

Agenda for Audit and Governance Committee

Thursday, 19 November 2015 2.30pm

[Members of the Committee](#)

Venue: Council Chamber, Knowle, Sidmouth, EX10 8HL

[View directions](#)

Contact: [Amanda Coombes](#), 01395 517543 (or group number 01395 517546): Issued 10 November 2015

- 1 [Public speaking](#)
- 2 Minutes for 24 September 2015 (pages 3-8)
- 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 **Annual audit letter** - Grant Thornton (page)
- 8 **Risk management review: half year review** - Management Information Officer (page)
- 9 **KPMG: New Auditor Introduction** - KPMG
- 10 **Audit and Governance Forward Plan** – Strategic Lead, Finance (page)

Under the Openness of Local Government Bodies Regulations 2014, any members of the public are now allowed to take photographs, film and audio record the proceedings and report on all public meetings (including on social media). No prior notification is needed but it would be helpful if you could let the democratic services team know you plan to film or record so that any necessary arrangements can be made to provide reasonable facilities for you to report on meetings. This permission does not extend to private meetings or parts of meetings which are not open to the public. You should take all recording and photography equipment with you if a public meeting moves into a session which is not open to the public.

If you are recording the meeting, you are asked to act in a reasonable manner and not disrupt the conduct of meetings for example by using intrusive lighting, flash photography or asking people to repeat statements for the benefit of the recording. You may not make an oral commentary during the meeting. The Chairman has the power to control public recording and/or reporting so it does not disrupt the meeting.

Members of the public exercising their right to speak during Public Question Time, but do not wish to be recorded, need to inform the Chairman who will instruct those taking a recording to cease while they speak.



East Devon District Council
Knowle
Sidmouth
Devon
EX10 8HL

DX 48705 Sidmouth

Tel: 01395 516551

Fax: 01395 517507

www.eastdevon.gov.uk

[Decision making and equalities](#)

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

EAST DEVON DISTRICT COUNCIL

Minutes of a Meeting of the Audit & Governance Committee held in the Council Chamber at Knowle, Sidmouth on 24 September 2015

Attendance list at end of document

The meeting started at 2.30pm and ended at 4:25pm

***15 Chairman's welcome**

The Chairman welcomes everyone to the meeting.

***16 Public Speaking**

There was no public speaking.

***17 Minutes**

The minutes of the Audit and Governance Committee meeting held on 25 June 2015 were confirmed and signed as a true record.

***18 Declarations**

None

***19 Statement of Accounts 2014/15 and Governance Statement**

The Financial Services Manager read the Council's Statement of Accounts for 2014/15. Following the audit, some changes had been made to improve the presentation of the Accounts but no amendments had affected the Council's reported financial position. A report by the Council's external auditors Grant Thornton detailed the work carried out and the audit conclusions.

The report compared the final position on the Council's Accounts with the position presented to members in June in the Outturn Report.

a) Financial Statements

The Audit and Governance Committee had delegated responsibility to approve the Statement of Accounts. The Financial Services Manager outlined the detail of the Accounts and highlighted key financial points.

b) Annual Governance Statement

The Council was required to approve an Annual Governance Statement to accompany the Statement of Accounts. The report detailed the processes in place within the Council's governance framework and in compliance with its adopted Code of Corporate Governance. The Statement highlighted a number of issues identified, including;

- The Audit and Governance Committee continued to keep an eye on the process to be put in place in order to regularly monitor a 5-year land supply for strategic planning purposes.
- In 2014/15 the Council was involved in two significant projects which had associated risks; office relocation and the proposal for an ICT shared service arrangement with Exeter City Council and Teignbridge District Council.
- The 2013/14 Grant Thornton Audit Finding Report included three recommendations on the Council's asset valuation process. These had been addressed in the preparation of the 2014/15 Accounts.

