	Agree	Our testing of HRA rent income confirmed that amounts were correctly recognised up to the end of March 2011.
<p><b>Provision for uncollectible debts</b> Provisions for uncollectible debts should be calculated using reliable data to inform future estimated recovery.</p>	Medium	Agree	From our testing of the 2010-11 provisions, we have gained assurance that they have been calculated on an appropriate basis.



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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement.

The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

## Agenda Item 8

**Audit and Corporate Governance**

**29 September 2011**

**RP**



### Regulation of Investigatory Powers Act and policy update

#### Summary

Approval is sought to this updated policy, which reflects legal requirements and the recommendations of the Office of the Surveillance Commissioner. East Devon rarely makes use of surveillance powers, but the policy will assist officers in identifying where the Regulation of Investigatory Powers Act [RIPA] applies and in implementing the Act.

#### Recommendation

1. That the updated Regulation of Investigatory Powers Act RIPA policy be approved with delegated power being given to the Corporate Legal and Democratic Services Manager to update it as necessary in line with changes to legislation and guidance.
2. That the Audit and Governance committee receive a report on RIPA, and review its use [and any major amendment to the policy] on an annual basis.
3. That the Chief Executive, Monitoring Officer and s.151 officer [Head of Finance] be designated as authorising officers for the purpose of RIPA, with the Monitoring Officer as Senior Responsible Officer

#### a) Reasons for Recommendation

To reflect good practice.

#### b) Alternative Options

To choose not to make use of the statutory powers available to the Council. However, this would in some cases make the detection of offences and their proof in court more difficult

#### c) Risk Considerations

Proper use of the Act assists in gathering admissible evidence for subsequent court proceedings, for example in benefit fraud cases

#### d) Policy and Budgetary Considerations

There are no new budgetary implications arising from the policy.

#### Positive Impact Overall

Safe Environment.

Clean Environment.

Excellent Customer Service.

Meeting our crime and disorder duties.

## e) Date for Review of Decision

September 2012

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### **Background**

1) Occasionally the Council uses directed surveillance to detect and prevent crime, under the terms of the Regulation of Investigatory Powers Act 2000 (RIPA). The powers are rarely needed, but in common with other local authorities, this council sometimes make use of them to identify and gather evidence against those responsible for anti-social behaviour or suspected serious breaches of regulatory control.

2) No authorisations were issued last year. Surveillance has the potential to be controversial and politically charged: central government pronouncements tend to veer between exhorting councils to use the powers and at other times criticising them for having done so.

3) In East Devon the approach has been to consider whether surveillance is necessary and proportionate, in line with the Act and human rights legislation. In all cases it must be necessary to prevent or detect crime or to prevent disorder. Consideration will always be given as to whether the investigation could be effectively carried out by other means without using directed surveillance.

### **4) Use of the Act**

Directed surveillance is, in essence, any activity undertaken covertly for the purpose of a specific investigation in such a way that is likely to result in obtaining information about a person's private life. For example, following a fraud suspect to their home and watching to see who they were living with without disclosing the reason for the officer's presence would normally constitute directed surveillance and require formal authorisation.

### **5) Safeguards**

The Council's policy sets out how authorisation is to be obtained, reviewed and cancelled. [Appendix 1] It also refers to the Home Office Codes of Practice on covert surveillance and covert human intelligence sources which the Council has also adopted. The various forms referred to in it are standard ones reproduced from the Surveillance Commissioner's website and have not been included in the agenda papers.

### **6) Office of Surveillance Commissioners**

An OSC inspector visits the Council approximately once every three years. Various recommendations concerning training, minor amendments to our policy, record keeping, and reducing the number of authorising officers were made at the October 2010 visit and these have been implemented or are covered by the revised policy.

### **7) Training**

Updates in training on RIPA will be arranged periodically as part of the corporate training Programme, as it is core knowledge for relevant managers. Training last took place in April this year. Familiarity with the Act is difficult to achieve because it is used so rarely and the provisions of the Act and guidance are not

easy to cope with; it is hoped managers will gain in confidence over time

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### **Legal Implications**

Included in the report.

### **Financial Implications**

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

### **Consultation on Reports**

The practical application of the policy has been discussed by relevant staff through a recent training course on RIPA. The content of the policy reflects law and guidance.

### **Background Papers**

- Code of Practice on use of covert surveillance
- Code of Practice on use of covert human intelligence sources
- Code of Practice on acquisition and disclosure of communications data
- All available on Web Site of the Office of Surveillance Commissioners  
<http://www.surveillancecommissioners.gov.uk>

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Corporate Legal and Democratic Services Manager

Audit and Corporate Governance  
29 September 2011

# East Devon District Council

## Policy on use of directed surveillance and covert human intelligence sources [Regulation of Investigatory Powers Act 2000]

### Reviewed

September 2011 (minor changes to existing policy).

### Policy Approval

Audit and Governance Committee 29 September 2011.

### Reasons for introducing the Policy

To act as a brief guide to the legislation for Council staff.

### Policy Statement

The purpose of this procedure is to ensure that the Council complies with the requirements of the Regulation of Investigatory Powers Act 2000 [RIPA] and that appropriate authorisations are given for covert surveillance and the use of covert human intelligence sources [CHIS]. RIPA, together with its associated regulatory framework, provides a valuable protection to the Council if directed or covert surveillance is carried out, and may well protect the Council from the risks of civil action in the event of a breach of a person's human rights. In addition its correct application may ensure that evidence gained by such means will be admitted in evidence more readily in the criminal courts. The policy sets out the tests which must be applied in deciding whether authorisation is appropriate.

