

**Agenda for Audit and Governance**  
**Thursday, 31st January, 2019, 2.30 pm**

**Members of Audit and Governance**

Councillors M Williamson (Chairman), J Dyson (Vice-Chairman), S Gazzard, S Grundy, S Hall, J Humphreys, Ingham, R Longhurst and C Nicholas

**Venue:** Council Chamber Blackdown House

**Contact:** Amanda Coombes  
(or group number 01395 517546)  
Tuesday, 22 January 2019



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- 1 Public speaking  
Information on [public speaking](#) is available online
- 2 Minutes of the previous meeting (Pages 3 - 6)  
Minutes for 29 November 2019
- 3 Apologies
- 4 Declarations on interest  
Guidance is available online to Councillors and co-opted members on making [declarations of interest](#)
- 5 Matters of urgency  
Information on [matters of urgency](#) is available online
- 6 Confidential/exempt item(s)  
To agree any items to be dealt with after the public (including the Press) have been excluded. There are no items which officers recommend should be dealt with in this way.

**Matters for Decision**

- 7 **Internal Audit Activity- Quarter 3 2018-19 - SWAP** (Pages 7 - 22)
- 8 **External Audit Plan - Grant Thornton** (Pages 23 - 37)
- 9 **External Audit Progress report and update - Grant Thornton** (Pages 38 - 47)

- 10 **Risk Management review; half year review** (Pages 48 - 50)
- 11 **Review of the Anti-Fraud Theft and Corruption Policy, Anti-Bribery Policy and Whistleblowing Policy** (Pages 51 - 52)
- 12 **Review of the Local Code of Corporate Governance** (Pages 53 - 54)
- 13 **RIPA update**

At the meeting of 18 January 2018, Members agreed to receive an update on RIPA (Regulation of Investigatory Powers Act) activity throughout the year. The RIPA Senior Responsible Officer advises that there have been no requests for RIPA authorisation since the last committee.
- 14 **Audit and Governance Forward Plan** (Page 55)

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Members of the public exercising their right to speak during Public Question Time will be recorded.

[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 29 November 2018****Attendance list at end of document**

The meeting started at 2.30pm and ended at 3.25pm.

**\*25 Chairman's welcome and announcement**

The Chairman welcomed everyone to the meeting. He paid tribute to Councillor Bill Nash, a member of the Audit and Governance Committee who had recently passed away. The Committee remembered with fondness how Cllr Nash would interrogate the accounts. They would miss his invaluable contribution from his vast experience, as well as missing him personally.

**\*26 Public Speaking**

There were no members of the public wishing to speak.

**\*27 Minutes**

The minutes of the Audit and Governance Committee meeting held on 27 September 2018 were confirmed and signed as a true record.

**\*28 Matters arising**

None

**\*29 Declarations of Interest**

None

**\*30 Internal Audit Activity- Quarter 2 2018-19**

Alastair Woodland, Assistant Director SWAP, provided the Committee with an update report on progress on the 2018/19 Internal Audit Plan as at 12 November 2018.

It was noted that overall progress was good. SWAP had been unable to provide an assurance on the business continuity and disaster recovery arrangements, as not enough adequate evidence had been received. This area carried a significant risk to the organisation and would be put into the following year's audit plan. Members expressed concern over this and the Strategic Lead – Finance explained the complexities of the officer roles involved and the ending of the Service Level Agreement with South Somerset District Council. Where the officer from SSDC looked after Business Continuity and Emergency planning, these areas were now split and assurances was given that a business continuity plan is being produced and EDDC had joined the Devon Emergency Planning Service. Details to be made available to SWAP in order for them to independently assess the adequacy of the arrangements.

One partial assurance had been identified, relating to GDPR. Only one action remained outstanding in relation to previously identified weakness around Data Protection and one further priority one recommendation was identified within the GDPR review. Remedial action had already been taken to address this issue.

