

Agenda for Audit and Governance Committee

Thursday, 26 June 2014; 2.30pm



[Members of the Committee](#)

Venue: Council Chamber, Knowle, Sidmouth, EX10

[View directions](#)

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- 1 [Public speaking](#)
- 2 Minutes for 13 March 2014 (page2-8)
- 3 Apologies
- 4 [Declarations of interest](#)
- 5 [Matters of urgency](#) – none identified
- 6 To agree any items to be dealt with after the public (including press) have been excluded. There are no items that officers recommend should be dealt with in this way.

Part A Matters for Decision

- 7 **Grant Thornton Update**(page 9-27)
- 8 **Internal Audit Charter**(page 28-31)
- 9 **Internal Audit Plan - Review of 2013/14**(page 32-47)
- 10 **Revenue and Capital Outturn Report 2013/14 - Head of Finance** (page 48- 55)
- 11 **Draft Annual Governance Statement – Head of Finance** (page 56-63)
- 12 **Office relocation assurance – SWAP – verbal report**
- 13 **Risk Management Review – Management Information Officer**(page64-70)
- 14 **Proceeds of Crime Act (Anti-Money Laundering) Policy** (page 71-81)
- 15 **Five year land supply – Policy Manager To Follow**
- 16 **Audit and Governance Forward Plan**(page 82)

[Decision making and equalities](#)

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EAST DEVON DISTRICT COUNCIL

Minutes of a Meeting of the Audit and Governance Committee held at Knowle, Sidmouth, on Thursday 13 March 2014

Present:	Councillors: Ken Potter (Chairman) Peter Bowden (Vice Chairman) Roger Boote Bob Buxton Steve Gazzard Steve Hall Tony Howard Geoff Pook
Also present:	Councillor: David Cox – Portfolio Holder for Finance Martin Gammell Ian Thomas – Portfolio Holder for Economy
Officers:	Jo Avery, Management Information Officer Donna Best, Principal Estates Surveyor Simon Davey, Head of Finance Laurelie Gifford, Financial Services Manager Denise Lyon, Deputy Chief Executive Alethea Thompson, Democratic Services Officer
Internal Auditors:	Andrew Ellins, Audit Manager, South West Audit Partnership (SWAP)
External Auditors:	David Bray, Senior Audit Manager, Grant Thornton
Apologies	Barrie Morris, Public Sector Assurance Director, Grant Thornton

The meeting started at 2.30 pm and ended at 5.00 pm.

***40 Public questions**

No questions were raised by members of the public.

***41 Minutes**

The minutes of the meeting of the Audit and Governance Committee held on 16 January 2014 were confirmed and signed as a true record.

The Chairman advised that he had discussed the five year land supply issue with the Chief Executive (minute 37, 16.01.14 refers) and that a meeting would be arranged with the Chief Executive, Principal Solicitor and Planning Policy Manager to consider this. The outcome of this meeting would be reported to the next Audit and Governance Committee meeting.

***42 Declarations of interest**

There were no declarations of interest.

***43 SWAP – internal action plan 2014/15**

The Audit Plan for 2014-15 had been produced by the Audit Manager for SWAP, working with the Council's Section 151 Officer and in consultation with the Senior Management Team (SMT). The Plan required the approval of the Audit and Governance Committee. The aim of the Plan was to provide assurance to both officers and elected members of the current and imminent risks faced by the authority and helped to plan audit resources. The flexibility of the Plan was emphasised - if an emerging risk or fraud was identified during the year, resources could be redirected appropriately.

Key Control Audits focussed primarily on key risks relating to the Council's major financial systems. The Audit Manager for SWAP said that the audits undertaken over the last 3 years provided assurance in respect of the nine key financial systems and as a result would not be audited in such detail in the next year. Related audits would be carried out.

Governance Audits focussed on key risks relating to cross cutting areas rather than service specific. In consultation with the S151 Officer and SMT, SWAP listed 6 governance reviews that would be undertaken in the coming year.

IT and Operational audits were also being planned for 2014/15. The Audit Manager reminded members that the Plan was a fluid document and could change as risks emerged.

It was noted that both the internal and external auditors would be conducting work into the proposed office relocation project. Members requested a verbal audit report update to be provided to each Committee meeting. The SWAP Audit Manager advised the Committee that he attended officer relocation project meetings, as well as a number of sub meetings in relation to this, and was therefore well informed and involved in the process. He indicated that by early May 2014 he could provide an independent non-opinion SWAP report on the decision making process and financial governance.

On behalf of the Committee the Chairman thanked the Audit Manager for his report, advice and hard work throughout the year.

- RESOLVED:**
- 1 that approval be given to the Internal Audit Plan of 400 days for April 2014 to March 2015.
 - 2 that the SWAP Audit Manager report on the office relocation project at each meeting of the Audit & Governance Committee.

***44 External Auditor update**

External auditors, Grant Thornton, presented:

***44 External Auditor update (cont'd)**

a) Audit Plan for East Devon District Council – year ended 31 March 2014

The Audit Plan identified the challenges and opportunities being faced by the Council and potential risks associated with them, including:

- Office relocation
- Replacement of Council Tax benefit with a local Council Tax Support Scheme and Business Rates retention and pooling arrangement with other Devon authorities (Local Government Finance Act)
- Funding reductions.

The Plan also took into account key developments in the sector and national audit requirements, including changes to National Domestic Rate accounting and provisions for business rate appeals, the Welfare Reform Act and changes to the Local Government Pension Scheme.

The Plan set out risks and audit procedures completed and planned. Members also noted the value for money audit - whether the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources – the findings of which would be reported in the Audit Findings report and in the Annual Audit Letter.

Grant Thornton was also carrying out a joint (EDDC, Exeter City Council and Teignbridge District Council) review of the IT Shared Services arrangement.

b) Audit and Governance Committee update

Members were advised of work and progress of its external auditors including the 2013-14 accounts audit plan and interim accounts audit, final accounts audit, value for money audit and certification work. Progress as at 28 February 2014 was noted.

The paper included a summary of emerging national issues and developments that might have relevance to this authority. These included:

- Audit Commission research – Tough Times 2013; the Council would need to be satisfied that it was able to deliver a balanced budget and that effective medium term strategies were in place.
- Local Audit and Accountability Act
- Final local government finance settlement 2014/15
- Support for UK high streets
- New Homes Bonus
- 2016 tipping point – Grant Thornton report assessing whether English local authorities have arrangements in place to ensure their sustainable financial future
- Alternative delivery models in local government – Grant Thornton report on alternative delivery models to assist councils in developing their options and implementing innovative strategies
- Welfare reforms including universal credit
- Property, plant and equipment valuations – revaluation of assets
- Making provision and assessing impact of business rate appeals
- Local Government pension scheme costs and changes to scheme

***44 External Auditor update (cont'd)**

Copies of some of the national reports that Grant Thornton had published had been placed in the Members' Area for Members' information.

c) Top 5 account issues

Members considered the paper summarising the top 5 financial reporting issues faced by local authorities in preparing their statement of accounts 2013/14:

- Property, Plant and Equipment valuations
- Business rate appeals
- Changes to service line for public health (SeRCOP)
- Accounting for and financing the local government pension scheme costs
- PFI and other service concessions.

The Chairman thanked the Senior Audit Manager for his comprehensive report and presentation.

***45 Statement of Accounts 2013/14 – consideration of explanatory foreword, governance statement and accounting policies**

Members considered the report of the Head of Finance with details of a revised structure for the explanatory foreword for Members to consider; Members had previously asked to be more involved with the preparation and presentation of this document. If approved, it would be used in the presentation of the 2013/14 statement of accounts. The layout had been amended to reflect CIPFA, accounting guidelines and good examples from other authorities.

It was intended to bring a draft copy of the annual governance statement to the June Audit and Governance Committee meeting for members to review and approve, before being published as part of the accounts in September.

Members were also asked, as best practice, to approve the accounting policies to be adopted for the preparation of the accounts.

The Chairman urged Committee Members to carefully read the documents before the next meeting in order to provide their input. He also referred them to the 'slow burner' review.

It was noted that Grant Thornton were publishing a simple guide to government accounts and that a copy of this would be provided to the Head of Finance for circulation to the Committee.

***45 Statement of Accounts 2013/14 – consideration of explanatory foreword, governance statement and accounting policies (cont'd)**

- RESOLVED:**
- (1) that members of the Audit & Governance Committee consider any amendments needed to the format of the Explanatory Foreword to be used in presentation of the 2013/14 Accounts, before their next meeting – Appendix A (to the report):
 - (2) that members of the Audit & Governance Committee consider any amendments needed to be made to the layout and process for the preparation of the Annual Governance Statement to be presented as part of the 2013/14 Accounts:
 - (3) that the Accounting Policies in Appendix C to the report be adopted.

***46 3rd High Risk Review 2013/14**

Members considered the report of the Management Information Officer; the Committee monitored high Strategic and Operational risks outside the bi-annual reporting. This followed a review of risks focusing on high risks by responsible officers to mid February 2014.

Risks that were scored high on the risk register were:

- Significant loss or non collection of rental income
- Loss of Supporting People contracts
- Failure to notify the responsible authority when staff suspect a child is at risk
- Risks associated with being a developer of council homes

The list of high and upper medium risks were included in the report at Appendix A and showed the control action details. At the next full risk review high risk reports would be included from office accommodation and shared ICT services.

The Chairman thanked the Management Information Officer for her report.

- RESOLVED:** that the current status of the high risks until 31 March 2014 be noted; a full risk review would then be undertaken and reported back to the Committee.

47 Corporate Asset Management Plan refresh

The Principal Estates Surveyor presented and sought Committee approval for the refreshed Draft Corporate Asset Management Plan 2014-2017 and Delivery Plan. It was noted that this had been presented to the Overview and Scrutiny Committee and Cabinet, which had agreed to adopt it and prioritise the reports within it.

47 Corporate Asset Management Plan refresh (cont'd)

On behalf of the Committee the Chairman thanked the Principal Estates Surveyor for her report.

RECOMMENDED

that it be noted that Council had been asked to:

- (1) adopt the refreshed Corporate Asset Management Plan 2014-17
- (2) agree the tasks and prioritisation set out in the Delivery Plan (at Appendix A of the Corporate Asset Management Plan).

***48 Audit and Governance Committee – Forward Plan**

The Committee noted the contents of the forward plan for 2014/15, which was updated during the meeting.

Items to be considered at the June Committee included:

- Review of Internal Audit Charter
- Internal Audit Activity – Quarter 1 2014/15
- Revenue and Capital Outturn Report 2013/14
- Annual Audit Report and Opinion
- Audit Committee update
- Draft annual governance statement
- 5 year land supply update
- Office relocation project update
- Risk Management Review

RESOLVED: that the updated forward plan be noted.

***49 Exclusion of the public**

RESOLVED that under Section 100(A) (4) of the Local Government Act 1972 and in accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the public (including the press) be excluded from the meeting as exempt and private information (as set out against each Part B agenda item), is likely to be disclosed and on balance the public interest is in discussing the items in private session (Part B).

50 **Thelma Hulbert Gallery (THG) Business Plan**

Members considered the report which had been referred to the March meeting of the Cabinet. The Thelma Hulbert Gallery Business Plan had been sent to Committee members. The remit of the Business Plan was to assess whether the Gallery had a viable future with reduced Council funding.

Following extensive discussion, the Cabinet had recommended:

1. that charitable trust status be agreed as an appropriate next step with the transition period being resourced in order to achieve this;
2. that if the grant funding is available as a result of successful bids in 2014, to commit to annual funding and support in line with the three year Plan;
3. that the THG visual brand continues as is with further exploration of the full version becoming The Hulbert Gallery (as opposed to Thelma Hulbert Gallery)

Members felt that the Gallery represented a significant liability to the Council, with a significant risk that funding would not be secured. Some members also believed that the business plan was flawed which also represented a risk. Although it was acknowledged that the Gallery was also a huge social value to the district, not just a financial asset, there remained an overriding financial risk, as well as risk to the reputation of the Council.

The Committee agreed that these risks to the Council should be reviewed within six months. The Audit Manager also highlighted that in a recent Arts and Culture Audit and follow up audit on the Thelma Hulbert Gallery that SWAP could only provide partial assurance as there were still a number internal controls that required improvement, which further concerned the Committee.