### Terms Explained

These are set out in the policy at appropriate points in the context of the legislation.

### How will we go about it?

The policy has been approved by the senior management team, and senior and relevant staff have been offered training on its implementation.

### Specific Policy Areas

#### 1.0 INTRODUCTION

- 1.1 The Regulation of Investigatory Powers Act 2000 controls the use of covert investigative techniques by public authorities. It provides for the application for and granting of authorisations for those techniques covered by the Act.
- 1.2 Article 8 of the European Convention on Human Rights provides a right to private and family life. This is not an absolute right; it may be infringed in certain circumstances. The RIPA is designed to provide a statutory regulatory framework, which will meet the requirements of the European Convention on Human Rights.



## 2.0 ASSOCIATED DOCUMENTS

### 2.1 Statutes and Statutory Instruments

- (a) Regulation of Investigatory Powers Act 2000
- (b) Human Rights Act 1998
- (c) Police and Criminal Evidence Act 1984
- (d) Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2003 (SI 2003 No 3171) as amended by Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010/521

### 2.2 Guidance

- (a) Explanatory Notes to RIPA
- (b) Code of Practice on use of covert surveillance
- (c) Code of Practice on use of covert human intelligence sources
- (d) Code of Practice on acquisition and disclosure of communications data
- (d) Web Site of the Office of Surveillance Commissioners [OSC] - <http://www.surveillancecommissioners.gov.uk>

All Codes, plus other guidance are available on the OSC Web Site. The Regulation of Investigatory Powers Act and supporting regulations are also available.

## 3.0 SCOPE

The Act provides a regime of primary legislation and Codes of Practice, which divide covert investigation techniques into categories distinguished to an extent by the degree of intrusion involved. This procedure applies to all investigation and surveillance that may be subject of an authorisation under RIPA.

### 3.1 The Act provides the following investigatory powers:

- (1) Part 1(Chapter I) – interception of communications
- (2) Part 1 (Chapter II) – the acquisition of communications related data e.g. telephone billing data
- (3) Part II deals with:
  - intrusive surveillance on residential premises or in private vehicles
  - directed surveillance i.e. covert surveillance in the course of a specific operation
  - the use of covert human intelligence sources e.g. agents, informants, undercover officers
- (4) Part III – deals with the power to seize electronic keys giving access to encrypted computer material
- (5) Part IV – provides for scrutiny, complaint procedures and codes of practice.

### 3.2 This policy document relates to the **use of directed surveillance and covert human intelligence sources.**

- 3.3 RIPA sets out the purposes for which each of these powers may be used, the Agencies and authorities that can use them and who should authorise the use. Authorisation under RIPA gives lawful authority for the use of these methods of obtaining information provided there is compliance with the statutory requirements and procedures. Obtaining an authorisation will ensure that the action is carried out in accordance with law and subject to stringent safeguards against abuse. It will also make the action less vulnerable to challenge under the Human Rights Act 1998.
- 3.4 Services likely to conduct investigations covered by RIPA are Planning, Environmental Health, Housing, Benefits and Audit. However, **any officer of the Council if he or she conducts an investigation using methods or techniques covered by this Act is required to seek the necessary authorisation.**
- 3.5 Care must be taken that covert surveillance does not become intrusive surveillance. Intrusive surveillance is **only** available to the Home Office, MI5 and certain other central government bodies, **not to councils.**
- 3.6 Intrusive surveillance is defined in Section 26(3) of RIPA: Only if covert and
- carried out in relation to anything taking place on residential premises or in a private vehicle; and
  - involves the presence of an individual on the premises or vehicle or is carried out by a surveillance device.

#### 4.0 ACTIVITY REQUIRING AUTHORISATION

- 4.1 The following types of activity will require authorisation:
- directed surveillance
  - the conduct and use of covert human intelligence sources
- 4.2 Directed surveillance is, in essence, any activity undertaken covertly for the purpose of a specific investigation in such a way that is likely to result in obtaining information about a person's private life.
- 4.3 A covert human intelligence source (CHIS) is effectively an inside informant or undercover officer who develops or maintains their relationship with the surveillance target, having the covert purposes of obtaining or accessing information for the investigator. For a more detailed definition see section 26 of the Act.

#### 5.0 APPLYING FOR AUTHORISATIONS

- 5.1 The Chief Executive, Monitoring Officer, and s.151 Finance Officer are authorising officers.
- 5.2 Any officer intending to use directed surveillance or a CHIS shall apply for authorisation from one of these officers by completing the appropriate application form as set out at **Appendix DS/1 or CHIS/1.**

5.3 In urgent cases an application may be made orally where there is a risk to life or where the investigation or the operation may be jeopardised by delay in obtaining a written authorisation. Application may be made by telephone. Where an officer has requested and received authorisation orally they must, as soon as is reasonably practicable, record in writing a statement that the authorising officer has expressly authorised the action and pass it to the authorising officer for endorsement.

#### 5.4 Confidential information

Where the likely consequence of the directed surveillance or conduct of a source would be for any person to acquire knowledge of confidential information, the deployment of a source must be subject to special authorisation. Confidential information consists of matters subject to legal privilege, confidential personal information or confidential journalistic material. In these cases the proposed course of conduct must be referred to the Chief Executive, or in his or her absence to the person acting as Head of Paid Service for a decision as to whether authorisation may be granted. [see Covert Surveillance Code of Practice Section 3 and Appendix A].