The transformation strategy had received partial assurance as there was a significant budget shortfall in 2020/21. SWAP would like greater certainty in the savings in the budget.

It was noted that the office relocation project had its own risk register. One of the key risks were the ICT links between Exeter (which was where Strata ran global desktop from) and Honiton. Strata were due to be on site just before Christmas, which was within the project timeline. Ongoing conversations were taking place with Virgin Media and BT Openreach, but as they were external companies mitigations were needed.

SWAP had completed 54% of the Audit Plan for 2018/19. There had been one change made to the 2018/19 internal audit plan, which was that SWAP had been asked to confirm whether the basis for the request for additional resourcing by SUEZ was supported by adequate financial data. The time for this review had been taken from the ICT budget. It was noted that an audit was planned in quarter 4 for the management of council assets, which would focus on the process of managing assets rather than the assets themselves.

**RESOLVED:**

that the content of the report be noted.

**\*31 Annual Audit Letter – KPMG**

The Annual Audit letter from the outgoing external auditors KPMG, summarised the outcome from their audit work at East Devon District Council in relation to the 2017-18 audit year. Although it was addressed to Members it was also intended to communicate key messages to external stakeholders, including members of the public. KPMG issued an unqualified opinion of EDDC's accounts, which meant that they believed the financial statements gave a true and fair view of the financial position of the authority and of its expenditure and income for the year.

**RESOLVED:**

that the Annual Audit letter be noted.

**\*32 Grants 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. The letter was KPMG's annual report for the certification work undertaken for East Devon District Council. In 2017/18 they carried out certification work on only one claim, the Housing Benefit Subsidy claim. The certified value of the claim was £30.9 million and was certified on 2 November 2018.

It was noted that KPMG's work with EDDC coming to an end and on behalf of the Committee the Chairman thanked the External Audit Manager and all of his colleagues for the professionalism they had shown towards EDDC with external auditing and for all the work that they had done.

**RESOLVED:**

that the Grants certification report be noted.

**\*33 Partnership Register**

Partnership information for the 2017/18 financial year until March 2018 was supplied to allow the Committee to monitor the status of the Council's partnerships. This followed the year-end review of partnerships by responsible officers for 2017/18. There were 13 active partnerships, but the Greater Exeter Greater Devon partnership was now redundant and therefore inactive, with the work being led by the Greater Exeter Strategic Partnership. The remaining partnerships presented no major current budget

issues, although most received some funding from EDDC. It was recommended that the Council's involvement with each of the partnerships continued with the benefits of continued engagement, as outlined in the report.

The Chairman asked the Strategic Lead – Finance for more information on the Blackdown Hill's Area of Outstanding Natural Beauty's multiplier. The Strategic Lead – Finance agreed to find out and provide the information back to the Committee.

Members queried the capabilities of the shared ICT service with Exeter City and Teignbridge Councils (Strata) and asked for assurances that EDDC was getting good value for money. The Strategic Lead – Finance declared a personal interest as a director of Strata, and went on to explain the heavy governance of Strata. The three partnering authorities had a joint executive which was made up of the leader and chief executive from each partner. There was also a joint Strata scrutiny committee as well as a board of directors. In addition to this Strata had its own independent auditors (Devon Audit Partnership (DAP)). The DAP reports go to SWAP and it was requested that the year end DAP report was requested to be brought to the Audit and Governance Committee.

The Committee noted that it was rarely possible to provide enough IT resource as IT was heavily linked to all the Council's services, with teams constantly having to prioritise work requests. However, sharing resources in partnership allowed greater opportunity for IT services to EDDC. The Strategic Lead – Finance explained that there was a process in place for business change requests and outlined the detailed methodology and framework procedure.

**RESOLVED:**

that the current status of partnerships until March 2018 be noted.

**\*34 RIPA update**

At the meeting of 18 January 2018, Members agreed to receive an update on RIPA activity throughout the year. The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.