RECOMMENDED:

- 1 that having noted Cabinet's decision, the Audit and Governance Committee wishes to raise concerns that the decision is considered to be high risk in financial terms and reputation terms, and should therefore be subject to rigorous monitoring .
- 2 that the decision be referred back to the Audit and Governance Committee in six months time.

Chairman Date

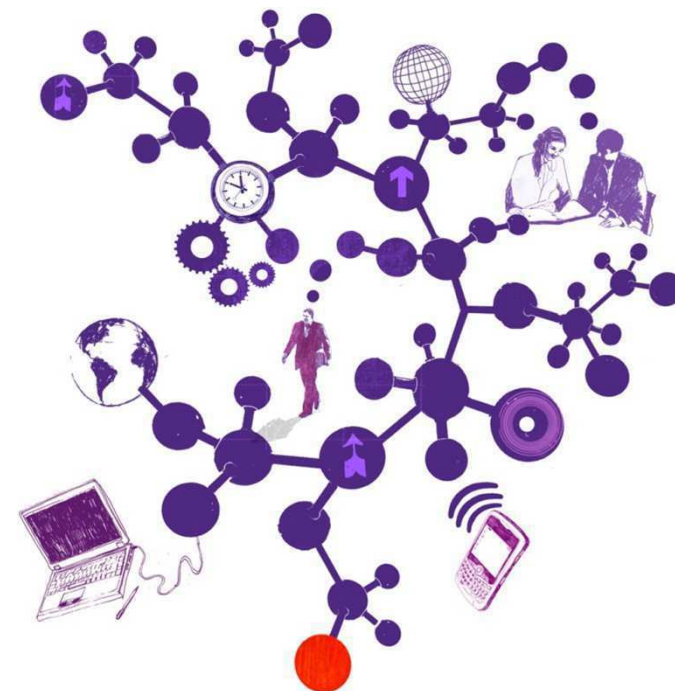
Audit and Governance Committee Update for East Devon District Council

Year ended 31 March 2014

4 June 2014

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Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District Council
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Progress at 4 June 2014

Work	Due By	Complete	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	March 2014	Yes	The audit plan was a separate item on the Audit and Governance Committee agenda on 13 March 2014.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none">• updating our review of the Council's control environment• updating our understanding of financial systems• review of Internal Audit reports on core financial systems• early work on emerging accounting issues• early substantive testing• initial risk assessment to support the Value for Money conclusion.	March 2014	Yes	Our interim audit work has been completed and we summarised the findings in the audit plan referred to above.

Progress at 4 June 2014 (continued)

Work	Due By	Complete	Comments
2013-14 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • detailed work to support the VFM conclusion • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	September 2014	Not yet due	<p>We have been working with your finance team regarding the audit of your financial statements for the year ended 31 March 2014.</p> <p>Representatives from the Council attended a financial statements workshop in Exeter on 18 February 2014, which was one of a series events nationally jointly hosted by Grant Thornton and CIPFA.</p> <p>Our financial statements audit is scheduled to commence in July and this will enable us to complete our work before the Audit and Governance Committee scheduled for 25 September 2014.</p>
2013-14 VFM Conclusion We are required to assess whether East Devon District Council has proper arrangements in place for: <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness 	September 2014	Not yet due	<p>We have completed our initial risk assessment and the results of this are included within our audit plan.</p> <p>Since the last Audit and Governance Committee meeting, we have commenced our overview of the Council's office relocation. We will report our work in the Audit Findings Report to the September Audit and Governance Committee.</p>
2013-14 certification work This work is expected to cover: <ul style="list-style-type: none"> • Housing benefits • Housing capital receipts 	November 2014	Not yet due	<p>We do not expect to be required to certify the Council's non domestic rates return for 2013/14.</p>

Other key issues

Loan to support social housing development

The Council has lent approximately £1m to a local community land trust, having borrowed the money itself from the PWLB. The Council raised the issue with us of how this should be accounted for in its financial statements for the year ended 31 March 2014.

We have written to the Council's Head of Finance seeking clarification on the powers under which the Council undertook this transaction. We will update the Audit and Governance Committee once we receive this response.

Change to Audit Manager

Ashley Allen has replaced David Bray as your Audit Manager with immediate effect. Ashley is an experienced Audit Manager and is based in our Exeter office. Ashley and David have had an extended handover and your Engagement Lead, Barrie Morris, is unchanged. David is still working for Grant Thornton and can provide input should this be required.

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping local authorities prepare clear and concise financial statements
- approving the minimum revenue provision

We have provided copies of the guide to Local Authority accounts to the Council's Head of Finance for distribution to the Audit and Governance Committee. The other guides are included within the Audit and Governance Committee papers.

Issue for consideration

Have members referred to this guidance?

Accounts – our top issues

Accounting and audit issues

Key issues for the 2013/14 closedown

Based on the queries we have received from clients and audit teams, here is a list of the key issues to consider for the 2013/14 closedown at East Devon District Council.

1. Do your accounts tell the overall story of your authority's financial performance and financial position? Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations is sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
 - Have you considered provisions for business rates, equal pay and restoration and aftercare of landfill sites?
 - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
 - Is there a robust evidence based methodology to support the estimate?
 - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, Is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs and a new service line for Public Health been addressed? Have comparatives been restated?

Accounts – our top issues

Accounting and audit issues

6. In the pension accounts, have the following disclosures required by the Code been included that are in addition to those set out in the CIPFA example pension fund accounts:
- the relationship between net assets available for benefits and the present value of promised retirement benefits
 - an accounting policy for measurement of assets held at amortised cost.

Issue for consideration

Has your Head of Finance reviewed the closedown issues and assessed the potential impact for your financial statements?

Accounts – CIPFA bulletin

Accounting and audit issues

LAAP Bulletin 98: Closure of the 2013/14 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 98](#). The bulletin provides further guidance and clarification to complement CIPFA's 2013/14 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- public health reform
- non-domestic rates – provision for appeals against the rateable value of business properties
- component accounting
- accounting for pension interest costs in relation to current service cost and pension administration costs.

With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 .

Issue for consideration

Has your Head of Finance reviewed the guidance and assessed the potential impact for your financial statements?

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Issues for consideration

Has the Council used the Audit Commission briefing paper to consider how their:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?
- spending on different components of waste management compares with authorities that have similar or better performance?

Assessing the costs and benefits of local partnerships

Local government guidance

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

Issue for consideration

Has the Council considered the applicability of the government's cost benefit analysis guidance in considering the cost-benefits of local service delivery options?

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Issues for consideration

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Council reviewed these case studies and assessed whether it is meeting good practice in these areas?
- Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?

Getting to grips with Local Government Accounts

Grant Thornton

Local Government Audit Committee Summer Workshops

Local Government accounts have become increasingly complex and hard for even finance professionals to understand.

There are also increasing expectations about openness, accountability and transparency in reporting.

The role of an audit committee member to provide assurance to the Council that the accounts are properly put together and audited is not an easy one.

Drawing on Grant Thornton's 2014 publication 'a guide to local authority accounts' referred to on page 7 of this update, we are hosting a series of free workshops across the South West which aim to:

- Unlock the mystique of the accounts by explaining the purpose and main features of all the main statements and notes;
- Assist Audit Committee members to understand and challenge the key issues of importance;
- Explain how auditors engage with Audit Committees throughout the entire audit process;
- Help Audit Committees better understand the structure and principles of an external audit; and
- Enable members to network with members from other councils and share good practice.

There will also be time for discussion and networking.

Invitations have recently been sent out, but please speak to your Engagement Lead or Audit Manager if you have not received an invitation or if you would like any further information on these workshops.



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Decluttering your accounts

Helping local authorities prepare clear and concise financial statements
Spring 2014

The case for de-cluttering

Financial statements are an important part of good governance and accountability. But many local authorities say their financial statements are becoming more complex, harder to prepare and less clear for readers. We believe it is possible to break this trend.

In 2012 we published our top ten tips on how to de-clutter local authority accounts. Since then we have worked with authorities across the UK to help them prepare financial statements that are clear and concise. For some the change has been dramatic with one of our clients successfully halving the length of its financial statements. Based on this work we have identified the five critical success factors.

1 Engage stakeholders

Securing the commitment of your members, senior managers and other stakeholders (including auditors) to the project is essential. And understanding what your stakeholders think of your latest financial statements will help you identify the main areas for improvement:

- are the financial statements consistent with their knowledge of the authority?
- do they think that big issues are disclosed clearly?
- are there any areas where the financial statements do not make sense to them?

2 Remove immaterial disclosures

Disclosure notes are only needed for material items or where disclosure is required by statute. Removing immaterial disclosures can have a major impact on the size of your financial statements. To do this you will need to have a clear understanding of what is material to your local authority:

- an item is material if it could influence the view of a user of the financial statements
- assessing materiality requires consideration of both qualitative and quantitative factors.

3 Remove duplication

Financial statements often include several disclosures covering the same balances, sometimes resulting in duplication. Merging these notes and disclosing information just once can make the accounts more readable and shorter.

4 Re-order

Many local authorities follow a standard order for their disclosures. Changing the order in which information is disclosed can help give greater prominence to the big issues and make the accounts more readable.

5 Use a variety of presentational formats

Lines of text and lists of numbers may not always be the best way to engage a reader. Financial information is often most effectively presented in tables or graphs. Using a variety of presentational formats can also help you highlight the big issues and maintain the reader's interest for longer.

Who should I contact?

For more information on how to de-clutter your financial statements, contact your usual Grant Thornton contact in the first instance or, alternatively:

Paul Dossett

Partner

T 020 7728 3180

E paul.dossett@uk.gt.com



Approving the minimum revenue provision policy

Supporting members to take informed decisions
Spring 2014

Why is this important?

Local authority members are not expected to be financial experts. However, capital financing is complex and each year members are required to approve a policy that charges capital costs to revenue: the minimum revenue provision (MRP). This guide is designed to provide members with background information to help them make a more informed decision.

Different types of expenditure

Local government incurs two main types of expenditure – revenue and capital. In local government, as in other sectors, there are different rules which govern accounting for revenue and capital.

- **Revenue expenditure** refers to day-to-day expenses incurred in running services such as staff salaries, payments to contractors. The rules in respect of revenue expenditure are straightforward. The Local Government Finance Act 1992 requires authorities to set a balanced budget each year, although historic reserves may be used to fund specific items.
- **Capital expenditure** refers to the council's expenditure on long-term assets such as buildings, IT systems, vehicles and so on. This expenditure is different because it can commit the council to payments many years in the future, particularly when the assets are funded by borrowing.

Charging for capital expenditure

Why not charge depreciation?

Local authorities follow international financial reporting standards (IFRS). These set out how to charge for capital items and include concepts such as depreciation. However, if local authorities were required to meet these IFRS charges, many would be unable to balance their general fund without raising significant additional funds from taxpayers. This is not indicative of poor decision-making in previous years: it is a consequence of accounting charges relating to capital projects encouraged by central government in the past.

As a result, local authorities are required to follow a regulatory framework for charging for capital costs. This means that although a local authority income and expenditure statement includes accounting entries for items such as depreciation, these are removed from reserves and replaced with a charge that is determined by statute.



What are the key principles of the local authority statutory framework for capital financing?

- **Capital grants and capital receipts cannot be used to fund revenue:** a local authority cannot, for example, sell land to fund the running costs of the Town Hall. Local authorities place income from capital grants and receipts into specific capital reserves that can only be used to fund capital expenditure.
- **Local authorities can spread the funding of capital expenditure over more than one year:** where a local authority incurs capital expenditure it funds the costs from a combination of its capital grants, receipts and reserves and the general fund. It is allowed to spread this funding over several years taking on board the impact on current and future taxpayers.
- **Each year members must approve the local authority's policy on how much capital expenditure to charge to the general fund:** it is up to each local authority to decide how to fund its capital expenditure. However, each year it must charge an amount to the general fund that it considers to be prudent. This is known as the Minimum Revenue Provision (or MRP). The MRP Policy must be approved by full council or (if an authority does not have a council) the nearest equivalent.

How might members go about approving a prudent MRP policy?

