# Agenda for Audit and Governance Committee
# Thursday 2 March 2017, 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 February 2017



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1 Public speaking
2 Minutes for 5 January 2017 (pages 3-5)
3 Apologies
4 Declarations of interest
5 Matters of urgency – none identified
6 Matters referred to the Audit and Governance Committee by the Overview and Scrutiny Committees held on 18 January 2017 for reconsideration (pages 6-7)
7 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**

8 **Annual Audit Plan 2017/18 –** SWAP (pages 8- 11)

9 **a. Internal Audit Activity Plan Progress 2016/17 Quarter 3 –** SWAP (pages 12-31 )
**b. Achievement of Major Capital Projects Report -** (pages 32-45)

10 **External Audit Plan** - KPMG (pages 46-64)

11 **Audit Committee update** - KPMG (pages 65- 77)

12 **Accounting Policies approval -** Financial Services Manager (pages 78-95)

13 **Anti-Money Laundering Policy –** Strategic Lead Finance (pages 96-106)

14 **Audit and Governance Forward Plan** – Strategic Lead Finance (page 107)

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Decision making and equalities

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## EAST DEVON DISTRICT COUNCIL

## Minutes of a Meeting of the Audit & Governance Committee held in the Council Chamber at Knowle, Sidmouth on 5 January 2017

**Attendance list at end of document**

The meeting started at 2.30pm and ended at 3.45pm

***36 Chairman's welcome**
The Chairman welcomed everyone to the meeting.

***37 Public Speaking**
There were no members of the public present.

***38 Minutes**
The minutes of the Audit and Governance Committee meeting held on 17 November 2016 were confirmed and signed as a true record.

***39 Declarations**
None

***40 Future of External Audit Analysis of Consultants and Agency staff fees 2015/16**
The Strategic Lead, Finance presented this report as requested by the Committee, the report detailed capital and revenue spend on consultants and specialist advice and agency staff for 2015/16.

Discussions included:

- Would it be more conducive to offer fixed term contracts?
- Fees would vary from year to year depending on specific projects being undertaken during the period
- The Outturn report shows balanced budgets

**RESOLVED:**
that the details of expenditure on consultants and agency staff in 2015/16 be noted.

***41 Internal Audit Activity – Quarters 2&3 2016/17**
SWAP The Audit and Governance Committee agreed the 2016-17 Internal Audit plan at its March 2016 meeting. This report provided an update on the 2016/17 Internal Audit Plan (Quarter 2). Moya Moore from SWAP spoke in detail on the report's 'Use of Consultants' review which offered reasonable assurance as an audit opinion. Most of the areas reviewed were found to be adequately controlled. Generally risks were well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
The report covered five areas:

1. Assurance over the completeness and accuracy of the Consultant's Report which was reviewed annually by the Committee.
2. Benchmarking of spend on Consultants from SWAP Partners.
3. Establishing the unqualified costs to EDDC of reading consultants reports.
4. A review of the use of Business Cases and authorisation for appointment of consultants.
5. An assessment of the extent to which recruitment for permanent established posts was delayed through the use of consultants.

The Chairman thanked Moya for her report.

**RESOLVED:**

1. that the content of the Internal audit progress report be noted, and
2. that the recommendations from the SWAP 'Use of Consultants' report be endorsed

***42 Audit Committee update**

Rob Andrews from KPMG, presented the Council's Progress report which provided the Audit Committee with an overview on progress in delivering their responsibilities as the external auditors.

**RESOLVED:**

that the content of the Progress report be noted.

***43 Certification report**

Public Sector Audit Appointments (PSAA) required its appointed auditors to prepare an annual report on the claims and returns certified for each audited body. This letter was the annual report for the certification work KPMG had undertaken for East Devon District Council.

In 2015/16 KPMG carried out certification work on only one claim, the Housing Benefit Subsidy claim. The certified value of the claim was £32.2 million, the work was completed and the claim certified on 30 November 2016.

**RESOLVED:**

that the certification work be noted.

**44 Identification of future internal audits 2017/18**

The Chairman asked committee members to submit any proposed future internal audits by email to him by 20 January 2017.

***45 Audit and Governance Forward Plan**

Members noted the contents of the Committee Forward Plan for 2016/17.

Items to be considered at the March Committee included:

- Annual Audit Plan 2017/18
- External Audit Plan
- Audit Committee update
- Accounting Polices approval
- Anti-Money Laundering Policy approval

**RESOLVED:**

that the Forward Plan be noted.

**Attendance list**

**Councillors:**
Mark Williamson (Chairman)
Dean Barrow (Vice Chairman)
Steve Gazzard
Ben Ingham
Bill Nash

**Also present (for some or all of the meeting)**
**Councillors:**

| | |
|---|---|
| Ian Thomas | Portfolio Holder Finance |
| Megan Armstrong | |
| Geoff Jung | |
| Rob Longhurst | |

**Apologies:**

| | |
|---|---|
| John Dyson | |
| Steve Hall | |
| John Humphreys | |
| Paul Diviani | Leader |

**Officers present:**
Mark Williams, Chief Executive
Simon Davey, Strategic Lead – Finance
Amanda Coombes, Democratic Services Officer

Rob Andrews, Audit Manager, KPMG
Moya Moore, Assistant Director, SWAP

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

# Minutes of a meeting of the Overview and Scrutiny Committees held at Knowle, Sidmouth on 18 January 2017

**Extract of minutes**

## 4 Draft Revenue and Capital Budgets 2017/18

**Application for capital grant from the Axminster Heritage Centre**

A grant request of £50K from the Axminster Heritage Centre had been included in the draft Capital Budget 2017/18, but highlighted for discussion because the grant related to an asset that was not owned by the Council.

Councillor Andrew Moulding spoke about the developing work in regeneration of Axminster, with the Heritage Centre being a key part of the development of the town centre. He outlined some of the offer of the centre and the benefits of it to both the local community and visitors to the area.

The centre was also adept at sourcing other funding, and was unlikely to spend this grant unless other funding bids proved successful.

Members of the committees questioned why an asset not belonging to the Council should be linked to the capital programme. The committees agreed that in this instance, the grant should be included, but supported the suggestion that the Audit and Governance Committee should review how such applications are considered to be included within the capital programme.

**RECOMMENDED** by the Overview and Scrutiny Committees to the Audit and Governance Committee that a review of the procedure for considering capital grants for assets not owned by the Council being included in the Capital programme, be undertaken.

**Attendance list (present for all or part of the meeting):**
**Committee Members present:**
Roger Giles
Graham Godbeer
Simon Grundy
Dean Barrow
Mike Allen
Marianne Rixson
Marcus Hartnell
Bill Nash
Bruce De Saram
Maddy Chapman
Cherry Nicholas
Peter Faithfull
Rob Longhurst
John Humphreys

**Other Members**
Ian Thomas
Iain Chubb
Andrew Moulding
Tom Wright
Jill Elson
Philip Skinner
Phil Twiss
Paul Diviani
John Dyson
Geoff Jung

**Officers present:**
Richard Cohen, Deputy Chief Executive, Development, Regeneration and Partnership
Simon Davey, Strategic Lead - Finance
John Golding, Strategic Lead – Housing and Environment
Henry Gordon Lennox, Strategic Lead – Governance and Licensing
Ed Freeman, Service Lead – Planning Strategy and Development Management
Charlie Plowden, Service Lead – Countryside and Leisure
Laurelie Gifford, Financial Services Manager
Donna Best, Principal Estates Surveyor
Debbie Meakin, Democratic Services Officer

**Apologies:**
Mark Williams, Chief Executive

Alan Dent
Cathy Gardner
Val Ranger
Peter Bowden
Ian Hall
Pauline Stott

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

| | |
|---|---|
| **Report to:** | **Audit and Governance Committee** |
| **Date of Meeting:** | 2 March 2017 |
| **Public Document:** | Yes |
| **Exemption:** | None |
| **Review date for release** | None |
| **Agenda item:** | **8** |
| **Subject:** | South West Audit Partnership - EDDC Internal Audit Plan for 2017/18. |
| **Purpose of report:** | As a key element of its Governance arrangements the Council has a partnership arrangement with South West Audit Partnership to deliver an annual internal audit plan. The Assistant Director for SWAP, together with the Council's S151 Officer and in consultation with the Senior Management Team has produced an Audit Plan for 2017/18 that requires the approval of the Audit and Governance Committee. |
| **Recommendations:** | **That the Audit and Governance Committee approve the Internal Audit Plan of 376 days for April 2017 to March 2018.** |
| **Reason for recommendation:** | It is a requirement that the Audit and Governance Committee approve the annual audit plan. |
| **Officer:** | Moya Moore, South West Audit Partnership<br>Moya.moore@southwestaudit.co.uk tel: 07720 312462 |
| **Financial implications:** | No change from previous year. |
| **Legal implications:** | Internal audits assist in testing and demonstrating compliance with regulatory frameworks, including governance and best value. |
| **Equalities impact:** | Low Impact |
| **Risk:** | Medium Risk<br>Failure to gain independent assurance over the internal control arrangements by undertaking periodic internal audits of all of the Councils activities using a risk based methodology could impact negatively (i.e. financial, reputational, operational) on the Council.<br>.<br>. |

## Background

The total number of audit days planned for 2017/18 is 376 days, which is unchanged from the prior year.

This plan has been pulled together with a view to providing assurance to both Officers and Elected 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 is deemed higher risk than the audits in this Audit Plan then changes may be required during the year. The Committee are approving the initial plan of 376 days. Any changes will be reported to Committee quarterly for approval.

To ensure that to the best of our ability we have covered the necessary risks, the Assistant Director and the Section 151 Officer have liaised with the Senior Management Team and together, whilst also considering audits already undertaken in recent years, have produced the plan detailed in Appendix A. Input has also been sought, received and considered from Members of the Audit and Governance Committee.

**Key Control Audits**

We have liaised with the External Auditors, KPMG and confirmed that they will not be reliant on our testing in these areas specifically.

An overall day allowance has been included in the plan to ensure that key financial risks are audited, whilst enabling a better degree of flexibility in approach. The exact scope of these audits will be agreed with the S151 officer prior to commencement, taking into account emerging and current issues.

The number of days allocated to this area reflects the assurance opinions awarded in relation to Key Control Audits over the previous few years.

Note: As in the previous year, a review of Housing Rents is scheduled because of the new Housing System. This will include (but not be restricted to) Key Financial Controls.

**I.T. Audits**

I.T. Reviews are completed to provide the Authority with assurance with regards to their compliance with industry best practice. There are 30 days planned which are split over 2 audits. One of these is a review of Disaster Recovery and the other is looking at Business Continuity at Service Level.

We have liaised with the auditors for STRATA, Devon Audit Partnership in agreeing our plan, to avoid duplication of work.

**Operational and Governance Reviews**

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

Last year we completed a Healthy Organisation Audit which involved a high level review that maps assurance streams so that we can see which areas of the Council may be over controlled (and identifies efficiencies) and which could benefit from a closer look. We look at 8 themes – Risk, Finance, Information Security, Governance, Procurement, Assets & People, Programme & Projects management and Performance Management. As a result of this work, we plan to take a closer loot at Procurement and Project Management this year.