5.5 Broadly speaking, legal privilege extends to communications between lawyers and their clients, but not where that communication has a criminal purpose.

5.6 Confidential journalistic material includes material acquired or created for the purposes of journalism and held subject to an undertaking to hold it in confidence, as well as communications resulting in information being acquired for the purposes of journalism and held subject to such an undertaking.

5.7 Confidential personal information is information held in confidence relating to the physical or mental health or spiritual counselling concerning an individual (whether living or dead) who can be identified from it. Such information, which can include both oral and written communications, is held in confidence if it is held subject to an express or implied undertaking to hold it in confidence or it is subject to a restriction on disclosure or an obligation of confidentiality contained in existing legislation. Examples might include consultations between a health professional and a patient, information from a patient's medical records or information held by a stockbroker which has been acquired or created in the course of the profession or business, including communications in which personal information is acquired or created.

5.8 In those cases where confidential information has been acquired and retained, the matter should be reported to the relevant Commissioner or Inspector during his next inspection and the material be made available to him if requested.

#### 6.0 GRANTING OF AUTHORISATIONS FOR DIRECTED SURVEILLANCE

6.1 Section 28 provides that a person shall not grant authorisation for *directed surveillance* unless he believes that:

6.1.1 the authorisation is **necessary** in the circumstances for the purpose of preventing or detecting crime or of preventing disorder

and

6.1.2 the authorised surveillance is **proportionate** to what is sought to be achieved by it. This involves balancing the intrusiveness of the activity on the target and others who might be affected by it against the need for the activity in operational terms. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means. All such activity should be carefully managed to meet the objective in question and must not be arbitrary or unfair.

6.2 The authorising officer in determining whether the surveillance is proportionate will give particular consideration to any collateral intrusion on or interference with the privacy of persons other than the subject(s) of the surveillance. Measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

6.3 Authorisations must be given in writing except as mentioned above where an urgent oral authorising is required.

6.4 Wherever possible authorising officers should not be responsible for authorising their own activities.

#### 6.5 **Duration of Authorisations and Reviews**

An authorisation in writing ceases to have effect at the end of a period of 3 months beginning with the day on which it took effect. So an authorisation starting 1 January would come to an end on 31 March. Urgent oral authorisations will cease to have effect after 72 hours, beginning with the time when the authorisation was granted. Regular reviews of authorisations should be undertaken. The results of the review should be recorded on **Appendix DS/2** and a copy filed on the central record of authorisations. If the surveillance provides access to confidential information or involves collateral intrusion more frequent reviews will be required. The Authorising Officer should determine how often a review should take place.

#### 6.6 **Renewals**

6.6.1 While an authorisation is still effective the authorising officer can renew it if he considers this necessary for the purpose for which the authorisation was originally given. The authorisation will be renewed in writing for a further period, beginning with the day when the authorisation would have expired but for the renewal and can be for a period of up to 3 months.

6.6.2 Applications requesting renewal of an authorisation are to be made on the appropriate form as set out at **Appendix DS/3** and be submitted to the authorising officer.

6.6.3 Applications for renewal will record:

- whether this is the first renewal, if not, the occasion which the authorisation has previously been renewed
- the information as required in the original application, as it applies at the time of the renewal; together with
- the significant changes to the information in the previous authorisation
- the reasons why it is necessary to continue with the surveillance
- the content and value to the investigation or operation of the information so far obtained by the surveillance
- an estimate of the length of time the surveillance will continue to be necessary

## 6.7 Cancellations

The person who granted or last renewed the authorisation **MUST** cancel it if he is satisfied that the directed surveillance no longer meets the criteria for authorisation. Requests for cancellation will be made on the appropriate form as set out at **Appendix DS/4** and submitted to the authorising officer for authorisation of the cancellation.

## 7.0 GRANTING OF AUTHORISATION FOR THE CONDUCT AND USE OF COVERT HUMAN INTELLIGENCE SOURCES (CHIS)

7.1 The same requirements of necessity and proportionality exist for the granting of these authorisations as are set down for directed surveillance.[See 6.1.1. and 6.1.2]

7.2 Additionally the authorising officer shall not grant an authorisation unless he/she believes that arrangements exist for the source's case which satisfy the following requirements:

- there will at all times be an officer with day to day responsibility for dealing with the source and the source's welfare
- there will at all times be an officer who will have general oversight of the use made of the source
- there will at all times be an officer with responsibility for maintaining a record of the use made of the source
- those records will always contain particulars of all such matters as may be specified for this purpose by the Secretary of State
- records which disclose the identity of the source will not be available to persons except to the extent that there is a need for access to them to be made available

7.3 Similarly before authorising use or conduct of the source, the authorising officer must be satisfied that the conduct/use is proportionate to what the use

or conduct of the source seeks to achieve, taking into account the likely degree of intrusion into privacy of those potentially effected for the privacy of persons other than those who are directly the subjects of the operation or investigation. Alternative means of gathering the evidence should be considered, and reasons given why this has been rejected. Measures should be taken, wherever practicable, to avoid unnecessary intrusion into the lives of those not directly connected with the operation. Where there is intrusion upon a target this and any collateral intrusion should be kept to a minimum.