- **Consider the Capital Financing Requirement (CFR)** – this sets out how much capital expenditure still needs to be funded by the local authority. Authorities must set an MRP policy that charges this balance to reserves on a prudent basis.
- **Consider the Department for Communities and Local Government's (DCLG's) guidance on setting an MRP policy** – local authorities are required to 'have regard' to DCLG's guidance on MRP. This means that an authority must consider what the statutory guidance says. It does not mean that a local authority is obliged to follow the guidance. However, if an authority does decide to depart from the guidance, it must be able to show good reasons for doing so.
- **Apply judgment** – members are not expected to be financial experts but they are required to make an informed decision as to whether the MRP policy is prudent. In reaching this judgement members may wish to consider the following:
 - 1 Does the MRP policy follows DCLG's statutory guidance? If not have officers prepared a report that explains clearly the basis for any departure from the guidance?
 - 2 Does the MRP policy charge the CFR to the general fund over a prudent period? For example, if the length of time is excessive (more than 60 years, say) then the policy is unlikely to be prudent: tax-payers will be funding the cost of assets long after they have been scrapped.
 - 3 Are there are any warning signs? For example, has the MRP policy changed? If so, why? Is this part of a well-thought out capital financing strategy or a knee-jerk reaction to short-term financial pressures? Borrowing to invest in capital projects at historically low interest rates may very well be the right approach for the authority but has the authority received advice from external consultants? If so, have officers critically assessed the advice received or have recommendations been accepted without scrutiny?

How we can help?

As the leading provider of external audit to local authorities, we see part of our role as supporting members to make the best financial decisions on behalf of local residents. Not all aspects of capital accounting and financing are simple, but this guide should have helped to explain some of the principles. We hope this is useful for members looking to gain sufficient understanding to discharge their responsibilities.

Who should I contact?

For more information about local government finances, contact your usual Grant Thornton contact in the first instance or, alternatively:

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Report to: **Audit and Governance Committee**

Date of Meeting: 26 June 2014

Public Document: Yes

Exemption: None



Agenda item: 8

Subject: Internal Audit Charter

Purpose of report: As a key element of its Governance arrangements the Council have a partnership arrangement with South West Audit Partnership Limited.

The Charter which is attached as Appendix A remains the same as the Charter approved by Committee last year.

Recommendation: **That the Audit and Governance Committee approve the Internal Audit Charter.**

Reason for recommendation: It is a requirement that the Audit and Governance Committee approve the Internal Audit Charter.

Officer: Andrew Ellins – Audit Manager (SWAP)

Financial implications: No direct financial implications

Legal implications: No legal obs are required

Equalities impact: Low Impact

[Click here to enter text on impact level relating to your report. Link to an equalities impact assessment form if necessary.](#)

Risk: Low Risk

The Charter sets out the nature, role, responsibility, status and authority of internal auditing within East Devon District Council, and outlines the scope of internal audit work. Without an agreed Charter there is a risk that conflicts may occur due to unclear requirements and authorities.

Links to background information: • [Click here to enter links to background information; appendices online; and previous reports. These must link to an electronic document. Do not include any confidential or exempt information.](#)

Link to Council Plan: [Click here to enter which of the Council's priorities this report covers – Living in/Working in/ Enjoying/Funding this Outstanding Place.](#)

Internal Audit Charter

1. Purpose

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

2. Approval

The Internal Audit Charter is reviewed each year by the Audit Committee to confirm it remains accurate and up to date. It was last reviewed by the Committee at its meeting on the 27th June 2013.

3. Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting (represented by a Councillor from each of the 12 Partners). The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

4. Responsibilities of Management and of Internal Audit

Role of Internal Audit

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

Management¹

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

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

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

Internal Audit²

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

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

¹ In this instance Management refers to the East Devon DC Senior Management Team (SMT)

² The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for East Devon District Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

5. Relationship with the External Auditors/Other Regulatory Bodies

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

6. Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the Audit Manager also report to the Head of Finance as Section 151 Officer, and reports to the Audit & Governance Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the SWAP Members Meeting.

7. Scope and authority of Internal Audit work

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

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

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

1 In this instance Management refers to the East Devon DC Senior Management Team (SMT)

2 The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

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

8. Planning and Reporting

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

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

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

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the S151 Officer and the Monitoring Officer (Assistant Director – Legal and Corporate Services) as well as to other relevant line management.

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

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the Audit Manager have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit & Governance Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised June 2013 – Re-Approved June 2014.

1 In this instance Management refers to the East Devon DC Senior Management Team (SMT)

2 The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

Report to: **Audit and Governance Committee**

Date of Meeting: 26 June 2014

Public Document: Yes

Exemption: None



Agenda item: 9

Subject: Internal Audit Plan – Review of 2013/14

Purpose of report: This report provides the outturn position for the Internal Audit Plan at the end of 2013/14 and also provides Internal Audits overall opinion on the systems of internal control at East Devon District Council.

The Audit Committee agreed the 2013/14 Internal Audit plan at its March 2013 meeting. An update was provided for Quarters 1 and 2 in September 2013 and Quarter 3 in January 2014. This report is the final outturn position at the end of Quarter 4.

Appendix A – Detailed Internal Audit Annual Report and Opinion for 2013/14
 Appendix B – Summary of Audit Progress and Opinions for the 2013/14 Audit Plan
 Appendix C – Audit Opinion Definitions
 Appendix D – Significant Priority Findings

Recommendation: **To note the content of the Internal Audit Annual Report and Opinion.**

Reason for recommendation: The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Officer: Andrew Ellins – Audit Manager (SWAP)

Financial implications: No direct financial implications

Legal implications: The legal framework is reflected in the report

Equalities impact: Low Impact

[Click here to enter text on impact level relating to your report. Link to an equalities impact assessment form if necessary.](#)

Risk: Low Risk

[Click here to enter text on risk considerations relating to your report.](#)

Links to background information: • [Click here to enter links to background information; appendices online; and previous reports. These must link to an electronic document. Do](#)

not include any confidential or exempt information.

Link to Council Plan: Click here to enter which of the Council's priorities this report covers – Living in/Working in/ Enjoying/Funding this Outstanding Place.

East Devon District Council

Internal Audit Plan – Review of 2013/14

Contents

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Annual Opinion:

The Head of Internal Audit is required to provide an annual opinion report to support the Annual Governance Statement.

Purpose of Report and Recommendation

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

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

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

Background

The Internal Audit service for East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year April 2013 to March 2014.

Summary of Work 2013/14

The agreed Annual Audit Plan covers the following key areas of Activity:

- OPERATIONAL AUDITS
- INFORMATION SYSTEMS
- KEY CONTROLS, Finance
- GOVERNANCE & FRAUD
- SPECIAL REVIEWS

Audits Completed - Operational

Operational Audits—are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested; risks are assessed against the risk appetite agreed with the SWAP Management Board. Where weaknesses or areas for improvement are identified, actions are agreed with management, prioritised and target dated. Based on the findings of each review, an overall Control Assurance is offered. Where Partial Assurance is given in the final report the relevant Service Manager should be called by the Committee to provide assurance that the risks are being managed and to see this through to satisfactory completion.

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Planning Service	▲★★★ Reasonable	Procurement Rules Compliance	▲★★★ Reasonable
NDR – Managing New Risks and Liabilities	▲★★★ Reasonable	Asset Management – Leasing	▲★★★★ Substantial
Arts and Culture (Follow up)	Non Opinion	Leisure East Devon (Follow up)	Non Opinion
StreetScene Asset Inspections (public safety)	In Progress		

The 4 completed reviews receiving audit opinions identified 17 recommendations for improvement; No level 4 priority risks, 13 level 3's and 4 level 2's. This is a noticeable improvement on previous years and indicates an improved level of internal control at service level. In particular there were no partial assurances. The follow-up audits also found that weaknesses had been improved.

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

Summary of Work 2013/14

Continued.....

Audits Completed – Information Systems

Information Systems—IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given. The following IS audits were completed in 2013/14:

Audit Area	Audit Opinion
Corporate Back-Up Routines	▲ ★ ★ ★ Reasonable
Software Licensing	▲ ★ ★ ★ Reasonable
Disaster Recovery	Deferred
Mobile and Remote Working - ICT	Deferred
ICT Shared Services Business Case - consultancy	Non-Opinion

The 2 completed reviews receiving audit opinions identified 6 recommendations for improvement; 1 level 4 priority risk, 4 level 3's and 1 level 2. See Appendix D for High Priority Recommendations. The 2 deferred audits were at the request of the Client as the areas are in transition and replaced with a review of the Shared Service.

Audits Completed – Key Controls, Finance

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

Key Control Audits completed by SWAP during the period April 2013 to March 2014 and previously reported to Committee are as follows:

Summary of Work 2013/14

Continued.....

Audits Completed – Key Controls, Finance

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Capital Accounting	▲ ★ ★ ★ Substantial	Main Accounting	▲ ★ ★ ★ Reasonable
Council Tax & NNDR	▲ ★ ★ ★ Reasonable	Payroll	▲ ★ ★ ★ Substantial
Creditors	▲ ★ ★ ★ Reasonable	Treasury Management	▲ ★ ★ ★ Substantial
Debtors	▲ ★ ★ ★ Reasonable	Housing and Council Tax Benefit	▲ ★ ★ ★ Reasonable
Housing Rents	▲ ★ ★ ★ Reasonable		

From the 111 key controls tested in these audits there were 29 recommendations of which none were a level 4 Service priority action. There were 22 level 3 risks and 7 level 2 risks.

It was pleasing to find that the vast majority of key controls were all operating effectively. Indeed all of the systems have received at least reasonable assurance.

Previously the Audit Commission focussed on these findings when they carried out their work to sign off the Council's Accounts. However, Grant Thornton as the new External Auditors have a different approach and as such SWAP will use a risk based methodology when reviewing the key financial systems.

Summary of Work 2013/14

Continued.....

Audits Completed — Governance and Fraud

Governance and Fraud Reviews — The Governance, Fraud and Corruption Audit process focuses 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.

Audit Area	Opinion	Audit Area	Opinion
Governance Arrangements - Councillors	▲ ★ ★ ★ Reasonable	Corporate Risk Management	▲ ★ ★ ★ Reasonable
Fighting Fraud Locally Theme	▲ ★ ★ ★ Reasonable	Corporate Procurement Cards	▲ ★ ★ ★ Partial
Income Collection (Follow-Up)	Non Opinion	Debt Management Theme	In Progress
Council Office Relocation	Non Opinion		

The 4 completed reviews receiving audit opinions identified 35 recommendations for improvement; 10 level 4 priority risk, 23 level 3's and 2 level 2's. See Appendix D for High Priority Recommendations.

The only area that received partial assurance in 2013/14 was Procurement Cards. There were 10 level 4 recommendations. Management accepted that a new system was required and has been planned to be implemented. SWAP will review this in 2014/15 to ensure that the risks identified in this review have now been addressed and adequately controlled.

Summary of Work 2013/14

Continued.....

Performance:

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

Audits Completed - Special Reviews

There were no frauds or irregularities reported requiring special review in 2013/14.

SWAP Performance

Last April SWAP became a Publicly Owned Company, Limited by Guarantee. We have again managed to absorb some Partner day reductions and maintain day rates for the eighth consecutive year.

SWAP has not been able to undertake any accurate Benchmarking work as there are very few Partnerships of its size or nature. It is also not possible to obtain information on Private Sector costs from which to draw comparisons. We do know however that some larger firms charge well in excess of £300 per day and even more for IT Audit.

Last year, one of SWAP's partners (SCC) completed a CIPFA Benchmarking exercise, comparing the service they receive from SWAP with others. Comparing day rates, SWAP came out the second lowest for the family group to which SCC belong for comparative purposes. The average day rate was £319 against the rate charged by SWAP of £244; £75 per day more expensive. Based on EDDC's Annual Audit Plan of 400 days, this represents a reduced charge of £30,000 per annum against the family group average and we are sure that Members will note that SWAP day rates represent excellent value for money.

Members will also be interested to note that the Unitary Council of Herefordshire has now joined the South West Audit Partnership, bringing the total number of Partner Councils to 13. This demonstrates the excellent reputation SWAP maintains within the Local Authority community and that SWAP day rates are found to be very competitive.

Annual Opinion:

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

Audit Manager's Opinion

We have undertaken 26 audits for East Devon District Council in 2013/14. There were 5 reviews which were 'non-opinion'; 3 follow up audits (for areas that had received partial assurance in 2012/13), 1 ICT consultancy audit and 1 ongoing consultancy in relation to the office relocation. There are 2 audits in progress at the time of this report and for the completed 19 audits where we gave a reported audit opinion, we were pleased to provide the highest level 'Substantive Assurance' to 4, we gave 14 'Reasonable Assurance' and only 1 required a 'Partial Assurance'. The review that received Partial Assurance was Corporate Procurement Cards.