**Follow Up Audits**

Internal Audit follow up on all Audits being given a ‘Partial or No Assurance’ level to ensure that agreed actions to mitigate risks have been implemented. We have planned 12 days to do follow-up reviews.

### Advice and Meetings

Internal Audit are risk experts and as well as undertaking planned audits are always glad to assist officers where they seek advice on managing their risks. Similarly, to enable effective governance Internal Audit work closely with External Audit and with the Section 151 Officer and the Audit and Governance Committee through regular liaison meetings and progress reporting.

**Internal Audit Plan 2017-18** — **Appendix A**

| Audit | Days | Qtr | Note |
|---|---|---|---|
| Planning / Client Liaison | 12 | 1-4 | Audit Planning / S151 Liaison |
| Corporate Advice | 5 | 1-4 | Guidance and advice on best practice |
| Committee Reporting & Attendance | 12 | 1-4 | Audit & Governance Committees and Reports |
| External Audit | 2 | 1-4 | Liaison with KPMG |
| Relocation Project Consultancy | 30 | 1-4 | Consultancy and advice, and detailed testing of relocation plans for Exmouth Town Hall. |
| Follow Up Audits (unallocated) | **3** | 2 | Review 2016/17 Partial Assurances |
| Follow up – Achievement of Major Projects | **3** | 2 | Partial assurance received 2016/17 |
| Follow Up - Corporate Health and Safety | **3** | 2 | Partial assurance received 2016/17 |
| Follow up - Business Continuity | **3** | 2 | Partial assurance received 2016/17. |
| Follow up - Housing Rents | **5** | 2 | Partial assurance expected 2016/17. |
| Follow up - New Housing System Implementation | **3** | 2 | Partial assurance received 2016/17. |
| **Key Controls** (unallocated) | **35** | 3-4 | An overall day allowance has been included in the plan to ensure that key financial risks are audited, whilst enabling a better degree of flexibility in approach. The exact scope of these audits will be agreed with the S151 officer prior to commencement, taking into account emerging and current issues. Likely to include Housing Rents, Creditors and HB/CT (to include Discretionary Housing Payments). |
| Safeguarding | 15 | 1 | Statutory responsibility compliance, strategic risk |
| Records Management | 10 | 1 | Paperless drive and office relocation - is the right information being retained? Highlighted in Healthy Organisation. |
| Sustainability | 10 | 1 | Green credentials solace cipfa document now includes sustainability |
| Lone working | 15 | 2 | Several different processes in place - what is the best approach? to include Street Scene |
| S106/ CIL | 15 | 2 | Has been the subject of accounts objection this year and has not been audited for a number of years. To include triggers and links to planning and building control. |
| Habitat Mitigation | 5 | 2 | Requested S151 Officer |

| | | | |
|---|---|---|---|
| Work Force Plan | 5 | 2 | To review new work force plan and follow up on recommendations made in the Use of Consultants audit (2015/16) related to workforce planning. |
| Fighting Fraud Locally | 15 | 2 | Corporate Sub Group Suggestion, fraud review of right to buy, or Disabled Facilities Grants. |
| Organised Crime checklist | 5 | 2 | Corporate Sub Group Suggestion |
| Commercial Skills/ Income generation | 20 | 2 | Corporate Sub Group Suggestion, Strategic Risk. Consider any requirement to look at Business Rates Avoidance – may not be required if Devon Pool have looked at this. |
| Culture and Ethics | 15 | 3 | Corporate sub Group Suggestion, Strategic Risk. Could look at the extent to which the code of conduct is embedded in behaviour. |
| Programme and Project Management | 20 | 3 | Highlighted in Healthy Organisation - project to be reviewed to be decided later in the year |
| Honiton Business Centre | 15 | 3 | To what extent is it supporting strategic objectives by generating new business, supporting fledgling businesses. |
| Procurement Review | 20 | 3 | Highlighted in Healthy Organisation review and significant projects and e procurement being rolled out. Strategic Risk |
| Business continuity key service test | 15 | 3 | Strategic risk |
| Fleet Management | 10 | 4 | Not looked at for some years (Streetscene & Housing), value for money review |
| Discretionary Spend | 20 | 4 | Discretionary spend in areas such as THG, Beaches, parks and gardens, manor pavilion, folk week regen etc, not looked at for some time. Overview or analysis looking at costs and income - how do we know they are value for money? Is it aligned to priorities? |
| Licensing | 15 | 4 | Not audited for some years. |
| Disaster Recovery<br><br>Total | 15<br><br>376 | 4 | Top include a look at ownership of policies, roles and responsibilities. |

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

# East Devon District Council

## Report of Internal Audit Activity

### Plan Progress 2016/17 Quarter 3

**Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy**

# Summary

## Contents

**The contacts at SWAP in connection with this report are:**

**Gerry Cox**
Chief Executive
Tel: 01935 848 540
gerry.cox@southwestaudit.co.uk

**David Hill**
Director of Planning
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david.hill@southwestaudit.co.uk

**Moya Moore**
Assistant Director
Tel:  01935 848 540
moya.moore@southwestaudit.co.uk

**Our audit activity is split between:**

- **Operational Audit**
- **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 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 2016/17 Quarter 3

**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 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 7 and 8 of this document.

In the period Quarter 3 work has progressed on the following audits from the 2016/17 Audit Plan:

- Responsive Repairs - DRAFT
- Housing Revenue Account Business Plan - DRAFT
- Business Continuity Plans –FINAL – Partial Assurance
- Achievement of Major Projects – FINAL – Partial Assurance
- Corporate Health and Safety – Final – Partial Assurance
- Healthy Organisation – DRAFT
- New Housing System Implementation - DRAFT
- Housing Rents – DRAFT
- Creditors – Key control and follow up – IN PROGRESS
- Procurement – IN PROGRESS
- Organisational Resourcing – IN Progress
- Data Protection – IN PROGRESS
- Electoral Registration – IN PROGRESS

**Outturn to Date:**

## Internal Audit Work Programme Contd.

**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**

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.

This includes:

- Business Continuity
- Corporate Health and Safety
- Achievement of Major Projects

It should be noted that the 2017/18 audit plan includes a full review (not just a follow up) of both business continuity and project management. A review of lone working arrangements, highlighted in the Health and Safety review is also proposed.

Any findings not included in the work programmes of the audits proposed for 2017/18 will be picked up by a separate follow up audit.

**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 3 include the following:

- We have shared a report on comparisons in the different methodologies used for setting fees and charges across SWAP Partners.
- A review of Audit Committee work plans has been shared across SWAP Partners.
- A report comparing the approach to Equality Impact Assessments of 12 partners was shared.
- We shared a document called "The Little Book of Cyber Scams".

**The Assistant Auditor for SWAP**

## SWAP Performance

**reports performance on a regular basis to the SWAP Management and Partnership Boards.**

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 2016/17 (as at 1 December 2016) are as follows;

| Performance Target | Average Performance |
|---|---|
| **Audit Plan – Percentage Progress**<br>Final, Draft and Discussion<br>In progress | <br>67%<br>25% |
| **Draft Reports**<br>Issued within 5 working days | 25% |
| **Final Reports**<br>Issued within 10 working days of discussion of draft report | 0% |
| **Quality of Audit Work**<br>Customer Satisfaction Questionnaire | 79% |

# Internal Audit Plan Progress 2016/17 Quarter 3

**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 3 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:

- No changes to report

**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. Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.**

**Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.**

## 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015/16** | | | | | | | | | | |
| Key Control | Housing Rents | 3 | Final | Reasonable | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance, Fraud & Corruption | Grant Awarded | 4 | Final | Reasonable | 2 | 0 | 0 | 2 | 0 | 0 |
| Governance, Fraud & Corruption | Use of Consultants | 4 | Final | Reasonable | 3 | 0 | 1 | 1 | 0 | 0 |
| Governance, Fraud & Corruption | Grounds Maintenance | 4 | Final | Reasonable | 4 | 0 | 1 | 3 | 0 | 0 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016/17** | | | | | | | | | | |
| Operational | Cash Spot Checks | 1 | Final | Reasonable | 3 | 0 | 0 | 3 | 0 | 0 |
| Operational | Relocation Project Consultancy | 1 | Advisory | N/A | 0 | 0 | 0 | 0 | 0 | 0 |
| IT | Arrangements with STRATA | 1 | Removed | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Responsive Repairs | 1 | Draft | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | HRA Business Plan Review | 1 | Draft | | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance | Achievement of Major Projects | 1 | Final | Partial | 5 | 0 | 1 | 4 | 0 | 0 |
| Governance | Local Plan Review | 1 | Removed | | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance | Partnership Working Around Greater Exeter | 1 | Removed | | 0 | 0 | 0 | 0 | 0 | 0 |
| IT | New Housing System Implementation | 2 | Draft | | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| IT | Business Continuity (Service Review) | 2 | Final | Partial | 9 | 0 | 3 | 6 | 0 | 0 |
| Governance | Healthy Organisation - Corporate Governance | 2 | Draft | | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance | Healthy Organisation - Financial Management | 2 | | | | | | | | |
| Governance | Healthy Organisation - Risk Management | 2 | | | | | | | | |
| Governance | Healthy Organisation - Performance Management | 2 | | | | | | | | |
| Governance | Healthy Organisation - Commissioning & Procurement | 2 | | | | | | | | |
| Governance | Healthy Organisation - Programme & Project Management | 2 | | | | | | | | |
| Governance | Healthy Organisation - Information Management | 2 | | | | | | | | |
| Governance | Healthy Organisation - People & Asset Management | 2 | | | | | | | | |
| Operational | Corporate Health & Safety | 2 | Final | Partial | 14 | 0 | 4 | 10 | 0 | 0 |
| Key Controls | Key Controls Provision (Creditors) | 3 | In progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Key Controls | Housing Rents | 3 | Draft | | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance | Procurement Review | 3 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Follow Up | Creditors Follow up | 3 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance | New Recycling & Waste Contract Arrangements | 4 | Not Started | | 0 | 0 | 0 | 0 | 0 | 0 |
| Governance | Data Protection | 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 |
| Governance | Electoral Registration | 4 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Organisational Resourcing | 4 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |

## Schedule of potential significant risks identified from Internal Audit work in the period Quarter 3

| No | Name of Audit | Weaknesses Found | Risk Identified | Recommendation Action | Managers Agreed Action | Agreed Date of Action |
|---|---|---|---|---|---|---|
| | Business Continuity | The Councils business continuity plans are untested. | The Council may not be able to provide key services in the event of serious disruption. | I recommend the Emergency Planning Officer discusses the method of testing the BCPs with SMT+ and obtains their approval. | Agreed | March 2017 |
| | Business Continuity | The Council's Disaster Recovery Plan is outdated and may not reflect current working practices or priorities. | The Council may not be able to provide key services in the event of serious disruption. | I recommend that the Emergency Planning Officer ensures that there is a clear process for identifying and recording System Requirements in Service Business Plans and for establishing a process/agreed communication method for informing Strata of system requirements. | Agreed | March 2017 |
| | Business Continuity | Service level continuity plans do not have a review framework. | The Council may not be able to provide key services in the event of serious disruption. | I recommend the Emergency Planning Officer and members of SMT agree a review framework for all Business Continuity Plans and monitor compliance with that framework. | Agreed-it will be in the Corporate Business Continuity Plan. | March 2017 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Corporate Health and Safety | Lack of a central record to enable storage and review of risk assessments. | Risk Assessments could be incorrect and/or out of date and non-compliant with Health and Safety requirements. | The Service Lead has agreed that the Health and Safety team ensure that risk assessments are recorded on a central system/location which would be available to all staff and would identify/trigger where risk assessments require review. | We have already implemented improvements but we concede that further work is necessary. We will work with Strata colleagues to develop a database solution, possibly in-house bespoke, but more likely a commercially procured product that will provide the desired central recording system with straightforward prompting and reporting for review dates. We will also implement a short-term solution: there is a designated central location on the intranet: (where the overwhelming majority of work activity risk assessments are stored. The Health and Safety Adviser will ensure that the latest version of all work-activity risk assessments are stored in this location and will report to SMT any that are found to be missing by cross-referencing with his risk mapping exercise. We will adopt a new procedure in which the team will be supported by the Council's Management Information Officer. In a parallel process to her review of the Council's policy register she will also review the stored risk assessments and will produce regular reports to individual responsible managers and to SMT identifying those risk assessments that have not been reviewed for more than 12 months. The Health and Safety Adviser will be available to support individual managers with advice on the | March 2017 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | professional and technical content of each risk assessment requiring a review and he will upload all approved revisions to the designated location. | |
| | Corporate Health and Safety | Lack of effective lone working arrangements and use of a single Lone working system. | Officers could be exposed to a number of hazards associated with lone working including physical attack on staff, slips, trips and falls, and road traffic accidents. | The Strategic Lead has agreed that the Senior Management Team ensures that the Council operates a single Lone worker system. Any review should consider the following;<br>• The Home Safeguard team are likely to replace their existing system in future and therefore the Council may want to wait until the new system has been rolled out and is fully functioning.<br>• Decide on the type of services that require Lone working following advice and risk assessment from the Health and Safety team. At present decisions on use of lone working systems and lone working arrangements are decided locally.<br>• Decide on whether there are any high risk Lone workers who require further kit to manage | The Council already has a number of effective lone worker systems in place. We acknowledge that some gaps may exist and that a Council wide review is sensible, especially so with the ongoing implementation of more flexible ways of working and the prospect of managing more dispersed teams with officers variously based at their own homes and multiple work locations over the next two years. This work has already been tasked to the Health and Safety Adviser in his Performance Excellence Review for 2016/2017 but in light of this recommendation, the Service Lead for Environmental Health will, through the Strategic Lead for Housing, Health and Environment, bring a review report with recommendations to SMT for consideration of the issues. We will work with Homesafeguard on their planned procurement of a proposed new lone worker monitoring system. | March 2017 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | their lone working including devices which have a panic facility.<br>Where there are any high risk events due to lone working, these should be recorded on the Council's Corporate risk register. | | |
| | Corporate Health and Safety | Accident data was incomplete and there was a lack of central record of RIDDOR reportable incidents. | The Council may not be reporting incidents in accordance to RIDDOR regulations. | The Service Lead has agreed that the Health and Safety Advisor reviews the Corporate Health and Policy refining the following areas;<br>• Health and Safety responsibilities in managing Partnership arrangements and Contractors;<br>• Management of Training Records;<br>• Safety Inspection and Audits;<br>• Use of risk management system to record and monitor high Health and Safety risk<br>• RIDDOR reporting<br>• Reporting to SMT | This key policy was already under review and a draft has just been produced for consultation. It does however make sense now to carry out a further review in the light of these comments and the Service Lead will do so in conjunction with the Health and Safety Adviser and will bring that draft to SMT for debate before finalising. | Jan 2017 |

APPENDIX C

| | | | | | | |
|---|---|---|---|---|---|---|
| | Corporate Health and Safety | Frequency and content of reporting to the Senior Management Team is not well defined within Corporate Health and Safety report. | Lack of awareness of EDDC Health and Safety Performance at a Senior level. | The Strategic Lead has agreed that the Health and Safety team review the adequacy of reporting Health and Safety to SMT.<br><br>This would include consideration of a standard reporting template and reporting to SMT on a quarterly basis. We also suggest that these reports should include the following areas to enable the Senior Management team to be aware of Health and Safety performance;<br><br>• Monitoring of High health and Safety risks (Risk register) including work undertaken with 3rd parties<br>• Reporting on progress to the Health and Safety action plan<br>• Reporting of the Health and Safety audit programme (including progress to the plan, significant issues identified)<br>• New areas of Health and Safety risk<br>• Compliance with Health | The Strategic Lead for Housing, Health and Environment is bringing a report to the attention of SMT setting out a "quick" action plan to provide reassurance and to consider the ongoing level of engagement other members of SMT should have with decision making in the area of corporate safety and risk management. The team will then develop a reporting format that addresses areas of concern including the bullet point items above | Jan 2017 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | and Safety policy/ies across services<br>• Local benchmarking undertaken | | |
| | Achievement of Major Projects | Lack of formal risk management processes in place to identify, monitor and track risks relating to Capital projects. | Increases the likelihood of Capital projects being delayed, going over budget, or both. | I recommend that the Strategic Lead-Finance reviews the risk management processes used in the Capital Programme. This should consider the need to review risks at an early stage of a project, and to ensure that Project Officers maintain a risk register for capital projects, where applicable | The risk review within the capital appraisal processes will be strengthened and clarified so officers completing the template record an initial risk assessment of the project itself in addition to the exiting assessment of the risks of not completing the project.<br><br>SMT have also agreed to introduce a corporate framework to enhance professional officers own competences in project management and to ensure a consistent approach across the Council. This will require for predetermined categories of project that a risk register will be maintained and regularly monitored. | April 2017 |
| | Achievement of Major Projects | Lack of a formal Project Methodology being used to track and report on progress to projects. | Increases the likelihood of key milestones to Capital projects not being achieved. | I recommend the Strategic Lead-Finance ensures that formal processes are established so that milestones of capital projects are identified, recorded and reported. | SMT have agreed to introduce a corporate framework to enhance professional officers own competences in project management and to ensure a consistent approach across the Council. This will include a reporting standard for key deliverables of the project. | April 2017 |

# Achievement of Major Capital Projects - EDDC

## Final Report

Issue Date: 10th January 2017

Working in Partnership to Deliver Audit Excellence

# Contents

## Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

## Findings and Outcomes

- This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

## Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

# Executive Summary

## Overview

As part of the 2016-17 audit plan a review was undertaken to assess the adequacy of the controls and procedures in place for Achievement of Major Projects across East Devon District Council.

The Capital Programme includes income and expenditure transactions for purchases and disposals for land or property, to build property, make improvements to existing properties, and purchase large items of equipment. The Capital Programme is funded from capital receipts, Public Works Loans Board (PWLB) loans, government grants, partner contributions, the Capital Reserve and revenue contributions.

The annual Capital Programme is approved each year in February at Full Council which includes an indicative programme for the following three years giving estimated spend and sources of funding.

The Capital budget for 2015/16 was £12.887m; the outturn position was a net spend of £10.510m, a variation of £2.377m. The majority of this underspend relates to scheme slippage and a need to re-profile expenditure to later years.

Significant projects recorded on the Capital Programme include Seaton Jurassic Centre, as part of the Council's regeneration plans for Seaton, works on Mamhead Slipway in Exmouth, and the Feniton Flood Alleviation Scheme.

EDDC use a dedicated group of members (Capital Strategy and Allocation Group) who are responsible for reviewing proposed capital projects. As part of an agreed process, individual services are required to complete and submit a capital appraisal form (business case) in order to obtain capital budget. The appraisal template includes sections on the main objectives, the financial and risk implications to proposed projects. As part of this process, the Finance team designed a scoring matrix in 2012 which is completed to ensure that projects meet certain criteria and can be prioritised.

EDDC monitor the financial progress of the Capital Programme throughout the financial year which is reported to members for oversight, scrutiny and approval.

## Objective

The capital programme contributes to the success of the Council in achieving its corporate objectives.

## Significant Findings

| Findings: | Risks: |
|---|---|
| Lack of formal risk management processes in place to identify, monitor and track risks relating to Capital projects. | Increases the likelihood of Capital projects being delayed, going over budget, or both. |
| Lack of a formal Project Methodology being used to track and report on progress to projects. | Increases the likelihood of key milestones to Capital projects not being achieved. |

| Audit Opinion: | Partial |
|---|---|

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.

Overall we found that the Capital Programme had reasonable financial controls in place to ensure effective budget setting and budget monitoring processes, including reporting to members. We found there to be similarities in processes and key controls to that of the Revenue Budget including adoption of a recognised accounting system, budget codes and systems to manage expenditure related to capital projects.

As part of this review we met with the Financial Services Manager and the Strategic Lead-Finance. Both of these officers acknowledged that EDDC does not currently operate a central/corporate framework to manage capital projects which they have recognised as an issue. It was evident in this review that other local authorities had recognised the links between the approval of capital projects and the adoption of a formal framework to manage projects (including use of project forum, management tools and methodology).

As part of this audit, we reviewed a sample of capital projects. The sample was picked from a review of the 2015/16 Capital Outturn report, and we chose capital projects which had known underspends and delays. Capital projects picked for our sample testing were as follows;

- Seaton Workshop
- Mamhead Slipway (Engineering project)
- Housing repairs (which included Central Heating replacement, replacement bathrooms)
- New Feniton Flood Alleviation Scheme (Engineering project)

In discussion with staff there were some common issues identified which have meant that these projects had been delayed and these include;

- Lack of resources (Housing repairs, Mamhead Slipway, Seaton Workshop)
- Tendering procedures (Mamhead Slipway & New Feniton Flood Alleviation Scheme)
- Insufficient budget and uncertainty of external funding arrangements (Seaton Workshop)

As part of this audit we found inconsistent risk monitoring, in both the appraisal form and throughout the life of the project.

1 out of 4 of the projects had used a Project Methodology to track progress and key milestones to the project (New Feniton Flood alleviation scheme).

In this review we found limited evidence in the appraisal process to show what additional information had been reviewed to support capital bid appraisals. In our sample of projects, it was evident that one of the projects had not sufficiently budgeted for the whole life of the project (Seaton Workshop), and 3 of the 4 projects were expected to go over the agreed budget. The Finance Manager confirmed that the Seaton Workshop project will soon be reviewed and is likely to be removed from the Capital Programme.

We have made recommendations in this report to strengthen controls around the capital appraisal process and the setting of milestones. Further audit work on project management is due to be undertaken as part of a forthcoming Healthy Organisation review and where relevant, recommendations will be made in order to encourage better use of a project framework to help manage capital projects.

## Well Controlled Areas of the Service

- Capital Programme bids are subjected to a formal scrutiny process, conducted by a dedicated Capital Strategy and Allocation Group.
- Capital Programme budgets are loaded onto the financial system, allowing comparison between budget and actual figures.
- Actual capital spend was found to be coded against the correct Capital Programme Budget
- Capital commitments are captured and included in budget monitoring.