- 7.4 Particular care is required where people would expect a high degree of privacy or where, as a consequence of the authorisation confidential material is likely to be obtained. Where confidential material is likely to be acquired then approval must be obtained from the Chief Executive, and in his absence, the person acting as Head of Paid Service.
- 7.5 Consideration is also required to be given to any adverse impact on community confidence that may result from the use or conduct of a source or information obtained from that source.
- 7.6 Additionally, the authorising officer should make an assessment of any risk to a source in carrying out the conduct in the proposed authorisation. This should include the risk to the source of any task and the likely consequences should the role of the source become known. The ongoing security and welfare of the source, after the cancellation of the authorisation, should also be considered at the outset. A responsible officer should be identified within the service concerned who will have day to day responsibility for the control and direction and activities of the source, recording the information supplied by the source; and monitoring the source's security and welfare.
- 7.7 Authorisation for the use of a CHIS must be given in writing with the same proviso for urgent cases as exists in the case of authorisations for directed surveillance. **Care must be taken to make sure that covert surveillance does not become intrusive surveillance, as this authority is not permitted to carry out intrusive surveillance.**
- 7.8 Intrusive surveillance [Section 26(3) of RIPA]: Only if covert and
- carried out in relation to anything taking place on residential premises or in a private vehicle; and
  - involves the presence of an individual on the premises or vehicle or is carried out by a surveillance device.
- 7.9 Ideally the authorising officers should not be responsible for authorising their own activities, e.g. those in which they themselves are to act as a source or in tasking a source. However it is recognised that this will not always be possible especially in the case of small departments.
- 7.10 An application for authorisation for the use or conduct of a source will be made on the appropriate form as set out at **Appendix CHIS/1** and must record:
- The source's pseudonym or ref number

- The details of the handler
- The details of the manager with general oversight
- The person responsible maintaining records under the RIPA (Source Records) Regulations 2000
- Operation name
- Job title of authorising officer
- Purpose of specific operation or investigation
- The purpose for which the source will be tasked or deployed
- Details of what the source would be tasked to do
- Why the conduct or use of the source is necessary for the purpose of preventing or detecting crime or preventing disorder
- Why the conduct or use of the source is proportionate to what it seeks to achieve
- Details of potential collateral intrusion and why the intrusion is unavoidable, precautions to minimise collateral intrusion and how any will be managed, and whether the evidence could be obtained by any other means
- Any particular sensitivities in the local community where the source is to be used, and whether similar activities are being undertaken by other public authorities that could impact on the deployment of the source
- A risk assessment of the risk to the source in carrying out the proposed conduct
- Details of any confidential material that might be obtained as a consequence of the authorisation and confidential information authorisation

[The RIPA (Source Records) Regulations 2000 (SI 2000/2725) further require a record to be kept of

- the identity of the source;
- the identity, where known, used by the source;
- any relevant investigating authority other than the authority maintaining the records;
- the means by which the source is referred to within each relevant investigating authority;
- any other significant information connected with the security and welfare of the source;
- any confirmation made by a person granting or renewing an authorisation for the conduct or use of a source that the information in paragraph (d) has been considered and that any identified risks to the security and welfare of the source have where appropriate been properly explained to and understood by the source;
- the date when, and the circumstances in which, the source was recruited;

- the identities of the persons who, in relation to the source, are discharging or have discharged the functions mentioned in section 29(5)(a) to (c) of the 2000 Act or in any order made by the Secretary of State under section 29(2)(c);
- the periods during which those persons have discharged those responsibilities;
- the tasks given to the source and the demands made of him in relation to his activities as a source;
- all contacts or communications between the source and a person acting on behalf of any relevant investigating authority;
- the information obtained by each relevant investigating authority by the conduct or use of the source;
- any dissemination by that authority of information obtained in that way; and
- in the case of a source who is not an undercover operative, every payment, benefit or reward and every offer of a payment, benefit or reward that is made or provided by or on behalf of any relevant investigating authority in respect of the source's activities for the benefit of that or any other relevant investigating authority.

#### 7.11 Duration of Authorisations

A written authorisation, unless renewed, will cease to have effect at the end of a period of twelve months beginning with the day on which it took effect. Oral authorisations will, unless renewed, last 72 hours.

#### 7.12 Renewals

As with authorisations for directed surveillance authorisations for the conduct and use of covert human intelligence sources can be renewed, the same criteria applying. Applications for renewal must be made on the appropriate form as set out at **Appendix CHIS/3** and submitted to the authorising officer. However, an application for renewal should not be made until shortly before the authorisation period is coming to an end.

7.13 An authorisation may be renewed more than once – provided it continues to meet the criteria for authorisation.

#### 7.14 Reviews

Regular reviews of authorisations should be undertaken. The results of the review should be recorded on **Appendix CHIS/2** and a copy filed on the central record of authorisations. If the surveillance provides access to confidential information or involves collateral intrusion frequent reviews will be required. The authorising officer should determine how often a review should take place.

7.15 Before an authorising officer renews an authorisation he must be satisfied that a review has been carried out of:



- The use made of the source during the period authorised
- The tasks given to the source
- The information obtained from the use or conduct of the source

7.16 If the authorising officer is satisfied that the criteria necessary for the initial authorisation continue to be met, he may renew it in writing for a further period.

#### 7.17 **Cancellations**

The officer who granted or renewed the authorisation **MUST** cancel it if he/she is satisfied that

- the use or conduct of the source no longer satisfies the criteria for authorisation, or
- that the arrangements for the source's case no longer exist

7.18 Requests for cancellation will be made on the appropriate form as set out at **Appendix CHIS/4** and submitted to the authorising officer for authorisation of the cancellation.