In total we provided management with 87 recommendations for improvement in order to assist in the effective internal control of the Council. 11 of these were high priority findings although there were no significant corporate risks identified. A summary of all high priority findings is attached as Appendix D.

I have considered the balance of audit work and outcomes against this environment and am able to offer ▲★★★ **Reasonable** assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 75% would represent good. The latest Scorecard for the Partnership shows the current average feedback score to be 82%. For East Devon the average feedback score was 84%.

Annual Opinion:

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

Audit Manager's Opinion (Continued)

It is not possible for the Annual Internal Audit Plan to cover and provide assurance on all areas of the Council's business. In order to seek assurance, the Head of Finance annually seeks the assurance of Senior Managers as to the adequacy of the internal control environment for their service areas. A signed Operational Statement has been returned for each service offering assurance that necessary controls are in place and operating as intended.

Over the year SWAP have found the Senior Management of East Devon District Council to be supportive of SWAP findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly into areas where they perceive potential problems and again welcome the opportunity to take on board recommendations for improvement.

Only 1 audit received partial assurance (compared to 4 audits in 2012/13 and 10 audits in 2011/12) and Management and Audit Committee will address these issues. It should also be noted that there were no fraud (theft) investigations required in 2013/14 which is indicative of the control environment at East Devon.

East Devon District Council Audit Plan Progress 2013/14
APPENDIX B

Audit Type	Audit Title	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
						5	4	3	2	1
Advice / Consultancy	Council Office Relocation	1-4	On-Going	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Governance Arrangements - Councillors	1	Final	Reasonable	2	0	0	2	0	0
ICT	Disaster Recovery	1	Deferred	n/a	0	0	0	0	0	0
ICT	Corporate Back-Up Routines	1	Final	Reasonable	4	0	1	2	1	0
Governance, Fraud & Corruption	Corporate Risk Management	1	Final	Reasonable	6	0	0	4	2	0
Follow Up	Leisure East Devon	2	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Income Collection	2	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Fighting Fraud Locally Theme	2	Final	Reasonable	10	0	0	10	0	0
ICT Consultancy	ICT Shared Services Business Case	2	Final	Non Opinion	0	0	0	0	0	0
Operational	Planning Service	2	Final	Reasonable	7	0	0	5	2	0
Governance, Fraud & Corruption	Corporate Procurement Cards	2	Final	Partial	17	0	10	7	0	0
ICT	Software Licensing	3	Draft	Reasonable	2	0	0	2	0	0
Key Control	Treasury Management	3	Final	Substantial	1	0	0	0	1	0
Key Control	Payroll	3	Final	Substantial	0	0	0	0	0	0
Key Control	Housing & Council Tax Benefits	3	Final	Reasonable	8	0	0	7	1	0
Key Control	Creditors	3	Final	Reasonable	3	0	0	3	0	0
Key Control	Council Tax/NNDR	3	Final	Reasonable	7	0	0	4	3	0
Key Control	Main Accounting	3	Final	Reasonable	0	0	0	0	0	0
Key Control	Debtors	3	Final	Reasonable	5	0	0	5	0	0
Key Control	Housing Rents	3	Final	Reasonable	5	0	0	3	2	0
Key Control	Capital Accounting	3	Final	Substantial	0	0	0	0	0	0
Governance, Fraud & Corruption	Debt Management Theme	3	In Progress		0	0	0	0	0	0
Follow Up	Arts & Culture	4	Final	Non Opinion	0	0	0	0	0	0
Operational	Asset Management - Leasing	4	Final	Substantial	2	0	0	0	2	0
Operational	NDR - Managing New Risks and Opportunities	4	Draft	Reasonable	3	0	0	3	0	0
ICT	Mobile and Remote Working – ICT	4	Deferred	n/a	0	0	0	0	0	0
Operational	Procurement Rules Compliance	4	Final	Reasonable	5	0	0	5	0	0
Operational	Streetscene Asset Inspections (Public Safety)	4	In Progress		0	0	0	0	0	0

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 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.

EDDC High Priority Findings 2013-14
APPENDIX D

Report Date	Weakness Found	Risk Identified	Agreed Action	Responsible Officer	Target Implementation Date
Corporate Back Up Routines					
20/05/2013	Presently the backup servers remain within the main building and other systems are still being backed up to tape, which although approximately 100 metres from the main building are still within the Council grounds.	If the backup servers remain within the main Council building there is a risk in the advent of a disaster the recovery of critical systems will be hampered. Without a process in place to move data backed up to tape offsite there is a risk, in the advent of a disaster and the site being cordoned off, it may not be possible to access the backup tapes.	It was agreed that the ICT Design and Compliance Manager would ensure: <ul style="list-style-type: none"> • the prompt relocation of the backup servers to the offsite storage facility; • a risk assessment of the premises is undertaken; • a risk assessment of the current backup arrangements for tapes is carried out with a view to storing these offsite as well. 	ICT Design and Compliance Manager	31/07/2013
Corporate Procurement Cards					
30/07/2013	Card numbers are visible on the new monthly Summary templates.	There is a risk that these card numbers could be used to complete a fraudulent transaction.	It was agreed that the Income and Payment Officer will remove the card numbers from the monthly summary sheets.	EDDC Income & Payments Officer	31/08/2013
30/07/2013	Unused Cards are not cancelled or destroyed.	Until the unused cards are cancelled by the bank, there is a risk that they may be used for unauthorised or fraudulent transactions.	It was agreed that the Income and Payments Officer will record whether a card has been used each month (from the bank statements) and contact the cardholder to ascertain whether the card is needed where the card is inactive for 3 consecutive months.	EDDC Income & Payments Officer	31/08/2013
30/07/2013	Guidance for Cardholders requires updating.	Unless guidance is clear, there is a risk that cardholders may not follow best practice or confusion over roles and responsibilities could arise. Lost or stolen cards may not be cancelled or suspended promptly, leading to an increased risk of fraudulent transactions occurring.	It was agreed that the Income and Payments Officer will ensure that the Instructions for Cardholders and Cardholder Undertaking are updated to ensure they reflect current processes, best practice, and any instructions circulated by email is issued to all cardholders.	EDDC Income & Payments Officer	01/11/2013
30/07/2013	Cardholder Undertakings are not signed by all cardholders.	There is a risk that cardholders have not been made aware of their responsibilities in relation to holding a purchase card, and that they may use it for unauthorised transactions (e.g. personal use).	It was agreed that the Income and Payments Officer will ensure that all cardholders sign an updated Cardholder Undertaking.	EDDC Income & Payments Officer	01/11/2013
30/07/2013	Instructions for authorised shared card users.	There is a risk that cardholders have not been made aware of their responsibilities in relation to holding a purchase card, and that they may use it for unauthorised transactions (e.g. personal use).	It was agreed that the Income and Payments Officer will ensure that a Cardholder Undertaking is signed by all officers using shared purchase cards, authorised by Senior Management.	EDDC Income & Payments Officer	31/08/2013

30/07/2013	The transfer to the new Co-op cards has resulted in breaches in internal control.	<p>Until every officer is issued with their own card, there may be a risk that officers regard card sharing as accepted practice. Officers sharing cards have not been asked to sign Cardholder Undertakings or been provided with Instructions to Cardholders. Therefore there is a risk that cards are not held safely or used in line with Council procedures.</p> <p>Should a fraudulent transaction occur on the card,</p>	It was agreed that the Income and Payments Officer will ensure that officers currently sharing cards are issued with new Co-op cards as soon as possible, along with a clear message to these officers that although card sharing was previously sanctioned by management, this was for a specific purpose and is no longer acceptable.	EDDC Income & Payments Officer	01/11/2013
30/07/2013	Sharing of cards.	Unless an EDDC application form is completed for Co-op cardholders, there is a risk that the underlying Business Case setting out the need to have a card may not be justified.	It was agreed that the Income and Payments Officer will seek and retain formal senior management approval where it is agreed that certain procedures are to be overridden. The reasons for these exceptions should be recorded.	EDDC Income & Payments Officer	31/08/2013
30/07/2013	Expenditure Authorisation.	Where expenditure has not been authorised by line management, there is a risk that the expenditure is not a valid business expense. In addition, without a clear audit trail showing who authorised the transaction, what has been checked and what it relates to, there is a risk that fraud may take place and not be detected.	It was agreed that the Assistant Accountant will return paperwork to cardholders where the order control sheets and expenditure summaries are unclear or incomplete, or have not been authorised at the correct level.	EDDC Income & Payments Officer	31/08/2013
30/07/2013	There is no regular reporting to management on the use of procurement cards.	However, until management receive regular, reliable data on card usage, there is a risk that the cards do not achieve the expected level of benefit, and this is not recognised and corrected.	It was agreed that the Income and Payments Officer will ensure that relevant management information is made available to senior officers to enable them to monitor procurement card usage on a regular basis, through development of a suitable suite of 360 degree reports.	EDDC Income & Payments Officer	31/12/2013
30/07/2013	Cancellation of HSBC cards	Until the unused cards are cancelled by the bank, there is a risk that they may be used for unauthorised or fraudulent transactions.	It was agreed that that Income and Payment Officer will formally write to the bank listing the unused cards and requesting immediate cancellation. Copies of this correspondence should be retained.	EDDC Income & Payments Officer	30/09/2013

Report to: **Audit and Governance Committee**
Date of Meeting: 26 June 2014
Public Document: Yes
Exemption: None



Agenda item: 10

Subject: **Revenue and Capital Outturn Report 2013/14**

Purpose of report: **The following report was presented to Cabinet on 4 June 2014. The report is presented for the Audit & Governance Committee to endorse, or not, the recommendations approved by Cabinet.**

Since presenting to Cabinet amendments have been made to the Outturn position whilst finalising the accounts, these are identified as an additional update in this report (section 5) with a new recommendation for Audit & Governance to consider and to be reconsidered by Cabinet on 2 July.

During 2013/14 monthly budget monitoring reports have informed members of budget variations and the anticipated year end financial position. This report contains the final position for the year and compares this outturn position against the budgets set.

The report outlines the implications of these results on the Council's reserves.

Recommendation:

To endorse, or not, the following recommendations made by Cabinet on 4 June 2014:

1. The Cabinet agree the outturn position for 2013/14.
2. To agree with the level of Reserves detailed in the report and the transfers recommended; namely
 - The transfer of £0.397m from the General Fund into the Transformation Reserve.
 - The Transfer of £1.190m from the Housing Revenue Account into the Debt Repayment Volatility Reserve (HRA Reserve).
 - The Transfers to other earmarked reserves for specific projects where funding contributions have been made in advance of spend and monies are held at year end to fund this work in future years. The Outturn Book contains full details of these transfers in 2013/14.

For Audit & Governance to make the additional Recommendation

3. That £0.454m is transferred to the Council's Business Rates Volatility Fund.

Reason for recommendation:

To report the Outturn position for the Council's approved budgets for the General Fund, Housing Revenue Account and Capital Expenditure. This final position will flow through to the Council's Statement of Accounts.

Members are asked to note the variations from the budgets identified within the report and consider the final position.

It is appropriate at this stage to reflect on the reserves and balances held by the Council and determine if these are the right reserves at the right levels going forward.

Officer:

Simon Davey, Head of Finance

sdavey@eastdevon.gov.uk

01395 517490

Financial implications:

The financial details are outlined in the report

Legal implications:

On the assumption this report reflects local authority financial requirements/available discretions; no specific legal comment is required.

Equalities impact:

Low Impact

No decisions are required which effect service/customer provision

Risk:

Low Risk

Financial monitoring reports have kept members informed during the year of budget variations and the projected outturn position of the Council's finances. No areas of concern were raised with the Council maintaining its net spending within overall approved budget levels. All predetermined Balance and Reserve levels were maintained comfortably above the adopted minimum levels. This position has now proven correct in the final outturn position presented in this report.

The report also looks at the monies the Council holds in balances/reserves and considers these in the light of the current economic situation and future Government funding cuts. Consideration is given to the Council's financial track record, internal and external audit reports on financial controls and is reflective of occurrences from external factors which affect the Council's finances.

Links to background information:

- Click here to enter links to background information; appendices online; and previous reports. These must link to an electronic document. Do not include any confidential or exempt information.

