

Date: 8 January 2013
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To: Members of the Audit and Corporate Governance Committee
(Councillors: Roger Boote, Peter Bowden, Bob Buxton
Steve Gazzard, Steve Hall, Tony 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 Executives
Head of Service – Finance
Internal Audit, SWAP
External Audit, Grant Thornton
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Audit and Governance Committee
Thursday 17 January 2013
2.30pm
Council Chamber, Knowle, Sidmouth

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
Part A	
1 Public question time – standard agenda item (15 minutes) Members of the public are invited to put questions to the Committee through the Chairman. Councillors also have the opportunity to ask questions of the Leader and/or Portfolio Holders during this time slot whilst giving priority at this part of the agenda to members of the public.	
2 To confirm the minutes of the meeting of the Audit & Governance Committee held on 29 November 2012.	4 - 11
3 To receive any apologies for absence.	
4 To receive any declarations of interests relating to items on the agenda.	

5	To consider any items which in the opinion of the Chairman, should be dealt with as matters of urgency because of special circumstances. (Note: Such circumstances need to be specified in the minutes; any Member wishing to raise a matter under this item is requested to notify the Chief Executive in advance of the meeting).		
6	To agree any items to be dealt with after the public (including the press) have been excluded. There are no items which Officers recommend should be dealt with in this way.		
7	SWAP Governance Arrangements	Head of Internal Audit Partnership	Report to Follow
8	Five Year Housing Land Supply and associated infrastructure update (as requested by the Committee at their last meeting)	Planning Policy Manager	12 - 13
9	Certification Work Report 2011/12	External Audit, Grant Thornton	14 - 26
10	Internal Audit Activity – Quarter 3 2012/13	SWAP	27 - 41
11	Forward Plan	Head of Finance	42

Members remember!

- You must declare the nature of any disclosable pecuniary interests. [Under the Localism Act 2011, this means the interests of your spouse, or civil partner, a person with whom you are living with as husband and wife or a person with whom you are living as if you are civil partners]. You must also disclose any personal interest.
- You must disclose your interest in an item whenever it becomes apparent that you have an interest in the business being considered.
Make sure you say what your interest is as this has to be included in the minutes. [For example, 'I have a disclosable pecuniary interest because this planning application is made by my husband's employer'.]
- If your interest is a disclosable pecuniary interest you cannot participate in the discussion, cannot vote and must leave the room unless you have obtained a dispensation from the Council's Monitoring Officer or Standards Committee.

Decision making and equality duties

The Council will give due regard under the Equality Act 2010 to the equality impact of its decisions.

An appropriate level of analysis of equality issues, assessment of equalities impact and any mitigation and/or monitoring of impact will be addressed in committee reports.

Consultation on major policy changes will take place in line with any legal requirements and with what is appropriate and fair for the decisions being taken.

Members will be expected to give reasons for decisions which demonstrate they have addressed equality issues.

Getting to the Meeting – for the benefit of visitors



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From Exeter – 52A, 52B; From Honiton – 52B; From Seaton – 52A; From Ottery St Mary – 379, 387

Please check your local timetable for times.

The Committee Suite has a separate entrance to the main building, located at the end of the visitor and Councillor car park. The rooms are at ground level and easily accessible; there is also a toilet for disabled users.

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EAST DEVON DISTRICT COUNCIL

Minutes of a Meeting of the Audit and Governance Committee held at Knowle, Sidmouth, on Thursday 29 November 2012

- Present:** Councillors:
Peter Bowden (Vice Chairman in the Chair)
Bob Buxton
Steve Hall
Tony Howard
- Also Present:** Councillors:
David Cox, Portfolio Holder - Finance
Martin Gammell
- Officers:** Joanne Avery, Management Information Officer
Simon Davey, Head of Finance
Phillip Grover, Accountant
Martin Millmow, Operations Manager (Document Centre)
Rachel Pocock, Head of Legal and Democratic Services Manager
Chris Powell, Corporate ICT Manager
Colin Slater, Corporate Procurement Officer
Hannah Whitfield, Democratic Services Officer
- Internal Auditors:** Andrew Ellins, South West Audit Partnership (SWAP)
- External Auditors:** Jenny Dwyer, Grant Thornton
Barrie Morris, Grant Thornton
- Apologies:** Committee Members
Councillors:
Roger Boote
Steve Gazzard
Geoff Pook
Ken Potter
- Dave Hodgson - SWAP

The meeting started at 2.30 pm and ended at 5:05 pm.

- *17 **Appointment of Vice Chairman**
Councillor Steve Hall was appointed Vice Chairman for the meeting.
- *18 **Public Questions**
No questions were raised by members of the public.
- *19 **Minutes**
The minutes of the meeting of the Audit and Governance Committee held on 27 September 2012 were confirmed and signed as a true record.

***20 Declarations of interest**

There were no declarations of interest from Members.

***21 Exclusion of the Public**

RESOLVED: that the classification given to the documents to be submitted to the Cabinet be confirmed, and that the reports relating to exempt information, be dealt with under Part B.

***22 Regulation of Investigatory Powers Act update**

The Committee considered the report of the Corporate Legal and Democratic Services Manager outlining legislative amendments to the Regulation of Investigatory Powers Act [RIPA] which came into force on 1 November 2012. Members were asked to note that the related policy had been updated to reflect the changes, as detailed in the committee report, and to receive the annual report.

During discussion about the amendments to the Act, the Corporate Legal and Democratic Service Manager confirmed that there had been no instances where the Council had used directed surveillance to detect and prevent crime, under the terms of RIPA during 2012. She also clarified that RIPA was concerned with surveillance rather than casual information gathering and provided a process to help the Council to collect evidence in a way that would be acceptable to a court. Training relevant staff to understand when RIPA applied was part of the Council's compliance arrangements.