#### 7.19 **Management Responsibility**

The day to day contact between the Council and the source is to be conducted by the handler, who will usually be an officer below the rank of the authorising officer. No vulnerable person or young person under the age of 18 should be used as a source.

#### 7.20 **Security and Welfare**

Account must be taken of the safety and welfare of the source. The authorising officer prior to granting authorisation should ensure that an assessment is carried out to determine the risk to the source of any tasking and the likely consequences should the target know the role of the source.

#### 7.21 **Special Rules**

The fullest consideration should be given in cases where, the subject of the surveillance might reasonably expect a high degree of privacy, for instance in his/her home, or where there are special sensitivities.

#### 7.22 **Confidential Material**

Where the likely consequence of the directed surveillance or conduct of a source would be for any person to acquire knowledge of confidential material the deployment of a source should be subject to special authorisation. In these cases the proposed course of conduct must be referred to the Chief Executive and in his absence the person acting as Head of Paid Service — for a decision as to whether authorisation may be granted.

## 8.0 MAINTENANCE OF RECORDS

8.1 Each authorising officer shall send the Monitoring Officer any authorisation, renewal or cancellation immediately it has been signed.

8.2 The Corporate Legal and Democratic Services Manager shall keep in a dedicated place

- a record of all authorisations sought
- a record of authorisations granted and refused
- applications for the granting, renewing and cancellation of authorisations

The records will be confidential and will be retained for a period of 5 years from the ending of the authorisation.

8.3 Authorising officers will ensure compliance with the appropriate data protection requirements and any relevant codes of practice produced by individual authorities in the handling and storage of material.

8.4 Where material is obtained by surveillance which is wholly unrelated to a criminal or other investigation or the person subject of the surveillance and no reason to believe it will be relevant to future civil or criminal proceedings it should be destroyed immediately. The decision to retain or destroy material will be taken by the relevant authorising officer.

## 9.0 AWARENESS OF THE CONTENTS OF THE ACT AND TRAINING

It shall be the responsibility of each Head of Service/Corporate Manager to ensure that all staff involved or likely to be involved in investigations or enforcement receive a copy of the training document, have received training and are aware of the requirements and implications of the Act.

## 11.0 CODES OF PRACTICE

A copy of each Code of Practice shall be kept in the reception area and be available to members of the public during usual working hours.

### **Outcomes**

A clear policy should support a positive outcome when the Council is next inspected by the Office of the Surveillance Commissioner.

### **Who is responsible for delivery?**

The Monitoring Officer as Senior Responsible Officer has oversight of :

- the integrity of the process in place within the local authority for the management of CHIS;

- compliance with Part II of the Act and with the Codes;
- oversight of the reporting of errors to the relevant oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
- engagement with the Office of the Surveillance Commissioner (OSC) inspectors when they conduct their inspections, where applicable; and
- where necessary, oversight of the implementation of post-inspection action plans approved by the relevant oversight Commissioner.
- ensuring that all authorising officers are of an appropriate standard in light of any recommendations in the inspection reports prepared by the OSC.
- where an inspection report highlights concerns about the standards of authorising officers, this individual will be responsible for ensuring the concerns are addressed.

The Chief Executive, Monitoring Officer and s.151 Finance officer are the council's three authorising officers. Only the Chief Executive may authorise surveillance which involves confidential information [see paragraph 5.4]. Heads of service or equivalent have the responsibility for ensuring staff are aware of the policy and receive appropriate support and training. Records of all authorisations, reviews and cancellations are to be kept by the Corporate Legal and Democratic Services Manager.

### **Performance Monitoring**

Through the review provisions set out in the policy. The Council is also monitored by the Office of the Surveillance Commissioner which inspects approximately three yearly at the current time [last inspection October 2010].

It is also recommended that the Audit and Governance Committee should review the authority's use of RIPA, and the policy on an annual basis. Councillors should not be involved in making decisions on specific authorisations.

### **Policy Consultation**

Senior Management Team and Audit and Governance Committee

### **Policy Review**

The Corporate Legal, and Democratic Services Manager will review the policy in 2014. In the interim any changes necessary to reflect updates in legislation or guidance will be made by her.

### **Related Policies and Strategies.**

Anti-fraud, Theft and Corruption Policy



## **East Devon District Council**

Report of Internal Audit Activity  
Quarter 2 2011/12

# Contents

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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 2 Outturn:

### Internal Audit Work Programme

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

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 2 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 current period we have issued final reports for the following operational audits from the 2011\_12 audit plan:

- Income
- Health, Safety and Insurances
- Whistleblowing and Money Laundering
- Expense Claims Officers and Members

Following agreement with the client there were two operational audits scheduled for quarter 2 which were deferred to quarter 3. These were Licensing (Taxis, Alcohol and other) and Procurement. Two other audits were brought forward these being Expense Claims (originally scheduled for quarter 4) and a Key Control audit of Treasury Management (originally scheduled for quarter 3).

#### 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. However in order to accommodate a deferral of operational audits on Licensing and Procurement a quarter 3 Key Control audit on Treasury Management was brought forward to quarter 2 for which we have recently issued a draft report.



## Quarter 2 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 the current period we have completed the following operational audits from the 2011\_12 audit plan:

- Contract Management
- Gifts and Hospitality
- Bribery Act

We have issued a final report in respect of Contract Management and draft reports for the Gifts and Hospitality and Bribery Act audits.

We have also completed work in support of the S151 officers requirement to produce the Annual Governance Statement for the 2010/11 accounts.

#### 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 which was 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.