**\*35 Audit and Governance Forward Plan**

Members noted the contents of the Committee Forward Plan for 2018/19.

Items to be considered at the January committee included:

- Internal Audit Activity – Quarter 3 2018/19
- Audit Committee update
- Risk Management review – half year review
- RIPA update
- Report on outcomes against the Corporate Counter Fraud and Compliance strategy

The Chairman advised that the next Committee meeting would take a slightly different format as two presentations had been arranged for the Committee. One was from Grant Thornton on local authority involvement in commercial investment and the other jointly from Devon County Council and Devon Audit Partnership on the transformation strategy. The presentations would start at 1pm, with a light lunch, with the Audit and Governance Committee meeting commencing at 2:30pm.

**RESOLVED:**

that the Forward Plan be noted.

**Attendance list**

**Councillors:**

Mark Williamson (Chairman)  
John Dyson (Vice Chairman)  
John Humphreys  
Ben Ingham  
Simon Grundy  
Steve Hall  
Steve Gazzard

**Apologies:**

Rob Longhurst  
Cherry Nicholas  
Dean Barrow (Portfolio holder – finance)

**Officers present:**

Simon Davey, Strategic Lead – Finance  
Henry Gordon Lennox, Strategic Lead – Governance and Licensing  
Alethea Thompson, Democratic Services Officer

Rob Andrews, External Audit Manager, KPMG  
Georgina Teale, Senior Auditor SWAP  
Alastair Woodland, Assistant Director SWAP

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



<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date of Meeting:</b>	31 January 2019
<b>Public Document:</b>	Yes
<b>Exemption:</b>	None
<b>Review date for release</b>	None
<b>Agenda item:</b>	<b>7</b>
<b>Subject:</b>	<b>Internal Audit Plan Progress January 2018 (2018/19)</b>
<b>Purpose of report:</b>	The Audit and Governance Committee agreed the 2018-19 Internal Audit Plan at its March 2018 meeting. This report is to provide an update on the 2018/19 Internal Audit Plan as at 10 January 2019.
<b>Recommendation:</b>	To note the content of the Internal Audit Progress Report
<b>Reason for recommendation:</b>	The Committee are required to review the progress of the audit plan.
<b>Officer:</b>	Alastair Woodland, Assistant Director, SWAP.
<b>Financial implications:</b>	There are no direct financial implications identified.
<b>Legal implications:</b>	The legal framework is reflected in the report. While there are no direct legal implications arising, ensuring Key Actions are carried out will reduce risk to the Council which in turn will reduce the chance of failures or challenges occurring.
<b>Equalities impact:</b>	Low Impact
<b>Risk:</b>	Low Risk
<b>Links to background information:</b>	<a href="#">Approved Internal Audit Plan 2018/19</a> – Audit and Governance Meeting March 2018
<b>Link to Council Plan:</b>	Continuously improving to be an outstanding council.



# East Devon District Council

## Report of Internal Audit Activity

### Plan Progress 2018/19 as at January 2019

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

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	Appendix B – Internal Audit Work Plan 2018/19	Page 8 - 10
	Appendix C – Significant Risks – Currently Open	Page 11
	Appendix D – Partial Opinion Findings – Currently Open	Page 12 - 13

## 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 26 July 2018.

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 work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2018. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.



## Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



## Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. 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 **Appendix A** of this document.

The following table summarised Audits finalised since the previous update in November 2018:

Audit Area	Quarter	Status	Opinion
<b>2018/19</b>			
Housing Maintenance Invoicing	2	Final	Partial
Car Parking – Civil Enforcement	2	Final	Substantial
Housing Rents	3	Final	Reasonable

### **Partial Assurance Audits (See Appendix D)**

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the November 2018 update there is one ‘Partial Assurance’ review I need to bring to your attention, this being Housing Maintenance Invoicing. There was one Priority 1 recommendation raised in this audit where action has already been taken to resolve the issue and it should now be complete



## Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



## Internal Audit Work Programme Contd.

### Corporate Risks (See Appendix C)

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention. 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. Since the November 2018 update, we identified the following significant risk relating to Housing Maintenance Invoicing:

*Financial loss due to late payments, fees or fraud caused by overcharging of invoices.*

Action has already been taken to address this risk and this is explained in Appendix C.