RESOLVED: that the changes to the updated Regulation of Investigatory Powers Act [RIPA] policy to reflect changes brought in by the Protection of Freedoms Act 2012 be noted and the annual report be received.

***23 Review of Document Centre and ICT costs**

At their meeting on 28 June 2012 during discussion on the Revenue and Capital Outturn Report 2011/12 Members had asked for a review of the Document Centre and ICT costs.

The Committee received a detailed presentation from the Corporate ICT Manager and Operations Manager (Document Centre) covering the following:

Document Centre

- Highlights from the last five years included a successful move from Xerox to in-house operations; the purchase of production equipment outright from within existing budget; the transfer of two staff from Planning to provide scanning services; the reduction of two members of staffs working hours (volumes of print reduced); reduction in overall spending; and improved visual document design/visual standards.
- Over the last five years there had been a significant increase in post costs (66%) and paper prices (46%). Cleanmail (now business post) had been introduced which was cheaper than franked post, however postage costs continued to be a concern going forwards.

***23 Review of Document Centre and ICT costs continued...**

- What's next for the Document Centre – print costs would be lowered through a new contract (February 2013); EDMS (Electronic Document Management System) - moving from paper to digital formats; increased digital engagement through eNewsletters, Facebook and email; continuing to challenge the need to print/post in paper format.

Information, Communication and Technology (ICT)

- Highlights from the last five years and costs included reduced salary bill; addition of at least 30 new systems; increased the number of servers and data storage; provided 24 hour access to systems; and improved security.
- A number of business systems were being introduced in order to respond to business requirements.
- Support activity and performance – the time spent on incidents had reduced and requests were dealt with faster.
- Customer change requests – this was an area that needed attention due to capacity issues.
- What's happening now? A number of systems were being simplified; introduction of integrated mobile working (StreetScene) to achieve improved efficiencies; addition of integrated website services; EDMS; introduction of webchat to the Customer Service Centre; installation of an electronic system into Legal; selection of a new housing system; progressing electronic procurement, paperless agendas and Members' IT.
- What's next? Potential for a Shared ICT service through a separate company run by four Devon Councils. A business case was being developed to combine ICT services of East Devon, Plymouth, Exeter and Teignbridge in order to reduce costs, mitigate increasing risk and improve capability for change.

The Corporate ICT Manager invited questions from Members during the presentation. Responses included:

- EDDC was fairly comparable in terms of cost with Document Centres held in other Local Authorities. The Council's Document Centre had a wide brief including scanning, printing, document production and post. All work was carried out by the Document Centre – Officers could not outsource.
- Sharing the services of the Document Centre with other Local Authorities had been investigated however had not been taken further due to capacity issues.
- There was duplication of specialist ICT officers across the four Local Authorities currently developing a business case for shared ICT services. There was a reduced risk through having 2 specialist officers across the four councils rather than one in each individual council – issues if that officer was sick or on leave.
- The intention was to deliver the shared ICT services within 18 months, once the decision is made to go ahead.

The Chairman thanked the Corporate ICT Manager and Operations Manager for an informative presentation.

***24 Annual Audit Letter 2011/12**

The Chairman agreed for the next two items to be brought forward on the agenda as the Grant Thornton representatives needed to leave the meeting early to attend another engagement.

The Committee considered the report of Grant Thornton, External Auditors regarding the Annual Audit Letter 2011/12. Members noted that the letter summarised the key issues arising from the work carried out by the External Auditors for the Council during 2011/12. The letter was aimed to communicate the auditors key messages resulting from the audits to the Council and public. The Letter would be published on the Audit Commission's website and on the Council's website.

Grant Thornton had issued an unqualified audit opinion on 28 September 2012. As reported at the Committee's previous meeting a number of adjustments had been made as a result of the audit work conducted. This had resulted in a significant number of changes to the financial statements, requiring additional audit work and Council resources to resolve. It was noted that despite these adjustments there was no impact on the Council's general fund balance. The 2011/12 accounts gave a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council. The Head of Finance confirmed that his Team were continuing to make improvements in those areas that had required adjustments.

An unqualified Value for Money conclusion had also been issued on 28 September confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

RESOLVED: that the content of the Annual Audit Letter 2011/12 be noted.

***25 Annual Fee Letter 2012/13**

The Committee considered the Annual Audit Fee 2012/13 letter from Grant Thornton confirming the audit work they proposed to undertake for the 2012/13 financial year at the Council and the associated fee. Grant Thornton would continue to be the Council's external auditors for the next five years.

Barrie Morris, Grant Thornton, advised Members that following the conclusion of the Audit Commission's procurement exercise to outsource the work of its audit practice, the Audit Commission had been able to secure significant reductions in cost of audit services and were passing on reductions of 40% in audit fees for local government bodies. These reductions were subject to the Council preparing accounts to a certain standard. Reasons for the reductions in cost were explained.

The Council's Head of Finance was working closely with Grant Thornton to ensure that the issues with the technical elements of the final accounts were not repeated. In response to a question from a member of the Committee, the Head of Finance advised that there not an issue with resource in the Team, the issue was around technical ability and the time given to the final accounts. The reduction in fees had been taken into account when setting the budget for the following year.

*25 **Annual Fee Letter 2012/13 continued...**

Barrie Morris confirmed that, following an application to the Audit Commission to extend his position for a further two years, he would continue as part of the Council's engagement team.