- Recent Tribunal / ICO decisions have highlighted the impact to the Council of increasing Freedom of Information requests and the ability to deal with these requests in a timely manner.
- Council members and officers had been continually updated and advised on the implications of reviews of the effectiveness of the Council's systems of internal control. Plans had been devised and put in place to ensure continuous improvement.

c) Letter of Representation

Members were asked to endorse the letter to Grant Thornton in respect of the audit of the Financial Statements for the year ended 31 March 2015 confirming the Council's position, documents produced and the sound processes in place.

d) Report to those charged with Governance

Barrie Morris, Grant Thornton, presented the Council's external audit report, which highlighted key issues arising from the Council's financial statements for the year ending 31 March 2015. This set out the adjustments and corrections made to the Council's accounts because of the audit and a proposed plan of recommendations for further improvement. The Chairman asked that a report be provided by the Strategic Lead Finance on the 'significant matter' of cash in transit.

Grant Thornton, based on their work and having regard to the specified criteria published by the Audit Commission, had concluded that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. Barrie stated how impressed he was with the way local government; nationally and locally, was coping with the financial pressures they find themselves in. He praised East Devon District Council for being innovative by identifying ways to ensure it had a strong future.

Discussions on the sickness absence included the provision of flu jabs offered to staff.

The Chairman thanked Barrie for his report.

e) Assessment of Going Concern Status

This report informed the Committee of an Assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts for 2014/15. The concept of a '*going concern*' assumes that an authority, its functions and services would continue in operational existence in the near future.

The main factors which underpin this assessment were:

- The Council's current financial position
- The Council's projected financial position
- The Council's governance arrangements
- The regulatory and control environment applicable to the Council as a local authority.

RESOLVED:

1. that Members approve the 2014/15 Statement of Accounts.
2. that the outcome of the assessment made of the Council's status as a 'going concern' for the purposes of the draft Statement of Accounts 2014/15 be noted.

***20 Internal Audit Plan – Review of 2015/16 Quarters 1 & 2 - SWAP**

Members considered the report of the Principal Auditor (SWAP). The Committee agreed the 2015/16 Internal Audit plan at its June 2015 meeting. This report was the update position at the end of Quarters 1 and 2.

The Chairman thanked Moya for her report.

RESOLVED:

that the content of the Internal Audit Progress Report be noted.

***21 Partnership Review Year end 2014/15**

The Partnership Review information for the 2014/15 financial year allowed the Committee to monitor the status of partnerships. This followed the year-end officers' review of partnerships for 2014/15.

There are currently 13 partnerships. All the partnerships were active and met at least three times annually, some more often. There were no major current budget issues with any of the partnerships although most received some funding from EDDC.

RESOLVED:

that the current status of partnerships until March 2015 be noted.

***22 Analysis of consultants' fees 2014/15**

The report detailed capital and revenue spend on consultants and specialist advice for 2014/15. Discussions included the possible recruitment of officers with specialist knowledge in order to cut costs of using consultants.

RESOLVED:

that the details of expenditure on consultants in 2014/15 be noted.

***23 5-Year Land Supply update**

The Chief Executive highlighted the report and the outlined methodology used to calculate the Council's five-year housing land supply position, detailing what evidence and information was used to inform the assessment and how it was calculated. The report explained the recent change in position; a 5-year land supply could now be demonstrated. The report considered the implications of this change in position and the current and future reporting and responsibility arrangements within the current structure.

There was positive feedback by members for this report. They wished to thank Ed Freeman, Service Lead, Planning Strategy and Development for his thorough report which contained a wealth of quality information.

RESOLVED:

1. that the summary of the methodology used to calculate the 5-year housing land supply position be noted.
2. that the proposed reporting arrangements detailed in the report be agreed.
3. that the appended Housing Monitoring Report which demonstrated the current data showed that the Council could demonstrate a 5-year housing land supply be noted.

4. that members acknowledge that the current 5-year housing land supply position was a material consideration, and that the local plan inspector was currently considering the SHMAA be noted.

***24 Audit and Governance Forward Plan**

Members noted the contents of the Committee Forward Plan for 2015/16.

RESOLVED:

that the Forward Plan be noted.