## Corporate Risk Assessment

| Risks | Inherent Risk Assessment | Manager's Initial Assessment | Auditor's Assessment |
|---|---|---|---|
| 1. The Capital Programme does not accurately estimate the cost or timescales necessary to implement the capital projects required by the Council to deliver its corporate objectives, leading to unanticipated additional spend or delayed completion of the capital programme. | **High** | **Medium** | **High** |
| 2. Where actual spend is not reflective of the anticipated cost approved in the capital programme, the council's ability to accurately plan ahead may be compromised. | **High** | **Medium** | **Low** |
| 3. Where actual progress is not reflective of anticipate progress approved at the outset in the capital programme, the Council's ability to forward plan its service delivery may be compromised, and additional cost incurred. | **High** | **Medium** | **Medium** |

# Findings and Outcomes

## Method and Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

| | | |
|---|---|---|
| 1. | **Risk: The Capital Programme does not accurately estimate the cost or timescales necessary to implement the capital projects required by the Council to deliver its corporate objectives, leading to unanticipated additional spend or delayed completion of the capital programme.** | **High** |

### 1.1. Finding and Impact

Capital appraisal processes

The capital bidding process includes the use of a standard criteria (to help distinguish Capital and Revenue), a Capital appraisal template (which sets out the reasons, objectives and financial considerations for the project), a scoring mechanism (used to assess each project), and the use of committee members to review and approve capital bids.

As part of this audit, we reviewed these processes and have made the following observations:

Risk Management

The Project Officer for the capital project is responsible for undertaking a risk assessment for each individual capital project (this is recorded on the capital appraisal form template). This assessment is designed to determine the level of risk associated with not completing the proposed project but does not reference any early risks associated in completing the individual project(s).

Our benchmarking of other local authorities' capital projects strategies suggests that risks to individual projects should be identified at an early stage, as part of the initial appraisal process and this includes early identification of risks associated in completion of proposed projects.

As part of our sample testing, we found that three of the four projects tested did not have a risk register to manage their associated risks. Relevant risks included uncertainties in securing external funding (Seaton Workshop), delays in completion of the project (Seaton Workshop, New Feniton Flood Alleviation Scheme and Mamhead Slipway) and significant overspends (New Feniton Flood Alleviation Scheme and Mamhead Slipway.)

Without formal risk management processes in place, there is a likelihood that individual projects are not identifying risks at an early stage leading to an increased risk of projects not being completed on time or within the agreed budget.

| 1.1a | Proposed Outcome: | Priority 4 |
|---|---|---|
| I recommend that the Strategic Lead-Finance reviews the risk management processes used in the Capital Programme. This should consider the need to review risks at an early stage of a project, and to ensure that Project Officers maintain a risk register for capital projects, where applicable. | | |

| Action Plan: | | | |
|---|---|---|---|
| Person Responsible: | Strategic Lead Finance | Target Date: | 1 April 2017 |
| Management Response: | The risk review within the capital appraisal processes will be strengthened and clarified so officers completing the template record an initial risk assessment of the project itself in addition to the exiting assessment of the risks of not completing the project.<br><br>SMT have also agreed to introduce a corporate framework to enhance professional officers own competences in project management and to ensure a consistent approach across the Council. This will require for predetermined categories of project that a risk register will be maintained and regularly monitored. | | |

Scoring Matrix

We found overall that the appraisal and prioritisation scores were being completed on the majority of the capital bid forms. Scores tended to be quite low, although the process does enable for capital bids to be compared against each other.

The Council should consider whether the scoring mechanism should take into account any early/likely risks associated in the delivery of the planned project(s). This was being considered by other local authorities when scoring capital bids.

There is a risk that budgets are being provided to capital spends where there could be delays in completing the project.

| 1.1b | Proposed Outcome: | Priority 3 |
|---|---|---|
| I recommend the Strategic Lead-Finance amends the scoring matrix to include a score to evaluate associated risks in the delivery of projects. | | |

| Action Plan: | | | |
|---|---|---|---|
| Person Responsible: | Strategic Lead Finance | Target Date: | 1 April 2017 |
| Management Response: | Agree | | |

Evidence to support Capital Appraisals

During this review we found that the Capital Project Appraisals that had been submitted to the Capital Strategy and Allocation Group had not been supported with any additional documentation to support their individual application. This would include any initial research to review the viability of the proposed project(s). Documentation to support each appraisal was not referenced on the appraisal form either.

In discussions with the Strategic Lead-Finance, it seems likely that the viability of these projects would be reviewed prior to the submission of the capital appraisal form through other committees and forums.

In our sample of capital projects, it was evident in speaking to staff that the Council had not anticipated the level of funding required for the Seaton Workshop project at an early stage, which may suggest that insufficient research was done to review the viability of the project prior to approval of the project/budget.

The Finance Team should consider whether evidence to support capital appraisals should be clearly documented. They should also consider implementing clear guidance on the level of initial assessment which should be required to be undertaken for capital projects if this is not clearly stated on any current policy/guidance. Any approach should be based on the level of risk and funding of the project as it was evident that some capital projects are lower in risk and value than others.

There is a risk that proposed projects are not being subject to the right level of assessment which could increase the likelihood of funding the wrong projects, and could also lead to delays and overspend to individual projects.

| 1.1c | Proposed Outcome: | Priority 3 |
|---|---|---|

I recommend the Strategic Lead-Finance ensures there is clear policy/guidance which confirm the type/level of evidence required to support capital appraisals. Any supporting documentation should also be clearly referenced in the Capital Appraisal forms to help/inform members on review of capital bids.

| Action Plan: | | | |
|---|---|---|---|
| Person Responsible: | Strategic Lead Finance | Target Date: | 1 April 2017 |
| Management Response: | SMT have agreed to introduce a corporate framework to enhance professional officers own competences in project management and to ensure a consistent approach across the Council. This will include details on the level of initial assessment required to submit a project for consideration in the capital programme. Guidance will be given for complex projects where full assessments cannot be undertaken at the time of submitting a bid as a budget is required to employee specialists or carry out site studies etc. It will be ensured that Members will be made aware where they are approving an outline scheme budget where projects will require further exploration and where a further report will be required for Members approval of the final budget. These will be exceptional cases and for more complex projects. | | |

| 2. | **Risk: Where actual spend is not reflective of the anticipated cost approved in the capital programme, the council's ability to accurately plan ahead may be compromised.** | **Low** |
|---|---|---|

| 2.1 | Finding and Impact |
|---|---|

Satisfactory - no significant issues identified.

Overall we confirmed that there are recognised processes for uploading the budget onto the accounting system and manual amendments to budgets are completed via journal entry similar to Revenue Accounting system.

We were able to reconcile a sample of project appraisals approved by members to the accounts. The budget upload process operated is similar to the way Revenue Budgets are uploaded onto the

| |
|---|
| accounting system.<br><br>All of our sample projects had assigned Project Officers (accountancy team maintain a central listing of Budgets and Assigned budget holders on an excel spreadsheet). |

| | | |
|---|---|---|
| **3.** | **Risk: Where actual progress is not reflective of anticipate progress approved at the outset in the capital programme, the Council's ability to forward plan its service delivery may be compromised, and additional cost incurred.** | **Medium** |

| 3.1 | Finding and Impact |
|---|---|

Monitoring of Capital Projects/Milestones

The Council has adopted a formal approach to manage and monitor capital budgets throughout the financial year. This would include processes for budget setting and budget monitoring similar to that of the Revenue Budget.

However, we were unable to find sufficient evidence to confirm that all milestones to capital projects were being identified, recorded and monitored using a consistent method. It was evident in speaking to a number of project officers that some projects had adopted a project methodology, though there was not an agreed set approach or methodology used by EDDC to enable this and we found other projects had not adopted a project methodology.

The Council currently use the current capital appraisal form template which includes a section on milestones. However we would consider that that the milestones recorded on these forms was limited (Start/Finish dates), and not likely to be sufficient to enable effective monitoring throughout the life of a capital project.

In our sample testing we found the following issues; these include one example of a project which had recorded milestones for only a part of the project (Seaton Workshop), one example where milestones had been recorded but not up to date (Mamhead slipway), one example where milestones had not been recorded or reported (Housing repairs), and one example where milestones had not changed from original business case despite delays in completing the project (Mamhead Slipway). The Finance Manager confirmed that it is likely that the Seaton Workshop project is being reviewed in the near future and is likely to be removed from the capital programme.

The Council should consider a corporate approach to identifying, recording and monitoring of milestones to projects. The authorities included within our benchmarking suggest usage of Prince 2 as a formal project methodology tool.

There is a risk that there could be unnecessarily delay or overspends to projects if reasons if milestones are not being established and/or managed effectively.

| 3.1a | Proposed Outcome: | **Priority 3** |
|---|---|---|

I recommend the Strategic Lead-Finance ensures that formal processes are established so that milestones of capital projects are identified, recorded and reported.

| Action Plan: | | | |
|---|---|---|---|
| Person Responsible: | Strategic Lead Finance | Target Date: | 1 April 2017 |

| | |
|---|---|
| Management Response: | SMT have agreed to introduce a corporate framework to enhance professional officers own competences in project management and to ensure a consistent approach across the Council. This will include a reporting standard for key deliverables of the project. |

<u>Benefits realisation</u>

In discussions with the Strategic Lead-Finance it was evident that there is no corporate process for assessing the benefits of a capital project once it has been completed. The current capital process includes a post completion form. However, it was evident that this form is not being been widely used.

There is a risk that the Council do not have effective processes for reviewing the outcomes on completed capital projects, which may lead to key objectives to projects not being achieved.

The authorities included within our benchmarking of two other local authorities suggest a post completion review of projects was being formally undertaken at these Councils.

| 3.1b | Proposed Outcome: | **Priority 3** |
|---|---|---|

I recommend the Strategic Lead-Finance ensures that the success of completed capital projects is reviewed, through the use of an established benefits realisation process.

| Action Plan: | | | |
|---|---|---|---|
| Person Responsible: | Strategic Lead Finance | Target Date: | 1 April 2017 |
| Management Response: | SMT have agreed to introduce a corporate framework to enhance professional officers own competences in project management and to ensure a consistent approach across the Council. This will include identifying categories of project which will require completed benefit realisation statements and the process for reporting these. | | |

# Audit Framework and Definitions

| Assurance Definitions | |
|---|---|
| None | 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. |
| Partial | 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. |
| Reasonable | 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. |
| Substantial | 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. |

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

| Categorisation of Recommendations | |
|---|---|
| When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance. | |
| Priority 5 | Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management. |
| Priority 4 | Important findings that need to be resolved by management. |
| Priority 3 | The accuracy of records is at risk and requires attention. |
| *Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.* | |

# Report Summary

## Report Authors

This report was produced and issued by:

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Moya Moore, Assistant Director
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## Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Simon Davey, Strategic Lead-Finance
Laurelie Gifford, Financial Services Manager
Alison Hayward, Senior Manager-Regeneration and Economic Development
John Golding, Strategic Lead – Housing, Health and Environment
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## Distribution List

This report has been distributed to the following individuals:

Simon Davey, Strategic Lead-Finance
Laurelie Gifford, Financial Services Manager

## Working in Partnership with

Devon & Cornwall Police & OPCC

Dorset County Council

Dorset Police & OPCC

East Devon District Council

Forest of Dean District Council

Herefordshire Council

Mendip District Council

North Dorset District Council

Sedgemoor District Council

Somerset County Council

South Somerset District Council

Taunton Deane Borough Council

West Dorset District Council

West Somerset Council

Weymouth and Portland Borough Council

Wiltshire Council

Wiltshire Police & OPCC

# Statement of Responsibility

## Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

## SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

# External Audit Plan 2016/2017

**East Devon District Council**

**February 2017**


KPMG
The Local Government Landscape
CYBER SECURITY
DCLG
DFE
NHS
DWP
FINANCIAL
PRESSURES
LEPS
INWARD INVESTMENT
ENTERPRISE ZONE
£10.5M
£8.5M
ECONOMIC GROWTH
SCIENCE PARK
THE GENERAL PUBLIC
HEALTH CENTRES
£10.5M
£55M
SCHOOLS
£5.5M
£4M
RECYCLING CENTRE
DEMOGRAPHIC CHANGE
CITIZENS TAKING RESPONSIBILITY
DEVOLUTION
MANAGE
FOR SALE
PLANNING REPORT
CARE MODEL REFORM
WHOLE PERSON CARE
Cloud services
ISSUE
OUTSOURCE
Off shore services
ISSUE
COMPLEX DEPENDENCY
SUPPORTING INDIVIDUALS
SERVICES working together
OLD SYSTEM
NEW SYSTEM
P45
NHS
DWP
DCLG
APPOINTMENT
FINANCE MODELS
OPERATIONAL EFFECTIVENESS
HOUSING
FUNDING
Council tax
Business rate
Fees & Charges
MY FUTURE
ISSUE
TRAINING
BIG DATA
S114
OVERSIGHT
MAYORAL ELECTION
Legislation
We are a Living Wage Employer
PUBLIC
PRIVATE
PARTNERSHIPS
WORKING TOGETHER
OPERATING MODELS
Ofsted
REPORT
Care Quality Commission

# Headlines

## Financial Statement Audit

*The main change to the Code of Practice on Local Authority Accounting in 2016/17 relates to the format of the Comprehensive Income & Expenditure Statement (see page 6) and introduction of a new primary statement (the Expenditure and Funding Analysis) which will result in a significant change to the presentation of the accounts. There are no significant changes to the underlying accounting framework that the Authority needs to comply with.*

### *Materiality*

Materiality for planning purposes has been based on last year's expenditure and set at **£1.8 million.**

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£90k.**

### *Significant risks*

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation;
- Valuation of Property plant and equipment - As valuations occur on a rolling basis with only 20% of assets being valued each year. The time delay may result in material differences between the carrying value and fair value; and
- Management override of controls – This risk is present in all entities as management is in a unique position to manipulate accounting records. The audit approach will test the appropriateness of journal entries recorded in the general ledger, review the appropriateness of accounting estimates, and assess the reasonableness of provisions.

**See pages 3 to 8 for more details.**

## Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Relocation of the Council Head Office;
- Medium Term Financial Plans; and
- Impact of the performance of Strata Service Solutions on the Authority.

Our risk assessment is ongoing and we will report VFM significant risks during our audit

**See pages 9 to 13 for more details.**

## Logistics

Our team is:

- Darren Gilbert – Director
- Rob Andrews – Manager
- Chris Parsons – Assistant manager
- Chantelle Chimhini – Assistant Manager

More details are on **page 16.**

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 15.**

Our fee for the audit is £58,821 see **page 14.**

# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

— *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

| | | | |
|---|---|---|---|
| Financial Statements Audit Planning | Control Evaluation | Substantive Procedures | Completion |

## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 9 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.

| | | | | |
|---|---|---|---|---|
| Risk Assessment | Identification of significant VFM risks | VFM audit work | Conclude | Reporting |

# Financial statements audit planning

## Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

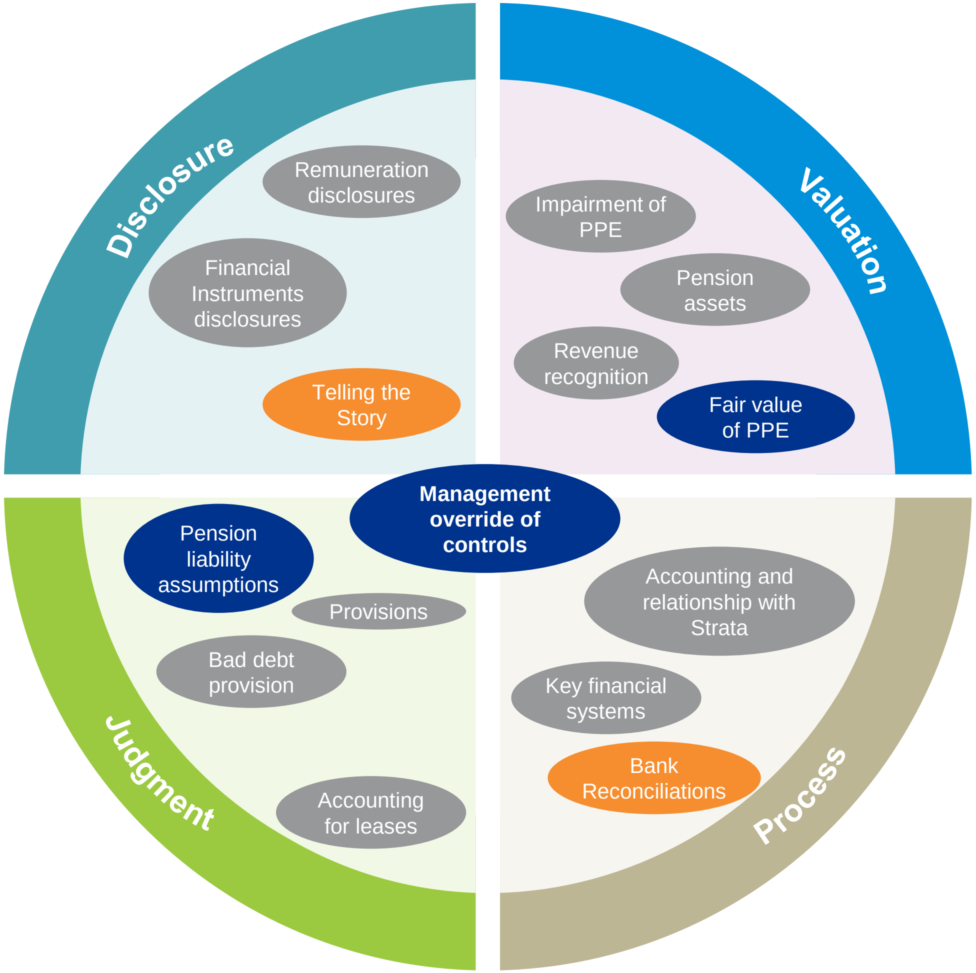
## Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.




Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

# Financial statements audit planning (cont.)

**Significant Audit Risks**

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

**Risk:** Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for East Devon District Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Devon County Council, who administer the Pension Fund.

**Approach:** As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Grant Thornton, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.

**Risk:** Valuation of Property, Plant & Equipment (PPE)

Authorities are responsible for ensuring the valuation of their PPE is materially correct, and for conducting impairment reviews that confirm the condition of these assets. Local authorities typically achieve this by performing an annual review for impairment, a periodic desk top valuation (every three years) and a full valuation in not more than five yearly intervals. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

The net book value of the Authority's PPE as at 31 March 2016 was £286 million of this balance £262 million relates to land and buildings. These balances were estimated by your internal valuer. The last full valuation of the Authority's dwelling took place on 31 March 2015. All other assets included within other land and buildings are revalued on a rolling basis each year.

As revaluations occur up to every five years, the time delay could result in a material difference between the carrying value and fair value.

**Approach:** We will review the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.
We will obtain the instructions provided to the valuer. We will consider the source of the information and undertake appropriate testing to ensure both its completeness and accuracy.

We will confirm the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements.

We will undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We will test the associated assumptions and determine if there have been any significant variances in fair value between valuations.

We will also consider the recognition of any assets under construction recognised in the year.

# Financial statements audit planning (cont.)

**Other areas of audit focus**

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Telling the Story - Disclosure associated with retrospective restatement of CIES, EFA and MiRS

**Risk:** CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards.
Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

**Approach:** We will liaise with the Authority's finance team regarding the new requirements and agree the new disclosures, including the restatement of the prior year comparators.

### Bank Reconciliations

**Risk:** It was found in the prior year that the authority did not perform a 'traditional' bank reconciliation, the authority was preparing a reconciliation of cash using transactions that have only gone through the bank statements. Over the years this created a build up of cash transactions (cash in transit) that were not able to be matched to the relevant transactions and then not allocated to the correct balance sheet or income and expenditure accounts within the general ledger. The cash in transit balance at year end was £517k, prior to an amount of £100k which was written off to expenditure at the year end. Management confirmed that the year end write-off did not relate to any new cash transactions and that the balance related to historical balances going back to 2009. It was confirmed by KPMG that the remaining £417k of Cash in Transit related to items received post year end.

As a result of the finding, the Council agreed to implement our recommendation raised in our 2015/16 ISA 260 report, to perform a bank reconciliation from the general ledger cash accounts to the bank statement, with full review of cash in transit balance.

**Approach:** We will follow up the recommendation, reviewing the current bank reconciliation procedure from throughout the period for effectiveness and ensure that the control operates appropriately. We will ensure that reconciling items are investigated appropriately by management. We will also consider any system changes to facilitate the control.

# Financial statements audit planning (cont.)

**Other areas of audit focus**

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

**S106 Contributions Objection**

**Risk:** In August 2016, an objection was received by KPMG where an elector raised concerns about the Council's arrangements for recording, monitoring and seeking payment of developer contributions due to the Council through agreements under s106 of the Town & Country Planning Act 1990, and the accounting for the sums due.

These concerns formed the basis of the work performed by KPMG to determine if the Council has appropriate process and controls in place for its s106 agreements to secure economy, efficiency and effectiveness in the use of resources, and to ensure complete and accurate accounting for the sums due.

We gained a detailed understanding and evaluated the processes and controls in place at East Deon District Council to monitor s106 agreements. We then performed testing to quantify the misstatement as a result of the control weaknesses found. From testing we identified amounts owed to the Council which were not recorded appropriately which were significant, but not material,

A specific report was issued by KPMG to the Audit Committee with recommendations made to improve the control process within the s106 system and we committed to following up the progress on these recommendations this year.

**Approach:** We will consider the action taken to strengthen controls to assure the Completeness, Existence and Accuracy of the s106 income accounted for and we will test this on a sample basis.

# Financial statements audit planning (cont.)

**Materiality**

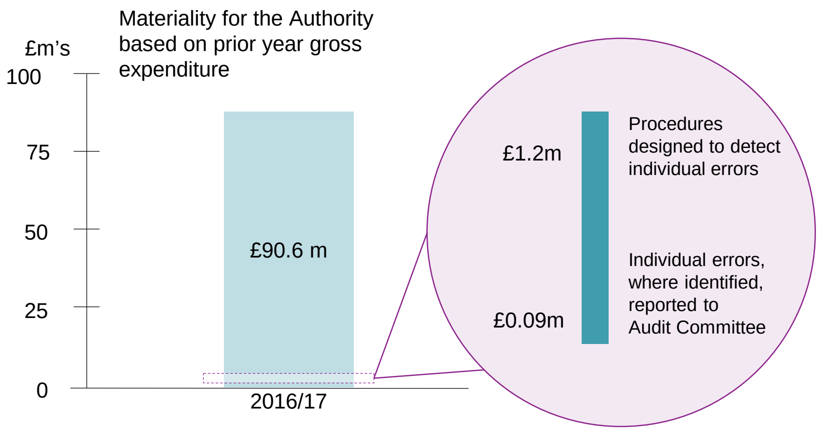
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.8 million for the Authority's accounts, which equates to approximately 2% percent of gross expenditure. This will be revised if necessary on receipt of the draft financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision, which has been set at £1.2 million.