Directorate/Service	Audit Area	Quarter	Audit Days	Status	Opinion	No. of recs	Recommendations				
							1 = Mind	2	3	4	5 = Major
Governance, Fraud & Corruption	Contract Management - Monitoring and Compliance with Standing Orders	1	15	Final Report	Partial	14	0	2	3	4	5
Governance, Fraud & Corruption	Partnership arrangements	1	8	Draft Report	Partial	11	0	0	4	7	0
Operational Audits	Emergency planning	1	15	Final Report	Partial	14	0	3	8	3	0
Operational Audits	Grants	1	10	Final Report	Reasonable	1	0	1	0	0	0
Operational Audits	Income	1	15	Final Report	Partial	18	0	4	14	0	0
Operational Audits	S. 106 agreements	1	15	Final Report	Reasonable	5	0	0	4	1	0
IT Audits	Level 1 Security Review	1	10	Final Report	Non-Compliant	24	2	7	11	4	0
Operational Audits	Follow Ups	1	6	Completed							
Governance, Fraud & Corruption	Annual Governance Statement Review	1	10	Completed							
Governance, Fraud & Corruption	Bribery Act 2010	1	5	Draft Report	Partial	12	0	0	12	0	0
Operational Audits	Property Services	2	15	In Progress							
Governance, Fraud & Corruption	Gifts and Hospitality - Register of Interests - Members and Staff	2	8	Draft Report	Reasonable	3	0	0	3	0	0
Operational Audits	Streetscene	2	15	In Progress							
Operational Audits	Risk management	2	10	In Progress							
Operational Audits	Economic development	2	5	In Progress							
Operational Audits	Fraud prevention	2	10	In Progress							
Operational Audits	Health, safety and insurances	2	12	Final Report	Reasonable	11	0	2	9	0	0
Operational Audits	Whistleblowing and Money Laundering	2	10	Final Report	Reasonable	11	0	8	3	0	0
Key Control Audits	Treasury Management	2	5	Draft Report	Reasonable	5	0	4	1	0	0
Operational Audits	Expenses claims - Members, officers and others	2	5	Final Report	Reasonable	5	0	2	3	0	0
Operational Audits	Procurement	3	12								
Operational Audits	Licensing - taxis, alcohol and other licences	3	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						
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						

Schedule of Key Actions Identified from Internal Audit Work completed in quarter 2 2011/12

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
August 2011	Contract Management	Feedback from Service managers confirmed that the Contract Standing Orders were not fully understood and were poorly presented.	There is a risk to the Council if there is no clear document in place to help managers with the management of contracts.	I recommend the Procurement Officer considers the examples of Contract Standing Order documents identified by SWAP as part of their review of the Contract Standing Order document.	We agree that there is a need for an updated document and began work on a re-draft some months ago. Current document is mostly consistent with CIPFA example, as used by other Devon districts. When completing our revision, the examples provided by SWAP will be considered but with the addition of the legislative changes implemented since their publication.	31 March 2012
August 2011	Contract Management	The Contract register Council does not provide details of the officer who was responsible for either setting up or managing the contract, although it is listed by service.	A lack of key contract information increases the risk of poorly targeted action for re-tendering.	I recommend the Procurement Officer ensures that a complete list of contracts is recorded which will include the completion of the following data:  Name of Officer responsible for setting up the contract.  Name of Officer responsible for reviewing the contract.  The start and completion date of the Contract. Review date.	We will be implementing a Contracts Register using a template supplied by Due North to many authorities. This is more comprehensive than our current version (itself developed from other authority examples), and is in line with central government requirements.	31 January 2012

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
August 2011	Contract Management	Out of 208 contracts recorded on the Contracts Register, there were 144 contracts which did not have a record of the expiry date.	There is a risk of not going out to retender at the appropriate time.	I recommend the Procurement Officer does a review of all contracts set up on the Contracts Register which do not have a formal end date to ensure that they are not due a re-tender exercise.	Agreed. The review will be held in conjunction with the establishment of the new Contracts Register.	31 January 2012
August 2011	Contract Management	There is no central framework in place to review existing contracts. It was evident in my testing that some contractors/suppliers were not being reviewed throughout the duration of the agreed contract/agreement.	There is a risk that contractors are not complying with the contractual agreement if there is no formal approach to review existing contracts.	I recommend the Procurement Officer introduces a contracts review framework that responsible officers can follow when reviewing existing contract arrangements. This should also include reporting at Committee level on an annual basis. There should be consideration on the following areas as suggested by the OJC; Risk Management; Issue Management; Claims Management and Change Control Management.	The review and performance management/development of our suppliers is seen as key to operating efficient services and ensuring Value for Money.  Although paragraphs 1.106 to 1.108 specify the requirement for the reviewing of all contracts by the responsible officers, it is apparent that this process needs reinforcing and the frequency needs made clearer. This will be monitored more readily with our move into electronic procurement and the revised Contracts Register.	30 June 2012
August 2011	Contract Management	The Chubb contract is currently affecting the service provided by Home Safe Guard and the Housing Landlord Services Manager currently seeks guidance for any future contractual arrangements.	There is a risk to the Council that they are not receiving either value for money or a good quality of service from a contractor if contracts are not subject to a	I recommend the Housing Landlord Services Manager following review of the contract with Chubb, seeks guidance from the Procurement Officer to ensure any future contractual arrangements are suitable for the service and are in compliance with the Contract Standing Orders.	Agreed.	31 March 2012