Attendance list

Present:

Councillors

Mark Williamson (Chairman)

Dean Barrow (Vice Chairman)

John Dyson

Steve Gazzard

Steve Hall

Ben Ingham

Bill Nash

Geoff Jung

David Barrett

Apologies:

Cllr Paul Diviani

Cllr Andrew Moulding

Cllr Ian Thomas, Portfolio Holder Finance

Beth Levi, Management Information Officer

Officers:

Mark Williams, Chief Executive

Simon Davey, Strategic Lead – Finance

Laurelie Gifford, Financial Services Manager

Amanda Coombes, Democratic Services Officer

Moya Moore, Principal Auditor, South West Audit Partnership (SWAP)

Barrie Morris, Director, Grant Thornton

Ashley Allen, Senior Audit Manager, Grant Thornton

Chairman Date.....

The Annual Audit Letter for East Devon District Council

Year ended 31 March 2015

1 October 2015

Barrie Morris

Director

T +44 (0)117 305 7708

E barrie.morris@uk.gt.com

Ashley J Allen

Manager

T +44 (0)117 305 7629

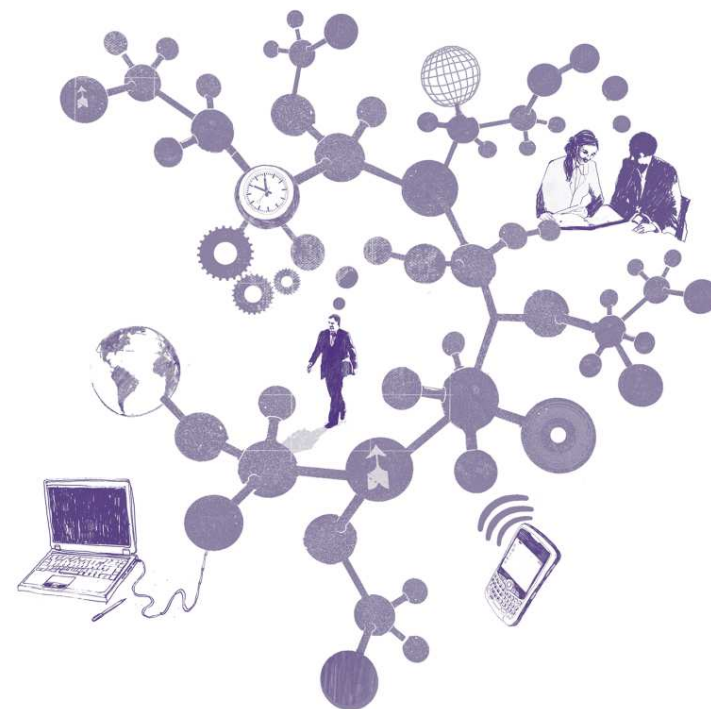
E ashley.j.allen@uk.gt.com

David Jones

Executive

T +44 (0)117 305 7719

E david.r.jones@uk.gt.com



Contents

Section	Page
1. Key messages	3
Appendices	
A Key issues and recommendations	6
B Summary of reports and audit fees	7

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at East Devon District Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 29 April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September 2015 to the Audit and Governance Committee. The key messages reported were:

- the accounts were produced to a high standard
- all requests for additional information were dealt with promptly by the finance team
- an action plan has been agreed to with the Council based on our findings from our audit work and is attached at appendix A

We identified two adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2015 presented for audit recorded net expenditure of £13.757m. Following the agreed audit adjustments, the audited financial statements showed net expenditure of £17.641m. The changes related to:

- reversal of upward revaluation of £1.546m to assets under construction which actually related to additions which had already been accounted for; and
- reversal of upward revaluation of infrastructure assets of £2.338m in year as the Code states such assets should be carried at historical cost and not fair value.

We have worked closely with Exeter City Council, East Devon District Council and Teignbridge District Council regarding the accounting treatment of Strata Service Solutions Limited (Strata). The Councils are of the view that the Company is a joint operation and we concur with this view. The financial statements of Strata have been included within the Councils' own single entity accounts.