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



Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector 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 2018/19 (as at 12 November 2018) were as follows:

Performance Target	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b></p> <p>Final, Draft and Discussion</p> <p>In progress</p> <p>Not Started</p>	<p>62%</p> <p>19%</p> <p>19%</p>
<p><b><u>Quality of Audit Work</u></b></p> <p>Customer Satisfaction Questionnaire</p>	<p>None Received</p>

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



## Approved Changes to the Audit Plan 2018-19

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to East Devon District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

The following changes have been made to the 2018-19 Internal Audit Plan:

The ICT days have been removed from the audit plan. Risks around the ICT environment come under Strata, who are audited by the Devon Audit Partnership (DAP). We have been assured that we will have access to the Internal Audit Reports and the Strata Annual Internal Audit Opinion on how well the internal control environment is working. Some of the days for ICT have been reallocated to the work for Suez, Housing Maintenance Payments and the relocation project.



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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- None
- Non-Opinion/Advisory

<b>Substantial</b>	▲ ★ ★ ★	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.
<b>Reasonable</b>	▲ ★ ★ ☆	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.
<b>Partial</b>	▲ ★ ☆ ☆	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.
<b>None</b>	▲ ☆ ☆ ☆	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.

**Non-Opinion/Advisory** – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

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 3 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.



Audit Framework Definitions

**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 1: Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

**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 both senior management and the Audit Committee.

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 Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
						<b>FINAL</b>			
Governance, Fraud and Corruption	Data Protection Breaches <b>(New)</b>	1	Complete	Advisory	0	0	0	0	
Governance, Fraud and Corruption	Safer Recruitment	1	Complete	Substantial	1	0	0	1	
Operational	Business Rates Maximisation	1	Complete	Substantial	0	0	0	0	
Governance, Fraud and Corruption	Right to Buy Fraud	1	Complete	Substantial	0	0	0	0	
Operational	Other Funding	1	Complete	Reasonable	1	0	1	0	
Healthy Organisation	Risk Management	2	Complete	Reasonable	3	0	3	0	
Governance, Fraud and Corruption	GDPR	2	Complete	Partial	4	1	3	0	
Healthy Organisation	Transformation Strategy	2	Complete	Reasonable	3	0	3	0	
Operational	Licensing	2	Complete	Reasonable	1	0	1	0	
Operational	Car Parking Benchmarking	2	Complete	Advisory	0	0	0	0	
Operational	Housing Maintenance Invoicing <b>(New)</b>	2	Complete	Partial	4	1	1	2	See Appendix C & D
Operational	Car Parking – Civil Enforcement	2	Complete	Substantial	0	0	0	0	
Key Controls	Payroll	3	Complete	Substantial	0	0	0	0	



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Key Controls	Housing Rents	3	Complete	Reasonable	6	0	2	4	
<b>DRAFT</b>									
Key Controls	Main Accounting	3	Draft						
Operational	Economic Development	3	Draft						
<b>IN PROGRESS</b>									
Governance, Fraud and Corruption	Recycling and Refuse Contract - Suez	2	In Progress						
Key Controls	Council Tax and NNDR	3	In Progress						
Healthy Organisation	Project Management	3	In Progress						
Governance, Fraud and Corruption	Declaration of Personal and Business Interests	3	In Progress						
Governance, Fraud and Corruption	Relocation Project Advisory	4	In Progress						
Operational	Homelessness	4	In Progress						
<b>NOT STARTED</b>									
Operational	Asset Management plan	4	Not started						
Operational	Property Services	4	Not started						
Operational	Lone Working	4	Not started						
Healthy Organisation	Budgetary Control	4	Not started						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
<b>DROPPED/REMOVED</b>									
Healthy Organisation	Transparency	2	Removed	Time used for Data Protection Breaches					
ICT	IT Audits	1,2,3,4	Removed	Time allocated to Housing Payments, Suez and relocation project. Some additional time yet to be allocated.					