Link to Council Plan:

Click here to enter which of the Council's priorities this report covers – Living in/Working in/ Enjoying/Funding this Outstanding Place.

1. Introduction

- 1.1 This report compares the outturn position (actual amount spent or income received for the year) against budgets set for the financial year 2013/14 for the General Fund, Housing Revenue Account (HRA) and the Capital Programme.

- 1.2 A summary position is contained in this report for each of these areas with an accompanying 'Outturn Book' giving detailed information on actual spend against the budget set by members. The Book gives an explanation of any significant variations of spend or income against budget and highlights other matters to be drawn to Members' attention.
- 1.3 The report looks at the effect the outturn figures have on the Council's balances and reserves and considers future policy for holding these sums.

2. General Fund position

- 3.1 The 2013/14 budget was set as a balanced budget with the exception of requiring £0.210m from the General Fund Balance in order to meet one off items of expenditure. During the course of the year Members agreed to add £0.148m additional expenditure to the budget through supplementary estimates; thereby requiring in total £0.358m to be met from the General Fund Balance.
- 3.2 The outturn position gives an overall saving of £0.807m against the budget resulting in £0.449m being available to transfer into the General Fund Balance, rather than requiring £0.358m to be taken from the Balance.
- 3.3 Variations against budget have been reported to Cabinet during the year as part of the monitoring process, below is a summary of the main variations at outturn stage leading to the overall savings figures. Further comprehensive details are contained in the Outturn Book.

General Fund 2013/14 – Outturn variations against budget	Variation £000
Savings on Refuse & Recycling Contract and increased prices received for recycling materials.	(260)
When the budget was set it was unclear how the new business rate retention scheme would deal with discretionary rate relief expenditure previously charged to the Council's General Fund. These costs were amalgamated into the final scheme not requiring a budget at the level previously held.	(111)
Planning Income through increased applications	(44)
Homesafeguard income due to increased in customers	(46)
Net salary savings due to vacancies across a number of areas including senior management team	(194)
Car Park income below budget projections, budget did not reflect a late Easter	130
Savings obtained on car park cash collection contract arrangements	(35)
ICT savings on contract negotiations and hardware purchases	(75)
Legal services increased recovery of costs	(47)
StreetScene Cleansing & Grounds Maintenance savings due to extended equipment life and transport savings	(109)

The areas above have been considered and were reflected when setting the 2014/15 budget.

- 3.4 Allowing for the £0.449m transfer into the General Fund Balance as a result of the 2013/14 outturn position and taking an additional £0.063m to be transferred into the Balance from previously set aside earmarked reserves no longer fully required gives a year end balance of £4.322m.
- 3.5 The 2014/15 budget has a contribution going to the General Fund Balance of £0.075m, however it was also agreed to make a contribution from the General Fund Balance in 2014/15 to the New Homes Bonus Volatility Fund of £0.400m, therefore giving an uncommitted General Fund Balance currently standing at £3.997m (£4.322m + £0.075m - £0.400m = £3.997m).
- 3.6 Taking the General Fund Balance at £3.997m this is £0.397m above the adopted range previously determined by Council, this being between £2.8m and £3.6m. This range is still considered the appropriate level as there has been no key change to the factors used in its determination. It is therefore recommended that £0.397m (the amount above the upper limit) is transferred into the Council's Transformation Reserve in order to assist the Council to meet one off costs/investments required to meet the challenges required in balancing future year budgets.

4. Housing Revenue Account (HRA)

- 3.1 The 2013/14 budget was set to achieve a surplus of £1.696m, during the course of the year Members agreed to £0.050m expenditure through a supplementary estimate; thereby giving a revised budgeted surplus for the year of £1.646m to be paid into the HRA Balance.
- 3.2 The outturn position gives an overall saving of £0.419m against the budget resulting in £2.065m being available to pay into the HRA Balance.
- 3.3 Below is a summary of the main variations at outturn stage giving the overall savings, again further comprehensive details are contained in the Outturn Book.

HRA 2013/14 – Outturn variations against Budget	Variation £000
Rent income higher due to reduced void times & excellent collection rates	(265)
Day to day repairs – increase in demand, settlement sum of £60k to Lovell in respect of Connaught, storm damage costs	637
Programmed maintenance – includes additional works identified as a result of solid fuel & gas servicing	101
Catch up Repairs – this budget as spent across other budget heads associated with the actual spend.	(500)
Supervision & Management – maternity cover, higher insurance premiums, IT hardware & software purchases	68
Mobile Support Officers – supporting people income from DCC & self funding tenants	(87)
Major Repairs	485
Revenue contribution to capital lower than anticipated due to lower costs than budgeted and use of capital receipts to fund capital expenditure	(749)

- 3.4 The HRA balance at the beginning of 2013/14 was £2.970m with the recommended adopted minimal level being £2.148m. Taking the surplus in 2013/14 of £2.065m this has raised the 2013/14 year end balance to £5.035m; £2.887m above the minimum level.
- 3.5 A Debt Repayment Volatility Reserve was created in 2012/13 to provide a cushion for repaying the self financing loans should adverse fluctuations in spending and/or rent income occur. The balance in the reserve is currently £1.710m. It is suggested that a further £1.190m is transferred into this Reserve from the HRA giving a total sum of £2.9m.
- A £2.9m Reserve is considered prudent as this amount is equivalent to the maximum debt repayment in any one year within the next 10 years, thereby giving the HRA at least one years cushion to restructure its budgets.
- 3.6 In considering the appropriate level of balances/reserves to be held for the HRA there are two key factors; ensuring the Balance held at any point over the 30 year business plan does not drop below the adopted minimum level of £2.148m and that there is a sufficient sum above this level to meet debt repayments when required as part of the Plan.

4 Capital Budget

- 4.1 The revised Capital budget for 2013/14 was £21.1m net expenditure; the outturn position is significantly lower at £12.6m (£8.5m variation). The majority of this underspend is from scheme slippage with expenditure now moved into 2014/15. The main variations against the revised budget are given below with further details contained in the Outturn Book.

Capital 2013/14 – Outturn variations against Budget	Variation £000
Seaton Jurassic (Visitor Centre) – main scheme expenditure now to be in 2014/15.	1,729
Exeter Science Park Loan – request for funding not received, expected in 2014/15	1,000
Beer Community Land Trust Loan – delay in agreeing loan security details, £305k paid out to date against land value.	695
Combined Heat & Power Plant, Cranbrook – delay by Eon in submitting final claim	2,300
Axe Wetlands Development – delay because of planning issues	204
Purchase of ICT Housing System – costs now slipped into 2014/15	263
Purchase of multiple occupation house- slipped into 2014/15	203
Cranbrook community Play area – delayed until 2014/15	161
Pollution prevention Imperial Recreation – snagging works outstanding final payment to be in 2014/15	163

- 4.2 The Capital Reserve at the end of 2013/14 is £2.510m; the use of the Reserve in 2013/14 was £0.085m. The table below shows the position on the Capital Reserve going forward based on the capital programme approvals at this stage, as time progresses further scheme bids for approval will come forwarding affecting this picture.

Capital Reserve Position	2013/14 Outturn £000	2014/15 Budget £000	2015/16 Budget £000	2016/17 Budget £000
Opening Balance	(2,595)	(2,510)	(2,045)	(7,090)
Funding of Revenue Schemes *	85	-	-	-
Use/(contribution) to capital reserve**	0	465	(5,045)	4,131
Closing Balance**	(2,510)	(2,045)	(7,090)	(2,959)

* Schemes approved in the Capital Budget but required reclassification to Revenue projects, Capital Reserve funding transferred to support schemes in revenue.

** Includes capital receipts, technically held in separate reserve

5 Amendments to Outturn position presented to Cabinet 4 June 2014

- 5.1 Since presenting the Outturn report to Cabinet on 4 June amendments have been made to the Outturn position whilst finalising the accounts, these are detailed below

Amendments to General Fund Outturn Position

- £0.184m grant paid to the Parish and Town Councils to mitigate the loss of council tax income through the introduction of the local Council Tax Support scheme had at outturn stage been shown as a cost to the collection fund. This is in fact a cost to the General Fund and therefore is an additional cost not included in the outturn to Cabinet.
- East Devon's element of the business rate collection fund loss for 2013/14 totalled £0.684m and had been charged against the revenue account (General Fund) in 2013/14. Statutory provision requires this cost to be reversed out of the revenue account in year and held in a reserve for the deficit to be made good in the following year. This therefore reduces the Council's expenditure shown in the outturn to Cabinet.

The outturn position for Cabinet is taken at time before many of the technical accounting entries are made to create the Statement of Accounts. Some of these technical entries had been made at the time the outturn report was required for publication and this led to a misunderstanding on the above items and how they should be treated for outturn. These entries will be "flagged" in the finance system differently in future to reduce the risk of this error occurring again.

In setting the 2014/15 budget it was assumed we would be setting aside monies into the Business Rates Volatility Fund, however taking the deficit position of £0.684m now to be recovered in 2014/15 this will leave only £0.044m. It is therefore recommended that £0.454m (the net of the two adjustments above) is transferred at the end of 2013/14 in to the Business Rates Volatility Fund to mitigate any future losses, this then leaves the General Fund balance in the position as agreed by Cabinet on the 4 June.

Amendments to Housing Revenue Account Outturn Position

- The outturn position stated that no contribution would be required from the HRA to finance capital schemes for the year as housing capital receipts were sufficient to meet the full cost. The final position will however require a small sum of £0.032m to be used.
- A calculation is undertaken to reverse notional depreciation and replace it with an actual contribution to the Major Repairs Reserve, the final calculation results in a reduced sum of £0.078m being charged against the HRA than presented at outturn.

The net effect of the above is to increase the HRA balance at year end from £5.035m as reported to now being £5.081m, this is a small difference and no change is being suggested to the recommendations made by Cabinet.

6 Other Main Reserves and Balances Available – year end position

Transformation Reserve

Balance as at 31/3/14 £0.842m. This sum is set aside to assist the Council's transformation programme by meeting upfront costs necessarily incurred in order to produce savings/efficiencies in future years. Of this sum the Council has committed a further £0.194m leaving an uncommitted balance of £0.648m.

This report recommends a transfer into this Reserve from the General Fund of £0.397m, which would then increase the uncommitted balance on the reserve to £1.045m

Local Authority Business Growth Incentive Scheme Reserve

The purpose of this reserve is to promote and deliver economic development. The balance on this reserve is currently £0.244m. Of this sum the Council has committed a further £0.010m leaving an uncommitted balance of £0.234m.

Asset Maintenance Reserve

This reserve is used to support the Council's General Fund Assets and planned maintenance backlog/essential work/asset failure (created from one off VAT refunds obtained).

The year end balance is £1.181m. This Reserve is currently used at a rate of around £0.2m annually, although the call upon the Reserve in 2013/14 was only £0.062m. Details of spend are presented to the Asset Management Forum.

Asset Management Plan

Members agreed a budget of £0.218m in 2011/12 to help with resources to progress the Asset Management Plan work. At the end of 2013/14 a balance remains of £0.088m.

Business Rates Volatility Fund

The setting of this Fund was agreed as part of the 2013/14 budget approval. This represents East Devon's additional income above the Start up Funding Level determined by Government under the Business Rate Retention Scheme. The figure that was estimated as the additional sum was £0.325m; the actual sum to be transferred at outturn stage is

£0.334m. £0.325m has been used in 2014/15 as part of the budgeted income from Business Rates and the same process will happen in 2014/15 for 2015/16. As the sum to be received is volatile using the monies a year in arrears helps smooth out the unpredictability.

New Homes Bonus Volatility Fund

It has been agreed that New Homes Bonus income should be utilised to support General Fund service expenditure in part, the risk of using such income was acknowledged and the principle of setting up a Fund to mitigate the risk and protect the Authority was agreed.

The balance at the end of 2013/14 is £0.273m with a further £0.893m being transferred into the Reserve in 2014/15 (£0.4m from the General Fund balance and £0.493m from the NHB monies being received in 2014/15) giving a total of £1.166m being held as the agreed level.

Other Earmarked Reserves

There are other earmarked reserves for specific projects where funding or contributions have been made in advance of spend and monies are held at year end to fund this work in future years. The Outturn Book contains details of these transfers being made in 2013/14 at outturn stage with a complete list of all Reserves held.

