

Agenda for Audit and Governance Committee

Thursday 30 June 2016, 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 21 June 2016

- 1 [Public speaking](#)
- 2 Minutes for 3 March 2016 (pages 3-5)
- 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 **Technical update and External Audit Progress Report** – KPMG (pages 6-32)
- 8 **Annual Audit and Opinion report - SWAP** (pages 33-53)
- 9 **Annual Report inc. Quarter 4 2015/16 and Internal Audit Activity – Quarter 1 2016/17 - SWAP** (pages 54-76)
- 10 **Review of Internal Audit Charter** – SWAP (pages 77-81)
- 11 **Year end full Risk Review 2015/16 - Management Information Officer** (pages 82-84)
- 12 **Draft Annual Governance Statement – year ended 31 March 2016**
Strategic Lead, Finance (pages 85-91)
- 13 **Annual Revenue and Capital Outturn report 2015/16 - Strategic Lead, Finance**
(pages 92-103)
Appendix A - Outturn report to Cabinet 08/06/15
- 14 **Devolution update** – Chief Executive (pages 104-110)
- 15 **Audit and Governance Forward Plan** – Strategic Lead Finance (page 111)
- 16 **Annual audit fee 2016/17 - KPMG** (pages 112-119)

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[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 3 March 2016

Attendance list at end of document

The meeting started at 2.29pm and ended at 3.12pm

***40 Chairman's welcome**

The Chairman welcomed everyone to the meeting.

***41 Public Speaking**

There was no public speaking.

***42 Minutes**

The minutes of the Audit and Governance Committee meeting held on 7 January 2016 were confirmed and signed as a true record.

***43 Declarations**

None

***44 External Audit Plan – KPMG**

Tara Westcott, Senior Manager from KPMG was pleased to present the first audit plan and said KPMG were looking forward to working with Committee Members in 2015/16 and beyond. The report supplemented the Audit Fee Letter 2015/16 presented in June 2015, which set out details of this appointment by Public Sector Audit Appointments Ltd (PSAA). The audit had two key objectives:

1. Financial statements (including the Annual Governance Statement): Providing an opinion on accounts; and
2. Use of resources: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).

The audit planning process and risk assessment was an on-going process and the assessment and fees in the plan would be kept under review and updated if necessary.

KPMG thanked officers and Members for their continuing help and co-operation throughout the audit work.

Discussions included five years was a long time for revaluation, Tara reminded the Committee that during the intervening periods yearly desktop reviews could be undertaken.

The Chairman on behalf of the committee thanked KPMG for their report.

RESOLVED:

that the External Audit Plan be noted

***45 Audit Committee update – KPMG**

Members considered the report, which provided the audit committee with an overview on progress in delivering the responsibilities by the external auditors.

Since the meeting of the Audit Committee in November 2015 KPMG had:

- held a planning and risk assessment meeting with the Strategic Finance Lead and the finance team;
- liaised with SWAP and had started to review their work for the interim audit.
- completed a detailed risk assessment which included reviewing the risk register, minutes of key meetings, discussion with key officers in order to finalised the Audit Plan for 2015/16;
- completed the interim audit which included understanding the Authority's control environment and performing testing on key controls; and
- issued our Prepared by Client (PBC) list to confirm the required documentation for the financial statements audit.

Over the next quarter KPMG planned to:

- finalise the interim report; and
- agree the timing of the certification work on the housing subsidy grant.

The Chief Executive asked if there had been any Government feedback to the report KPMG and Shelter had produced setting out essential reforms to increase the supply of affordable housing. Tara said she would look into this and forward this on to the Chief Executive.

RESOLVED:

that the progress be noted

***46 Accounting Policy update**

The Strategic Lead, Finance presented the report. As it was considered best practice for the Audit and Governance Committee to approve the Accounting Policies to be adopted for the preparation of the accounts, the current policies were presented for Members consideration. The report also informed members of the accelerated timetable for completion of the annual statement of accounts.

RESOLVED:

1. that the Accounting policies be approved
2. the accelerated timetable for the 2015/16 Statement of Accounts be noted

***47 Annual Audit Plan 2016/17 – SWAP**

Moya Moore, Assistant Director, SWAP explained to members that a key element of its Governance arrangements the Council had a partnership arrangement with South West Audit Partnership to deliver an annual internal audit plan. The Plan provided assurance to both Officers and Members of the current and imminent risks faced by the Authority in an ever-changing risk environment. If an emerging risk or a fraud investigation was deemed higher risk than the audits in the Audit Plan then changes may be required during the year. The Committee were approving the initial plan of 376 days. Any changes would be reported to the Committee quarterly for approval.

The Chairman thanked Committee Members for their feedback into possible future audit areas.

RESOLVED:

that the Internal Audit Plan of 376 days for April 2016 to March 2017 be approved

***48 Whistleblowing Policy Review**

The Strategic Lead - Legal, Licensing, Democratic Services & Monitoring Officer presented to Members the review to the Council's Whistleblowing Policy, which required updating to reflect a change in the law and also it had been given an overall review. The revised policy was presented to Standards Committee at the January 2016 meeting where it was recommended that Audit and Governance adopt the revised policy.

RESOLVED:

that the revised Whistleblowing Policy be approved

***49 Audit and Governance Forward Plan**

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

Items to be considered at the June Committee included:

- Review of Internal Audit Charter
- Annual Report inc. Quarter 4
- Internal Audit Activity – Quarter 1 2015/16
- Revenue and Capital Outturn Report 2014/15
- Annual Audit Report and Opinion
- Consultancy Audit Update
- Draft annual governance statement
- Audit Committee update
- Risk Management Review
- Statement of Accounts
- Member training – Audit Definitions and Processes

RESOLVED:

that the Forward Plan be noted.

Attendance list

Present:

Councillors
Mark Williamson (Chairman)
Dean Barrow (Vice Chairman)
Steve Gazzard
Steve Hall
John Humphreys
Ben Ingham
Bill Nash

Apologies:

Cllr Ian Thomas, Portfolio Holder Finance
Cllr John Dyson
Laurelie Gifford, Financial Services Manager

Officers:

Mark Williams, Chief Executive
Simon Davey, Strategic Lead – Finance
Henry Gordon Lennox, Strategic Lead - Legal, Licensing, Democratic Services & Monitoring Officer
Tara Westcott, Senior Manager, KPMG
Moya Moore, Assistant Director, SWAP
Amanda Coombes, Democratic Services Officer

Chairman Date.....



Technical update

Incorporating the External Audit Progress Report


East Devon District Council

June 2016


Contents

The contacts at KPMG in connection with this report are:		Page
Darren Gilbert Director KPMG LLP (UK) Tel: 029 2046 8205 darren.gilbert@kpmg.co.uk	External audit progress report	4
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	Appendices	
Tara Westcott Senior Manager KPMG LLP (UK) Tel: 0117 905 4358 tara.westcott@kpmg.co.uk	1. 2015/16 audit deliverables	25

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact

 Medium impact

 Low impact

 For information



External audit progress report

June 2016

External audit progress report

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

Summary of work performed since last Audit Committee

Since the last meeting of the Audit Committee in March 2016 we have:

- Completed our interim audit which includes understanding the Authority's control environment and performing testing on your key controls. The outcome of our work and any observations that we have identified will be reported back to you as part of final ISA 260 report in September 2016;
- We have agreed the timing of our certification work on your housing subsidy and pooling of capital receipt grants; and
- We have responded to a number of technical queries from your finance department.

Summary of work to be performed for the next audit committee

Over the next quarter we plan to:

- Complete our final audit fieldwork and provide our opinion on the Authority's Statement of Accounts; and
- Issue our ISA 260 report detailing our key findings from the audit.

Actions arising from this report

We are asking the Committee to **NOTE** the progress outlined above.



KPMG resources

Local government budget survey

KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:

- The content of budget monitoring reports;
- Savings plans;
- Invest-to-save projects;
- The type of savings being made;
- Assumptions underlying the medium term financial plan; and
- Reserve movements.

The Survey also poses questions for management and Members to consider when reviewing their budget setting and budget monitoring processes.

We produced this report in February 2016 and it was provided to management in February 2016 for consideration.

For more information, and a copy of the report, please contact Darren Gilbert.

Publication 'Value of Audit - Perspectives for Government'

What does this report address?

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.

Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.

What are the key issues?

- The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.
- The importance of trust and independence of government across different markets.
- How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making.
- The importance of technology integration and the issues that need to be addressed for successful implementation
- The degree of reliance on government financial reports as a result of differing approaches to conducting government audits

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at <https://home.kpmg.com/xx/en/home/insights.html>

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

Publication 'Reimagine - Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the Care Act to deliver

- Momentum behind last year's Care Act risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

What is *The future of cities*?

The future of cities is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on kpmg.com/futurecities where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.



Technical developments

New local audit framework

Level of impact: ● (Medium)	KPMG perspective
<p>The <i>Local Audit and Accountability Act 2014</i> included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for principal local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; currently, there is nothing definite in place whether there will be a sector-led body that is able to undertake this role on behalf of bodies. However the Local Government Association (LGA) has been seeking views and expressions of interest to gauge the appetite in the sector for this approach.</p> <p>CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf. The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.</p>	<p><i>Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.</i></p>

Modern Slavery Act 2015

Level of impact: ● (Medium)	KPMG perspective
<p>The <i>Modern Slavery Act 2015</i> has now been enacted.</p> <p>All organisations, including local authorities / public bodies, with a year end on or after 31 March 2016 and a turnover greater than £36m have to produce a statement about the current financial year setting out what steps they have taken to ensure that slavery or human trafficking is not occurring in their supply chain or in their own organisation.</p> <p>All local authorities should already be considering what needs to be done to ensure compliance.</p> <p>Background</p> <p>The Act introduces the concept of 'transparency in supply chains' and requires all commercial organisations which carry on a business in the UK with a total annual turnover of at least £36 million to produce an annual slavery and human trafficking statement. Local authorities satisfy the definition of 'commercial organisations' set out in the Act, so many will be caught.</p> <p>A supply chain includes both direct and indirect suppliers and is very wide ranging including outsourced services supplied by agencies. Local authorities need to be satisfied that modern slavery does not exist at any point in the chain leading to a good or service supplied to them.</p> <p>Examples of suppliers where risks may exist across all departments are:</p> <ul style="list-style-type: none">— firms engaged to build / refurbish public buildings / areas;— agencies supplying cleaners; and— suppliers of repair / maintenance materials and / or services. <p>As recent cases in the media demonstrate, modern slavery is not something occurring solely outside the UK and the implications both reputationally and legally can be significant.</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Modern Slavery Act 2015 (cont.)

What should the statement include?

The statement must set out what steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not occurring either in your supply chain or within your own organisation. Although a statement could simply be made saying no steps have been taken in relation to slavery and human trafficking, the legislation suggests the statement should cover the following:

- The organisation's structure, business and supply chains;
- Its policies in relation to slavery and human trafficking;
- Its due diligence processes in relation to slavery and human trafficking;
- The parts of its business and supply chain where there is a risk of slavery and human trafficking taking place and the steps it has taken to assess and manage that risk;
- Its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chain measured against appropriate performance indicators;
- The training and capacity building about slavery and human trafficking available to its staff.

The statement needs to be approved and published on the website, with a link in a prominent place on the website's home page. The statement should be published within six months of the financial year end.

There are no financial or criminal penalties for failing to produce a statement, although the Secretary of State may seek an injunction through the High Court requiring the organisation to comply. However, the reputational damage an organisation may suffer if it chooses not to report or to take no action may be significant.

What should local authorities be doing?

There is obviously a lot for local authorities to consider in order to be able to publish their first statement relating to the current financial year. In preparation they should be considering what type of statement they want to make, who will be responsible for compliance, how they identify and assess the risks of slavery and trafficking in their supply chain and how they determine the level of due diligence that needs to be undertaken, what policies and training is going to be put in place and how they are going to ensure effective ongoing monitoring and review. But the clock is ticking and time is running out.....

For further information or if you would like us to come out and see you to discuss how the Modern Slavery Act could impact the Authority please contact Julie Bruce (Julie.bruce@kpmg.co.uk) (0115 935 3420) or Darren Gilbert.