Key messages continued

Financial statements audit (including audit opinion) continued

Strata produced draft financial statements for the period 1 November 2014 to 31 March 2015 which the Councils used to produce their own draft accounts. Strata's External Auditors found that the draft accounts contained a significant error relating to the treatment of capital payments to Strata from each of the three Councils. This was originally treated as income in Strata's draft financial statements but in the audited Strata accounts it was revised to reflect the fact that it related to subsequent capital expenditure.

East Devon District Council funded this transaction with Strata through a specific grant and it has formed a judgement that, as the conditions of grant have been met, it should account for this wholly within the year and has not adjusted its single entity accounts based on the revised Strata accounts. This is a different approach to the two other Councils, which did not fund this transaction through such a grant. We concurred with the accounting treatment adopted by East Devon District Council.

When Strata began trading, staff transferred to the company under TUPE arrangements and Strata took over the full pensions liabilities relating to these staff, which in some cases may have been built up over a number of years of Council service. The way in which pensions impact on the income and expenditure account is different between companies and Local Authorities. When the Council consolidated the figures for Strata into its own financial statements it applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.22 million. Our view is that was not appropriate as the Council has not been able to provide us with a compelling case for applying this override. We have recommended to the Council that they obtain legal advice about the guarantees provided by the Councils for the pension liabilities of Strata, with the ultimate aim of resolving this issue in 2015/16.

We have also identified a number of adjustments to improve the presentation of the financial statements.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 24 September 2015, meeting the deadline set by the Department for Communities and Local Government (DCLG). Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 24 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>
Certification of housing benefit grant claim	<p>Our work on the certification of the Housing Benefits claim is ongoing. The key messages from our certification work will be reported in our certification report, once all work has been completed.</p>
Audit fee	<p>Our fee for 2014/15 was £67,761, excluding VAT which was in line with our planned fee for the year and the fee charged in the previous year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>The Council has a rolling programme in place for property plant and equipment revaluations which ensure that all assets are revalued within a five year period, but all assets in the same class are not revalued in the same year.</p> <p>Recommendation: The Council should ensure that all assets within the same class are valued within the same financial year to meet the Code's requirements for revaluing of Property, Plant and Equipment in paragraph 4.1.2.35.</p>	Medium	<p>We are satisfied that there is no material difference from the value in the accounts to the value of we had actually revalued all assets. This will go in 2015/16 code.</p> <p>Responsible officer: Not applicable Due date: Not applicable</p>
2.	<p>When the Council consolidated the figures for Strata into its own financial statements, it applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.22 million. Our view was that was not appropriate, as Strata is a separate corporate body from the Council.</p> <p>Recommendation: The Council should seek legal advice regarding the accounting for the pensions liability of Strata Service Solutions Limited and, in particular, whether a guarantee from the three Councils could remove the liability from Strata's financial statements. The Council should arrange for the guarantee to be put in place in relation to the pension liability and account for this accordingly.</p>	High	<p>Legal advice sought by the three councils indicated that the statutory override is valid. Therefore we are not adjusting. The three Council's will look into the implications of the additional guarantee to establish whether it will work satisfactorily in a situation where there are three owners of the Company and we will seek further clarification for 2015/16.</p> <p>Responsible officer: Not applicable Due date: Not applicable</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Audit fee	67,761	67,761
Housing benefit grant certification fee	10,810	*10,810
Total audit fees	78,751	78,751

* The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £10,810. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Fees for other services

Service	Fees £
Non-audit related services	
Place analytics subscription	5,000
Financial modelling	23,776

Reports issued

Report	Date issued
Audit Plan	29 April 2015
Audit Findings Report	18 September 2015
Certification Report (expected)	December 2015
Annual Audit Letter	1 October 2015



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Report to: **Audit and Governance Committee**
Date of Meeting: 19 November 2015
Public Document: Yes
Exemption: None



Agenda item: 8

Subject: 1st full Risk Review of 2015/16

Purpose of report: Risk information for the 2015/16 financial year until end September 2015 is supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This follows the year end full review of risks by responsible officers for 2015/16.