The following potential significant risks were identified from Internal Audit work completed. The risks listed below will continue to feature in this section of the report until mitigated. Further information about the status of recommendations to make the necessary improvements can be seen below in Appendix D.

Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action
Housing Maintenance Invoicing (Reported January 2019)	Overcharging of invoices by MD Group	Financial loss due to late payments, fees or fraud caused by overcharging of invoices	We recommend the Property and Asset Manager ensures that MD Group's recommendations arising from their own audit are implemented as described.	Monitoring of the MD Group recommendations to be undertaken formally through operational and strategic contract monitoring meetings. Senior Technical Officer for day to day repairs and Voids to monitor the nature of queries being raised by surveyors in order to identify any trends in relation to inaccurate invoicing.
Data Protection (Reported June 2017)	Although the Council is largely compliant with current Data Protection legislation, some work remains to be done. See Appendix D for details for outstanding details.			
Business Continuity Planning (Reported November 2018)	We have received insufficient evidence to confirm that effective business continuity arrangements are in place which could result in the Council being unable to provide sufficient essential services in the event of a major disruption.  We must stress this view is based on the lack of evidence that has been provided to us to enable us to test the existence of expected controls and how effective those controls are. We will follow up on this area early in 2019/20.			

Current status of ‘Partial Assurance’ reviews with Actions due for Completion

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Current status
Data Protection	Under the GDPR, organisations are required to have a fully comprehensive information asset register which records what information is collected, held, in what format, for what purpose, or who the information asset owner is. A recommendation on this was made as part of the Protective Marking Audit (May 2016) and an implementation date agreed as Nov 2016. This date has now been exceeded.	The Senior Information Risk Officer (SIRO), in conjunction with senior management, has agreed to ensure that an Information Asset Register for the Council be developed to ensure that data and information held is recorded and subject to regular monitoring and update.	September 17	No further progress has been made since January 2018 to complete the Information Asset Register. A new completion date of April 2019 has been agreed.
Data Protection	The GDPR will require privacy impact assessments to be integral / embedded practice across an organisation where personal data is handled. Audit Testing found that this was not consistently in place across the Council. In the absence of a privacy impact assessment being carried out, the Council may fail to identify all areas of weakness / exposure to risk around the handling of personal data, resulting in an undetected data breach.	The Senior Information Risk Officer (SIRO), has agreed to ensure that the requirement to undertake privacy impact assessments be included in the project management framework currently being drafted by the Section 151 Officer. This will ensure that this becomes embedded in the Council’s frameworks.	August 17	As part of the new Project Guidelines, Data Protection issues identified are now required to be included in the Project Initiation Document (PID). The Strategic Lead Finance has agreed that this will be completed by December 2018.

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<p>General Data Protection Regulations</p>	<p>Not all Privacy Notices contained the required information to give comfort to customers on how data protection principles are applied when processing their data. If they contain inaccuracies or inconsistencies, then the Council is not fully complying with the Transparency Principle and the Rights of the individuals.</p>	<p>Part of this cross-checking work has already been undertaken including the inclusion of the standard wording on those notices where it was missing. Otherwise the recommendation is agreed.</p>	<p>November 2018</p>	<p>Complete</p>
<p>Housing Maintenance Invoicing</p>	<p>MD Group have been overcharging and undercharging EDDC.</p>	<p>Monitoring of the MD Group recommendations to be undertaken formally through operational and strategic contract monitoring meetings. Senior Technical Officer for day to day repairs and Voids to monitor the nature of queries being raised by surveyors in order to identify any trends in relation to inaccurate invoicing.</p>	<p>November 2018</p>	<p>Complete</p>