Technical developments

CIPFA/LASAAC briefing on Highway Network Assets

Level of impact: ● (Low)	KPMG perspective
<p>Authorities will be aware that the CIPFA/LASAAC consultation on the Draft Code of Practice on the Highways Network Asset (HNA Code) closed in April 2016.</p> <p>Following the consultation, the second in a series of Briefings on the Highways Network Asset has been made available on the CIPFA website at: http://www.cipfa.org/policy-and-guidance/local-authority-highways-network-asset.</p> <p>The Briefing covers the HNA Code consultation, the definition of the Highways Network Asset, 2015/16 reporting requirements and the Central Assurance process.</p> <p>Further guidance, and future briefings, on this topic are also available on this same webpage.</p>	<p><i>The Committee may wish to understand the progress their Authority has made in its plans to meet the new reporting requirements.</i></p>

Exercising electors' rights - 2015/16 changes

Level of impact: ● (Low)	KPMG perspective
<p>Authorities may be aware that the <i>Accounts & Audit Regulations 2015</i> have introduced new arrangements for the exercise of electors' rights, which take effect from the 2015/16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts.</p> <p>Regulation 15 requires the Responsible Financial Officer (RFO), after signing and dating the draft accounts on behalf of the Authority, to commence the period for the exercise of electors' rights. This period is limited to 30 working days, and for 2015/16 must include the first 10 working days of July.</p> <p>Authorities should also note that Regulation 9(2) is clear that the authority's meeting to consider and approve the accounts should take place after the period for the exercise of electors' rights has ended. Due to the requirement in Regulation 15 for a common inspection period during July, the inspection period this year cannot end before 14 July 2016. This means that authorities should not approve and publish their accounts before 15 July 2016.</p> <p>Electors' rights are important, and the courts have in the past been critical of those who have not ensured that adequate provision for the exercise of these rights is made.</p> <p>Auditors are mindful that they may be contacted by electors or their representatives during the 30 working day inspection period. Given the limited time available, auditors will ensure that they have adequate arrangements in place during the prescribed period for receiving and identifying promptly whether any correspondence received includes formal questions under the <i>Local Audit and Accountability Act 2014</i>, and/or objections to the accounts.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

Technical developments

DCLG consultation on pension fund investment returns

Level of impact: ● (Low)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes.</p> <p>The revised regulations can be found here at www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</p> <p>The outcome of the consultation will be published here: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

Councillors' travel expenses

Level of impact: ● (Low)	KPMG perspective
<p>HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.</p> <p>The previous rules</p> <p>Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.</p> <p>HMRC Compliance Reviews</p> <p>Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.</p> <p>The new rules</p> <p>With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).</p> <p>How KPMG can help</p> <p>KPMG's public sector Employment Tax specialists provide practical advice on dealing with HMRC Employer Compliance reviews. We regularly assist local authorities in liaising with HMRC and staying ahead of legislative and practice developments. If you would like to speak to one of our specialists please contact your normal KPMG contact.</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Capital receipts flexibility

Level of impact: ● (Low)	KPMG perspective
<p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"> — the flexibility is available from 1 April 2016 to 31 March 2019; — only capital receipts generated during that period can be used for the flexibility; — the Secretary of State's direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period; — authorities will not be allowed to borrow to fund revenue expenditure on service reform; and — authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility. <p>We understand that DCLG's aim is that the final signed direction will be issued with the final settlement in February 2016.</p> <p>A copy of the draft guidance can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf</p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>
Level of impact: ● (Low)	KPMG perspective
<p>The Department of Health, in conjunction with the Department for Communities and Local Government, has recently published 2016/17 Better Care Fund planning guidance.</p> <p>The guidance introduces a number of changes, requiring local clinical commissioning groups (CCGs), councils and providers to establish risk sharing arrangements to fund unplanned emergency admissions. Local areas will also have to agree to 'stretching' local targets for cutting delayed transfers of care supported by an action plan.</p> <p>The guidance can be found here: www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017</p>	<p><i>The Committee may wish to seek assurances how their Authority is developing these arrangements.</i></p>

2015/16 Code of Practice Update

Level of impact: ● (Low)	KPMG perspective
<p>CIPFA/LASAAC has issued an update to the <i>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.</p> <p>Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.</p> <p>The Code update also includes amendments as a result of legislative changes and particularly the <i>Accounts and Audit Regulations 2015</i> for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.</p>	<p><i>The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code</i></p>

2016/17 Work Programme and Scale of Fees

Level of impact: ● (For Information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at <http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees>

Level of impact: ● (For Information)

Published on 20 April, this report finds that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended.

The report is available free of charge and the full version or a summary can be accessed at <https://www.nao.org.uk/report/english-devolution-deals/>

Greater Manchester Combined Authority'

Level of impact: ● (For Information)

Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. 'Devo Manc' encompasses a broad range of proposals to address the challenges and opportunities GM is facing:

Health and Social Care

Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care.

As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.

GM proposals

In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:

- Investment in transport infrastructure
- New funding mechanisms to support site remediation and infrastructure provision
- Making better use of Social Housing Assets to support growth
- Locally led low carbon
- A scaled-up GM Reform Investment Fund
- Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance
- Fundamental review of the way services to children are delivered
- Research and innovation funding
- Investment in integrated business support to drive growth and productivity
- Reform of the New Homes Bonus
- Further employment and skills reform
- GM approach to data sharing across public agencies
- Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax

All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.

Proposed changes to business rates and core grants

Level of impact: ● (For Information)

The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.

Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved.

The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

'Cities and Local government Devolution Act 2016'

Level of impact: ● (For Information)

Authorities will wish to note that the *Cities and Local Government Devolution Act 2016* received Royal Assent on 28 January 2016. The Act provides the enabling legislation to:

- allow for the election of mayors for a combined authority area;
- allow for the devolution of functions, including transport, health, skills, planning and job support; and
- provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area.

Most of the changes under the Act, including the implementation of 'devolution' deals, will be implemented by Orders to be made under the Act.



Appendix

Appendix 1

2015/16 audit deliverables

Deliverable	Purpose	Timing of Audit Committee	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	Completed
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	September 2016	To be performed as part of final audit.
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC

Appendix 1

2015/16 audit deliverables (cont.)

Deliverable	Purpose	Timing of Audit Committee	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC



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Report to: **Audit and Governance Committee**
Date of Meeting: 30 June 2016
Public Document: Yes
Exemption: None
Review date for release: None



Agenda item: 8

Subject: **Internal Audit Plan – Review of 2015/16**

Purpose of report: This report provides the outturn position for the Internal Audit Plan at the end of 2015/16 and also provides Internal Audits overall opinion on the systems of internal control at East Devon District Council.
The Audit and Governance Committee agreed the 2015/16 Internal Audit Plan at its March 2015 meeting. An update was provided for Quarters 1 and 2 in September 2015 and Quarter 3 in January 2016. This report is the final outturn position at the end of Quarter 4.

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

Reason for recommendation: This report summarises the work of the Internal Audit Services for 2015/16 and provides;

- i. An overall positive assurance opinion on the Council's framework of risk management, governance and internal control based upon the internal audit work undertaken during the year.
- ii. A Summary report from the South West Audit Partnership (SWAP) and list of audit assignments undertaken by them during 2015/16 including the respective assurance ratings, ranking of any recommendations made and details of partial opinions during the last quarter.
- iii. Evidence in support of the "review of the effectiveness of internal audit" (Section 3), as required by the Accounts and Audit (England) Regulations 2011.

Officer: Moya Moore – Assistant Director (SWAP)

Financial implications: There are direct financial implications detailed in this report.

Legal implications: The legal framework is reflected in the report and there are no issues arising which require legal comment.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:

- Approved Internal Audit Plan 2015/16 - Audit and Governance Meeting March 2015

Link to Council Plan:

East Devon District Council

Report of Internal Audit Activity

Annual Opinion Report 2015/16

Contents

The contacts at SWAP in connection with this report are:

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

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.

Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Background

The Internal Audit service for East Devon District Council is provided by the 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). The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the 2015/16 year.

Internal Audit Annual Opinion 2015/16

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

Over the year SWAP have found 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 in areas where they perceive potential problems as well as welcome the opportunity to take on board recommendations for improvement. The follow up work confirms the responsive nature of management at East Devon District Council in implementing agreed recommendations to mitigate exposure to areas of significant risk.

In 2015/16 there have been fewer reviews that have presented significant concerns than the previous year. Where priority findings have been identified, on the whole these have been appropriately addressed, confirming the responsive nature of management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit.

I have considered the balance of 2015/16 audit work and outcomes against this environment, and am able to offer reasonable assurance in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. Whilst I have certain concerns regarding some aspects of the control environment, I do not consider there to be any areas of significant corporate concern.

Summary of Audit Work 2015/16

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits agreed for inclusion in the Annual Audit Plan 2015/16 and the final outturn for the financial year. In total, 29 will be delivered (compared to 21 the previous year). It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 29 reviews in the revised 2015/16 audit plan, they are broken down as follows:

- | | |
|----------------------------------|---|
| • Operational Audits | 4 |
| • IT | 2 |
| • Key Control | 7 |
| • Governance, Fraud & Corruption | 7 |
| • Special Reviews and Advice | 3 |
| • Follow-up | 5 |
| • Grant Certification | 1 |

Summary of Audit Work 2015/16

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.



Significant Corporate Risks

Appendix A sets out the definition of the 4 Risk Levels applied to any corporate Risks we identify.

We are pleased to report that no Corporate Risks were assessed as 'High' or 'Very High' in the year.

Summary of Audit Work 2015/16

SWAP Performance - Summary of Audit Opinions

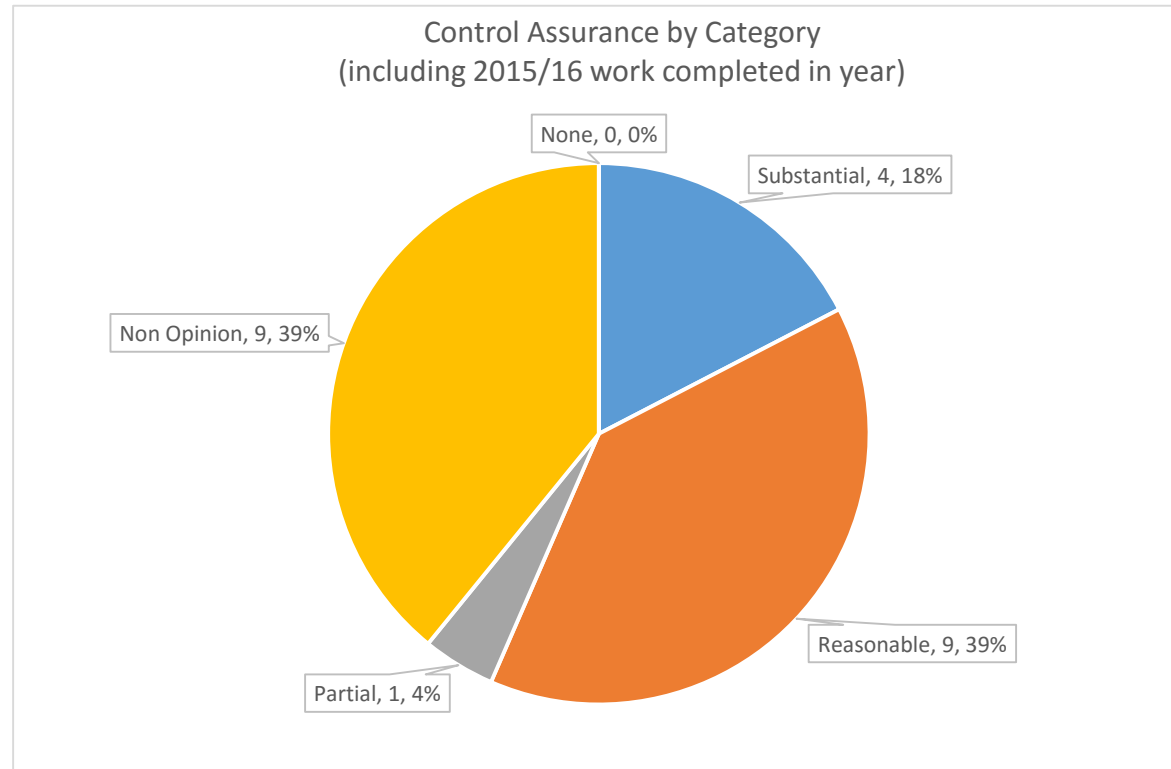
At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



Summary of Audit Opinion

At the time of writing this report 6 audits had yet to reach reporting stage. The following diagram therefore includes information for completed audits only and an update on the outstanding audits will be provided as part of the next Audit update. For the 6 audits yet to be completed there are no significant issues to bring to your attention from the testing completed so far. For comparison, in 2014/15 there were 5 Partial Assurance Audits, 9 Reasonable Assurance Audits and no Substantial Assurance Audits.