**Reporting to the Audit Committee**

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.




Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £95k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

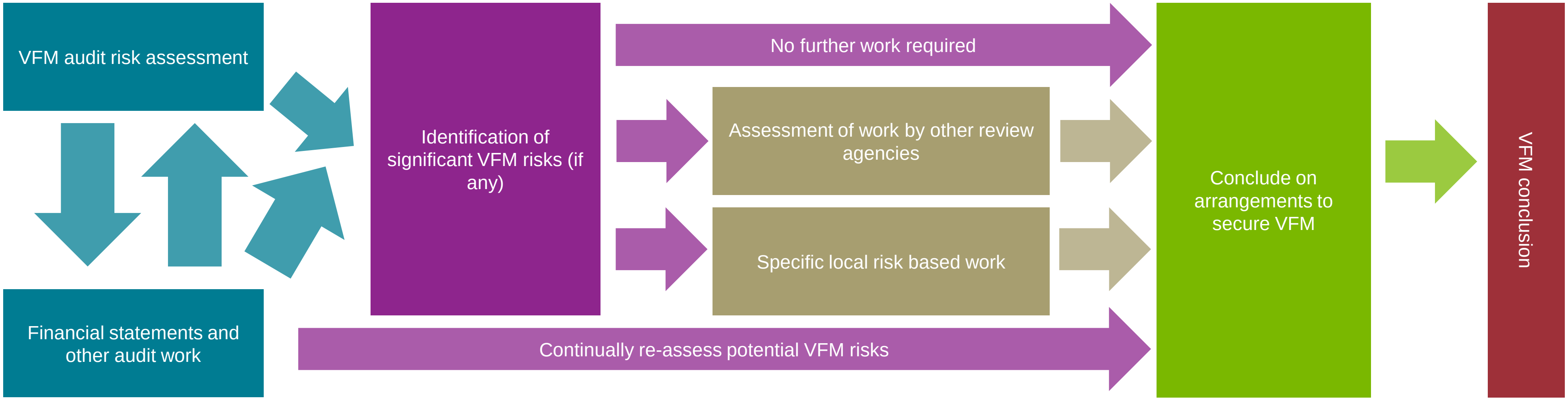
# Value for money arrangements work

**Background to approach to VFM work**

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



# Value for money arrangements work (cont.)

**Overall criterion**

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

## Informed decision making

**Proper arrangements:**

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

- Reliable and timely financial reporting that supports the delivery of strategic priorities.

- Managing risks effectively and maintaining a sound system of internal control.

## Sustainable resource deployment

**Proper arrangements:**

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

- Managing and utilising assets to support the delivery of strategic priorities.

- Planning, organising and developing the workforce effectively to deliver strategic priorities.

## Working with partners and third parties

**Proper arrangements:**

- Working with third parties effectively to deliver strategic priorities.

- Commissioning services effectively to support the delivery of strategic priorities.

- Procuring supplies and services effectively to support the delivery of strategic priorities.

# Value for money arrangements work (cont.)

| VFM audit stage | Audit approach |
|---|---|
| **VFM audit risk assessment** | We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*<br>In doing so we consider:<br>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;<br>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;<br>■ Evidence gained from previous audit work, including the response to that work; and<br>■ The work of other inspectorates and review agencies. |
| **Linkages with financial statements and other audit work** | There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.<br>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit. |
| **Identification of significant risks** | The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*<br>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:<br>■ Considering the results of work by the Authority, inspectorates and other review agencies; and<br>■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. |

# Value for money arrangements work (cont.)

| VFM audit stage | Audit approach |
|---|---|
| Assessment of work by other review agencies<br><br>and<br><br>**Delivery of local risk based work** | Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.<br><br>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:<br>▪ Meeting with senior managers across the Authority;<br>▪ Review of minutes and internal reports;<br>▪ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector. |
| **Concluding on VFM arrangements** | At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.<br><br>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions. |
| **Reporting** | On the following page, we report the results of our initial risk assessment.<br><br>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.<br><br>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report. |

## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Relocation of the Council Head Office

- Risk

  The Council is relocating its head office from Knowle, Sidmouth to Honiton. The sale has been high profile locally.

- Approach

  We will gain a detailed understanding of the current status of the sale of the property and consider the governance and decision making processes followed by the Council. The relocation will involve the disposal of a major asset which will generate significant capital receipts.

### Impact of the performance of Strata Service Solutions on the Authority

- Risk

  The ongoing savings have been lower than initially expected, and there have been delays on the services provided. This is relevant to the sustainable resource deployment and working with partners and third parties sub-criteria of the VFM conclusion.

- Approach

  We will review the latest progress on the Strata project, including cost monitoring plans, implementation of services and savings achieved.

### Medium Term Financial Plan

- Risk

  It was noted through our prior year work that the Council will have its central government grant funding reduced in 2016/17 by circa 20%. In response to this, the Council has created a "Transformation Strategy" to combat this reduction in Government support, included within this is the Strata initiative. Alongside this, the Government has provided a "New Homes Bonus" whereby for every new property built, the Council receives additional income from the Government over 6 years. The most significant property development at the Council is Cranbrook Housing which, through this scheme, will provide £4 million over the 6 years.

  In addition to the above, the Council plans to receive additional Business Rates income from a number of developments, such as the new Sky Parks and Science Park.

- Approach

  As part of our additional risk based work, we will review the controls the Authority has in place to identify the need for financial savings and to deliver these. This will include considering whether the Medium Term Financial Plan and Transformation Strategy has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

# Other matters

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

### Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;

— The right to ask the auditor questions about the accounts; and

— The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

We have discussed our approach to follow up the elector challenge from the 2015/16 audit on page 7.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

### Our audit team

Our audit team will be led by Darren Gilbert, who lead the team in the prior year. Appendix 2 provides more details on specific roles and contact details of the team.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

### Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

### Audit fee

*Our Audit Fee Letter 2016/2017* presented to you in November 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £58,821. This is the same scale fee as 2015/16, but lower than the final fee to be charged for that year of £70,729 (which is still subject to determination by PSAA).

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosures associated with retrospective restatement of the CIES, EFA and MIRS. Our audit fee may also change due to additional work following up progress made on the recommendations relating the s106 objection.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

# Appendix 1: Key elements of our financial statements audit approach

**Communication**

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

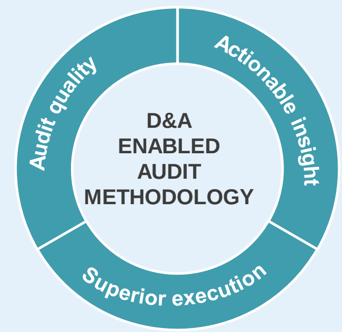
- Audit strategy and plan
- ISA 260 (UK&I) Report
- Annual Audit Letter

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

**Audit workflow**

- Initial planning meetings and risk assessment
- Interim audit
- Year end audit of financial statements and annual report
- Sign audit opinion

| Planning | Control evaluation | Substantive testing | Completion |
|---|---|---|---|
| ■ Perform risk assessment procedures and identify risks<br>■ Determine audit strategy<br>■ Determine planned audit approach | ■ Understand accounting and reporting activities<br>■ Evaluate design and implementation of selected controls<br>■ Test operating effectiveness of selected controls<br>■ Assess control risk and risk of the accounts being misstated | ■ Plan substantive procedures<br>■ Perform substantive procedures<br>■ Consider if audit evidence is sufficient and appropriate | ■ Perform completion procedures<br>■ Perform overall evaluation<br>■ Form an audit opinion<br>■ Audit Committee reporting |




**Driving more value from the audit through data and analytics**

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable , payroll and journals**.** We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

# Appendix 2: Audit team

**Your audit team has been drawn from our specialist public sector assurance department. Our audit Director and In-Charge were all part of the East Devon District Council audit last year.**

| | |
|---|---|
| **Name** | Darren Gilbert |
| **Position** | Director |
| | ‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.<br>I will be the main point of contact for the Audit Committee and Chief Executive.’ |

Darren Gilbert
Director
T: 029 2046 8205
E: darren.gilbert@kpmg.co.uk

| | |
|---|---|
| **Name** | Rob Andrews |
| **Position** | Senior Manager/Manager |
| | ‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Darren to ensure we add value. I will liaise with the Simon Davey and other Executive Directors.’ |

Rob Andrews
Assistant Manager
T: 0117 905 4773
E: rob.andrews@kpmg.co.uk

| | |
|---|---|
| **Name** | Chantelle Chimhini |
| **Position** | Assistant Manager |
| | ‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants during the interim audit.’ |

Chantelle Chimhini
Assistant Manager
T: 0117 905 4494
E: chantelle.chimhini@kpmg.co.uk

| | |
|---|---|
| **Name** | Chris Parsons |
| **Position** | Assistant Manager |
| | ‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants during the final audit.’ |

Chris Parsons
Assistant Manager
T: 0117 905 4073
E: chris.parsons@kpmg.co.uk

# Appendix 3: Independence and objectivity requirements

### Independence and objectivity

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 Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require 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 National Audit Office'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.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- 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 08 February 2017 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.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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 Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to 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.

# Technical update

East Devon District Council

February 2017

February 2017

# Contents

**The contacts at KPMG in connection with this report are:**

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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

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# External audit progress report

# 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.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

| Area of responsibility | Commentary |
|---|---|
| **Financial statements** | We have completed our planning work for the 16/17 audit, considering key issues at the Council and any relevant requirements as per the code. These discussions have formed our audit plan, which has been presented at this committee.<br>We are due commence our interim audit visit on the week commencing 20 Feburary, to test the control environment at the Council. The findings will be reported at the next committee. |
| **Value for Money** | Our approach for the 16/17 conclusion has considered as part of our audit planning. See audit plan for key risks raised. |
| **Certification of claims and returns** | The grant certification was completed before the November deadline. We certified the Housing Benefits claim unqualified. Planning will commence for the 16/17 certification from April 2017. |
| **Other work** | There is no other work ongoing currently. We have noted in our audit plan that we have committed to follow up procedures for the s106 objector review. |

# KPMG resources

# 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

# Consultation on 2017/18 work programme and scales of fees

**Level of impact: (For Information)**

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2017/18 work programme and scales of fees.

The consultation sets out the work that auditors will undertake at principal local government and police bodies for 2017/18, with the associated scales of fees. The consultation document, and the lists of individual scale fees, are available on the 2017/18 work programme and scales of fees consultation page of the PSAA website: www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees

There are no planned changes to the overall work programme for 2017/18. It is therefore proposed that scale fees are set at the same level as the scale fees applicable for 2016/17.

The work that auditors will carry out on the 2017/18 accounts will be completed based on the requirements set out in the *Local Audit and Accountability Act 2014* and under the *Code of Audit Practice*.

The consultation closed on Thursday 12 January 2017. PSAA will publish the final work programme and scales of fees for 2017/18 in March 2017.