*26 **1st Risk Review**

The Committee considered the report of the Management Information Officer setting out the risk information for the 2012/13 financial year until September 2012. This information was supplied to allow Members to monitor the risk status of Strategic and Operational Risks and followed the 1st review of risks by responsible officers for 2012/13.

The Management and Information Officer advised Members that the Risk Management process was becoming embedded within the Council and the risks in some Services were being updated more regularly than the bi-monthly reviews.

Members heard that Business Rate Retention Scheme for local authorities had been identified as the only new risk and that there were nine risks where scores had been reduced from medium to low. There were five risks with scores that had increased since the last review. These were:

- Lack of five year housing land supply and associated infrastructure;
- ICT services and capacity is insufficient to meet corporate needs;
- Absence management;
- Staff engagement and morale;
- Failure to produce the Local Plan by end of 2012 could result in development in an unplanned fashion.

Members discussed the one new risk and five risks identified as having increased. The Head of Finance explained that with regard to the Business Rate Retention Scheme it was proposed that from April 2013 that local authorities would maintain a proportion of their business rates to support council funding. Any increase in business rates would benefit the Council however any reductions would also be held with the Council; financial risk was held at local level rather than at a national level. In order to reduce risk the Council would be joining a Devon wide business rate pool.

Members discussed concerns about the lack of five year land supply and the potential impact that this could have across the District. This risk likelihood had increased reflecting a challenge to the Council supply in a recent Planning Inspector's report. A review of land supply was being undertaken and the Corporate Legal and Democratic Services Manager advised that the Council would have better clarity of the situation after a further appeal decision had reached regarding an application in Ottery St Mary. Members wished to receive further details on current status of the five year land supply and the measures being implemented to reduce the risk of future challenges.

The Chairman thanked the Management Information Officer for her report.

*26 **1st Risk Review continued...**

RESOLVED:

1. that the current status of risks until September 2012 be noted;
2. that the Planning Policy Manager provide a briefing note to Audit and Governance Committee before the next meeting outlining the current position of the Council's five year land supply and explaining the measures being implemented to reduce the risk of future challenges. (The Officer to attend the next Committee meeting to advise whether these measures had been successful.)

*27 **Internal Audit Activity – Quarter 2**

Members considered the report of the Audit Manager which provided the outturn position for the Internal Audit Plan at the end of October 2012, providing an update for Quarter 2 and progress at the time of the report for Quarter 3.

The Audit Manager advised that there was one Operational Audit planned for quarter 2 on Income Collection. This audit was currently at discussion stage and a full update would be provided for the next Committee. The Leisure East Devon Audit was also at discussion stage and the Arts and Culture Audit was at draft report stage.

During Quarter 2 there were two operational follow-up reviews planned; the Emergency Planning follow-up was advised to be in progress and the StreetScene follow-up had been completed and a final report had been issued. In response to a question from a member of the Committee, the Audit Manager advised Members that audits that received 'partial' assurance were followed up within six-twelve months. If actions had not been implemented within this time frame Managers of the service area being audited would be asked to address the Audit and Governance Committee to advise why not.

A Key Control Audit on Payroll and Treasury Management had achieved a 'substantive' assurance. This was felt to be very encouraging. Remaining Key Control Audits were in progress and an update would be provided at the next Committee.

Members noted that the IT Audit originally planned for Quarter 2 had been deferred to Quarter 3. Information Systems was undertaken by a specialist team in SWAP.

RESOLVED:

that the content of the Internal Audit Plan – Quarterly Update 2012/13 be noted.

***28 Draft Contract Standing Orders**

Following the Committee's last meeting an Audit and Governance Working Party had been held to consider the draft Contract Standing Orders in further detail. Members considered the notes and recommendations of the Working Party meeting. Key changes to the Standing Orders were highlighted by the Corporate Procurement Officer.

The Corporate Legal and Democratic Services Manager advised that the updated Contract Standing Orders were now fit for purpose and would help the Council to achieve value for money. When they had been approved by Council they would be written into the Council's constitution.

RESOLVED:

1. that the Audit and Governance Committee approve the draft Contract Standing Orders, subject to the following amendments:
 - a) 5.1 of the draft standing orders to be amended to read:

'The Officer must appraise the purchase or seek suitable advice, in a manner commensurate with its complexity and value...'
 - b) the word 'unnecessary' be removed from paragraph 8.1.3;
2. that the Corporate Procurement Officer be invited to attend future Audit and Governance Committee meetings as necessary;
3. that the Head of Finance produce six monthly reports to the Audit and Governance Committee on contracts let by the Council to cover the following:
 - Council contract spend where works/payments with a supplier for similar activities when added together equate to over £25k within a 12 month rolling period but where this has not been tendered as one;
 - Council spend analysis;
 - Consultant spends.

***29 Forward Plan 2012/13**

The Committee noted the contents of the forward plan and future meeting dates. Items to be included for the March Committee:

- Annual Audit Plan, Grant Thornton;
- SWAP governance arrangements update

***30 Exclusion of the Public**

RESOLVED: that under Section 100(A) (4) of the Local Government Act 1972 the public (including the press) be excluded from the meeting as exempt information, of the description set out on the agenda, is likely to be disclosed and on balance the public interest is in discussing this item in private session (Part B).

***31 Expenditure on Consultants 2011/12**

The Committee received and noted the report of the Financial Services Manager, following a request for information by Members at their last meeting, on the costs of consultants to the Council.

RESOLVED: that the expenditure on consultants for 2011/12 be noted.

***32 Water Sampling Contract**

The Committee received and noted SWAP's investigation report into the Council's water sampling contract.

RESOLVED: that the investigating report be noted.