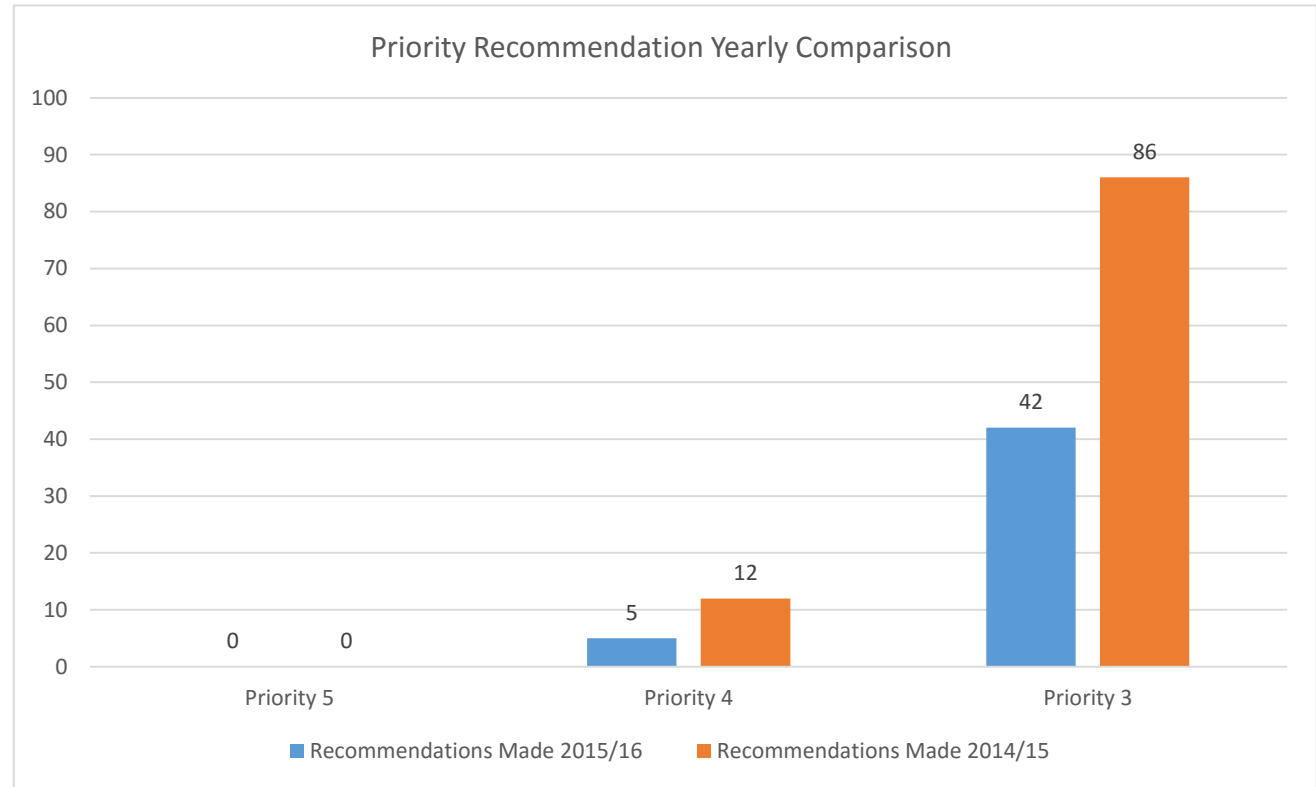
Summary of Audit Work 2015/16

SWAP Performance - Summary of Audit Recommendations by Priority

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



Priority Actions



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Throughout the year, SWAP has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost. This has included the communication and circulation of industry bulletins (such as Corporate Plan for Public Sector Audit Appointments 2015-18) and fraud prevention alerts wherever possible. We will also share the outcomes of any benchmarking undertaken across our SWAP Partner base. SWAP also aim to share the results of emerging areas of risk, or the findings from relevant audit reviews undertaken at our Partners, to enable the sharing of best practice and comparison of common findings.

For example, we have recently collated and shared:

Guidance and best practice on Information Asset Registers – this included advice on: A step by step guide to constructing an Information Asset Register and an example Information Asset Register.

Collation of the practices for debt recovery across all SWAP partners has been completed and is in the process of being anonymised so that it can be shared to help inform any revision of the Council's Debt Recovery policy.

We have highlighted the risks of not meeting the timeframes of the Planning Guarantee and provided a Planning Fees Refund Partner Summary report.

Specific benchmarking exercises have been built into the work programmes for the Grants Awarded Audit, Use of Consultants Audit and Street Scene Asset Controls Audit.

We have obtained and provided examples of guidelines for the use of Skype.

We circulated a summary of risk registers from those councils that attend the South West Risk Managers Group to use as a comparison.

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value continued

We completed an ad hoc risk review for the Housing Rents team in advance of their reorganisation and provided them with a contact at another Partner Council who had undergone a similar experience.

We have provided assurance for grant certification in the year.

We have provided some ad hoc advice on the VAT treatment on Land Charges receipts.

Mobile Support Officers - weaknesses in record keeping are now being addressed and several policies are being reviewed as an outcome of the audit. This audit followed an incident that SWAP were involved in investigating earlier in the year. This audit added value by raising awareness amongst staff of managements zero tolerance for any abuse of their position and management's expectations over compliance with policy.

Enforcement Agents Follow Up – we prepared a checklist for the Service Manager to use when they conduct an on-site visit to the enforcement agency's offices to assess their information management processes (as recommended in the full audit).

Plan Performance 2015/16

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2015/16 year (as at 8 June 2016) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress</p>	<p>75% 25%</p> <p>(2014/15 90% of plan completed at this stage with 2 Audit in Progress)</p>
<p><u>Draft Reports</u> Issued within 5 working days</p>	<p>88% (Average Days of 3) (2014/15 60%)</p>
<p><u>Final Reports</u> Issued within 10 working days of discussion of draft report</p>	<p>42% (Average Days of 21) (2014/15 47%)</p>
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	<p>80% (2014/15 81%)</p>

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

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).

SWAP has been independently assessed and found to be in Conformance with the Standards.

An extract from the recent review confirming this has been included at Appendix C for information.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



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.

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



Audit Framework Definitions

- 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.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Civil Contingencies / Disaster Recovery	1	Removed	N/A	0	0	0	0	0	0
Advice	Council Office Relocation	1	Ongoing	Non Opinion	0	0	0	0	0	0
Follow Up	Streetscene Asset Inspections (Public Safety)	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Emergency Planning	1	Final	Non Opinion	0	0	0	0	0	0
Special Investigation	Abuse of Position	1	Final	Non Opinion	0	0	0	0	0	0
IT	Mobile and Remote Working	1	Final	Reasonable	0	0	0	0	0	0
Operational	Car Parks Income	1	Final	Reasonable	10	0	1	8	1	0
Operational	Building Control Fees	1	Final	Reasonable	8	0	1	3	4	0
Governance, Fraud & Corruption	Expenses & Reimbursement Fraud Prevention	1	Final	Substantial	0	0	0	0	0	0
Operational	Food Safety	2	Removed	N/A	0	0	0	0	0	0
Follow Up	Private Water Supply	2	Final	Non Opinion	0	0	0	0	0	0
Follow up	Tenancy Fraud	2	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Mobile Support Officers (Wardens)	2	Final	Reasonable	7	0	1	5	1	0
IT	Protective Marking	2	Final	Reasonable	3	0	0	3	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Home Safeguard	2	Final	Reasonable	6	0	1	2	3	0
Governance, Fraud & Corruption	Committee Decisions	2	Final	Substantial	2	0	0	1	1	0
Operational	S106 Planning Obligations	2	Removed	N/A	9	0	0	9	0	0
Follow Up	Enforcement Agents	3	Final	Non Opinion	0	0	0	0	0	0
Grant Certification	Environmental Protection	3	Final	Non Opinion	0	0	0	0	0	
Key Controls	Creditors	3	Final	Partial	10	0	1	4	5	0
Key Controls	Main Accounting	3	Final	Reasonable	4	0	0	1	3	0
Key Control	Council Tax and Non-Domestic Rates	3	Final	Reasonable	4	0	0	1	3	0
Key Control	Housing and Council Tax Benefits	3	Final	Reasonable	9	0	0	5	4	0
Key Control	Payroll	3	Final	Substantial	0	0	0	0	0	0
Key Control	Treasury Management	3	Final	Substantial	0	0	0	0	0	0
Key Control	Housing Rents	3	In Progress		0	0	0	0	0	0
Operational	Debt Management	3	Removed	N/A	0	0	0	0	0	0
IT	Incident and Problem Management	3	Removed	N/A	0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Advice	Information Asset Register	4	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Grant Awards	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Use of Consultants	4	In Progress		0	0	0	0	0	0
Operational	Asset Register & Land Record Management	4	In Progress		0	0	0	0	0	0
Operational	Leisure East Devon	4	Removed		0	0	0	0	0	0
Operational	SITA Waste Collection	4	Removed		0	0	0	0	0	0
Governance, Fraud & Corruption	Street Scene Asset Use	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Grounds Maintenance	4	In Progress		0	0	0	0	0	0

The below is the key summary from the recent External Quality Assessment of SWAP Internal Audit Activity, carried out by the Devon Audit Partnership:

As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. For a detailed list of conformance with individual Standards, please see Attachment A. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SWAP is a well-established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all of their partners and clients. A well-developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.

Report to: **Audit and Governance Committee**

Date of Meeting: 30 June 2016

Public Document: Yes

Exemption: None

Review date for release None

Agenda item: 9

Subject: **Internal Audit Plan Progress Quarter 4 (2015/16) and Quarter 1 (2016/17)**

Purpose of report: The Audit and Governance Committee agreed the 2016-17 Internal Audit plan at its March 2016 meeting. This report is to provide an update on the 2015/16 Internal Audit Plan (Quarter 4) and to update with progress made on the 2016/17 Internal Audit Plan (Quarter 1).

Recommendation: **To note the content of the Internal Audit Progress Report**

Reason for recommendation: The Committee are required to review the progress of the audit plan.

Officer: Moya Moore, Assistant Director (SWAP)

Financial implications: There are direct financial implications detailed in this report.

Legal implications: The legal framework is reflected in the report and there are no issues arising which require legal comment.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:

Link to Council Plan:



East Devon District Council

Report of Internal Audit Activity

Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Contents

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Audit Opinion

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.

A separate report has been presented to the Audit and Governance Committee to satisfy this requirement and Members are asked to note its content. The opinion provided in that report is Reasonable Assurance in respect of the areas reviewed during the year.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the 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 approved by the Audit and Governance Committee at its meeting on 25 June 2015 and again on 30 June 2016.

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

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

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Outturn to Date:

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



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2015/16 and 2016/17.

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

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on pages 11 and 12 of this document.

In the period Quarter 4 and Quarter1 the following audits have been completed from the 2015/16 Audit Plan:

- Protective Marking (Reasonable Assurance)
- Home Safeguard (Reasonable Assurance)
- Mobile Support Officers (Reasonable Assurance)
- Committee Decisions (Substantial Assurance)
- Enforcement Agents (follow up – non opinion)
- Creditors (Partial Assurance)
- Treasury Management (Substantial Assurance)
- Main Accounting (Reasonable Assurance)
- Housing Benefit (Reasonable Assurance)
- Council Tax and Non Domestic Rates (Reasonable Assurance)
- Information Asset Management (Advice – non opinion).

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

The following Audits are in progress at the time of writing this report and a verbal update will be provided to the committee on these:

2015/16 Audit Plan

- Housing Rents (originally scheduled for Quarter 3)
- Grants Awarded (originally scheduled for Quarter 4)
- Street Scene Asset Use (added to the plan Quarter 4)
- Grounds Maintenance (added to the plan Quarter 4)
- Use of Consultants (originally scheduled for Quarter 4)
- Asset Register and Land Record Management (originally scheduled for Quarter 4)

2016/17 Audit Plan

- Cash Spot Checks (Scheduled for Quarter 1)
- Responsive Repairs (Scheduled for Quarter 1)
- HRA (Scheduled for Quarter 1)

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”.

The SWAP definition of “added value” is “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

As we complete our operational audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. Examples in Quarter 4/ Quarter 1 include the following:

Mobile Support Officers - weaknesses in record keeping are now being addressed and several policies are being reviewed as an outcome of the audit. This audit followed an incident that SWAP were involved in investigating earlier in the year. This audit added value by raising awareness amongst staff of managements zero tolerance for any abuse of their position and management’s expectations over compliance with policy.

Enforcement Agents Follow Up – we prepared a checklist for the Service Manager to use when they conduct an on-site visit to the enforcement agency’s offices to assess their information management processes (as recommended in the full audit).