Report to: **Audit and Governance Committee**

Date of Meeting: 26 June 2014

Public Document: Yes

Exemption: None



Agenda item: 11

Subject: **Draft Annual Governance Statement – year ended 31 March 2014**

Purpose of report: Attached to this report is the draft Annual Governance Statement for year ended 31 March 2014.

The final version of this Statement will be included in the Council's Statement of Accounts for 2013/14 which will be presented for formal approval at this Committee in September. Members requested that a draft version should be considered at an early stage by the Committee for debate before finalising. The Committee Chair has been involved in the preparation of this draft statement.

Recommendation: **To consider any amendments necessary to the draft Annual Governance Statement attached.**

Reason for recommendation: The Committee are required to approve the annual governance statement as part of the accounts approval process in September, the Committee asked for an early draft version to be presented for early consideration.

Officer: Simon Davey – Head of Finance

Financial implications: No direct financial implications

Legal implications: **No legal obs are required'**

Equalities impact: Low Impact

[Click here to enter text on impact level relating to your report. Link to an equalities impact assessment form if necessary.](#)

Risk: Low Risk

[Click here to enter text on risk considerations relating to your report.](#)

Links to background information:

- [Click here to enter links to background information; appendices online; and previous reports. These must link to an electronic document. Do not include any confidential or exempt information.](#)

Link to Council Plan: [Click here to enter which of the Council's priorities this report covers – Living in/Working in/ Enjoying/Funding this Outstanding Place.](#)

DRAFT ANNUAL GOVERNANCE STATEMENT

For the year ended 31st March 2014

Scope of Responsibility

East Devon District Council is required to ensure that its business is conducted in accordance with the law and proper standards; 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 again 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. 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 approved an annual governance statement (AGS) which accompanies its Statement of Accounts.

The Head of Internal Audit is required to provide a written annual report to those charged with governance to support the AGS, this report was presented to the Council's Audit and Governance Committee on 26 June 2014 and a copy can be found here:

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 2014 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 an adopted Constitution that sets out how it operates, how decisions are taken and the procedures to follow.
- The Council has a Council Plan for 2012 -16 which was refreshed in 2014 and has 4 core strategies supporting the Plan; Homes and Communities, Economy, Environment and Finance. Along side the Council Plan we also have produced a Customer Services Plan, a Communication Plan and an ICT Plan. All these documents can be found on the Council's website.
- Delivery of the Council Plan is supported by a performance framework with 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. Delivery of the Council Plan is monitored by 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 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. The Council also conforms with the requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government.
- An internal audit service is provided 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 Councils external auditors (Grant Thornton UK LLP).

- The Council has a whistle-blowing and anti-fraud and corruption policy.

Appendix A contains a more detailed overview of the Council's Governance Framework

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 2013/14 (included on agenda)
- Internal and external audit and inspection.
- A specific review of the effectiveness of internal control and compliance to the governance framework undertaken in May 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 Corporate Legal & Democratic Services Manager, the Monitoring Officer and the Chairman of the Audit & Governance Committee 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 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. 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 during 2013/14 to note include;

- Further staff training has been given on Contract Standing Orders and Procurement practices and there has been the continued roll out e-procurement making procurement activities more transparent. The further refinement of Pro-spend as a spending analysis tool is a useful aid to have corporate oversight to procurement activities.
- The Council has received improved assessment of key financial controls as reported by SWAP. Their annual report states there as been a noticeable improvement on previous years in a reduction in the number of audit recommendations made which indicates an improved level of internal control at service level.
- External reports received from Grant Thornton during the year also show a good and improving position for the Council.
- Staff have been reminded of the key content in the Governance Policies.
- The Accounts Forward and Accounting Policies, along with the proposed layout of the Governance Statement, were presented to the Audit and Governance Statement at their March meeting for early agreement and involvement in the process. This was request by the Committee following debates by the Committee of the Grant Thornton publication “Slow Burner”.
- The preparation of the Governance Statement itself has had involvement from the Chair of Audit & Governance and draft copy was presented to his Committee for early consideration in June.
- Members of the Audit & Governance Committee have requested differing formats of the risk register for review in order to ensure scrutiny is carried out and the register is now reviewed at every meeting.

Significant Governance and Control Issues Identified – Governance Action plan

The Audit and Governance Committee expressed concern during the year in the risk of the Council not having processes in place to regularly monitor a 5 year land supply for strategic planning purposes. This issue and concern has been highlighted to Council by the Committee who continue to pursue the matter.

Members of the Audit and Governance Committee requested a review of members’ governance arrangements following a councillor’s resignation and police investigation into allegations made against the councillor concerning planning influence. Committee members were content with the findings of that review; Auditors could find no evidence of any improper influence and gave reasonable assurance on the governance framework. Separately, the Council is awaiting the conclusion of the police investigation.

It should be noted that there is currently a senior management restructure that is being proposed that involves changes to statutory officer's position and roles. This is being considered by Cabinet, Overview and Scrutiny and finally Council.

The Council is currently involved in two significant projects which have associated risks; office relocation and the proposal for an ICT shared service arrangement with Exeter City Council and Teignbridge District Council. In addition to this being monitored through a detailed risk register for each project, SWAP have and continue to independently review both these projects. In addition with the ICT shared service additional assurance work is being undertaken by Grant Thornton as separate piece of requested work by the Councils involved.

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. The key areas are listed below, along with the proposed actions to remedy or improve the position.

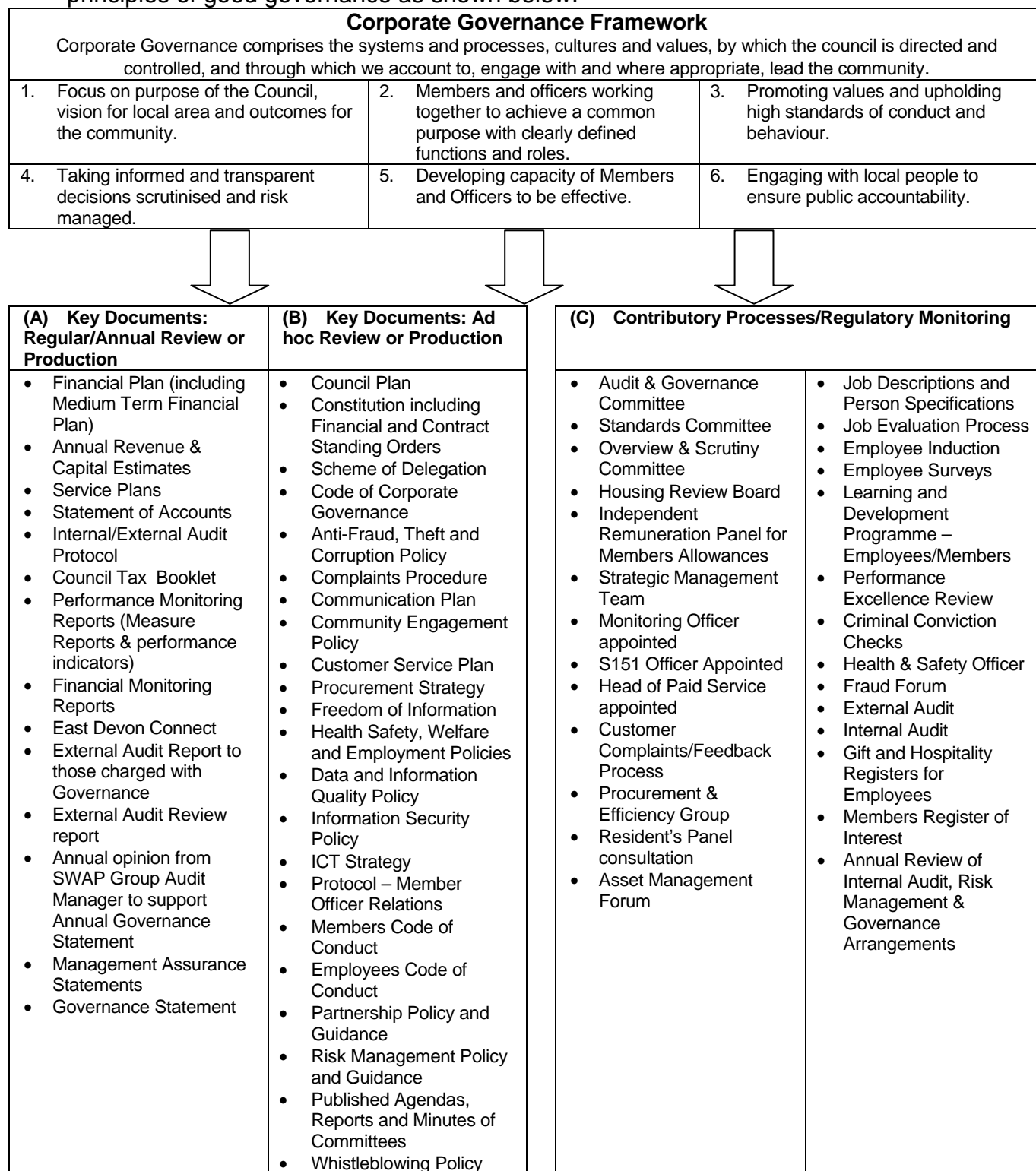
SWAP reviews undertaken in 2013/14 which only achieved partial assurance			
Corporate Back Up Routines (audit date 20/5/13)	Presently the backup servers remain within the main building and other systems are still being backed up to tape, which although approximately 100 metres from the main building are still within the Council grounds.	<p>It was agreed that the ICT Design and Compliance Manager would ensure:</p> <ul style="list-style-type: none"> • the prompt relocation of the backup servers to the offsite storage facility; Now complete • a risk assessment of the premises is undertaken; Not required as the current on site premises is no longer the primary storage area for the backups • a risk assessment of the current backup arrangements for tapes is carried out with a view to storing these offsite as well. No longer required as tapes are no longer used as the primary means of data recovery. 	ICT Design and Compliance Manager

		.	
Corporate Procurement Cards	<p>A number of significant high priority findings from an audit review of Procurement Cards.</p> <p>A request was made by the Head of Finance to review this area as producers appeared weak. No inappropriate uses of the cards were found but a number of recommendations were made to improve procedures.</p>	<p>Recommendations have been agreed inline with the audit report and have been, or being implemented. SWAP will follow up on the implementation in 2014/15.</p>	Income & Payments Officer

Appendix A

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.



Report to: **Audit and Governance Committee**
Date of Meeting: 26 June 2014
Public Document: Yes
Exemption: None



Agenda item: 13

Subject: **Risk Review Information Year End 2013/14**

Purpose of report: Risk information for the 2013/14 financial year until April 2014 is supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This follows the year end review of risks by responsible officers for 2013/14.

Recommendation: **1. That the Audit and Governance Committee considers the current status of risks until October 2014.**

Reason for recommendation: To ensure that the Risk Management Policy and Guidance is being followed and all risks are being monitored and control actions implemented.

Officer: Joanne Avery Management Information Officer
javery@eastdevon.gov.uk
ext 2332

Financial implications: There are no direct financial implications contained within this report

Legal implications: There are no direct legal implications contained within this report

Equalities impact: Low Impact

Click here to enter text on impact level relating to your report. Link to an equalities impact assessment form if necessary.

Risk: Low Risk

Failure to identify, assess, monitor, review and manage risks could impact negatively (i.e. financial, reputational, operationally) on the council.

Links to background information:

- [Appendix A – Strategic risk review](#)
- [Appendix B – The Risk Review Report – high and upper medium risks with control action detail for year end 2013/14](#)
- [Appendix C – The Risk Review Report – Medium and low risks only for year end 2013/14](#)
- [Appendix D – Office relocation risk review May 2014](#)
- [Appendix E - Explanations and definitions.](#)

Report in full

1. The EDDC's Risk Management Policy requires all risks identified by the council to be reviewed bi-annually. There are currently 12 Strategic and 108 Operational Risks, each when first identified were considered high or medium level risks which required some form of mitigation through control actions. For this year end review for 2013/14 all risk owners were asked to reassess the overall risk, update their control action/s and re-score the risk to give a residual score in light of the mitigation from the control actions undertaken.
2. SMT have undertaken an in-depth review of the Strategic Risks assessing the strategic nature and status of each risk, clarifying the risk descriptions and updating control actions. Following this there are now 12 strategic risks and a table setting out the changes made to the risks is shown at [appendix A](#).
3. In the full risk register there are 3 risks which are currently scored as high,
 - **Significant loss or non collection of rental income will have a major impact on the Housing Revenue Account and our ability to deliver housing services to our tenants.** - Impact: Major Likelihood: Very likely
Loss of rental income is now being experienced due welfare reforms introduced nationally, but the controls we have in place are helping us to keep this loss to a minimum.
 - **Loss of Supporting People contracts would mean a significant loss of income that part pays for the housing related support service received by our tenants in sheltered housing.** - Impact: Serious Likelihood: Very likely
While our Supporting People grant has reduced by around ten per cent this year, we are looking to offer the service to our tenants in general needs accommodation, and then to the private sector population, many of whom it is anticipated will be self-funding.
 - **Potential move to an ICT shared service may disrupt the service.** - Impact: Serious Likelihood: Very likely
Moving to a shared service is complex and complicated. There is much change for technology, ICT staff and users and so carries a high risk of failure.