Chairman Date

Report on - Five Year Housing Land Availability in East Devon - January 2013

Matthew Dickins, Planning Policy Manager, East Devon District Council

Summary

The Audit and Governance Committee meeting in December 2012 requested an update on Five Year Housing Land Availability. At a recent appeal in Ottery St Mary the Council set out a case that there is a five year land supply in East Devon. Key arguments of the Council were, however, rejected by the Inspector and he approved the appeal. Consideration of future Planning Applications will need to take into account this appeal decision and the Inspector's reasoning.

The Five Year Supply Issue

The Government wish to see more house building and are concerned that supply of suitable and available land is a key factor that is restricting development. Councils are required under the National Planning Policy Framework (NPPF) to ensure that there is a sufficient supply of land available to accommodate housing needs for their administrative areas over the five year period looking forward. In simplified terms this means establishing the quantified need for housing (i.e. calculating how many houses should be built) and assessing whether sites and schemes that we expect to be built will match or exceed this need.

The Quantified Need for House Building

The Inspectors decision at the Ottery St Mary appeal indicates that we should, at the present times and as things stand, be planning to accommodate 17,100 homes (as set out in the draft RSS) over the 2006 to 2026 period.

Supply of Developable Sites

Set against the need for house building is the 'supply' of homes that we can expect to see built in the next five year period. At the Ottery appeal the Inspector accepted that we should count sites built since 2006 and currently with planning permission as part of the supply and also that it is legitimate to make a small allowance for future windfall developments. However, the Inspector's did not consider it appropriate to include sites that are proposed as allocations in the Local Plan. Also he did not consider that development at Cranbrook would proceed as quickly as the Council indicated.

Five Year Land Supply Calculations

Whilst the mathematics of five year land supply are not reproduced in this paper the Inspector's conclusion was that the Council falls short of having a five year land supply. At the appeal the appellant argued that the position could be as low as three years.

Splitting of East Devon into Two Areas for Land Supply Assessment

As part of the land supply assessment we have split East Devon into two parts

- a) The West End (Cranbrook, Pinhoe and north of Blackhorse); and
- b) The Rest of East Devon.

Planning policy documents clearly refer to these area and we have undertaken five year assessment of each area. In the West End, largely on account of Cranbrook starting late (but is now being built at rapid rates) we do not have a five year land supply. But in the Rest of East Devon we greatly exceed a five year supply position. The Inspector attached some weight to this split but took the overall District wide lack of five year supply as the critical issue.

Future Action

As part of the ongoing monitoring work the Council will need to reassess the overall land supply situation and it is planned that the full assessment work will be undertaken after the 31 March 2013 (to align with the standard monitoring year period of 31 March to the following 1 April). Prior to this the Development Manager will need to report to Development Management Committee on the approval at appeal of the Ottery St Mary application and possible implications.

East Devon District Council

Certification work report 2011-12

January 2013

Contents

1	Executive Summary	1
2	Results of our certification work	3

Appendices

A	Approach and context to certification	5
B	Details of claims and returns certified for 2011-12	7
C	Action plan	10

1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some six to 12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 We have certified four claims and returns for the financial year 2011-12 with the total value of £73 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

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

Key messages

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

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All of the authorities claims were submitted on time for audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Overall the Council's performance remained good against key performance indicators. Whilst three of the four claims and returns submitted this year for certification required amendment, none were qualified in 2011-12.
Supporting working papers	Supporting working papers for the majority of claims and returns were good, which assisted in the timely certification within the deadlines. In particular, there was a marked improvement in the availability of housing and council tax benefit case documentation through the use of digital image processing software. However, we would emphasise the importance of having all information relating to benefit cases available at the start of our certification work.

The way forward

- 1.7 We have made one recommendation from our certification work to assist the Council in compiling accurate and timely claims for certification. This is included at Appendix C.

Acknowledgements

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

Grant Thornton UK LLP

January 2013

2 Results of our certification work

Key messages

- 2.1 We have certified four claims and returns for the financial year 2011-12 relating to expenditure of £73 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		4		6		
Number of claims submitted on time	100%	4	100	6	100	↔
Number of claims certified on time	100%	4	100	6	100	↔
Number of claims certified with amendment	0%	3	75	2	33	↓
Number of claims certified with qualification	0%	0	0	1	25	↑

- 2.3 This analysis of performance shows that:
- whilst there are no claims or returns that were qualified, the number of claims and returns that were subject to amendment has increased to three;
 - as in prior years, the Council submitted all of its claims and returns on time, demonstrating its continued commitment to ensuring that appropriate arrangements are in place so that claims and returns are provided to us by the required deadlines.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 We have not identified any significant matters that we wish to bring to your attention. However, we have noted opportunities for improvement to minimise the risk of amendments being required, and a recommendation is included in the action plan at Appendix C.

- 2.6 We charged a total fee of £29,575 against an indicative budget of £30,000 for the certification of claims and returns in 2011-12. Details of fees charged for specific claims and returns are included at Appendix B.

A Approach and context to certification

Introduction

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

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

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Role	2011-12	2010-11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value	Amended?	Amendment Amount	Qualified?	Fee 2010-11	Fee 2011-12	Comments
Housing and council tax benefit scheme	£38,353,714	Yes	£19,025 – however, this did not have any effect on the total amount of subsidy claimed.	No	£19,825	£21,312	We identified an error in the application of the Local Housing Allowance rate which led to additional testing and an amendment to the claim.
National non-domestic rates return	£28,147,061.13	No	Not applicable	No	£2,855	£2,813	

Claim or return	Value	Amended?	Amendment Amount	Qualified?	Fee 2010-11	Fee 2011-12	Comments
Pooling of housing capital receipts	£471,031.64	Yes	£1,705	No	£2,658	£1,590	An amendment was made to correct the value of capital receipts received that is disclosed in the return. However, this did not impact on the pooling payment total. The decrease in fee from 2010-11 was due to the reduced certification requirements arising from the return being under the £500,000 threshold set by the Audit Commission.
Housing Revenue Account Subsidy	(£5,837,239)	Yes	£68,547	No	£1,842	£2,875	Amendments were required to adjust entries relating to borrowing to ensure stated in accordance with the guidance. The increase in fee from 2010-11 was due to the increased testing required as a result of borrowing for a full year and the associated amendments.