This is the final year for which PSAA will set fees under the current transitional arrangements. The Secretary of State for Communities and Local Government has specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the *Local Audit and Accountability Act 2014* and the requirements of the *Local Audit (Appointing Person) Regulations 2015*.

This means that PSAA will make auditor appointments under new audit contracts to bodies that choose to opt into the national scheme the company is developing, for audits of the accounts from 2018/19.

Further information is available on the appointing person page of the PSAA website: www.psaa.co.uk/supporting-the-transition/appointing-person

# Overview of Local Government

**Level of impact: ◯ (For Information)**

The NAO has recently published an Overview of Local Government

The overview looks at the local government landscape and summarises both matters of likely interest to Parliament and the National Audit Office's (NAO's) work with local authorities. These include Local Government Responsibilities, Funding and Service Spending and the findings from the NAOs work on Local Government.

The overview is available from the NAO website at www.nao.org.uk/report/overview-local-government

# Appendix

## Appendix 1

# 2016/17 audit deliverables

| Deliverable | Purpose | Timing | Status |
|---|---|---|---|
| **Planning** | | | |
| Fee letter | Communicate indicative fee for the audit year | April 2016 | Complete |
| External audit plan | Outline our audit strategy and planned approach<br>Identify areas of audit focus and planned procedures | February 2017 | Complete |
| **Interim** | | | |
| Interim report | Details and resolution of control and process issues.<br>Identify improvements required prior to the issue of the draft financial statements and the year-end audit.<br>Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources. | April 2017 | TBC |
| **Substantive procedures** | | | |
| Report to those charged with governance (ISA 260 report) | Details the resolution of key audit issues.<br>Communication of adjusted and unadjusted audit differences.<br>Performance improvement recommendations identified during our audit.<br>Commentary on the Council's value for money arrangements. | September 2017 | TBC |

# 2016/17 audit deliverables (cont.)

| Deliverable | Purpose | Timing | Status |
|---|---|---|---|
| **Completion** | | | |
| Auditor’s report | Providing an opinion on your accounts (including the Annual Governance Statement).<br>Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). | September 2017 | TBC |
| WGA | Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office. | September 2017 | TBC |
| Annual audit letter | Summarise the outcomes and the key issues arising from our audit work for the year. | November 2017 | 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 2017 | TBC |

| | | |
|---|---|---|
| **Report to:** | **Audit and Governance Committee** | |
| **Date of Meeting:** | 2 March 2017 | |
| **Public Document:** | Yes | |
| **Exemption:** | None | |

| | |
|---|---|
| **Agenda item:** | **12** |
| **Subject:** | **Review of accounting policies and accelerated timetable** |
| **Purpose of report:** | As it is 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 are presented for Members consideration. Also to inform members of the accelerated timetable for completion of the annual statement of accounts. |
| **Recommendation:** | **To approve the Accounting policies and note the accelerated timetable for the 2016/17 Statement of Accounts.** |
| **Reason for recommendation:** | Members of the Audit and Governance Committee have responsibility for the approval of the Annual Statement of Accounts. |
| **Officer:** | Laurelie Gifford Financial Services Manager<br>lgifford@eastdevon.gov.uk |
| **Financial implications:** | There is the potential for additional staff costs to meet the accelerated timetable. |
| **Legal implications:** | |
| **Equalities impact:** | Low Impact |
| **Risk:** | Low Risk |
| **Links to background information:** | • . |
| **Link to Council Plan:** | . |

## 1. Review of Accounting Policies

1.1 On 3 March 2016 the Audit and Governance Committee formally adopted the existing Accounting Policies. Following a review of the changes to the 2016/17 Code of Practice on Local Authority Accounting, and a review of the appropriateness of existing policies, one change and one additional policy has been added.

1.2 For the 2016/17 accounts onwards, Cost of Services in the top half of the Comprehensive Income and Expenditure Statement is now analysed in the same segments as our internal reporting i.e. in Portfolios. The comparative 2015/16 figures have been restated, now being analysed over the Portfolio headings. As the portfolios contain costs of overheads and support services via internal recharges, the policy has been amended per the Code as required:

***1.15 Overheads and Support Services***

*The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.*

1.3 The new Community Infrastructure Levy, for which EDDC is in effect the banker, is a new material source of income and therefore needs a policy to explain treatment of this income and subsequent spend. As this came into force in 2016/17, no restatement of 2015/16 figures is required.
The new policy is as follows:

***1.21 Community Infrastructure Levy (CIL)***

*The Community Infrastructure Levy (CIL) which was introduced by the planning Act 2008 and the Community Infrastructure Levy Regulations 2010(SI 2010/948) as amended, is a discretionary charge which the Council charges on new development in the area from 1 September 2016.*
*CIL charges are based on a formula which relates the charge to the size of the development. The proceeds of the levy are spent on infrastructure to support the development of the district.*

*CIL is recognised on an accruals basis at the commencement date of the development as part of Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement.*

*CIL income applied to meet the administrative expenses of the scheme is recognised immediately in the Comprehensive Income and Expenditure Statement. Administrative expenses are charged to service revenue accounts in accordance with the requirements of the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP).*

1.4 Other minor changes in presentation and fuller explanations of some policies now bring the Accounting Policies in line with the Code of Practice 2016/17.

See Appendix A for full accounting policies.

## 2. Accelerated timetable update

2.1 From 2017/18 there is a statutory requirement to have the annual statement of accounts completed and on our website by 31st May as opposed to the current date of 30th June.

These changes provide challenges for both the preparers and the auditors of the financial statements. The impact of the changes to the deadlines is shown in the table below:

| | **2016/17 Statutory Deadline** | **EDDC Trial 2016/17 Deadline** | **2017/18 Statutory Deadline** | **Statutory Reduction in time** |
|---|---|---|---|---|
| Preparation of draft financial statements, signed by S.151 officer | 30 June | 31 May | 31 May | 30 days |
| Approval and publication of financial statements with audit opinion | 30 September | 30 September | 31 July | 61 days |
| Available audit time | 92 days | 122 days | 61 days | 31 days |

2.2 To achieve the shortened deadline, the statement of accounts for 2016/17 will be completed to this earlier deadline as a trial run. This means officers will need to condense the closedown period where they produce both the Outturn book for internal management purposes, and the Statement of Accounts for external reporting and auditing, from 3 months to 2 months.

This clearly has implications on workloads, not only for the Accountancy section, but services that provide data necessary for accurate and timely close down.

In meeting this revised deadline for account preparation, it is anticipated that more items will be estimated, resulting in possible variations at the actual audit date. These may add to items of difference in in the final audit report. (ISA260).

As an example, the annual pension costs are calculated using month 11 contribution amounts, whereas when the audit is concluded, full year actual figures will be available. This may lead to a variation noted in the audit conclusion. Unless material, these variances would not be adjusted in the accounts.

From 2017/18, the Audit and Governance committee will need to meet and approve the accounts by 31 July.

**Appendix A**

## Accounting Policies for Statement of Accounts 2016/17

### Note 1. Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the authority's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

### 1.4 Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 1.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible property, plant and equipment attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Payment (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### 1.6 Council Tax and Non-domestic Rates

Billing authorities act as agents collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## Accounting for Council Tax and NDR

The council tax and NDR included in the Comprehensive Income & Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### 1.7 Employee Benefits

**Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the
Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination benefits**

Termination benefits are the amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to rhe relevant accounting standards. In the Movement of Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits from the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

**Post-Employment Benefits**

Employees of the authority are members of the Local Government Pensions Scheme, administered by Devon County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

**The Local Government Pension Scheme**

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- The liabilities of the Devon County pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using the annualised yield at the 18 year point on the Merill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities.

- The assets of Devon County pension fund attributable to the authority are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities - current bid price
  - property - market value.

The change in the net pensions liability is analysed into the following components:

- **Service cost comprising:**
  - current service cost - the increase in liabilities as a result of years of service earned this year; allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

  - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.

  - net interest on the net defined benefit liability i.e. net interest expense for the authority - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- **Remeasurement comprising:**
  - the return on plan assets – excluding amounts included in the pensions interest cost and expected return on pensions assets – charged to the Pensions Reserve as Other comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- **Contributions paid to the Devon Pension Fund:**
  - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

**Discretionary Benefits**

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 1.8 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 1.9 Financial Instruments

**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Financial guarantees are initially recorded at fair value and subsequently carried at this fair value less accumulated amortisation.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

**Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that would be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance would be the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. The authority has applied De Minimis principles to its soft loans resulting in no entries being necessary. (See Note 27.3)

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Available-for-Sale Assets (Financial Instruments)**

Available-for-sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### 1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 1.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## 1.12 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Exeter City authority, East Devon District authority and Teignbridge District authority each share control of Strata Service Solutions Ltd, which was incorporated on 15 May 2014 under the Companies Act 2006 for the provision of a shared Information Communications Technology service. The single entity financial statements for each authority reflect their respective shares of Strata Service Solutions Limited. However, the accompanying notes to the authority's financial statements only include information relating to Strata Service Solutions Limited where this would make a material difference to the usefulness of those notes.

### 1.13 Long term contracts

Long term contracts are accounted for on the basis of charging the Surplus and Deficit on the Provision of Services with the value of the works and services received under the contract in the financial year.

### 1.14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### 1.14.1 The authority as Lessee

**Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### 1.14.2 The authority as Lessor

**Finance Leases**

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**Operating Leases**

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### 1.15 Overheads and Support services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

### 1.16 Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**PPE Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**PPE Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- a deminimus level of £20,000 has been agreed for Capital. Expenditure. Any costs below are charged to revenue.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- Where an item of Property, Plant and Equipment has major components whose costs is significant in relation to the total cost, the components are depreciated separately.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**PPE Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**PPE Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives.
An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases and charged in the year of disposal, but not acquisition:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the vehicle, plant, furniture and equipment as advised by a suitably qualified officer
- infrastructure – straight-line allocation as estimated by the valuer .

Where an item of Property, Plant and Equipment valued at greater than £1,000,000 has major components whose cost is more than 20% in relation to the total cost of the item, the components are depreciated separately.
Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.
The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## 1.17 Provisions, Contingent Liabilities and Contingent Assets

### Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 1.18 Reserves

The authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

### 1.19 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### 1.20 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### 1.21 Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and some of its financial instruments such as equity shareholdings as fair value at each reporting date. Fair value is the price that would be received to sell am assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the assets or transfer the liability takes place either:

a) in the principle market for the assets or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorized within the fair value hierarchy as follows:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

### 1.21 Community Infrastructure Levy (CIL)

The Community Infrastructure Levy (CIL) which was introduced by the planning Act 2008 and the Community Infrastructure Levy Regulations 2010(SI 2010/948) as amended, is a discretionary charge which the Council charges on new development in the area from 1 September 2016.

CIL charges are based on a formula which relates the charge to the size of the development. The proceeds of the levy are spent on infrastructure to support the development of the district.

CIL is recognised on an accruals basis at the commencement date of the development as part of Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement.