Further information including control actions for these risks can be found at [appendix B](#) a report showing all of the high and upper medium risks, (upper medium scoring 8 or over).
4. All services were asked to highlight any new and emerging risks with two new risks being put forward.
 - The financial viability of the future operation of the Thelma Hulbert Gallery.
 - The Council's income now relies on income from new homes bonus monies which is directly related to new house building in the district. There is a risk of lower growth than estimated or the Government changing the mechanism for payment.
5. Following the risk review three operational risks were archived,
 - Localisation of Council Tax Benefit - This is now operational and part of our normal controls on benefits.
 - New Microsoft Technologies – this has now progressed to implementation.
 - A failure to effectively manage on-street and off-street Civil Parking Enforcement - the on-street enforcement role passed to Devon County Council on 1 April. The risks associated with car parks management overlap but there is a different emphasis and this risk will now be archived.

6. A report showing the medium and low level risks without control actions appears in [appendix C](#).

7. Number of risks in each service by score showing movement from the first review in 2013/14 to this last review.

Finance	High	Medium	Low
<i>This review</i>		3	17
<i>Previous review</i>		5	16

Economy	High	Medium	Low
<i>This review</i>		9	10
<i>Previous review</i>		8	8

Housing	High	Medium	Low
<i>This review</i>	2	10	10
<i>Previous review</i>	4	10	8

Environment	High	Medium	Low
<i>This review</i>		3	11
<i>Previous review</i>		2	11

Legal & Democratic	High	Medium	Low
<i>This review</i>		10	4
<i>Previous review</i>		9	5

Organisational Development	High	Medium	Low
<i>This review</i>		3	10
<i>Previous review</i>		3	10

ICT	High	Medium	Low
<i>This review</i>	1	3	2
<i>Previous review</i>		3	4

Strategic Risks	High	Medium	Low
<i>This review</i>		7	5
<i>Previous review</i>		13	5

8. The office relocation project risk register was last reviewed and updated in May 2014. These project risks are identified under three categories;

- Red Risks - Medium to long-term effect and expensive to recover
- Orange Risks - Medium term effect, which may be expensive to recover
- Blue Risks - Short to medium term effect

Currently there are 38 Open Risks (previously 37), comprising of 9 Red Risks (8), 20 Orange Risks (20) and 9 Blue Risks (9).

Whilst by its nature the contents of the Risk Register are confidential, since it identifies potential project vulnerabilities and management actions to mitigate and / or manage the particular risks, it can be confirmed that the following risks among others have been identified:

- Market conditions
- Government legislation
- Potential for additional unplanned maintenance being incurred whilst EDDC remains at Knowle
- Legal objections to the Council's relocation
- Planning decision outcomes

9. Further detail of the office relocation project risk register is shown at [appendix D](#).

10. An explanation and definitions of these risks including the risk matrix can be found in [appendix E](#).

Strategic Risk Review April 2014

Agreed at SMT 7 May 2014

Previous Strategic Risk	Outcome of review
Risk: Adequate people to deliver the Council plan and to deliver services during emergencies The Council fails to plan and maintain resources at a level and skill to meet its key objectives and service requirements day to day and during periods of emergency.	Risk re-worded with updated control actions Risk: The right people in the right place at the right time The council fails to recruit, retain, plan and effectively manage staff resources at a level and skill which is adequate to meet its key priorities and service requirements resulting in service failure.
Risk: Business failure of a major contractor or significant partner Failure of a major contractor to deliver key services in accordance with the specification/service level agreement or a significant partnership fails through a legal, financial, reputational, relationship or governance issue	Risk re-worded with updated control actions Risk: Business failure of a major contractor or significant partner Failure of a major contractor to delivery key services in accordance with the specification /service level agreement or a significant partnership fails through a legal, financial, reputational, relationship or governance issue resulting in service failure.
Risk: Adequacy of financial resource planning to deliver the Council's priorities Insufficient financial resources to deliver Council priorities as a consequence of: <ul style="list-style-type: none"> a) Failure of financial forecasting, budgeting, monitoring and reporting system resulting in insufficient financial resources and inadequate reserves b) Failure to use resources available effectively c) Reduction in government funding 	Risk remains control actions updated
Risk: Service provision jeopardised through unexpected major loss of income The Council suffers an unexpected major and irrecoverable loss of income (e.g. loss of government grant/subsidy or lower investment return due to lower interest rates)	Risk remains control actions updated
Risk: Major disruption in continuity of computer and telecommunications services. Major disruption in continuity of computer and telecommunications facilities to the detriment of service delivery	Risk remains control actions updated
Risk: Security of information is compromised Failure to safeguard and protect critical data or IT	Risk remains control actions updated

Previous Strategic Risk	Outcome of review
systems with the risk that it could be permanently lost, damaged, misused or stolen.	
Risk: ICT is not suitable for corporate needs Failure to ensure ICT transformation is planned and resourced to meet strategic business needs	Risk re-worded with updated control actions Risk: The right ICT and technology available in the right place at the right time Failure to ensure ICT investment in applications and hardware meets the computer and communications needs of users, both internal and external resulting in service failure.
Risk: Failure to meet a specific legal or ethical obligation upon EDDC The Council fails to meet a specific legal or ethical obligation which causes serious disadvantage to residents, visitors or local businesses and leaves the Council liable to action.	Risk remains control actions updated
Risk: Failure to adequately anticipate or respond to a major health or environmental incident Council inadequately plans for, or implements, action to tackle a major incident or emergency affecting a part of the district (chemical, biological, radioactive or other physically injurious event; natural or man-made, deliberate or accidental; natural events may include extremes of weather, flooding, coastal erosion and disease)	Risk re-worded with updated control actions Risk: Adequate emergency planning and business continuity A failure to adequately plan for emergencies and understand what issues arise in planning for business continuity could lead to a major service failure.
Risk: Failure of members to observe their Code of Conduct Failure of Members to understand their Code of Conduct. The Code is a key to good behaviour, good decision making and preserves the reputation of the Council with the public and partners	Risk remains control actions updated
Risk: Council services are not delivered where and how customers need them Services do not consult effectively to ensure service delivery meets customer demand and the expectations of all our communities that we will deliver services in line with the Equality Act 2010.	This risk has been removed as it falls under other risks within the register and forms part of our Open for Business and flexible working projects
Risk: Change to Economic and Political Climate The recession and national policies to tackle the budget deficit will have implications for all councils. The Council will have to make difficult decisions in order to set a balanced budget. There are also specific changes to the handling of Housing Benefits and the passing of financial risk from nation to local level.	This is not a risk this is the reality of the environment that all authorities are working in, aspects of this are included in other risks

Previous Strategic Risk	Outcome of review
<p>Risk: Delivery of the Growth Agenda for the West End of the District Failure to deliver Cranbrook (intended to provide 6,500 dwellings by 2026) and/or failure to deliver the Council's key strategic employment sites (intended to provide 11,000 jobs by 2026) including Exeter Science Park, Skypark, road transport infrastructure, expanded Exeter Airport, and the Intermodal Rail Freight Facility, which would mean a failure to deliver the Council's key corporate priority of Thriving Communities</p>	<p>Delivery has progressed well and this is not viewed as a strategic risk now moved to the operational risks for the Economic Development Team, also elements of this are covered in the re-worded risk: - Adoption of Local Plan</p>
<p>Risk: Lack of 5 year housing land supply and associated infrastructure Council fails to have 5 year supply of housing land, therefore: a) does not build number of houses required by RSS/Structure Plan b) fails to secure funding from the New Homes Bonus c) vulnerable on appeal to housing development in non desirable (in Council's view) locations</p>	<p>Risk re-worded with updated control actions Risk: Adoption of Local Plan Failure to ensure we have an agreed Local Plan would impact on our ability to provide a 5 year housing land supply and deliver optimal sustainable development for the District infrastructure and on our growth and redevelopment plans across the district. This could result in unplanned planning and affect the economic viability of the district.</p>
<p>Risk: Regeneration of Exmouth Failure to regenerate the town centre and seafront areas of Exmouth would lead to the continued decline in economic viability and attractiveness</p>	<p>Delivery has progressed well and this is not viewed as a strategic risk now moved to the operational risks for the Economic Development Team, also elements of this are covered in the re-worded risk: - Adoption of Local Plan</p>
<p>Risk: Regeneration of Seaton Failure to regenerate the town centre and seafront areas of Seaton would lead to the continued decline in economic viability and attractiveness</p>	<p>Delivery has progressed well and this is not viewed as a strategic risk now moved to the operational risks for the Economic Development Team, also elements of this are covered in the re-worded risk: - Adoption of Local Plan</p>
<p>Risk: Non-availability of key operation centre Through an emergency (fire, flood, equipment breakdown, damage, etc) a key operation centre (or other leased building for which we are responsible) becomes unusable</p>	<p>This is part of the following re-worded risk: Adequate emergency planning and business continuity</p>
<p>Risk: Requirement for new Council accommodation Following the rejection of the outline planning application the Council is reconsidering its options. The imperative is still to work from a new efficient building. Failure to relocate would mean the continued high cost of management and maintenance of Knowle Offices. Increasing inefficiency of current accommodation and reducing capacity to deliver improving services,</p>	<p>Risk re-worded with updated control actions Risk: Office relocation Not relocating would mean the continued high cost of management and maintenance of Knowle Offices. Increasing inefficiency of current accommodation and reducing capacity to deliver improving services, modern working practices and performance improvements. Challenged ability to maintain high quality services and projects in a time of reducing funding and resources.</p>

Previous Strategic Risk	Outcome of review
modern working practices and performance improvements. Challenged ability to maintain high quality services and projects in a time of reducing funding and resources.	

Report to: **Audit and Governance Committee**

Date of Meeting: 26 June 2014

Public Document: Yes

Exemption: None



Agenda item: **14**

Subject: **Anti Money Laundering Policy**

Purpose of report: Money Laundering is the term used for a number of offences which makes money with an illegal origin appear legal.

The policy applies to all employees, including members, of the council and its objective is to make everyone aware of their responsibilities and the consequences of non compliance.

Recommendation: **That the policy be agreed**

That the Money Laundering Reporting Officer be the Head of Finance and the Deputy the Financial Services Manager.

Reason for recommendation: Public service organisations and their staff are subject to the full provision of the Terrorism Act 2000 and may commit most of the principal offences under the Proceeds of Crime Act 2002.

Although not legally obliged to apply the provisions of the Money Laundering Regulations, as a responsible public body the council should take all reasonable steps to minimise the likelihood of the use of its services for money laundering.

Officer: Claire Read - Accountant

Financial implications: No direct financial implications

Legal implications: The legal implications are set out within the report.

Equalities impact: Low Impact

[Click here to enter text on impact level relating to your report. Link to an equalities impact assessment form if necessary.](#)

Risk: Low Risk

[Click here to enter text on risk considerations relating to your report.](#)

Links to background information: • [Click here to enter links to background information; appendices online; and previous reports. These must link to an electronic document. Do not include any confidential or exempt information.](#)

Link to Council Plan: Funding this outstanding place.

EAST DEVON DISTRICT COUNCIL

Proceeds of Crime Act (Anti-Money Laundering) Policy

1.0 INTRODUCTION

- 1.1 Money laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities. If they are successful, it also allows them to maintain control over their proceeds and, ultimately, to provide a legitimate cover for their source of funds.
- 1.2 Legislation concerning money laundering (the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007) has broadened the definition of money laundering and increased the range of activities caught by the statutory framework. As a result, the obligations now impact on areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering.