Claim or return	Value	Amended?	Amendment Amount	Qualified?	Fee 2010-11	Fee 2011-12	Comments
Reporting to those charged with Governance	Not applicable	Not applicable	Not applicable	Not applicable	£983	£985	
Total	£72,809,046				£32,519	£29,575	£4,356 was charged for 2010-11 schemes that did not require certification for 2011-12.

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
All schemes	Staff responsible for claims and returns should ensure that all relevant guidance has been complied with and that there is independent review prior to submission for certification to minimise the risk of amendments being required.	Medium	

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Agenda Item 10

Audit and Governance Committee

17 January 2013

AE/MM



Internal Audit Plan – Quarterly Update 2012/13

Summary

This report provides the outturn position for the Internal Audit Plan at the end of December 2012, providing an update for Qtr 3.

Recommendation

To note the content of the Internal Audit Progress Report.

a) Reasons for Recommendation

As a key element of its Governance arrangements the Council have a partnership arrangement with South West Audit Partnership to deliver an annual internal audit plan. The Audit Manager for SWAP, together with the Council's S151 Officer and in consultation with the Senior Management Team produced an Audit Plan for 2012-13 that was approved by the Audit and Governance Committee in March 2012.

The Committee are required to review the progress of the audit plan.

b) Alternative Options

None

c) Risk Considerations

None

d) Policy and Budgetary Considerations

There are no financial implications associated with this recommendation.

e) Date for Review of Decision

N/A

1 Main Body of the Report

The Audit Committee agreed the 2012/13 Internal Audit plan at its March 2012 meeting. This is a progress report on audit findings during the financial year to date.

Report of Internal Activity for Qtr 3

Appendix A – Plan Progress Table with Status and Opinion for each audit

Appendix B – Significant Corporate Risks and Management Action Update

Appendix C – Audit Opinion Definitions

Legal Implications

None

Financial Implications

None

Consultation on Reports to the Cabinet

None

Background Papers

- Approved Internal Audit Plan 2012/13 – Audit and Governance Meeting March 2012.

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Audit and Governance Committee
17 January 2013

East Devon District Council

Report of Internal Audit Activity
Quarter 3, 2012/13

Contents

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Summary	1
Internal Audit Work Programme:	2
Operational Audits	3
Key Control Audits	4
Information Systems	5
Governance, Fraud and Corruption	5
Special Reviews	6
Future Planned Work	6
Conclusions	6

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance Audit
- IT Audit
- Other 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 and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting on 15 March 2012.

Internal Audit provides an independent and objective opinion on the Authority’s control environment by evaluating its effectiveness. Primarily the work includes;

- Operational Audit Reviews
- Cross Cutting Fraud and Governance Reviews
- Annual Review of Key Financial System Controls
- IT Audit Reviews
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year’s Audit Plan was reported to this Committee at its meeting in March 2012.

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



Quarter 3 Outturn:

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

Internal Audit Work Programme

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2012/13. 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. [Appendix B](#) highlights action taken in respect of recommendations (since March 2012) which had priority scores of 4 or 5 and for which the agreed action date has passed.

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Operational Audits**

Operational Audits

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

In Quarter 3 there were no Operational audits planned as this is the period annually that we focus our work on the key control financial system audits. However, the following final reports for audits started in previous quarters and completed in quarter 3 were issued with Partial assurance:

- Leisure East Devon
- Arts and Culture
- Income Collection

In Quarter 3 there was 1 Operational Follow-up review planned;

- Rent Deposit Scheme

The Rent Deposit Scheme was audited as part of the 2011/12 Audit Plan, where it received Partial Assurance. This non-opinion review has been completed and a final report issued. We found that all 17 Agreed Actions had now been completed or were evidenced as being in progress.

In addition to this, the Emergency Planning Follow-up, originally scheduled for Quarter 2, is in progress and due to be completed shortly. The completion has been delayed as the Manager has been heavily involved in dealing with the floods that have had a significant impact on the South West and other parts of the Country.

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**

Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control.

The 9 Key Control Audits provide assurance over the main financial systems. At the time of this update report we have issued the following final reports;

- Treasury Management ▲★★★★ Substantial assurance
- Payroll ▲★★★★ Substantial assurance

5 Key Control Audits are at draft report stage and should be finalised in the near future;

- Housing and Council Tax Benefits
- Debtors
- Housing Rents
- Main Accounting
- Capital Accounting

The remaining 2 Key Control Audits are in progress:

- Council Tax and NNDR
- Creditors

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Governance, Fraud and Corruption Audits**

Information Systems

Information Systems – IT audits provide the Authority with assurance with regards to their compliance with industry best practice.

As with Operational Audits, an audit opinion is given. SWAP has a specialised IT Audit team and the IT Audit Manager met with the Head of ICT recently to agree ICT audit coverage for Quarter 4.

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. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will in some cases enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting these reviews at all of our Client sites.

There were no Governance audits planned for Quarter 3. However, 1 Governance Follow-up Review has been completed and a final report issued:

- Partnership Arrangements (originally scheduled for Quarter 1)

Partnership Arrangements was reviewed as part of the 2011/12 Audit Plan and received Partial Assurance.