Specific benchmarking exercises have been built into the work programmes for the Grants Awarded Audit, Use of Consultants Audit and Street Scene Asset Controls Audit.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

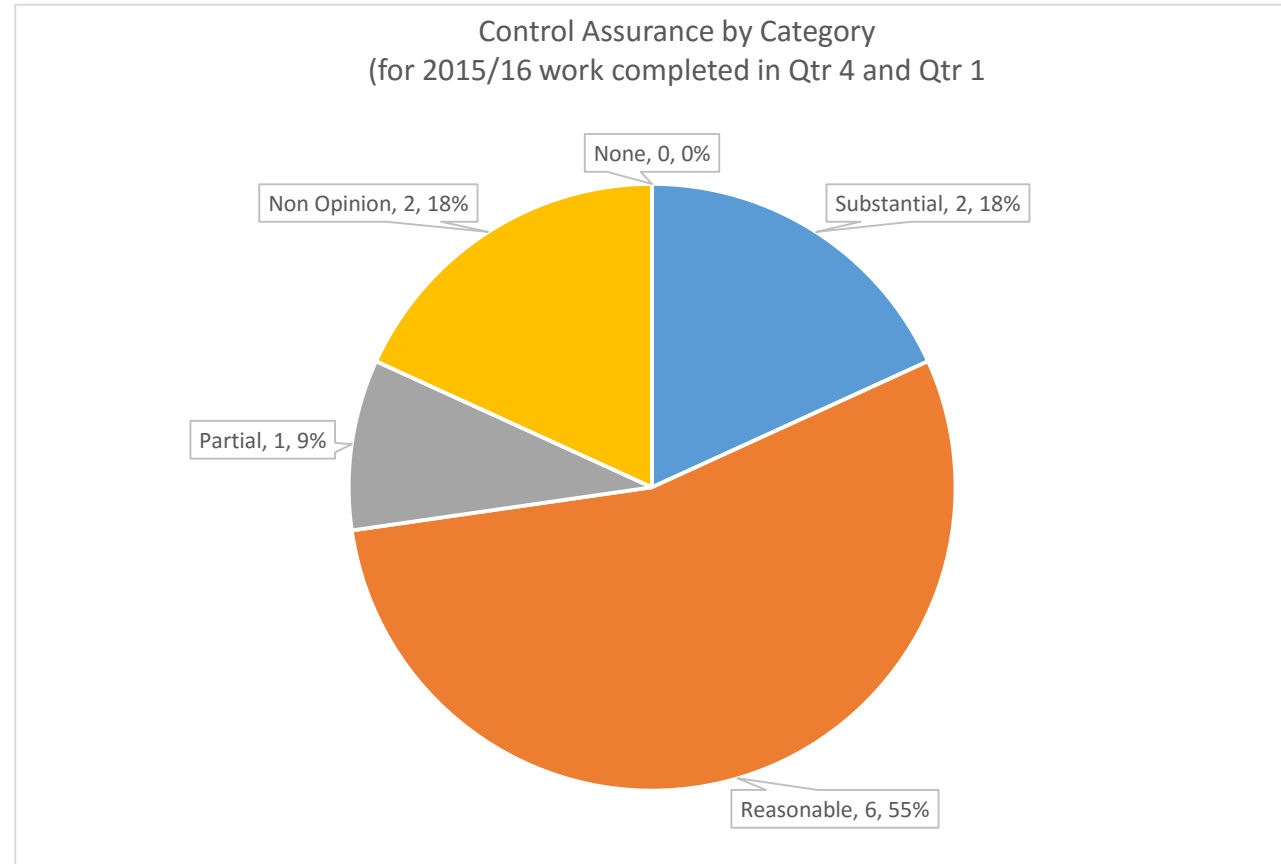
SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- None
- Non Opinion



Summary of Control Assurance



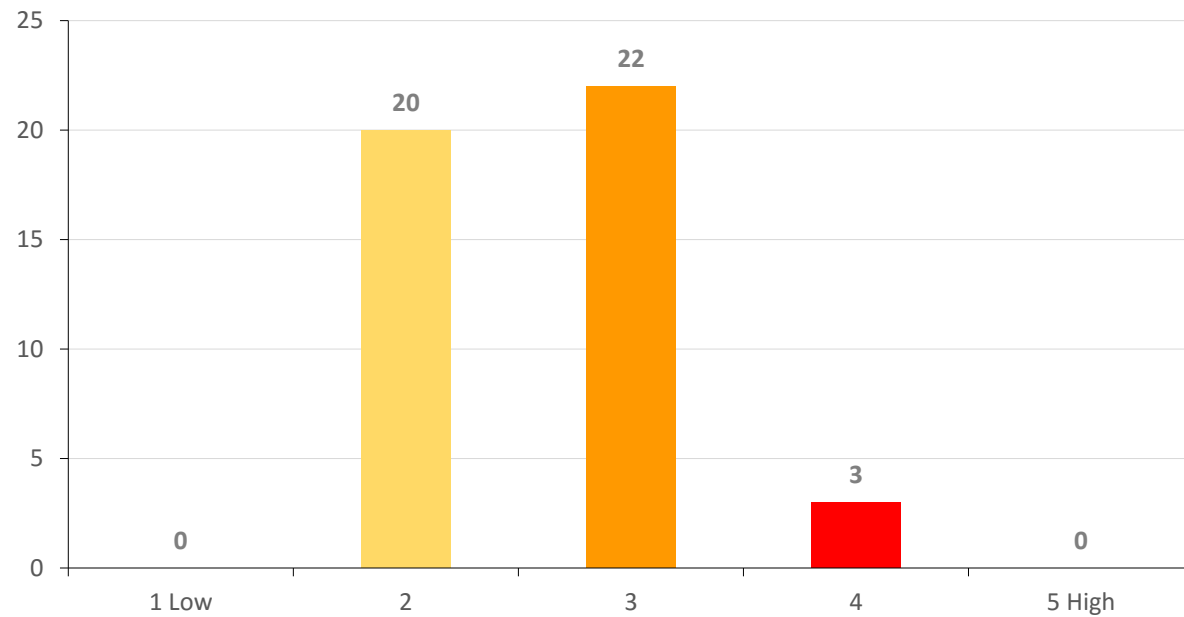
Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Summary of Audit Recommendations by Priority



Summary of Recommendations

Audit Recommendations by Priority



Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

The Assistant Auditor for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2015/16 year (as at 8 June 2016) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress</p>	<p>75% 25%</p> <p>(2014/15 90% of plan completed at this stage with 2 Audit in Progress)</p>
<p><u>Draft Reports</u> Issued within 5 working days</p>	<p>88% (Average Days of 3) (2014/15 60%)</p>
<p><u>Final Reports</u> Issued within 10 working days of discussion of draft report</p>	<p>42% (Average Days of 21) (2014/15 47%)</p>
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	<p>80% (2014/15 81%)</p>

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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



Approved Changes to the Audit Plan

The following changes have been made to the audit plan in Quarter 4/ Quarter 1 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement or at the request of the Section 151 Officer:

- SITA Waste Collection was replaced by the Grounds Maintenance audit which will focus on procurement of plant and equipment and compliment the Street Scene Asset Use audit (see below). There is an audit in the 2016/17 Audit Plan of New recycling and waste contract arrangements scheduled for Quarter 3.
- Leisure East Devon was removed because a 2014/15 audit was only finalised in November 2015. A review of Corporate Health and Safety arrangements is in the 2016/17 Audit plan, (Quarter 2) and will include a review of the arrangements at Leisure East Devon.
- Debt Management was removed at the request of the client who had recently undergone audits of Council Tax, NDR, Housing Benefits, Enforcement Agents as well external audit to review the subsidy grant claim. It was agreed that the timing of this audit was difficult and it was agreed instead that the Service Manager would receive learning points from a benchmarking review we were conducting on behalf of another partner.
- S106 Planning Obligations was deferred due to delayed implementation of the Community Infrastructure Levy, which was in turn dependent on the approval of the Local plan. It has not been included in the 2016/17 plan but it has been agreed with the S151 officer that the need for this audit will be kept under close review and included in the 2016/17 if necessary. It was replaced with the Street Scene Asset Use audit that was requested by management.
- Incident and Problem Management was removed at the clients request and replaced with some best practice advice on creating an Information Asset Register (a recommendation of the Protective Marking Audit).

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



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.

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



Audit Framework Definitions

- 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.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation				
						5=Major ← → 1 = Minor				
						5	4	3	2	1
2015/16										
Operational	Civil Contingencies / Disaster Recovery	1	Removed	N/A	0	0	0	0	0	0
Advice	Council Office Relocation	1	Ongoing	Non Opinion	0	0	0	0	0	0
Follow Up	Streetscene Asset Inspections (Public Safety)	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Emergency Planning	1	Final	Non Opinion	0	0	0	0	0	0
Special Investigation	Abuse of Position	1	Final	Non Opinion	0	0	0	0	0	0
IT	Mobile and Remote Working	1	Final	Reasonable	0	0	0	0	0	0
Operational	Car Parks Income	1	Final	Reasonable	10	0	1	8	1	0
Operational	Building Control Fees	1	Final	Reasonable	8	0	1	3	4	0
Governance, Fraud & Corruption	Expenses & Reimbursement Fraud Prevention	1	Final	Substantial	0	0	0	0	0	0
Operational	Food Safety	2	Removed	N/A	0	0	0	0	0	0
Follow Up	Private Water Supply	2	Final	Non Opinion	0	0	0	0	0	0
Follow up	Tenancy Fraud	2	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Mobile Support Officers (Wardens)	2	Final	Reasonable	7	0	1	5	1	0
IT	Protective Marking	2	Final	Reasonable	3	0	0	3	0	0
Operational	Home Safeguard	2	Final	Reasonable	6	0	1	2	3	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation				
						5=Major		1 = Minor		
						5	4	3	2	1
Governance, Fraud & Corruption	Committee Decisions	2	Final	Substantial	2	0	0	1	1	0
Operational	S106 Planning Obligations	2	Removed	N/A	9	0	0	9	0	0
Follow Up	Enforcement Agents	3	Final	Non Opinion	0	0	0	0	0	0
Grant Certification	Environmental Protection (Grant Certification)	3	Final	Non Opinion	0	0	0	0	0	
Key Controls	Creditors	3	Final	Partial	10	0	1	4	5	0
Key Controls	Main Accounting	3	Final	Reasonable	4	0	0	1	3	0
Key Control	Council Tax and Non-Domestic Rates	3	Final	Reasonable	4	0	0	1	3	0
Key Control	Housing and Council Tax Benefits	3	Final	Reasonable	9	0	0	5	4	0
Key Control	Payroll	3	Final	Substantial	0	0	0	0	0	0
Key Control	Treasury Management	3	Final	Substantial	0	0	0	0	0	0
Key Control	Housing Rents	3	In Progress		0	0	0	0	0	0
Operational	Debt Management	3	Removed	N/A	0	0	0	0	0	0
IT	Incident and Problem Management (Help desk)	3	Removed	N/A	0	0	0	0	0	0
Advice	Information Asset Register	4	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Grant Awards	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Use of Consultants	4	In Progress		0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5=Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Asset Register & Land Record Management	4	In Progress		0	0	0	0	0	0
Operational	Leisure East Devon	4	Removed	N/A	0	0	0	0	0	0
Operational	SITA Waste Collection	4	Removed	N/A	0	0	0	0	0	0
Governance, Fraud & Corruption	Street Scene Asset Use	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Grounds Maintenance	4	In Progress		0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5=Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
2016/17										
Operational	Cash Spot Checks	1	In Progress		0	0	0	0	0	0
Operational	Relocation Project Consultancy	1	Ongoing		0	0	0	0	0	0
IT	Arrangements with STRATA	1			0	0	0	0	0	0
Operational	Responsive Repairs	1	In Progress		0	0	0	0	0	0
Operational	HRA Business Plan Review	1	In Progress		0	0	0	0	0	0
Governance	Achievement of Major Projects	1			0	0	0	0	0	0
Governance	Local Plan Review	1			0	0	0	0	0	0
Governance	Partnership Working Around Greater Exeter	1			0	0	0	0	0	0
IT	New Housing System Implementation	2			0	0	0	0	0	0
IT	Business Continuity (Service Review)	2			0	0	0	0	0	0
Governance	Corporate Governance	2			0	0	0	0	0	0
Governance	Financial Management	2			0	0	0	0	0	0
Governance	Risk Management	2			0	0	0	0	0	0
Governance	Performance Management	2			0	0	0	0	0	0
Governance	Commissioning & Procurement	2			0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5=Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Governance	Programme & Project Management	2			0	0	0	0	0	0
Governance	Information Management	2			0	0	0	0	0	0
Governance	People & Asset Management	2			0	0	0	0	0	0
Operational	Corporate Health & Safety	2			0	0	0	0	0	0
Key Controls	Key Controls Provision	3			0	0	0	0	0	0
Key Controls	Housing Rents	3			0	0	0	0	0	0
Governance	New Recycling & Waste Contract Arrangements	3			0	0	0	0	0	0
Governance	Procurement Review	3			0	0	0	0	0	0
Follow Up	Creditors Follow up	3			0	0	0	0	0	0
Governance	Data Protection	4			0	0	0	0	0	0
Governance	Electoral Registration	4			0	0	0	0	0	0
Operational	Organisational Resourcing	4			0	0	0	0	0	0

Summary of key points related to ‘Partial Assurance’ reviews

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Creditors	<p>Partial Assurance was awarded for the following reason:</p> <ul style="list-style-type: none"> the Authorised Signatory List was found to be outdated. There were conflicts between this list and the permissions set up within the e-Procurement system. Evidence was found that payments are made where the authorising officer does not appear on the Authorised Signatory List. No written procedure exists for retaining cancelled manual cheques. The size of the sample of creditor amendments checked using the Audit of Changes Report should be increased. The 'Creating a New Supplier' procedure could be improved. The Financial Regulations document, available to staff on the EDDC intranet, is outdated and does not agree with the updated version published in the July 2015 Constitution (officer job titles are out of date). Although guidance is available to all EDDC staff, a full set of e-Procurement 	<p>The Financial Services Manager has agreed to conduct a full review of the authorised signatory list, to ensure that all officers with the power to authorise payments are included on it with the appropriate monetary levels. The signatory list should be reviewed on a regular basis and be version controlled. Payments should not be processed unless the authorising officer is on the Authorised Signatory List. The Authorised Signatory List should be compared (and agreed) to the limits set within the E-procurement System.</p> <p>The Income and Payments Team Leader has agreed to ensure that all purchase order notes (where applicable) and goods received notes are retained with their corresponding invoices to ensure a clear audit trail.</p> <p>The Income and Payments Team Leader has agreed to ensure that every invoice is checked against its corresponding purchase order to ensure correctness, in line with the Financial Regulations.</p> <p>The Financial Services Manager has agreed to ensure that the reviewed version of the Financial Regulations is published on the EDDC intranet. The previous version should be removed.</p>	Several recommendations are to be implemented immediately and all by Sept 2016.	Quarter 3 2016/17