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
August 2011	Contract Management	Neither the Service or Legal department retained a sufficient audit trail to document the setting up of a contract.	There is a risk of tendering process or regular review. There is a risk that key contract documents may not be available which may impact on the ability to monitor the delivery of contract requirements.	I recommend the Procurement Officer adopts a similar approach to Brentwood Council on retaining records of contracts. This should include the following: Officers must keep records to show a clearly documented audit trail. (There should also be a clear breakdown of what documents are required depending upon the value of the contract;) Procurement services role to ensure all new contracts are logged onto the Contract Register Original contracts and all documentation relating to a contract must be kept in the contract file which is to be located in the Procurement Office.	It is agreed that officers must keep clear, appropriate records. Although this section of Contract Standing Orders is comprehensive in its statement of requirements, it must be followed.  The Contracts Register review as outlined in 2.1b will include the ownership of updating with new contracts.  Procurement and Legal Services to agree on an appropriate process relating to contract files. The eventual introduction of electronic tendering will in any case facilitate the efficient retrieval and viewing of documentation (and provide audit trail).	31 March 2012
August 2011	S106 Agreements	The OPDM circular 05/2005 sets out the requirement for maintenance payments to be included in the Local Development Framework. The Local Development Framework is undergoing preparation.	There is a risk of financial loss to the Council and challenge by developers.	I recommend that: The Policy Manager ensures that any update/ revisions to the Development Plan should include reference to maintenance payments required from contractors.  The Executive Board should formally adopt the	This would be included in the Supplementary Guidance supporting the Development Plan.  Management are prepared to accept the risk that contractors may challenge the level of contributions	31 December 2011

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
		<p>Although references to maintenance payments were found in the Local Plan, detailed information was only available in the form of unadopted and outdated Supplementary Planning Guidance (The Recreational Strategy 2003). The land values used in the calculations are out of date and the status of the Strategy has been challenged at appeal.</p>		<p>Recreational Strategy in the interim period until a new formula is agreed.</p>	<p>calculated using the out of date, unadopted Recreational Strategy. They feel that the risk that the contributions are challenged may be higher if an out of date strategy is adopted, and that formal adoption at Committee may only advertise the problems in the document. The Strategy is in the process of being updated and is due for completion by the end of the financial year.</p>	



**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.

Housing Needs Name	Description	Priority	Status	Target Implementation Date	Owner	Manager Update
Strategies to avoid homelessness	<ul style="list-style-type: none"> <li>-IDownscaling Scheme more clearly advertised on the website and funds made available for recommendations approved at Committee.</li> <li>-DA portion of DHP administered by Housing Needs</li> <li>-BAadaptation 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> <ul style="list-style-type: none"> <li>The EDDC website could 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> <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>	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.

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.
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Emergency Planning

Name	Description	Priority	Status	Target Implementation Date	Owner	Manager Update
Risk Assessments	<p>I recommend that risk assessments be completed as a matter of urgency, which include the following:</p> <ul style="list-style-type: none"> <li>a) set out what resources may be lost</li> <li>b) how they will be replaced or covered, both in the short and long term</li> <li>c) replacement resources prioritisation</li> <li>d) set out how critical resources are in different scenarios</li> </ul> <p>I recommend that all risk assessments are limelabelled for formal approval by senior management, to reduce the risk that anything is omitted.</p>	4	Agreed. Approval will be included as part of the annual review of the Emergency Plan.	31/07/2011	EDDC Head of Environment	Some risk assessments have been completed. However in order to complete the flooding risk assessment we are awaiting receipt of vulnerable site data from Devon County Council. We are also awaiting information from Devon Highways on the current severe weather support network. We anticipate completion of the risk assessments by the end of September 2011.

Payroll

Name	Description	Priority	Status	Target Implementation Date	Owner	Manager Update
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Security of BACS payment | recommend 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 assurance over this process.

EDDC Corporate  
Manager - Organisational Development

31/07/2011

Agreed

4

The BACS file is produced in the normal manner and then transferred by the Payroll Officer to a folder where it is remotely validated by a computer programme to match to the NET pay held in Trent. It is then automatically transferred to the BACS Active payments system. This validation is on a line by line basis and covers both the amounts and bank account details for each employee to ensure that there has been no manipulation of individual payments whilst leaving the overall total untouched. This means if the file was amended after production but before it was placed in the special BACS folder the validation routine built into the folder would identify the amendment and not transfer it to the BACS payments system. The BACS file would remain where it is and the system would send an email every 5 minutes to both the payroll inbox and the system administrator in ICT as well as the Corporate Organisational Development Manager.

Name	Description	Priority	Status	Target Implementation Date	Owner	Manager Update
Antivirus	The ICT Design & Compliance Manager ensures all local machines are fully protected with appropriate antivirus software.	4	Agreed	31/05/2011	EDDC Corporate Manager - ICT	Programme Board - 9th August 2011 - Information Security Performance: Eight PCs have been found with broken antivirus software. These were not responding to the administration console as normal and so were not identified by our normal checks. These PCs have been fixed by carrying out a sweep of the entire network, followed by a manual uninstall / re-install of the software. This procedure has been repeated several times to ensure all PCs in a similar state have been detected. We have scheduled a regular repeat of this process as a precaution.