The Bribery Act Follow-up and the Contract Fraud audits, scheduled for Quarter 2, are also currently in progress.

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

Special Reviews

There has been 1 special review carried out in the Quarter on the Water Sampling Contract. This was a non opinion review and a Final report has been issued.

Future Planned Work

This is detailed in [Appendix A](#) and subject to any changes in agreement with the S151 Officer.

Conclusions

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 of [Appendix C](#).

Our approach to the audits for 2012/13 reflects the positive assurance given in the 2011/12 Annual Governance Statement where we provided an audit opinion of Reasonable Assurance. We were pleased to issue Substantial assurance ratings on the Key Control Audits completed so far as this reflects the hard work of the officers involved in those areas and their positive engagement with the audit process.

A list of all audits planned for 2012/13 and their status at the end of August 2012 are detailed in [Appendix A](#). Audit report findings which have scored priority level 4 or 5, which have exceeded their target implementation date are highlighted in [Appendix B](#), together with an update on progress.

Audit Activity	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						5=Major		1= Minor		
						5	4	3	2	1
Follow Up	Partnership Arrangements	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Risk Management	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Creditors Fraud	1	Final	Reasonable	8	0	0	6	2	0
Governance, Fraud & Corruption	Data Security Breaches	1	Draft		0	0	0	0	0	0
Operational	HRA	1	Final	Reasonable	6	0	0	5	1	0
Operational	Leisure East Devon	1	Final	Partial	7	0	1	5	1	0
Operational	Arts & Culture	1	Final	Partial	31	0	3	27	1	0
Follow Up	Bribery Act 2010	2	In progress		0	0	0	0	0	0
Follow Up	Emergency Planning	2	In progress		0	0	0	0	0	0
Follow Up	Streetscene	2	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Corporate Information Security Controls - Level 1	2	Deferred		0	0	0	0	0	0
Governance, Fraud & Corruption	Contract Fraud	2	In progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Committee Reporting - Member Decisions	2	Draft		0	0	0	0	0	0
Governance, Fraud & Corruption	EU Procurement Rules	2	Deferred		0	0	0	0	0	0
Operational	Income Collection	2	Final	Partial	13	0	0	9	4	0
Follow Up	Rents Deposit Scheme	3	Final	Non Opinion	0	0	0	0	0	0
Key Control	Capital Accounting	3	Draft		0	0	0	0	0	0
Key Control	Creditors	3	In progress		0	0	0	0	0	0
Key Control	Debtors	3	Draft		0	0	0	0	0	0
Key Control	Main Accounting	3	Draft		0	0	0	0	0	0
Key Control	Payroll	3	Final	Substantial	0	0	0	0	0	0
Key Control	Council Tax/NNDR	3	In progress		0	0	0	0	0	0
Key Control	Housing & Council Tax Benefits	3	Draft		0	0	0	0	0	0
Key Control	Housing Rents	3	Draft		0	0	0	0	0	0
Key Control	Treasury Management	3	Final	Substantial	0	0	0	0	0	0
Special Investigation	Water Sampling Contract Investigation	3	Final	Non Opinion	0	0	0	0	0	0
Consultancy	Council Office Relocation	3	In progress	Non Opinion	0	0	0	0	0	0
Follow Up	Income and Cashiers	4			0	0	0	0	0	0
Follow Up	Contract Management	4			0	0	0	0	0	0
Governance, Fraud & Corruption	Asset Management Planning	4			0	0	0	0	0	0
Governance, Fraud & Corruption	Expenses Claim Fraud	4			0	0	0	0	0	0
Governance, Fraud & Corruption	Treasury Management Strategy	4			0	0	0	0	0	0
ICT	E-Procurement	4			0	0	0	0	0	0
Operational	Health, Safety & Insurances - Lone working	4			0	0	0	0	0	0
Operational	Private Sector Housing Grants	4			0	0	0	0	0	0
IT Audits	To be agreed Quarter 4	4			0	0	0	0	0	0





Contract Management							
Name	Description	Priority	Target	Status	Owner	Assigned To	Manager Update
The Contract register does not provide details of the officer who was responsible for either setting up or managing the contract, although it is listed by service.	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.	4	31/01/2012	In progress	EDDC Procurement Officer	EDDC Procurement Officer	The procurement Manager has set a deadline of the end of January for managers to update the contract register.
Out of 208 contracts recorded on the Contracts Register, there were 144 contracts which did not have a record of the expiry date.	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.	4	31/01/2012	Agreed	EDDC Procurement Officer	EDDC Procurement Officer	To be completed following return of Contract Registers - see above.
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.	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.	4	30/06/2012	Agreed	EDDC Procurement Officer	EDDC Procurement Officer	To be completed following return of Contract Registers - see above. Once the registers have been returned the procurement officer plans to run some coaching sessions.
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.	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.	4	31/03/2012	In progress	EDDC Landlord Services Manager	EDDC Landlord Services Manager	In progress - A meeting with the Northern Housing Consortium has been arranged on the 18 Dec 2012 to discuss the use of framework agreements.
Emergency Planning							
Manstone Depot	I recommend that: The Emergency Depot at Manstone should be stock checked on a regular basis and restocked as necessary by the Emergency Planning Officer. The Emergency Planning Officer should ensure that relevant officers should be shown the site so that they are clear where to get equipment in an emergency. The Emergency Planning Officer should ensure plans and contact lists in the depot should be kept up to date. Casual access (and theft) could be limited by installing a combination lock on the depot, or using a separate key. The need for this should be investigated by the Emergency Planning Officer. Spot checks should be carried out by the Emergency Planning Officer to assess whether relevant officers are carrying their emergency equipment with them at all times.	4	30/09/2011	Agreed	EDDC Head of Environment	EDDC Head of Environment	Follow up in progress