2.0 SCOPE OF THE POLICY

- 2.1 This policy applies to all employees of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering.
- 2.2 The policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations. Within this policy the term employees refers to all employees and elected Members.
- 2.3 Anti money laundering legislation places responsibility upon Council employees to combat money laundering and covers a very wide area of financial transactions, including possessing, or in any way dealing with, or concealing, the proceeds of any crime. It applies to all employees involved with monetary transactions
- 2.3 Under the legislation it is a criminal offence to:
 - assist a money launderer
 - "tip off" a person suspected to be involved in money laundering that they are suspected or that they are the subject of police investigations
 - fail to report a suspicion of money laundering
 - do something that might prejudice an investigation for example falsify a document
 - acquire, use or possess criminal property
 - conceal or protect terrorist property and/or fail to report such activity if seen to be carried out by others

3.0 PURPOSE

- 3.1 The legislative requirements concerning anti-money laundering procedures are extensive and complex. This policy has been written so as to enable the Council to meet the legal requirements in a way which is proportionate to the very low risk to the Council of contravening this legislation.
- 3.2 The object of this policy is to make all employees aware of their responsibilities and the consequences of non compliance with this policy.

- 3.3 Any employee could potentially be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and /or do nothing about it.
- 3.4 Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities.

Employees contravening the regulations can be faced with imprisonment (up to 14 years), a fine or both.

4.0 MONEY LAUNDERING REQUIREMENTS - Officer Training, Procedures

- 4.1 Provision of training and guidance to relevant officers and staff (or contractors' staff) on the requirements of the legislation, including the identification of suspicious transactions, identity verification and reporting procedures
- 4.2 Designation of an officer as the Money Laundering Reporting Officer, who will receive any report, keep records and if considered appropriate, make reports to the Serious Organised Crime Agency (SOCA)
- 4.3 The Money Laundering Reporting Officer (MLRO) for the council is the **Head of Finance**.
- 4.4 The Deputy Money Laundering Reporting Officer is the **Financial Services Manager**.
- 4.5 Establishment of procedures for employees to report any suspicions to the MLRO
- 4.6 Under the legislation employees dealing with money transactions will be required to comply with certain procedures.

5. RECOGNISING MONEY LAUNDERING

- 5.1 At all times staff should:
- be wary of unusually large cash transactions
 - be wary of the absence of an obvious legitimate source of funds
 - be alert to the possibility of money laundering by a client or a prospective client;
- 5.2 Possible signs of money laundering are set out in Appendix 2.

6. CLIENT IDENTIFICATION PROCEDURES

- 6.1 Client identification procedures apply when the Council is carrying out relevant business and:-
- a) Forming a business relationship: or
 - b) Considering undertaking a one off transaction
- and :-
- a) Suspect a transaction involves money laundering; or
 - b) A payment is to be made for a series of linked one off transactions involving total payment of £10,000 or more.
- 6.2 Not all of the Council's business is "relevant" for the purposes of the legislation regarding client identification. Relevant services as defined by the legislation include investments,

accountancy and audit services and the financial, company and property transactions undertaken by Property and Estates Services and Legal Services.

- 6.3 Legal, Finance, Accounting and Audit staff must follow the procedures set out in Appendix 1 in order to ascertain the true identity of clients and ensure record keeping procedures (e.g. for evidence of identity obtained, details of transactions undertaken, for at least 5 years afterwards).
- 6.4 Legal Services are subject to particular provisions applying to the legal profession and these are set out separately in Legal Services procedure notes.

7. RECORD KEEPING PROCEDURES

- 7.1 Each Service of the Council and contractors working for the Council conducting relevant business must maintain records for at least five years from the end of the business relationship or one-off transaction(s) of:
- Identification evidence obtained; and
 - Details of all relevant business transactions carried out for those persons or organisations for which we have obtained evidence
- This is so they may be used as evidence in any subsequent investigation by the authorities into money laundering.
- 7.2 The precise nature of the records is not prescribed by law however they must be capable of providing an audit trail during any investigation, for example distinguishing the person or organisation and the relevant transaction and recording in what form any funds were received or paid.
- 7.3 In practice, Council business units will be routinely making records of work carried out for persons or organisations in the course of normal business and these should be sufficient for this requirement.

8. REPORTING PROCEDURES

- 8.1 To comply with the legislation all staff are required to follow the reporting procedures set out in this policy if they have knowledge of or suspicion of money laundering taking place.
- 8.2 The officer nominated to receive disclosures about potential money laundering activity within the Council is the Head of Finance
- 8.3 Where an employee knows or suspects that a money laundering activity is taking place, they must contact the MLRO for guidance as soon as possible regardless of the amount involved and complete the disclosure form in Appendix 3.
- 8.4 Employees must still report their concerns, even if they believe someone else has already reported their suspicions of the same money laundering activity.
- 8.5 After reporting, the employee must not make any further enquiries into the matter and at no time and under no circumstances should they voice any suspicions to the person(s) whom they suspect of money laundering, otherwise they may commit a criminal offence of “**tipping off**”.

Also, they should not record on a client file that the MLRO has been notified – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may render you liable to prosecution.

9. ACTION BY THE MONEY LAUNDERING REPORTING OFFICER

- 9.1 The MLRO will evaluate the disclosure and any other relevant information to determine whether:
- Actual or suspected money laundering is taking place; or
 - There are reasonable grounds to know or suspect that this is the case; and
 - SOCA's consent is needed before a particular transaction can proceed.
- 9.2 If the MLRO concludes that actual / suspected money laundering is taking / has taken place, then unless there are reasonable grounds for non-disclosure, the matter will be disclosed to SOCA in the appropriate manner as soon as is practicable.
- 9.3 Where consent is required from SOCA for a transaction(s) to proceed, then the transaction(s) in question must not be undertaken or completed until either:
- SOCA has specifically given consent; or
 - There is deemed consent through the expiration of the relevant time limits without objection being received from the SOCA.
- 9.4 The MLRO will keep all records relating to an investigation for at least five years from its conclusion and in compliance with the Data Protection and Freedom of Information Acts and document retention requirements.

APPENDIX 1

IDENTIFICATION PROCEDURE AND RECORD KEEPING PROCEDURES FOR FINANCIAL SERVICES, AUDIT AND LEGAL STAFF

General

The procedures set out in this Appendix apply to Council Employees conducting 'relevant business' (set out below) and these are mainly accountancy and audit services carried out by Financial Services and certain financial, company and property transactions undertaken by Legal Services. "Relevant" for the purposes of the legislation is the provision **by way of business** of:

- Advice about the tax affairs of another person by a body corporate;
- Accountancy services by a body corporate;
- Audit services;
- Legal services by a body corporate which involves participation in a financial or real property transaction (whether by assisting in the planning or execution of any such transaction or otherwise by acting for, or on behalf of, a client in any such transaction);
- Services in relation to the formation, operation or management of a company or a trust.

Identification Procedure

Where the Council is carrying out relevant business (the provision of accountancy, audit and certain legal services 'by way of business' to third parties) and:

- a) Forms an ongoing business relationship with a client; or
- b) Undertakes a one-off transaction involving payment by or to the client of 15,000 Euro (approximately £10,000) or more; or
- c) Undertakes a series of linked one-off transactions involving total payment by or to the client(s) of 15,000 Euro (approximately £10,000) or more; or
- d) It is known or suspected that a one-off transaction (or a series of them) involves money laundering; then this Identification Procedure must be followed before any business is undertaken with that organisation or person.

For the procedure, you must obtain satisfactory evidence of identity, as soon as practicable after instructions are received (unless evidence has already been obtained). This applies to existing and new persons or organisations, but identification evidence is not required for matters entered into prior to 1 March 2004.

Satisfactory evidence is evidence which is capable of establishing, to the satisfaction of the person receiving it, that the client is who they claim to be; and does in fact do so.

Evidence of identity should be obtained as follows:

1. Signed, written instructions on official letterhead at the outset of a particular matter. Such correspondence should then be placed on the Council's file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.
2. If you are undertaking work for a new persons or organisations or further instructions from a person or an organisation not well known to you, then you may also wish to seek additional evidence of the identity of key individuals in the organisation and of the organisation itself, for example:
 - checking the organisation's website to confirm the business address;
 - attending them at their business address;

- asking the key contact employee to provide evidence of their personal identity and position within the organisation; for example signed, written confirmation from their Head of Service or Chair of the relevant organisation.

If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further until this becomes available.

The law states that particular care must be taken when the person or organisation that is paying you to do work or who the council is an agent for, is not physically present when being identified: this is always likely to be the case for the Council, given that its relevant business can only be undertaken for other local authorities and designated public bodies (not individuals) and therefore instructions will usually be given in writing.

There are a limited number of exceptions where identification evidence does not need to be obtained, for example evidence is not required when a purchaser of property is represented by a legal professional (e.g. solicitor, legal executive, licensed conveyancer etc): this is because we are entitled to presume that the professional has complied with the legislation and checked the purchaser's identity (as their own client).

General guidance on money laundering legislation suggests that fairly rigorous identification checks should be made: for example, in relation to an organisation, evidence should be obtained as to the identity of key individuals within the organisation along with evidence of identity of the business entity and its activity.

APPENDIX 2

POSSIBLE SIGNS OF MONEY LAUNDERING

It is impossible to give a definitive list of ways in which to spot money laundering or how to decide whether to make a report to the MLRO. The following are types of risk factors that may, either alone or cumulatively with other factors; suggest the possibility of money laundering activity:

General

- A secretive client: e.g., refuses to provide requested information without a reasonable explanation;
- Concerns about the honesty, integrity, identity or location of a client;
- Illogical third party transactions: unnecessary routing or receipt of funds from third parties or through third party accounts;
- Involvement of an unconnected third party without logical reason or explanation;
- Payment of a substantial sum in cash;
- Significant overpayments by a client and the subsequent requests for refunds;
- Absence of an obvious legitimate source of the funds;
- Where, without reasonable explanation, the size, nature and frequency of transactions or instructions (or the size, location or type of a client) is out of line with normal expectations;
- A transaction without obvious legitimate purpose or which appears uneconomic, inefficient or irrational;
- Refunds following the cancellation or reversal of an earlier transaction;
- Requests for release of client account details other than in the normal course of business;
- Poor business records or internal accounting controls;
- A previous transaction for the same client that has been, or should have been, reported to the MLRO.

Property

- Unusual property investment transactions if there is no apparent investment purpose or rationale;
- Re: property transactions, funds received for deposits or prior to completion from an unexpected source or where instructions are given for settlement funds to be paid to an unexpected destination.

APPENDIX 3

DISCLOSURE FORM TO MLRO

Please complete and return to the Head of Finance

Date of disclosure

Date of event

Officer making disclosure:

Job title of officer:

Telephone details:

SUBJECT DETAILS

Title:

Surname:

Forename:

DoB:

IN THE CASE OF A LEGAL ENTITY (COMPANY)

Name:

Address:

Company Number (If known)

Type of Business:

VAT no (if known)

REASON FOR DISCLOSURE

Please provide an explanation of the activity and amounts. If you know or suspect what the offence behind the reported activity may be please provide details.

RECEIVED BY MLRO

Reference:

Date:

Signature:

Agenda Item: 16

Audit and Governance Committee

26 June 2014



Audit and Governance Committee

Forward Plan 2014/15

Date of Committee	Report	Lead Officer
25 September 2014	<ul style="list-style-type: none"> Internal Audit Activity – Quarter 1 & 2 2014/15 Statement of Accounts Report to those charged with Governance Audit Committee update Office relocation project update Thelma Hulbert Gallery update Risk management review 	SWAP Head of Finance Grant Thornton Grant Thornton SWAP Deputy Chief Exec Management Information Officer
13 November 2014	<ul style="list-style-type: none"> Office relocation project update Audit Committee update Annual audit letter Risk management review 	SWAP SWAP Grant Thornton Grant Thornton Management Information Officer
15 January 2015	<ul style="list-style-type: none"> Internal Audit Activity – Quarter 3 2014/15 Audit Committee update Certification Report Office relocation project update Risk management review 	Grant Thornton Grant Thornton SWAP Management Information Officer
12 March 2015	<ul style="list-style-type: none"> Annual Audit Plan 2015/16 Audit Plan Audit Committee update Office relocation project update Risk management review 	SWAP Grant Thornton Grant Thornton SWAP Management Information Officer