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<p>procedures has not yet been completed.</p> <ul style="list-style-type: none"> It was not possible to confirm that paper invoices are matched to the corresponding purchase order or goods received note as these had not been retained (note: certifiers do confirm that they have checked these documents.) <p><u>IT03 Access Control Policy is Outdated</u> The IT03 Access Control Policy was found to have last been reviewed in February 2010, which was six years ago. Good practice would be that policies are reviewed at a maximum interval of three years, to ensure they are still up to date.</p> <p>The risk is that guidance is incorrect or unusable, due to changes that may have occurred since they were first put in place. A recommendation was made to review this policy in the EDDC Housing Benefits 2015-16; therefore a recommendation has not been made in this audit.</p> <p><u>Management Authorisation of User Access Levels</u></p>	<p>The Financial Services Manager has agreed to delegate the task of sample checking the Audit of Changes report to one of the Assistant Accountants, so that a larger sample can be checked.</p> <p>The Income and Payments Team Leader has agreed to add instructions for authorising new suppliers and for changing suppliers' bank details to the 'Creating a New Supplier' procedure.</p> <p>The Financial Services Manager has agreed to ensure that a member of the Accountancy Team sample checks items in the 'New' tab of the Audit of Changes report to ensure the details are correct.</p> <p>The Income and Payments Team Leader has agreed to ensure that clear guidance is available to explain the procedure for retaining wasted manual cheques (both manual and electronic).</p> <p>The Income and Payments Leader has agreed a timescale for completing the procedures for e-procurement.</p> <p>The Income and Payments Team Leader has agreed to conduct a review of procedures and to record a date of review on each. A diary of planned re-reviews should also be created (within 3 years of the</p>		

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<p>No evidence of Management authorisation for user access levels could be provided.</p> <p>The risk is that employees could have a level of access that is inappropriate to their role. A recommendation was made regarding this issue in the EDDC Main Accounting audit 2015-16, therefore no recommendation has been made in this audit.</p>	<p>current review), to ensure the procedures remain relevant and up to date.</p>		

Report to: **Audit and Governance Committee**

Date of Meeting: 30 June 2016

Public Document: Yes

Exemption: None

Review date for release None



Agenda item: **10**

Subject: **Internal Audit Charter**

Purpose of report: The Internal Audit service for EDDC is provided by South West Audit Partnership Ltd (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The internal audit service, provided by South West Audit Partnership Ltd (SWAP), works to a charter that defines its roles and responsibilities and the roles and responsibilities of the District Council's managers. Best Practice in corporate governance requires that the charter be reviewed and approved annually by the Audit and Governance Committee. The Charter was last reviewed by the Audit Committee at their meeting on 25 June 2015.

Recommendation: That the Audit and Governance Committee approves the Internal Audit Charter.

Reason for recommendation: To obtain endorsement from Members for the Internal Audit Charter and ensure that the Audit Committee is informed of the purpose of this Charter which is to set out the nature, role, responsibility, status and authority of internal auditing within East Devon District Council, and to outline the scope of internal audit work.

Officer: Moya Moore, Assistant Director, SWAP.

Financial implications: There are direct financial implications detailed in this report.

Legal implications: There are no legal implications requiring comment.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:

Link to Council Plan:

Internal Audit Charter

Purpose

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

Approval

This Charter was approved by the Audit Committee on 30th June 2016.

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. 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 Strategic Lead – Finance in consultation with the Chief Executive of SWAP.

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.

Responsibilities of Management and of Internal Audit

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 and Governance Committee.

¹ In this instance Management refers to EDDC Management.

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 Audit

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); SWAP has been independently assessed and found to be in Conformance with the Standards.

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. Members of SWAP who have transferred in to the department from other areas of 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.

Relationship with the External Auditors/Other Regulatory Bodies

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

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 Assistant Director also report to the Strategic Lead – Finance as Section 151 Officer, and reports to the Audit and Governance Committee as set out below.

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

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 is 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;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;

- assist 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:
 - 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.

Planning and Reporting

SWAP will submit to the Audit and 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 Assisant Director. SWAP will report at least four times a year to the Audit and Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit and 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 Strategic Lead – Finance and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit and 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 Assistant Director have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised June 2016

Report to: **Audit and Governance Committee**

Date of Meeting: 30 June 2016

Public Document: Yes

Exemption: None

Review date for release None



Agenda item: 11

Subject: **Year end full risk review 2015/16**

Purpose of report: Risk information for the 2015/16 financial year until April 2016 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 April 2016.**

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: Simon Davey, Strategic Lead - Finance

sdavey@eastdevon.gov.uk

ext: 2690

Joanne Avery, Management Information Officer

javery@eastdevon.gov.uk ext: 2332

Financial implications: There are direct financial implications detailed in this report.

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

Equalities impact: Low Impact

Risk: High 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 – High and upper medium scoring risks with control actions](#)
- [Appendix B – Medium and low scoring risks](#)
- [Appendix C – Office relocation project risk report](#)
- [Appendix D – Explanations and definitions](#)

Link to Council Plan: Continuously improving to be an outstanding council

Report in full

1. As part of our corporate governance it is appropriate that we maintain and manage a risk register. The risk register allows us to highlight any risks to our organisation and set out how we are going to mitigate against their impact and likelihood.
2. Our 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 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.
3. In the full risk register there is one risk currently scored as high:
 - **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.** Impact: Major, Likelihood: Likely, - The reason for the escalation of this risk is that the government is currently considering a new scheme following a period of consultation. There is now uncertainty as to the implications of any changes to the scheme.
4. There are 14 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](#).
5. All services were asked to highlight any new and emerging risks with 5 new risks being put forward.
 - Car parks' revenue budgets are dependent upon visitor income
 - There is a risk of an incident occurring in a sector for which the Council is the enforcing authority
 - Failure of structure, cliff or coastal defence
 - Planning Service performance against government targets
 - Increasing pressure in terms of dealing with FOI requests
6. Following the risk review we have two risks which will be archived at the next review as they are no longer live:
 - Delay in adopting a Local Plan until 2015/16 could result in development in an unplanned fashion
 - Failure to ensure we have an agreed Local Plan
7. A report showing the medium and low level risks without control actions appears in [Appendix B](#).
8. Number of risks in each service by score showing movement from the mid-year review 2015/16 to this year end review.

Finance	High	Medium	Low
<i>This review</i>	1	4	14
<i>Previous review</i>		5	15

Economy	High	Medium	Low
<i>This review</i>		9	11
<i>Previous review</i>	1	9	9

Housing	High	Medium	Low
<i>This review</i>		13	8
<i>Previous review</i>		12	9

Environment	High	Medium	Low
<i>This review</i>		7	10
<i>Previous review</i>		5	9

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

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

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

Strategic Risks	High	Medium	Low
<i>This review</i>		11	1
<i>Previous review</i>		12	

9. The latest Risk Review was carried out on 17 May 2016 following the Officer Working Party Meeting of 26 April and the Members Executive Board Meeting of 27 April, as well as liaison with SMT, Aecom, Strata and Interserve. 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
10. Currently there are 56 Open Risks, comprising of;
- 11 Red Risks (previously 12),
 - 34 Orange Risks (previously 37)
 - 11 Blue Risks (previously 6).
11. Three new risks have been identified within the latest version of the Risk Register. A total of 80 risks have been closed to date.
12. Whilst by its nature the contents of the Risk Register are confidential, since it identifies potential project vulnerabilities and management actions to mitigate / 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
 - Planning Matters
 - Contract matters
13. Further detail of the office relocation project risk register is shown in [Appendix C](#).
14. An explanation and definitions of these risks including the risk matrix can be found in [Appendix D](#).

Report to: **Audit and Governance Committee**
Date of Meeting: 30 June 2016
Public Document: Yes
Exemption: None



Agenda item: 12

Subject: **Draft Annual Governance Statement – year ended 31 March 2016**

Purpose of report: Attached to this report is the draft Annual Governance Statement for year ended 31 March 2016.
The final version of this Statement will be included in the Council's Statement of Accounts for 2015/16 which will be presented for formal approval at this Committee in September. A draft version is being presented at an early stage for consideration before finalising. The Committee Chair and Vice Chair have 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 is being involved at an early draft version for consideration.

Officer: Simon Davey, Strategic Lead - Finance
sdavey@eastdevon.gov.uk 01395 517490

Financial implications: No direct financial implications

Legal implications: There are no legal implications requiring comment.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:

Link to Council Plan: Continuously improving to be an outstanding council.

ANNUAL GOVERNANCE STATEMENT

For the year ended 31st March 2016

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. 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 is presented to the Council's Audit and Governance Committee on 30 June 2016.

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 2016 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 2016-20 which sets out our main priorities and forms the focus of all that we aim to achieve by 2020. Our priorities and outcomes set out in the council plan are: Encouraging communities to be outstanding, developing an outstanding local economy, delivering and promoting our outstanding environment and continuously improving to be an outstanding council.
- Delivery of the Council Plan is supported by a performance framework with service plans and individual targets for staff agreed through the Performance Framework which is recorded and monitored through the Council's performance management systems. Delivery of the Council Plan is monitored by the 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 Monitoring Officer whom ensures 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 it is considered 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 to 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 who have recently changed to KPMG 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 2015/16
- Internal and external audit and inspection.
- A specific review of the effectiveness of internal control and compliance to the governance framework undertaken in May/June through the completion of assurance statements by the Strategic Management Team. These were then reviewed by the Assistant Director for SWAP, the Strategic Lead for Finance (CFO/S151), the Monitoring Officer, Chief Executive and the Chairman and Vice Chairman of the Audit & Governance Committee for compliance and any apparent organisational improvements are included in this Statement.
- 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 frequent 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 2015/16 to note include;

- 2015/16 was the first full year of the Council having Corporate Counter Fraud & Compliance Officer. In addition to the Council continuing to utilise the National Fraud Initiative (NFI) cross data matching service work was undertaken on Council Tax Single Person Discounts and Council Tax Support Cases. In total these two areas generated additional income to the Council of £87,000 through incorrectly claimed entitlements. Work is currently being planned in the area of tenancy fraud and other areas of corporate fraud.
- Currently East Devon is leading on a Devon wide counter fraud compliance initiative for data sharing.
- The Audit & Governance Committee were extremely active during the year and played a key part in adding to the Council's Governance arrangements.
- 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. A recommendation has been made to form a strategic planning function in 2016/17 to help strengthen governance in this area.
- Following Government policy changes the Housing Revenue Account Business Plan needs to be updated. The importance of this work has been strengthened with members' involvement by the establishment of Task and Finish Forum on the topic.
- Audit review on committee decisions focussing on quality of information presented to members was given an audit opinion of substantial.

Significant Governance and Control Issues Identified.

- Although the following two areas have **not** been deemed as a significant governance or control issue it is considered worth including in this Statement because of their nature and members will be aware of the audits through the Internal Audit Plan:
 - Following a whistle blowing allegation of inappropriate use of Streetscene assets, which was investigated and concluded with no action required; it was considered sensible to arrange a full review by SWAP of the procedures and controls in place – this review is yet to be finalised but is nearing completion and no significant areas of concern have been identified. There will be some minor recommendations to strengthen the arrangements of asset controls.

- Following a complaint into the conduct of a housing officer a full investigation was undertaken by the Council's Human Resources team and SWAP. It was considered that the individual had acted inappropriately and disciplinary action was instigated. The individual no longer works for the Council and the police were notified as the case related to possible fraud. A full review of all systems and procedures in the area were then undertaken and a few minor recommendations implemented to strengthen arrangements.
- The Audit and Governance Committee 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 SWAP audit opinion outlines a continuously improving position with individual audit assessments. We did however receive a partial assurance for creditors; this was as a result of the Authority Signatory List was found to be outdated and conflicted with the list of the permissions set up within the e-Procurement system. 3 payments were found to have been made where the officer was not recorded on the manual authorisation list – the payments were valid and the officer authorising was an appropriate offer but the list was not updated correctly. This has been rectified but is included in this Statement as the audit received only partial assessment.