Emergency Planning Documents	<p>I recommend that:</p> <p>Following completion of the revised Emergency Plan, a formal schedule of review and update by the Emergency Planning Officer should be implemented.</p> <p>The revised Emergency Plan should be formally approved by Committee as soon as is practicable.</p> <p>The Emergency Contacts Database should be updated as soon as possible by the Emergency Planning Officer, identifying relevant officers, their training needs and resources such as procedures and equipment.</p> <p>The Emergency Planning Officer should ensure that the Emergency Plan, associated plans and databases should be made available on the intranet, with appropriate Citrix access to relevant officers. Encrypted data sticks should be used where intranet access is not available, with appropriate procedures for updating them regularly.</p> <p>The Emergency Planning Officer should ensure that training should take place for all relevant officers named on the</p>	4	30/09/2011	Agreed	EDDC Head of Environment	EDDC Head of Environment	Follow up in progress.
Risk Assessments	<p>a) I recommend that risk assessments be completed as a matter of urgency, which include the following:</p> <ul style="list-style-type: none"> set out what resources may be lost how they will be replaced or covered, both in the short and long term replacement resources prioritisation set out how critical resources are in different scenarios <p>b) I recommend that all risk assessments are timetabled for formal approval by senior management, to reduce the risk that anything is omitted.</p>	4	31/07/2011	Agreed	EDDC Head of Environment	EDDC Head of Environment	Follow up in progress.
Rents Deposit Scheme							
Legal Review of Debt Agreements.	<p>I recommend that the Housing Options Manager ensures that the current rent deposit loan agreement is in accordance with their practices and is reviewed by the Legal team so ensure compliance with the law and Council practice.</p>	4	01/06/2012	Agreed	EDDC Housing Needs and Strategy Manager	EDDC Housing Needs and Strategy Manager	In progress – A copy of the loan agreement and application form has been sent to the Legal Team for their observations.

Limited use of Bond agreements.	I recommend the Housing Options Manager looks to increase the take-up of Bond Agreements and investigates options such as providing further incentives for Landlords and Letting Agencies.	4	01/06/2012	Agreed	EDDC Housing Needs and Strategy Manager	EDDC Housing Needs and Strategy Manager	In progress – The Housing Needs team have been pro active in promotion of the bond scheme and take up of bond agreements has increased. The Housing Needs team have not implemented any new incentives for landlords and Letting agencies since the audit was completed in 2011/12. This will be explored as part of forthcoming Rent Deposit Scheme review to be done by the Housing Options Manager. Agreed completion date – December 2012.
No review has been carried out to look at the effectiveness of the rent deposit scheme.	The Head of Housing has agreed to do the following; Investigate whether performance information could be improved on Cedar. Investigate whether an alternative system could be used to manage rent deposit loans. Review the current performance of rent deposit loans to ascertain the ratio of applicants who have paid back the loan in full against those applicants who haven't as an indicator of likely bad debt in future. Ascertain the number of repeated applications since the scheme started.	4	02/04/2012	Agreed	EDDC Housing Options Manager	EDDC Housing Options Manager	In progress – To be discussed with the Income and Payments team as part of scheduled meeting. Agreed completion date - December 2012

Audit Framework Definitions

Control Assurance Definitions

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

Categorisation Of Recommendations

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

Priority 5: Findings that are fundamental to the integrity of the units 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 Corporate Risk

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

Agenda Item 10

Audit and Corporate Governance Committee

17 January 2013



Audit and Corporate Governance Committee

Forward Plan 2012/13

Date of Committee	Report	Lead Officer
14 March 2013	<ul style="list-style-type: none">• Annual Audit Plan 2013/14• Audit Charter• Governance Action Plan update	SWAP Head of Finance

SWAP Governance Arrangements

Purpose of report

To request East Devon to become a member of the South West Audit Partnership Ltd. (SWAP Ltd.) and to dissolve the current South West Audit Partnership Joint Committee (SWAP).

Recommendations

That the Audit & Governance Committee:

1. Approves the formation of a company limited by guarantee, to replace the existing SWAP Joint Committee.
2. Elects to be a Member¹ of the SWAP Ltd. from 1st April, 2013, on the terms and basis set out in the articles of association, deed and service agreement.
3. Agrees to the dissolving of the SWAP Joint Committee at a date to be determined, but not later than 30th June, 2013.
4. Note the separation of responsibilities and the membership profiles of the Members' Board and the Board of Directors
5. Notes that the fees for the provision of internal audit services by SWAP Ltd., for the financial year 2013/14, will not increase on the fees paid to SWAP by the council for 2012/13.

Background

The current governance arrangements, introduced on the formation of the partnership in 2005, are based on Section 101 of the Local Government Act, 1972. Under this model each partner is bound by a legal agreement between it, the other partners and the Host which is South Somerset District Council.

The Joint Committee model was designed and intended for relatively small partnerships, where a single or limited service could best be delivered by two or three local authorities combining their resources. Within such limitations the model works well and is relatively simple to direct and manage. In 2005 there were only two partners and, at the time, it was only envisaged that two other councils would join. Since 2005, however, the partnership has gradually expanded to the current twelve members. The increased membership has benefited all partners with greater economies of scale, a wider expertise base and quality and productivity improvements that would not have been possible with a smaller partnership.