## Agenda Item 10

**From:** Audit Commission [mailto:a-commission@audit-commission.gov.uk]  
**Sent:** 03 August 2011 13:01  
**To:** Mark Williams  
**Subject:** Audit Commission: The future of local audit



Dear Mr Williams

### **Future of Local Audit**

The Department for Communities and Local Government (DCLG) has been considering the options for transferring the audit work of the Audit Commission's in-house audit practice to the private sector. Ministers have now decided the best value for money should be achieved by outsourcing the work through a procurement exercise. Sir Bob Kerslake, Permanent Secretary at DCLG, has written to the chief executives of all local authorities to advise them of the decision.

I am writing to tell you about the timetable for this procurement and what it means for your auditor appointment.

### **Procurement exercise**

DCLG has asked the Commission to seek bids for the work currently undertaken by the in-house audit practice. New contracts will be awarded for three or five years, commencing from the audit of the accounts for 2012/13. We aim to issue a Contract Notice in the Official Journal of the European Union in early September 2011.

The Commission will award contracts in spring 2012 to allow new auditor appointments to be in place by 1 September 2012.

### **Auditor appointment**

Your current auditor is appointed to audit the accounts for the 2011/12 financial year. The procurement does not affect this appointment.

As your current auditor is a private firm, we do not expect to have to change the appointment from 2012/13. However, we must wait until the procurement is completed before we can confirm the national picture on auditor appointments.

As we will not be awarding contracts until spring 2012 we will not be able to confirm your auditor for 2012/13 until after the start of that financial year. Because an auditor needs to be in place at the start of the financial year, we will need to make an interim auditor appointment to cover the period from 1 April 2012 to 31 August 2012.

To minimise disruption, we are proposing to extend your current auditor's appointment to deal with any issues that may arise during that period. This 'interim' auditor's role will be limited to keeping a 'watching brief'. Any costs incurred by interim auditors will be paid by the Commission. We will write to you again to formally consult you on the interim appointment by the end of this year.

Following the procurement exercise we will confirm the auditor appointment, for the audit of the 2012/13 and future years' accounts, with effect from 1 September 2012. We will consult you on this appointment following the award of contracts in spring 2012.

I recognise these arrangements may raise questions but I have tried to anticipate these by setting out the position in the table below:

Period	Auditor Appointment	Comments
From 1 April 2011	Current auditor (private firm)	<ul style="list-style-type: none"><li>• No change for audit of 2011/12 accounts.</li></ul>
1 April 2011 to 31 August 2012	Current auditor (private firm)	<ul style="list-style-type: none"><li>• Interim appointment for 2012/13: no change - subject to consultation by end of 2011.</li><li>• Role will be to keep a 'watching</li></ul>

## Agenda Item 10

		brief only and any costs incurred by auditors will be paid by the Commission.
From 1 September 2012	New auditor appointment (private firm)	<ul style="list-style-type: none"> <li>• <b>New auditor appointment</b> - subject to consultation following award of contracts in spring 2012. This is likely to be your current auditor <u>but</u> this can only be confirmed once the national picture is known following award of contracts in spring 2012.</li> <li>• Auditor will audit the 2012/13 accounts (opinion on the financial statements and the annual VFM conclusion).</li> <li>• Full year's scale fee payable by audited body.</li> <li>• Auditor responsible for audit of future year's accounts.</li> </ul>

If you want to clarify any of the points in this letter or ask other questions about the content of this letter, please email: [auditor-appointments@audit-commission.gov.uk](mailto:auditor-appointments@audit-commission.gov.uk) or contact Andrew Davies or Marcine Waterman on 0844 798 2447.

Yours sincerely

Eugene Sullivan

Chief Executive, Audit Commission

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## **GLOSSARY Contd.**

### **Income & Expenditure Account**

The net cost for the year for services provided by the Authority for which it is responsible and showing how the cost has been financed from precepts, grants and other income.

### **Liquid Resources**

Cash and current Asset investments that can be easily converted to known amounts of cash without penalty, or can be traded on the active market.

### **Long Term Debtors**

Sums of money due to the Authority originally repayable within a period in excess of twelve months but where payment is not due until future years.

### **Net Book Value**

The value of fixed assets included on the balance sheet, being the historical cost or a current revaluation less the cumulative amounts of depreciation.

### **Non-distributed Costs**

In the main this represents support service area charges. E.g.: Corporate Management, Finance, Legal, ICT, HR services, etc. In addition to this a number of non-service specific corporate fees are included.

### **Operating Lease**

A lease where the risks and rewards, and therefore the ownership of the asset, remains with the lessor.

### **Precept**

The amount levied by one authority which is collected by another. E.g. the County Council is the precepting authority and the District Council is the collecting authority.

### **Provision**

This is an amount which is put aside to cover future liabilities or losses which are considered to be certain or very likely to occur, but the amounts and timing are uncertain.

### **Reserves**

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion on the Authority. Some capital reserves such as the capital adjustment account cannot be used to meet current expenditure.

### **Revaluation Reserve**

This records net gains from revaluations made after 1 April 2007 not yet realised through sales.

### **Revenue Contributions**

This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

### **Revenue Expenditure**

The day to day expenditure of the authority on such items as employees and equipment.

### **Revenue expenditure funded from capital under statute (REFCUS)**

Expenditure which may properly be capitalised but which does not result in tangible fixed assets owned by the Authority.

### **Revenue Support Grant (RSG)**

The major grant paid by central government to local authorities in aid of service provision.

### **Trust Funds**

Funds administered by the Authority for such purposes as prizes, charities and specific projects, on behalf of minors.

**ANNUAL GOVERNANCE STATEMENT**

To follow. Awaiting officer group, Chief Executive and Leader of the Authority approval.

**AUDIT OPINION**

To follow.