Signed & Dated

Chief Executive

22/9/2016

Signed & Dated

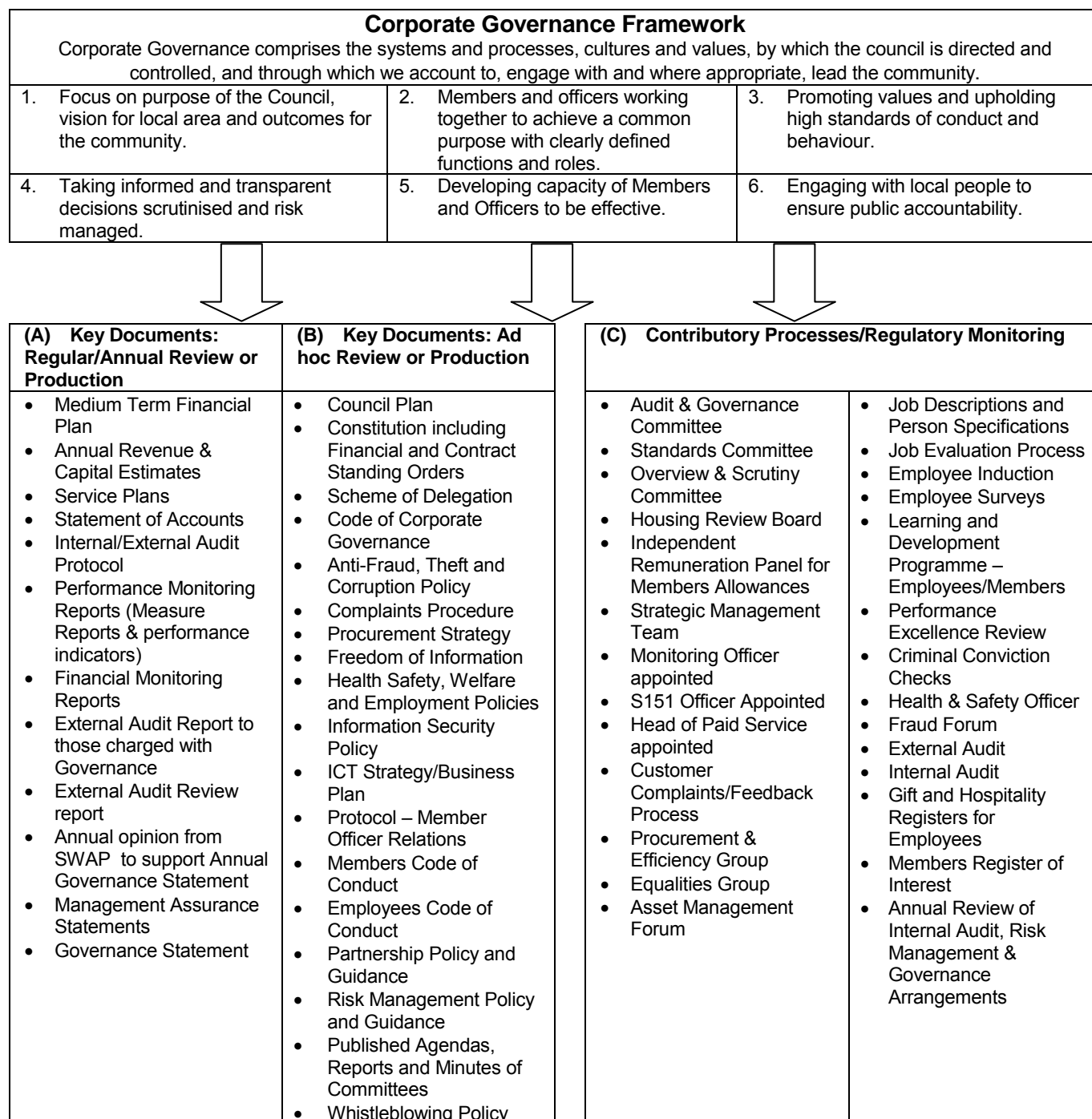
Leader of the Council

22/9/2016

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: 30 June 2016
Public Document: Yes
Exemption: None



Agenda item: 13

Subject: **Revenue and Capital Outturn Report 2015/16**

Purpose of report: The following report was presented to Cabinet on 8 June 2016. The report is presented to Audit & Governance Committee to inform the Committee of the financial Outturn position for 2015/16 and to ask the Committee to endorse, or not, the recommendations approved by Cabinet.

Recommendation: To note the financial Outturn position for 2015/16 and to endorse the recommendations made by Cabinet on 8 June 2016.

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, Strategic Lead - Finance
sdavey@eastdevon.gov.uk

01395 517490

Financial implications: The financial details are outlined in the report

Legal implications: There are no legal implications requiring comment

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 their appropriateness. 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:

- Contained in report attached

Link to Council Plan:

A sound financial position allows the Council to deliver its priorities and outcomes set out in the Council Plan.

Report to: Cabinet
Date of Meeting: 8 June 2016
Public Document: Yes
Exemption: None



Agenda item: 11

Subject: Revenue and Capital Outturn Report 2015/16

Purpose of report: During 2015/16 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 and makes recommendations on reserve transfers.

Recommendation:

1. The Cabinet agree the outturn position for 2015/16.
2. To agree with the level of Reserves detailed in the report and the transfers/use as recommended; namely
 - a) a) to use the General Fund to fund an additional grant payment to Exmouth Sea Cadets of up to £0.050m upon final negotiation and agreement by the Chief Executive in consultation with the Leader of the Council and the Portfolio Holder Finance,
 - b) The transfer of £0.294m from the General Fund to the NNDR Volatility Fund together with any sum received as this Council's share of any gain in the Devon NNDR Pool for 2015/16.
 - c) The remaining General Fund Balance above the adopted maximum range, currently calculated at £0.101m, is transferred from the General Fund into the Capital Reserve.
 - d) The Transfer of £1m from the Housing Revenue Account into the HRA Business Plan Volatility Reserve.
 - e) 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 2015/16.

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, Strategic Lead Finance (CFO/S151)

sdavey@eastdevon.gov.uk 01395 517490

Financial implications:

The financial details are outlined in the report

Legal implications:

There are no legal implications requiring comment.

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 and reserves and considers these in the light of the Council's future financial position and likely 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:

Outturn Booklet 2015/16 – link here:

<http://eastdevon.gov.uk/media/1731497/revenue-capital-outturns-2015-16.pdf>

Link to Council Plan:

A sound financial position allows the Council to deliver its priorities and outcomes set out in the Council Plan.

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 2015/16 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

2.1 The 2015/16 budget was set with a £0.105m contribution being made from the General Fund Balance. Members agreed in year to add a further £0.059m expenditure to the budget thereby increasing the amount required from the General Fund Balance to £0.164m. The additions being an apprentice in the Human Resources team (£0.012m), East Devon Play Pitch Strategy (£0.020m), Exmouth Town Council Support (£0.012m) and a contribution for a Harbour Patrol Boat (£0.015m).

2.2 Instead of requiring £0.164m to be met from the General Fund Balance the final outturn position is a surplus of £0.363m to be paid into the General Fund Balance. Thereby giving a variation of £0.527m or 3% against the net budget of £15.604m.

2.3 A budget variation analysis by portfolio and service is contained in the Outturn Book, an indication of the main variations are given below.

General Fund 2015/16 – main outturn variations against budget	Variation £000
Additional business rate income received over assumed budget level	(294)
Home Safeguard income above budget	(201)
Savings from vacant posts and implication of staff turnover	(192)
Reduction in costs associated with national litigation and income received from government on new burden funding associated with the litigation.	(159)
Streetscene savings obtained across a number of areas relating to reduce need for contractors and equipment spend	(124)
Car Park income higher than projected – car park machine income £137k above budget, but other income areas below budget estimates	(73)
Reduction in recycling income of £0.522m, offset by savings within recycling and refuse service overall.	232
Building Control income below budget expectations, fewer applications than expected.	53
East Devon Business Centre income below budget expectations.	49

Note: Amount in brackets () are saving items or additional income.

2.4 This gives the overall General Fund position at year end with a transfer into the Balance of £0.363m. The updated position for the General Fund Balance is given below.

General Fund Balance Position	£000	£000
Opening Balance 1/4/2015		(4,646)
Transfer to Capital Reserve – Agreed at Outturn Report 2014/15		941
Transfer to General Fund from service reserve no longer required (Thelma Hulbert Gallery)		(2)
Original Budget approval - Use of Balance in 2015/16	105	
Supplementary Estimates approved in 2015/16	59	
Outturn variation 2015/16	(527)	(363)
Closing Balance 31/3/16		(4,070)
Original Budget approval of Balance in 2016/17	0	
Supplementary Estimate approved in 2016/17 to date	25	25
Estimated Closing Balance 31/3/17		(4,045)

2.5 Taking the General Fund Balance at £4.045m this is £0.445m 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. This represents approximately 10% of our net budget equivalent to a two year operational period giving £2.8m; to this is added £0.8m headroom to give £3.6m as a top of the range figure. This is the range we stipulate the General Fund Balance to be within before members need to take action; whether above or below the range.

2.6 Before a recommendation is made as to the proposed use of the £0.445m sum above the adopted General Fund limit it is asked that members consider the following:

- Included within the outturn surplus variation is £0.294m relating to business rates income over the sum budgeted. In line with previous practice it is proposed to transfer this sum to the NNDR (National Non Domestic Rates - business rates) Volatility Fund to smooth out income variation in future years. This practice has worked well with transfers in and out of this reserve to ensure the annual budgeting on business rates can be achieved with a level of certainty as this is a volatile income source.

At the time of preparing this report the outturn position for the Devon Business Rate Pool is unknown, it is assumed that the Pool will be in an overall positive position with EDDC to receive a payment at year end. As an indication in 2014/15 EDDC received a payment from the Pool of £0.101m. It is proposed that any sum received from the Pool is paid into the NNDR Volatility Fund.

- A request has been received from Exmouth Sea Cadets for additional funding of £0.050m to that already committed of £0.150m to assist the provision of their new building. A letter from Admiral Sir Mark Stanhope, National President Marine Society and Sea Cadets is attached making this request. The Chief Executive and key members have discussed this request and are in favour of supporting the additional funding but require further details to make a final decision. If Cabinet are minded to recommend this additional funding of up to £0.050m then it is suggested it is met from the 2015/16 budget surplus but with final confirmation of payment to be made by the Chief Executive in consultation with the Leader of the Council.

2.7 If members agree to the proposed transfer to the NNDR Volatility Fund and an in principle agreement to the additional grant to the Exmouth Sea Cadets then leaves the General Fund Balance above the adopted level by £0.101m. It is recommended that this sum is transferred into the Council's Capital Reserve which will be depleted in 2016/17 and the monies are used to help fund a capital programme going forward.

3. Housing Revenue Account (HRA)

3.1 The 2015/16 budget was set to achieve a surplus of £0.151m, the Outturn position shows an underspend against the budget of £1.017m; the main variations are given below.

HRA 2015/16 – Outturn variations against budget	Variation £000
Revenue Contribution to Capital - underspend on capital works and additional capital receipts received available for funding	(401)
Rent income (including garage rents) higher due to collection rates being better than budgeted	(312)
Programmed maintenance – gas boiler servicing contract lower than budgeted and electrical inspections programme not yet in place	(232)
Underspend on Major Repairs resulting in reduced contribution to the Major Repairs Reserve	(232)
Supervision & Management Special – no spend on New Build Feasibility and Support Services Manager post vacant	(153)
Other Income including garden licences, individual garden maintenance, sold flats recovery of costs, rent of land and enhanced housing management support charges	(79)
Supervision & Management General – the Service Lead post has remained vacant	(58)
Day to day repairs – increase in demand and storm damage costs (net of £250k interim insurance claim received)	370
Repairs & Maintenance special works – additional spend on fire safety and asbestos compliance works and increasing requirement for social services adaptations offset by fuel efficiency measures underspend	89

- 3.2 This gives the overall position on the HRA with a transfer into the Balance of £1.168m; the updated position of the HRA Balance is given below.

HRA Balance Position	£000	£000
Opening Balance 1/4/15		(4,966)
Original Budget approval transfer to Balance in 2015/16	(151)	
Outturn variation 2015/16	(1,017)	(1,168)
Closing Balance 31/3/16		(6,134)
Approved surplus in 2016/17		(213)
Estimated Closing Balance 31/3/17		(6,347)

- 3.3 The HRA balance at the beginning of 2015/16 was £4.966m with the recommended adopted level being £2.069m, based on £490 per property and is considered as the minimum sum to hold. The surplus in 2015/16 of £1.168m has increased the balance at the end of 2015/16 to £6.134m; £4.065m above the minimum level.
- 3.4 An HRA Business Plan 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 £3.4m. As the HRA surplus this year is greater than the budgeted surplus by approximately £1m, it is suggested that this sum is transferred into the Reserve from the HRA giving a total sum of £4.4m.

A £4.4m Reserve is considered prudent as this amount gives the HRA a cushion to restructure its budgets bearing in mind the 1% rent reduction, increased right to buy sales, the need to fund 70% of expenditure in acquiring new social homes and the possibility of having to repay right to buy receipts if unspent. In addition there are also the, as yet unknown, effects of sales of high value properties and 'Pay to Stay'.

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 £2m and that there is a sufficient sum above this level to meet debt repayments when required as part of the Plan. Both of these criteria have been met.