Recommendation: **That the Audit and Governance Committee considers the current status of risks following the full risk review undertaken in September/October 2015.**

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: Beth Levi, Management Information Officer
blevi@eastdevon.gov.uk ext: 2332

Financial implications: There are no direct financial implications.

Legal implications: There are no direct legal implications

Equalities impact: Low Impact

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 – The Risk Review Report – high and upper medium risks with control action detail to September 2015](#)
- [Appendix B – The Risk Review Report – medium and low risks only to September 2015](#)
- [Appendix C - Office Relocation Risk Review September 2015](#)
- [Appendix D - Explanations and definitions.](#)

Link to Council Plan: Living, working, enjoying and outstanding Council

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 104 Operational Risks, each when first identified were considered high or medium level risks which required some form of mitigation through control actions. For this first full review for 2015/16 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. In the full risk register there is one risk currently scored as high:
 - Failure of correct procedures and practices causing challenges to decisions - Impact: Serious, Likelihood: Very likely, Good scope for improvement
An aggrieved party has recently been given leave by the High Court to pursue a judicial review against a decision of the Council to grant permission for a dwelling on land adjoining their property. The case revolves around whether Members of Development Management Committee in making the decision were consistent in their approach with prior decisions on the same site for a similar form of development, whether they correctly interpreted policies in the Local Plan and whether they were influenced by inaccurate information provided by a public speaker. Members of DMC have been briefed on this case and these issues will be picked up through future Members training sessions.
3. There are 16 risks in the upper medium section scoring eight and above. Further information including control actions for upper medium risks can be found in [Appendix A](#).
4. All services were asked to highlight any new and emerging risks with no new risks being put forward.
5. Following the risk review two risks were archived due to no longer being relevant:
 - Major changes in Localism Act not implemented lawfully
 - Housing benefit take up
6. A report showing the medium and low level risks without control actions appears in [Appendix B](#).
7. Number of risks in each service by score showing movement from the Year End review 2014/15 to this review.

Finance	High	Medium	Low
<i>This review</i>		5	15
<i>Previous review</i>		3	18

Economy	High	Medium	Low
<i>This review</i>	1	9	9
<i>Previous review</i>		10	9

Housing	High	Medium	Low
<i>This review</i>		12	9
<i>Previous review</i>		12	9

Environment	High	Medium	Low
<i>This review</i>		5	9
<i>Previous review</i>		6	8

Legal & Democratic	High	Medium	Low
<i>This review</i>		8	5
<i>Previous review</i>		10	4

Organisational Development	High	Medium	Low
<i>This review</i>		4	7
<i>Previous review</i>		1	10

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

Strategic Risks	High	Medium	Low
<i>This review</i>		12	
<i>Previous review</i>		9	3

8. The Office Relocation Project Risk Register was last reviewed and updated in September 2015. 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 47 Open Risks (previously 46), comprising of 7 Red Risks (8), 33 Orange Risks (32) and 7 Blue Risks (6).

One new risk has been identified within this latest version of the Risk Register. A total of 54 risks have been closed to date.

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:

- Government legislation
- Staff Matters
- Information technology and associated matters.
- Potential for additional unplanned maintenance being incurred whilst EDDC remains at Knowle
- Potential Matters associated with the employment of both the Design Team Consultants and Contractor
- Planning matters

9. Further detail of the office relocation project risk register is shown in [Appendix C](#).
10. An explanation and definitions of these risks including the risk matrix can be found in [Appendix D](#).

Agenda Item: 10

Audit and Governance Committee

19 November 2015



Audit and Governance Committee

Forward Plan 2015/16

Date of Committee	Report	Lead Officer
7 January 2016	<ul style="list-style-type: none">• Internal Audit Activity – Quarter 3 2014/15• Audit Committee update• Certification Report	SWAP External auditor Grant Thornton
3 March 2016	<ul style="list-style-type: none">• Annual Audit Plan 2016/17• Audit Plan• Audit Committee update	SWAP KPMG KPMG