The Partnership Board have explored a number of ways in which the current model might be adapted to meet the current and future needs of the partnership. Whilst some progress was made,

¹ In the context of a company, a 'Member' is a local authority. Therefore to avoid confusion, for the purposes of this report, the use of the word 'Member' (with a capital 'M') will refer to a council, whereas a council member will be referred to as 'Councillor'.

there remained some fundamental issues that could not be resolved via the current governance model or issues where we were unable to definitively provide a resolution. The principle areas that needed addressing can be summarised as:

- **Partnership Board voting arrangements.** Under the current rules, each partner must be physically present at Board meetings in order for the budget to be set and the accounts to be approved. This involves two meetings a year and if one Councillor fails to turn up then either the budget cannot be approved or the accounts cannot be approved, depending on which meeting it is. With twelve partners the potential for the Board not being quorate is significant. There is no provision for alternate voting arrangements, for example proxy voting, email voting, tele-voting etc.
- **Financial Control.** Whilst the Partnership has overall control of finances, in so far as it decides the annual budget and approves the accounts, the financial operations of the Partnership are conducted under the rules of the Host, South Somerset District Council. This has caused some operational issues for SWAP and I would anticipate further issues arising in the future. It may be possible for the Host to grant total control to the Partnership, which would provide a resolution, but it could rescind that at any time. In fairness to the Host, because under the current governance arrangements the Partnership's accounts are ultimately their responsibility, it is not unreasonable that their rules should apply.
- **Staff Pay, Terms and Conditions.** These remain almost entirely with the Host, particularly with regard to pay, and whilst we may be able to have a number of variations, tailored to SWAP's needs, we cannot be granted complete control in this area. With SWAP costs being 95% salary based, whilst the Partnership Board can set the budget, it can do nothing with regard to pay. SWAP is intrinsically linked with the Host's pay scheme, removing control from the Partnership of the vast majority of the budget.

There are a number of other, operational, issues of a minor nature that can be resolved by moving to a limited company model.

The Proposed Governance Model

Having considered a range of alternate possible corporate structures, the conclusion of the Partnership Board is that the most appropriate governance model for SWAP is a company limited by guarantee.

To assist the Partnership Board in ensuring that the future company limited by guarantee has a sustainable structure, taking on board all partners views, a workshop for councillors from all SWAP partners was held on 10th October, 2012.

More than sixty people attended the workshop, representing all the partners, plus representatives from Browne Jacobson (SWAP legal advisors) and Local Partnerships (project advisors) who facilitated the event. The main purpose of the workshop was to gain Councillors' views on what sort of governance arrangements should be employed for the new company.

The main areas of discussion were:

- The different roles of the Members' Group and the Board of Directors.
- The decision making functions of the Members' Group and the Board of Directors.
- Who should be appointed to the Board.
- Voting rights and voting options, including quorum levels for both the Members' Group and the Board.
- Roles and responsibilities of SWAP management.
- Frequency of meetings for both the Members' Group and the Board.
- Substitute representation options for both the Members' Group and the Board.
- Conflict resolution.
- The strategic future of the partnership.

Governance Arrangements

The conclusion of the Councillors' workshop, subsequently endorsed by the Partnership Board, was that the following governance structure should be adopted:

Appointees to the Members' Board will be Councillors representing their respective authorities. Appointees to the Board of Directors can be anyone each individual authority chooses, either officer or Councillor.

The Members' Board

This is, in effect, the equivalent of the current Partnership Board. Each partner would nominate a Councillor to represent them on this Board. It is the supreme authority of the company and would make all decisions relating to strategy, policy, appointment and dismissal of senior management and the admission of new partners.

The Board of Directors

The Board oversees the implementation of the strategy and policy, as well as ensuring the operational activities of the partnership are achieving the objectives set by the Members' Board. The Board will be much more 'hands on', functioning very much like the current Management Board. Most Board members, in order to be effective, will need a good working understanding of internal audit and risk management. Provision has been made in the articles for other directors to be appointed, including some SWAP management.

The Partnership Board endorsed the following membership arrangements for the board of directors:

- Two Councillors who would normally be the Chairman and Vice Chairmen of the Members' Board.

- Twelve officers representing each of the current partners.
- A maximum of three executive officers from SWAP, with at least the Chief Executive being included.

Respective Roles of the two Boards

Summarised below is an abbreviated list of the responsibilities and powers of the two governing bodies of the new company.

Members' Board	Board of Directors
<ul style="list-style-type: none"> • Admission of new partners • Approval of the Annual Business Plan • Any changes to the approved Annual Business Plan • Setting of the annual budget • Approval of annual accounts • Extending or reducing the scope of operations • Appointment or removal of Directors, in accordance with the Articles and the legal agreement • Setting and approving the form and content of the financial regulations • Appoint or remove the Chief Executive or any member of the management team • Change the name of the Company or its registered office • Change the bankers of the Company or open or close any bank accounts • License, assign or otherwise dispose of intellectual property rights owned by the Company • Approves and reviews the annual risk register 	<ul style="list-style-type: none"> • Agrees the preliminary budget, for submission to the Member's Board for approval • Approves all changes to the budget, except in relation to any proposals which would lead to an increase in Member contributions • Reviews and approves the annual statement of accounts, prior to submission to the Members' Board • On-going Budget monitoring • Agrees combined audit plan and ensures equity of resource distribution amongst the Members • Agrees any changes to audit plans that impact on the partnership • Approves and reviews annual themed audits to ensure best practice is shared with relevant service heads at each Member • Monitors overall performance against the combined audit plan • Reviews and monitors the risk register to ensure risks are managed in accordance with the requirements of the Members' Board • Approves and monitors terms and conditions of staff

Financial Implications

None. Annual contributions to SWAP will not increase from 2012/13 and no other charges will fall on the Council as a result of the changed governance arrangements.

Legal Implications