CIL income applied to meet the administrative expenses of the scheme is recognised immediately in the Comprehensive Income and Expenditure Statement. Administrative expenses are charged to service revenue accounts in accordance with the requirements of the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP).

| | |
|---|---|
| **Report to:** | **Audit and Governance Committee** |
| **Date of Meeting:** | 2 March 2017 |
| **Public Document:** | Yes |
| **Exemption:** | None |
| **Review date for release** | None |
| **Agenda item:** | **13** |
| **Subject:** | **Proceeds of Crime Act (Anti-Money Laundering) Policy** |
| **Purpose of report:** | Attached is an updated Proceeds of Crime Act (Anti-Money Laundering) Policy for approval by the Audit & Governance committee |
| **Recommendation:** | **That members approve the revised Proceeds of Crime Act (Anti-Money Laundering) Policy.** |
| **Reason for recommendation:** | The Policy required reviewing and updating. |
| **Officer:** | Simon Davey- Strategic Lead Finance sdavey@eastdevon.gov.uk |
| **Financial implications:** | No implications |
| **Legal implications:** | It is important that the Council has an up to date policy to ensure our legal obligations in respect of money laundering (as detailed in the policy) are clearly identified and appropriate controls put in place. |
| **Equalities impact:** | Low Impact |
| **Risk:** | Low Risk |
| **Links to background information:** | • |
| **Link to Council Plan:** | Continuously improving to be an outstanding Council |

## Report in full

Policy attached for Member consideration.

## East Devon District Council

# Proceeds of Crime Act (Anti-Money Laundering)  Policy

| **Issue details** | |
|---|---|
| **Title:** | **Proceeds of Crime Act (Anti-Money Laundering) Policy** |
| **Version number** | **Version 1.0** |
| **Officer responsible:** | **Strategic Lead Finance** |
| **Authorisation by:** | **Audit & Governance Committee** |
| **Authorisation date:** | **March 2016** |
| **Policy review date:** | **March 2020** |

### 1. Why has the Council introduced this policy?

1.1 Money laundering can be defined as “a process that makes money with an illegal origin appear legal so that it may be used”. Legislation concerning money laundering (the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007) definition of money laundering covers a range of activities caught by the statutory framework. As a result this impacts on areas of local authority business and requires local authorities to establish internal procedures to prevent the use of their services for money laundering.

1.2 The legislative requirements concerning anti-money laundering procedures are extensive and complex. This policy has been written so as to enable the Council to meet the legal requirements in a way which is proportionate to the very low risk to the Council of contravening this legislation.

1.3 The object of this policy is to make all employees aware of their responsibilities and the consequences of non compliance with this policy.

1.4 Any employee could potentially be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and /or do nothing about it.

1.5 Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities.

1.6 **Employees face a <u>personal liability</u> if they contravene the regulations and can be faced with imprisonment of up to 14 years, a fine or both.**

### 2 What is the council’s policy?

### 2.1 Scope of the Policy

2.1.1 This policy applies to all employees of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering.

2.1.2 The policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations. Within this policy the term employees refers to all employees and elected Members.

2.1.3 Anti money laundering legislation places responsibility upon Council employees to combat money laundering and covers a very wide area of financial transactions, including possessing, or in any way dealing with, or concealing, the proceeds of any crime. It applies to all employees involved with monetary transactions.

2.1.4 Under the legislation it is a criminal offence to;

- assist a money launderer
- "**tip off**" a person suspected to be involved in money laundering that they are suspected or that they are the subject of police investigations
- fail to report a suspicion of money laundering
- do something that might prejudice an investigation for example falsify a document
- acquire, use or possess criminal property
- conceal or protect terrorist property and/or fail to report such activity if seen to be carried out by others.

2.2 **Money Laundering Requirements from this Council's point of view.**

2.2.1 Provision of training and guidance to relevant officers and staff (or contractors' staff) on the requirements of the legislation, including the identification of suspicious transactions, identity verification and reporting procedures.

2.2.2 Designation of an officer as the Money Laundering Reporting Officer, who will receive any report, keep records and if considered appropriate, make reports to the National Criminal Intelligence Service (NICS).

2.2.3 The Money Laundering Reporting Officer (MLRO) for the Council is the **Strategic Lead Finance.**

2.2.4 Establishment of procedures for employees to report any suspicions to the MLRO

2.2.5 Under the legislation employees dealing with money transactions will be required to comply with certain procedures.

2.3 **Recognising Money Laundering**

2.3.1 At all times staff should;

- be wary of unusually large cash transactions
- be wary of the absence of an obvious legitimate source of funds
- be alert to the possibility of money laundering by a client or a prospective client.

2.3.2 Possible signs of money laundering are set out in Appendix 2.

2.4 **Client identification Procedures**

2.4.1 Client identification procedures apply when the Council is carrying out relevant business and:

a) Forming a business relationship: or

b) Considering undertaking a one off transaction

and:

a) Suspect a transaction involves money laundering; or

b) A payment is to be made for a series of linked one off transactions involving total payment of £10,000 or more.

2.4.2 Not all of the Council's business is "relevant" for the purposes of the legislation regarding client identification. Relevant services as defined by the legislation include investments, accountancy and audit services and the financial, company and property transactions undertaken by Property and Estates Services and Legal Services.

2.4.3 Legal, Finance, Accounting and Audit staff must follow the procedures set out in Appendix 1 in order to ascertain the true identity of clients and ensure record keeping procedures (e.g. for evidence of identity obtained, details of transactions undertaken, for at least 5 years afterwards).

2.4.4 Legal Services are subject to particular provisions applying to the legal profession and these are set out separately in Legal Services procedure notes.

2.5 **Record Keeping Procedures**

2.5.1 Each Service of the Council and contractors working for the Council conducting relevant business must maintain records for at least five years from the end of the business relationship or one-off transaction(s) of:

- Identification evidence obtained; and
- Details of all relevant business transactions carried out for those persons or organisations for which we have obtained evidence

This is so they may be used as evidence in any subsequent investigation by the authorities into money laundering.

2.5.2 The precise nature of the records is not prescribed by law however they must be capable of providing an audit trail during any investigation, for example distinguishing the person or organisation and the relevant transaction and recording in what form any funds were received or paid.

2.5.3 In practice, Council business units will be routinely making records of work carried out for persons or organisations in the course of normal business and these should be sufficient for this requirement.

2.6 **Reporting Procedures**

2.6.1 To comply with the legislation all staff are required to follow the reporting procedures set out in this policy if they have knowledge of or suspicion of money laundering taking place.

2.6.2 The officer nominated to receive disclosures about potential money laundering activity within the Council is the Strategic Lead Finance.

2.6.3 Where an employee knows or suspects that a money laundering activity is taking place, they must contact the MLRO for guidance as soon as possible regardless of the amount involved and complete the disclosure form in Appendix 3.

2.6.4 Employees must still report their concerns, even if they believe someone else has already reported their suspicions of the same money laundering activity.

2.6.5 After reporting, the employee must not make any further enquiries into the matter and at no time and under no circumstances should they voice any suspicions to the person(s) whom they suspect of money laundering, otherwise they may commit a criminal offence of **"tipping off"**.

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

### 2.7 Action by the Money Laudering Reporting Officer

2.7.1 The MLRO will evaluate the disclosure and any other relevant information to determine whether:

- Actual or suspected money laundering is taking place; or
- There are reasonable grounds to know or suspect that this is the case; and
- NICS consent is needed before a particular transaction can proceed.

2.7.2 If the MLRO concludes that actual / suspected money laundering is taking / has taken place, then unless there are reasonable grounds for non-disclosure, the matter will be disclosed to NICS in the appropriate manner as soon as is practicable.

2.7.3 Where consent is required from NICS for a transaction(s) to proceed, then the transaction(s) in question must not be undertaken or completed until either:

- NICS has specifically given consent; or
- There is deemed consent through the expiration of the relevant time limits without objection being received from the NICS.

2.7.4 The MLRO will keep all records relating to an investigation for at least five years from its conclusion and in compliance with the Data Protection and Freedom of Information Acts and document retention requirements.

### 2.8 Other Procedures

2.8.1 The Council will establish other procedures of internal control and communication as may be appropriate for the purpose of forestalling and preventing money laundering:

2.8.2 **Regular receipts -** The Council in the normal operation of its services accepts payments from individuals and organisations e.g. in relation to council tax, sundry debtors etc. All regular receipts should be paid via an electronic method as offered by the Council, cash should not be accepted. If an employee has reasonable grounds to suspect money laundering activities or proceeds of crime or is simply suspicious, the matter should still be reported to the MLRO.

2.8.3 **Cash receipts -** Cash receipts should not be accepted, other than occasional ad hoc small scale receipts. Again, if an employee has reasonable grounds to suspect money laundering activities or proceeds of crime or is simply suspicious, the matter should still be reported to the MLRO.

2.8.4 **Refunds -** Care will need to be taken especially with the procedures for refunds. For instance, a significant overpayment which results in a repayment will need to be properly investigated and authorised before payment. **Note – all refunds should be made only to the source of the payment and not a different account.**

In the event of any suspicious transactions, the MLRO will be contacted to investigate the case. The possible perpetrator should not be informed.

2.8.5 **Training –** The Council will take, or require its contractor to take, appropriate measures to ensure that relevant employees are:

a) Made aware of the provisions of these regulations, (under the Proceeds of Crime Act 2002, and the Money Laundering Regulations 2007);

b) Given training in how to recognise and deal with transactions which may be related to money laundering.

**Equality impact considerations of Policy – Low Risk**

**APPENDIX 1**

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

## General

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

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

## Identification Procedure

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

a) Forms an ongoing business relationship with a client; or

b) Undertakes a one-off transaction involving payment by or to the client of 15,000 Euro (approximately £10,000) or more; or

c) Undertakes a series of linked one-off transactions involving total payment by or to the client(s) of 15,000 Euro (approximately £10,000) or more; or

d) It is known or suspected that a one-off transaction (or a series of them) involves money laundering; then this Identification Procedure must be followed before any business is undertaken with that organisation or person.

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

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

Evidence of identity should be obtained as follows:

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

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

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

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

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

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

## APPENDIX 2

## POSSIBLE SIGNS OF MONEY LAUNDERING

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

### General

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

### Property

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

## APPENDIX 3

## DISCLOSURE FORM TO MLRO

Please complete and return to the Head of Finance

Date of disclosure

Date of event

Officer making disclosure:

Job title of officer:

Telephone details:

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### *SUBJECT DETAILS*

Title:

Surname:

Forename:

DoB:

***IN THE CASE OF A LEGAL ENTITY (COMPANY)***

Name:

Address:

Company Number (If known)

Type of Business:

VAT no (if known)

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

***RECEIVED BY MLRO***
Reference:

Date:

Signature:

# Agenda Item: 14

**Audit and Governance Committee**
**2 March 2017**

## Audit and Governance Committee

## Forward Plan 2017/18

| Date of Committee | Report | Lead Officer |
|---|---|---|
| 29 June 2017 | • Review of Internal Audit Charter<br>• Annual Report inc. Quarter 4<br>• Internal Audit Activity – Quarter 1 2016/17<br>• Revenue and Capital Outturn Report 2016/17<br>• Annual Audit Report and Opinion<br>• Draft annual governance statement<br>• Audit Committee update<br>• Risk Management Review<br>• Statement of Accounts | SWAP<br>SWAP<br>SWAP<br>Strategic Lead Finance<br>KPMG<br>Strategic Lead Finance<br>KPMG<br>Management Information Officer<br>Strategic Lead Finance |