4 Capital Budget

- 4.1 The revised Capital budget for 2015/16 was a net expenditure of £12.887m; the outturn position is lower at £10.510m, a variation of £2.377m. The majority of this underspend is from scheme slippage and a need to re-profile expenditure into 2016/17 or later years. The main variations against the revised budget are given below with further details contained in the Outturn Book.

Capital 2015/16 – main outturn variations against Budget	Variation £000
Knowle Relocation project – re-profiling of budget spend required, underspend carried forward	(384)
Seaton Workshop provision – this scheme is on hold waiting a new report. Circumstances have changed.	(519)
Seaton Jurassic Visitor Centre – re-profiling of budget spend and funding, net effect is an overspend in 2015/16 but this is made good in 2016/17	311
Loan to LED – less borrowing required in 2015/16, re-profiled to 2016/17	(401)
Housing Revenue Account; affordable Housing Schemes – scheme slippage to 2016/17	(204)
Housing Revenue Account; slippage on stock improvements works	(887)

- 4.2 The Capital Reserve at the end of 2015/16 is £2.381m; the use of the Reserve in 2015/16 was £0.473m and a contribution was received into the Reserve from New Homes Bonus monies of £1.031m.
- 4.3 The Capital Reserve is depleted in 2016/17 based on the planned expenditure. Scheme expenditure above the level of the Reserve will require funding through loans; in reality treasury management may afford projects from internal borrowing but scheme approvals going forward will have to continue to be well managed and implications on borrowing costs carefully considered. **This report recommends the one off savings from the General Fund of £0.101m in 2015/16 is transferred to the Capital Reserve to assist with future capital schemes**, particularly those that are mandatory and have no income generation to support their investment. The Capital Reserve position is given below **without** the recommended transfer from the General Fund having been made.

Capital Reserve Position	2016/17 Budget £000	2017/18 Budget £000	2018/19 Budget £000	2019/20 Budget £000
Opening Balance	(2,381)	0	(602)	(3,596)
Net use/(contribution) to capital reserve	2,381	(602)	(2,994)	(4,117)
Closing Balance	0	(602)	(3,596)	(7,713)

The Capital Reserve position shown above needs caveating by two factors:

- Capital programme expenditure from 2017/18 onwards will become greater as we get closer to these years, this will increase the call on the Capital Reserve.
- The above assumes significant receipts from New Homes Bonus (NHB) based on the existing scheme conditions. The Government are to change these

conditions; it is extremely likely that this will reduce the level of receipts compared with that assumed above; this could be a reduction of half. We await further details before the implications can be factored into our future budgets but the degree of the risk can be seen by the level of NHB receipts assumed to help fund the capital programme: In 2016/17 £2.155m, 2017/18 £3.345m, 2018/19 £3.804m and 2019/20 £4.293m.

Other Main Reserves and Balances Available – year end position

Transformation Reserve

The uncommitted balance as at 31/3/16 is £0.529m. 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.

Local Authority Business Growth Incentive Scheme Reserve

The purpose of this reserve is to promote and deliver economic development. A programme of spend and authority for spend was recently reviewed and approved by Council. The balance on this reserve as at 31/3/16 is £0.173m.

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).

The year end balance is £1.035m. This Reserve is currently used at a rate of around £0.100m to 0.200m annually. Details of spend are agreed by SMT (Strategic Management Team) presented to the Asset Management Forum to ensure they do not conflict with asset strategy

Business Rates Volatility Fund

The Balance of this Reserve as at 31/3/16 is £0.620m (excluding the transfer recommended in this report of £0.294m). The Reserve is used to mitigate the volatility of business rate income should income fall below the expected budget and allows the Council to set a level of budget with certainty that an element of the income is already in the "bank".

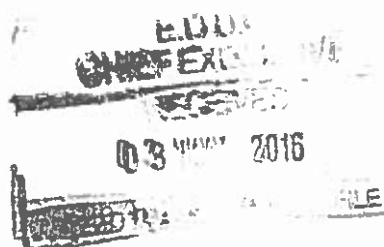
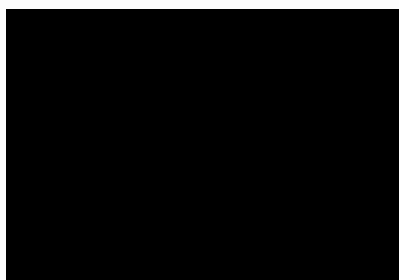
New Homes Bonus Volatility Fund

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 of this reserve as at 31/3/2016 is £1.431m which is now at the agreed level inline with using £1.5m of NHB annually to support revenue. This reserve will need reviewing once the outcome of the NHB government consultation is known.

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 2015/16 at outturn stage with a complete list of all Reserves held.



Mark Williams Esq
Chief Executive Officer
East Devon District Council
Knowle
Sidmouth
Devon EX10 8HL

29 April 2016

Dear Mark

Exmouth Sea Cadet Corps – New Building

I am writing to you in my capacity as the President of the Marine Society and Sea Cadets and as the Patron of the Exmouth Sea Cadet Corps New build project. My thanks for your time on Monday 18 April when we were able to discuss the escalating costs of this project.

As you are aware, your Council's commitment and support for the new building has been instrumental in giving the Exmouth Sea Cadets Unit the confidence to take forward this very worthy project.

When completed, the new building will benefit not only the thriving Exmouth Sea Cadets Unit but also the community as a whole. This is because it will not only allow the Sea Cadets to continue and grow but will enable other local organisations to use the facilities on a regular basis.

We especially want to be able to provide charities with a venue in which to meet, at little or no cost. To this end a Forces Veterans charity will be using the building for counselling on such matters as stress management and financial problems. Also, Active Devon wish to use the facilities for several organisations that they support. In addition, on a commercial basis, such organisations as the Exmouth Gig Club, Exmouth Harriers and Slimming World would like to use the building. This will generate income for the ongoing cost of running the Unit and ensuring that the building is an active community hub.

Since we first approached the Council for support with this venture, and subsequent to the Council agreeing to grant aid the project I have to report that the costs of the project have risen significantly, mainly for reasons that neither the Sea Cadets, nor the Council foresaw at the time.

These reasons include the cost of demolishing the old Sea Cadet building and Boat Shed; additional architects fees to ensure the building was fully fit for purpose; planning requirements; and the costs of dealing with exposed soil contamination during the initial construction phase. Our best estimate is that the total additional increase over the initial original project figure exceeds £150,000.

As I have already confirmed, we are extremely grateful for the support that the District Council has

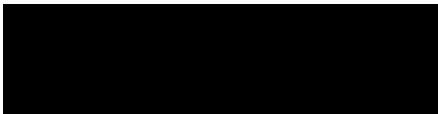
already shown to enable this community project. We know that the increased costs are outside the control of both the Sea Cadets and the Council. Their impact however is to bring into question the ability to complete the project in the way that we all want to see.

As discussed, the Sea Cadets are re-doubling their efforts to secure third party contributions to ensure that the scheme can be completed. In the light of everything to date I am also writing on their behalf to request that the Council increase its grant by a third to £200,000. I am confident that if the Council is able to do this, it will ensure that this worthwhile project can be brought to a timely conclusion. Although this will still leave the Sea Cadet Unit with a significant challenge, the continuing support and partnership commitment of the Council to this project will be instrumental and highly influential.

As expressed at our meeting it is our hope that, at the opening of the new building, we can demonstrate to the people of Exmouth that we have jointly provided a facility, by mutual co-operation, for the benefit of the town as a whole.

If you require any further information please don't hesitate to let me know. I look forward to hearing from you as soon as possible and, once again, thank you for your support.

Yours sincerely

A large black rectangular redaction box covering the signature of Admiral Sir Mark Stanhope.

**Admiral Sir Mark Stanhope GCB OBE DL
National President
Marine Society and Sea Cadets**

Report to: **Audit and Governance**

Date of Meeting: 30 June 2016

Public Document: Yes

Exemption: None

Review date for release None

Agenda item: 14

Subject: **Heart of the South West Formal Devolution Bid**

Purpose of report: This report seeks approval to sign up *'in principle'* to the pursuit of a Devolution Deal and the creation of a Combined Authority for the Heart of the South West sub-region to administer the powers devolved through the Deal. An *'in principle'* agreement from all of the authorities, partners and MPs involved in the Heart of the South West devolution process will open up negotiations with Treasury to work towards a deal.

Recommendation: That the views of the Audit and Governance Committee on the following are noted, before the report is put forward to Cabinet on 13 July 2016.

1. Endorse the Leader's current approach to devolution and agree to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area;
2. Note that giving this endorsement does not commit the Council to entering into a Devolution Deal or becoming a member of a Heart of the South West Combined Authority. This would be subject to future debate and agreement by the Council and subject to negotiations with Government.

Reason for recommendation: These recommendations seek to gain authority to pursue solutions that help the Council maximise the potential opportunities of devolution. They do not commit the Council to a formal devolution deal, only to the principle of a combined authority to open up negotiations with Government.

At this stage of the process the Council is not required to take decisions on the detail of future service provision but rather to be actively aware and involved in discussions.

Officer: Mark Williams, Chief Executive mwilliams@eastdevon.gov.uk

Financial implications: Each of the partner councils S151 officers will be involved in the development of the draft deal and the investment framework that would support a Combined Authority. This will allow each partner Council and the Partnership as a whole to understand the financial implications of any Devolution deal.

Legal implications: Each of the partner Councils legal teams will be involved in the development of the draft deal and the structure of a Combined Authority



for the Heart of the South West. This will allow each partner Council and the Partnership as a whole to understand the legal implications of any Devolution deal.

- Equalities impact:** Low Impact
- None at this stage however the whole population of our authority could be affected by a devolution deal. Any final devolution deal with government will be subject to further approval / ratification by all partners, and will require other implications and impacts to be considered at that stage.
- Risk:** Low Risk
- The involvement of technical specialists such as S151 officers and legal advisers in the development of any draft deal and combined authority model will help to understand the risk implications for the Council and the wider partnership. A risk register will be developed to sit alongside the development of the draft deal and the combined authority.
- Links to background information:**
- [Cabinet agenda 6 April 2016](#)
- Link to Council Plan:** Devolution potentially covers a wide range of services and plans. The detail of these will develop as formal proposals are developed, negotiation with Government takes place, and the final devolution deal is put into place.

Report in full

Devolution for the Heart of the South West (HotSW) is being led by the Leaders of Somerset and Devon County Councils, all Somerset and Devon Districts, Torbay Council, Plymouth City Council, Dartmoor and Exmoor National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups

Our shared Devolution Statement of Intent was submitted to Government on 4 September in response to announcements in the July Budget and a deadline set by the Chancellor of the Exchequer.

Since September, work has progressed on the completion of a HotSW Prospectus for Prosperity (previously circulated) that builds on the three basic ambitions to unlock productivity, improve health, care and wellbeing and improve connectivity and resilience. A number of thematic groups were established to develop the detail for the proposition.

- Health, social care and wellbeing
- Skills and employment
- Business support
- Infrastructure, Resilience and connectivity
- Housing and planning
- Governance

Our Prospectus for Prosperity was submitted to Government at the end of February 2016. Since then the Partnership has pressed the Secretary of State to enter into discussion with its negotiation team to secure a deal for the Heart of the South West. Following an invitation from the Secretary of State, on the 25th May 2016, leaders from the upper tier authorities met with the Greg

Clarke, Secretary of State for the Department of Communities and Local Government to seek his view on our next steps forward.

The Secretary of State made the following comments:

- **Geography** – the Devon and Somerset area is agreed as the appropriate scale. The proposal must clearly demonstrate why this is the right geography for the Devolution agreement and all councils and MPs must support the proposal.
- **Combined Authority** – the Partnership will move forward into the negotiation process based on a Combined Authority model. The Mayoral issue may be considered at a later stage, within the timeline agreed by our Partnership. A Mayor will not be imposed or be a pre-condition of any initial deal.
- **Extent of the deal** – areas that have agreed to have a Mayor will get more powers than a non-Mayoral Combined Authority deal. However, the negotiation process will be an opportunity to push the limits of this initial deal, and the process should be viewed as being incremental
- **Timeline** – we will still work towards an Autumn Statement timeline for the announcement of an initial deal
- **Growth Deal 3** – the LEP would not be penalised in Growth Deal 3 negotiations because the area does not have a Devolution deal with a Mayor. The decision for allocation will be based purely on the quality of the Growth Deal bid.

The Secretary of State went on to advise that if the Partnership, backed by each Council and MPs, would sign up to the principle of creating a Combined Authority by the end of July 2016 he would arrange for the Treasury to open up negotiations towards a deal.

This report seeks approval to sign up *'in principle'* to the pursuit of a Devolution Deal and the creation of a Combined Authority for the Heart of the South West sub-region to administer the powers devolved through the Deal. An *'in principle'* agreement from all of the authorities, partners and MPs involved in the Heart of the South West devolution process will open up negotiations with Treasury to work towards a deal.

Any final devolution deal with government will be subject to further approval / ratification by all partners individually. A Heads of Terms document will be used as a negotiating tool to seek additional powers and funding to accelerate the delivery of 163,000 new jobs, 179,000 new homes and an economy of over £53bn GVA by 2030.

It should be noted that there is no intention for the Combined Authority to take existing powers or funding from local authorities, or existing city deal governance structures, without the explicit agreement of those constituent local authorities. More detailed work will be undertaken to identify the decision making powers and the constitution of the Combined Authority, and all partners will be fully involved and consulted on these arrangements as they develop.

Any final devolution deal with government will be subject to:

- Further approval / ratification by all partners
- Consultation, as appropriate, before delivery of parts of the deal.

Combined Authority - Briefing Sheet

Combined authorities (CAs) were introduced under in the [Local Democracy, Economic Development and Construction Act 2009](#) ('2009 Act'), amended by the Cities and Local Government Devolution Act 2016. The Heart of the South West partnership has developed this briefing note as a simple explanation of both a Mayoral and Non-Mayoral Combined Authority (CA). In line with the briefing note sent out at the end of May 2016, the partnership is considering the creation of a non-Mayoral CA.

What is a Combined Authority (CA)?

England has one of the most centralised governance systems in the world. By creating a CA, the Heart of the South West partnership aims to draw down a range of new strategic powers and funding from central Government, through a Devolution deal, and make decisions based on local not national priorities.

A CA can be set up by two or more local authorities. It is a legal structure recognised as a single body and with one representative from each member authority, operating on either a Leader and Cabinet or Committee structure. A Mayoral CA would have a directly- elected Mayor.

The 2016 Act removes previous limitations on the powers the CA can exercise and permits the Secretary of State to transfer a wide range of statutory functions or functions of public bodies to CAs, the only qualifications on this relate to the transfer of health service functions. The extent of the powers transferred depend on the Devolution deal agreed with Government. The Secretary of State has been, to date, clear that a Mayoral CA model would draw down more extensive powers. Examples of some of the functions undertaken by CAs can be found on the Devolution Register or on existing CA sites:

- [Greater Manchester Combined Authority](#)
- [Sheffield City Region](#)
- [Liverpool City Region](#)

How would it impact on my Council?

The CA does not replace existing councils, it just allows the members of the CA to draw down a range of powers and funding from Government they would not be able to access within their individual authorities. It means that local politicians could have greater control over decision making traditionally held in Westminster - the extent of those powers would be determined by the Devolution deal.

What is the process for setting up a CA?

There are a number of routes to establish a CA:

- 2009 Act – requires the authorities to carry out a governance review and publish a scheme recommending the creation of a CA.. This requires the consent of the authorities involved

in the scheme and the Secretary of State will agree to make an Order under the Act to create the CA

- 2016 Act – the Secretary of State can establish a CA if the councils in the area consent. The Secretary of State must hold public consultation if this has not been undertaken locally. The Secretary of State needs to be satisfied that the CA is likely to “*improve the exercise of statutory functions*” in the area.
- An existing CA – can be changed into a mayoral CA via a further order of the Secretary of State. Any authorities that do not consent must be removed from the CA when the elected Mayor is established.

The governance review is important in determining the best model of CA for the area and this would be described in the scheme. In a non-mayoral CA the constituent members would need to decide if they wanted a Leader and Cabinet or a Committee model for the CA.

Can the membership of a CA be changed?

It is possible for councils to leave or for new councils to join a CA, but Government agreement is required to amend or dissolve the CA.. If a local authority wished to leave the CA, a new review of governance arrangements would have to take place, and a revised scheme would need to be published, before the Statutory Order could be amended.

What is a Mayoral CA?

A Mayoral CA is a new variant introduced under the 2016 Act and is different to the elected Mayors that a number of councils already have in place, such as Torbay.

Up until recently, the Mayor of London had a unique position within English local government, with powers over strategic planning, transport, fire and emergency planning, policing and crime, and economic development over all of London, together with an elected 25-member London Assembly with scrutiny powers. The remaining local government functions in London are performed by the 32 borough councils.

Through Devolution deals a number of areas have agreed to have a directly elected Mayor and a CA in return for a range of additional powers. An example of this is Greater Manchester Combined Authority (GMCA). It will have a different model from London as they will operate a Cabinet model CA, where all GMCA leaders have a clear portfolio of responsibilities that will act as a supporting and advisory function to their Mayor and CA in respective policy areas.

In this example the Mayor will need to consult the Cabinet on his/her strategies which it may reject if two-thirds of the Members do not agree. Some functions such as the Statutory Spatial Framework will need to be approved by a unanimous vote of the Cabinet. Elections for the GMCA Mayor will take place in May 2017.

More information

House of Commons Briefing Paper on Combined Authority – February 2016

<http://researchbriefings.files.parliament.uk/documents/SN06649/SN06649.pdf>

Briefing for Leaders and Chief Executives Discussion with Greg Clark MP, Secretary of State (DCLG)

June 2016

Since the submission of our Prospectus for Prosperity at the end of February 2016 we have pressed the Secretary of State to enter into discussion with our negotiation team to secure a deal for the Heart of the South West.

Following an invitation from the Secretary of State, on the 25th May 2016, leaders from the upper tier authorities met with the Greg Clarke to seek his view on our next steps forward.

We advised that our Partnership is committed to working together at a pace that, whilst capitalising on any opportunities a Devolution deal might bring, would not be at the expense of making early commitments to a particular model of governance that could damage relationships. We cited the examples of many deal areas that are struggling to hold their Partnerships together as a result of commitments made that could not be delivered.

We explained that working together across Devon and Somerset was the right scale to deliver on the big ambitions set out in our Prospectus. This footprint also makes sense to our business community as it mirrors the LEP boundaries and was indeed one of the key tests the Secretary of State said he would apply in considering any devolution proposals. We reiterated our principle of delivery at the lowest appropriate level within the wider partnership.

The Secretary of State made the following comments:

- **Geography** – the Devon and Somerset area is agreed as the appropriate scale. Our proposal must clearly demonstrate why this is the right geography for our Devolution agreement - and all councils and MPs must support the proposal.
- **Combined Authority** – the Partnership will move forward into the negotiation process based on a Combined Authority model. The Mayoral issue may be considered at a later stage, within the timeline agreed by our Partnership. A Mayor will not be imposed or be a pre-condition of any initial deal.
- **Extent of the deal** – areas that have agreed to have a Mayor will get more powers than a non-Mayoral Combined Authority deal. However, the negotiation process will be an opportunity to push the limits of this initial deal, and the process should be viewed as being incremental
- **Timeline** – we will still work towards an Autumn Statement timeline for the announcement of an initial deal
- **Growth Deal 3** – the LEP would not be penalised in Growth Deal 3 negotiations because we do not have a Devolution deal with a Mayor. The decision for allocation will be based purely on the quality of the Growth Deal bid.

We believe this is a very positive response from the Secretary of State who advised that if the Partnership, backed by each Council and our MPs, can sign up to the principle of a Combined Authority by the end of July 2016 he will arrange for the Treasury to open up negotiations towards a deal.

To achieve this, we will use the next meeting of the Leaders and Chiefs on **22 June 2016** to discuss and ratify our approach. Given the pressing timetable, we have set out the activities we believe each partner needs to undertake:

1. Secure an '*in principle*' agreement from your Council or Board in the July cycle of meetings to the creation of a Combined Authority Governance model, subject to a further report seeking final ratification in the Autumn. To assist with this task, the Programme Management Office will provide report templates for your use.
2. Develop and agree a draft Heads of Terms document that can be the basis of discussion with Treasury and our negotiation team. A draft document will be circulated prior to the Leaders and Chiefs meeting.
3. Consider and agree a Member Development Programme to be rolled out across all Councils to address some of the myths surrounding devolution and give a fuller explanation of the Combined Authority model.
4. Agree the messages for communication with key stakeholders including MP's

Since the formation of the Partnership back in August 2015 and through the various meetings we have had, we believe it is worth reflecting on our collective and individual reasons for involvement in this process:

- This is our opportunity to release powers and funding from Whitehall and enable us to have greater influence to deliver on the priorities we know are important to our region
- It places our Partnership into an exclusive club with the 10 other deal areas and the advantages this can bring in terms of incremental shifts of power from the centre to local areas
- It is the start of an ongoing process that will allow us to build on our track record and credibility for delivery that helps our communities

We recognise the question that may be posed by your individual councils and boards will be 'what's in it for us'? Obviously this is a question we hope you will take forward and debate at a local level but fundamentally it gives each partner a place at the table in making the transformational changes we need to address our demographic pressures, and secure our future prosperity.

If you have any query, please contact the Programme Management Office team members on devolutionPMO@somerset.gov.uk. Below are the contact details of the PMO team.

Alison Ward – Alison.ward@plymouth.gov.uk tel: 01752 398084 or 07788 325109

Sue Rook – sue.rook@devon.gov.uk tel: 01392 382371 or 07791 031641

Alastair Higton – arhigton@somerset.gov.uk tel: 01823 359353 or 07977 410446

Signed: Councillor John Osman, Councillor John Hart, Councillor Ian Bowyer and Mayor Gordon Oliver

Agenda Item: 15

Audit and Governance Committee

30 June 2016



Audit and Governance Committee

Forward Plan 2016/17

Date of Committee	Report	Lead Officer
22 September 2016	<p>Prior to Meeting presentation/audit committee training on audit procedures and process</p> <ul style="list-style-type: none">Internal Audit Activity – Quarter 1 & 2 2016/17Statement of Accounts 2015/16 including Governance StatementReport to those charged with GovernanceAnalysis of consultants fees 2015/16Partnership Register	<p>SWAP</p> <p>SWAP</p> <p>Strategic Lead - Finance</p> <p>KPMG</p> <p>Financial Services Manager</p> <p>Management Information Officer</p>
17 November 2016	<ul style="list-style-type: none">Annual audit letterRisk management review – half year reviewFuture of External Audit	<p>KPMG</p> <p>Management Information Officer</p> <p>Strategic Lead - Finance</p>
5 January 2017	<ul style="list-style-type: none">Internal Audit Activity – Quarter 3 2016/17Audit Committee updateCertification ReportAnti-Money Laundering Policy approval	<p>SWAP</p> <p>KPMG</p> <p>KPMG</p> <p>Strategic Lead - Finance</p>
2 March 2017	<ul style="list-style-type: none">Annual Audit Plan 2017/18External Audit PlanAudit Committee updateAccounting Polices Approval	<p>SWAP</p> <p>KPMG</p> <p>KPMG</p> <p>Financial Services Manager</p>

Simon Davey
Director of Finance
East Devon District Council
Knowle
Sidmouth
Devon
EX10 8HL

Our ref CG/TW/EDDC/1617

Contact Darren Gilbert

25 April 2016

Dear Simon,

Annual audit fee 2016/17

I am writing to confirm the audit work and fee that we propose for the 2016/17 financial year at East Devon District Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd.'s (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2016/17 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2016/17	Planned fee 2015/16
Code of Audit Practice audit fee – East Devon District Council	50,821	50,821
Certification of grant claims & returns	8,108	8,721

PSAA has set the 2016/17 scale fees at the same level as for 2015/16, thereby preserving the 25 per cent reductions that were applied that year which in turn was in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. The planned fee is in line with the scale fee.

As we have not yet completed our audit for 2015/16 the audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Redistribution of Audit Commission surplus

Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2016/17

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for highways network assets. CIPFA/LASAAC has indicated that it is unlikely that these changes will apply to district councils as it is unlikely that they hold assets which form part of the highways network, however this will need to be assessed by the Authority. If the Authority does hold material highways network assets then this change will require additional work in 2016/17, but PSAA has indicated that it is not appropriate to increase the scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances. The fees for this additional work will therefore be discussed and agreed with you in due course and will be subject to PSAA's normal fee variation process. PSAA expects that the additional fees for a non-highways authority to be up to £5,000, where authorities are able to provide the information required and the auditor is able to rely on central assurance of the valuation models in use. This amount is indicative and therefore higher costs may be necessary.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2016/17 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

Certification work

As well as our work under the Code, we will certify the 2016/17 claim for housing benefit subsidy to the Department for Work & Pensions.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued in early 2017. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report for the Audit and Governance Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

The proposed fee excludes any additional work we may agree to undertake at the request of East Devon District Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Our team

The key members of our audit team for the 2016/17 audit are:

Name	Role	Contact details
Darren Gilbert	Director	darren.gilbert@kpmg.co.uk 029 2046 8205
Tara Westcott	Senior Manager	tara.westcott@kpmg.co.uk 0117 905 4358

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3HZ

Yours sincerely



Darren Gilbert
Director, KPMG LLP

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2015/16;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2016/17 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance Committee.

Planned output	Indicative date
External audit plan	March 2017
Interim audit report	June 2017
Report to those charged with governance (ISA260 report)	September 2017
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2017
Opinion on Whole of Government Accounts return	September 2017
Annual audit letter	November 2017
Certification of grant claims and returns	February 2018

Appendix 3 – Independence & objectivity requirements

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Governance Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.

- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 25 April 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.