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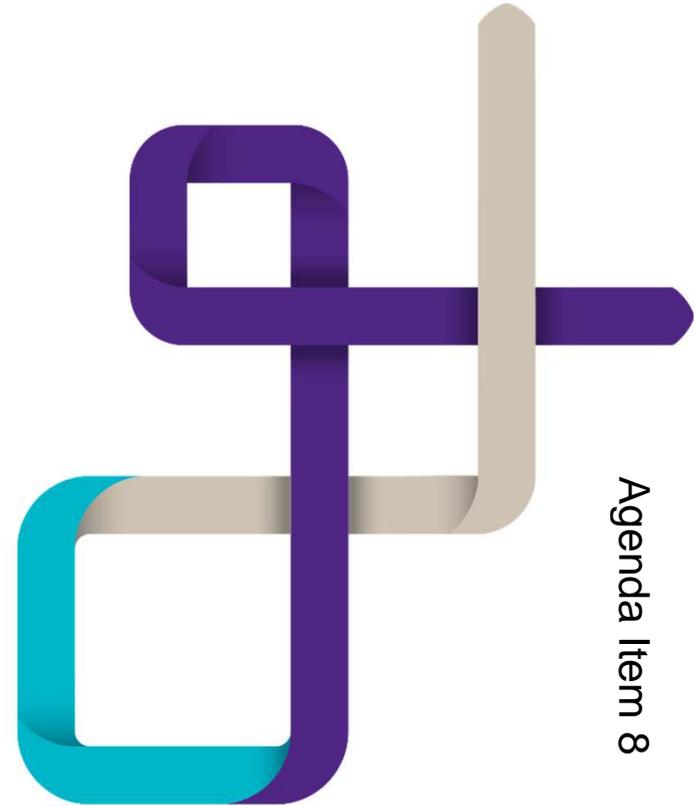
# External Audit Plan

*Year ending 31 March 2019*

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East Devon District Council  
January 2019

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# Contents



Your key Grant Thornton  
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## Section

1. Introduction & headlines
2. Key matters impacting our audit
3. Significant risks identified
4. Other matters
5. Materiality
8. Value for Money arrangements
9. Audit logistics, team & fees
10. Early Close
11. Independence & non-audit services

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Devon District Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of East Devon District Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

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## Significant risks

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

- Property valuations
- Pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £1.8 million (PY £1.6 million) for the Authority, which equates to 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £90,000 (PY £80,000).

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## Value for Money arrangements

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

- Financial sustainability

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## Audit logistics

Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £39,132 (PY: £50,821) for the Authority, subject to the Authority meeting our requirements set out on page 12.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

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# Key matters impacting our audit

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The Medium Term Financial Plan identifies a funding gap of £0.67 m for 2019/20 rising to £4.8 million by 2028/29 if no corrective action is taken. To address this shortfall the Authority has adopted Transformation Strategy which sits alongside the Financial Plan, this outlines how the Authority will continue to deliver in the context of reducing government funding and increasing demand for services.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We do not anticipate that these changes will have a significant impact on East Devon District Council.

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## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including East Devon District Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for East Devon District Council.</p>	<p>As part of our planning procedures we have been able to rebut this risk. We will, however, review this when the draft financial statements have been received.</p>
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how performance is reported.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

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# Significant risks identified – PPE

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	<p>The Authority revalues its land and buildings, other than housing revenue accounts assets, which are revalued annually, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£337 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li><li>• evaluate the competence, capabilities and objectivity of the valuation expert</li><li>• discuss with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li><li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register</li><li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li></ul> <p>We have also reviewed your previous auditor's working papers to obtain assurance for the opening balances reported in the financial statements.</p>

# Significant risks identified - Pensions

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of the pension fund net liability</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£68 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Obtain an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Devon County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>We have also reviewed your previous auditor's working papers to obtain assurance for the opening balances reported in the financial statements.</p>

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# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

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## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

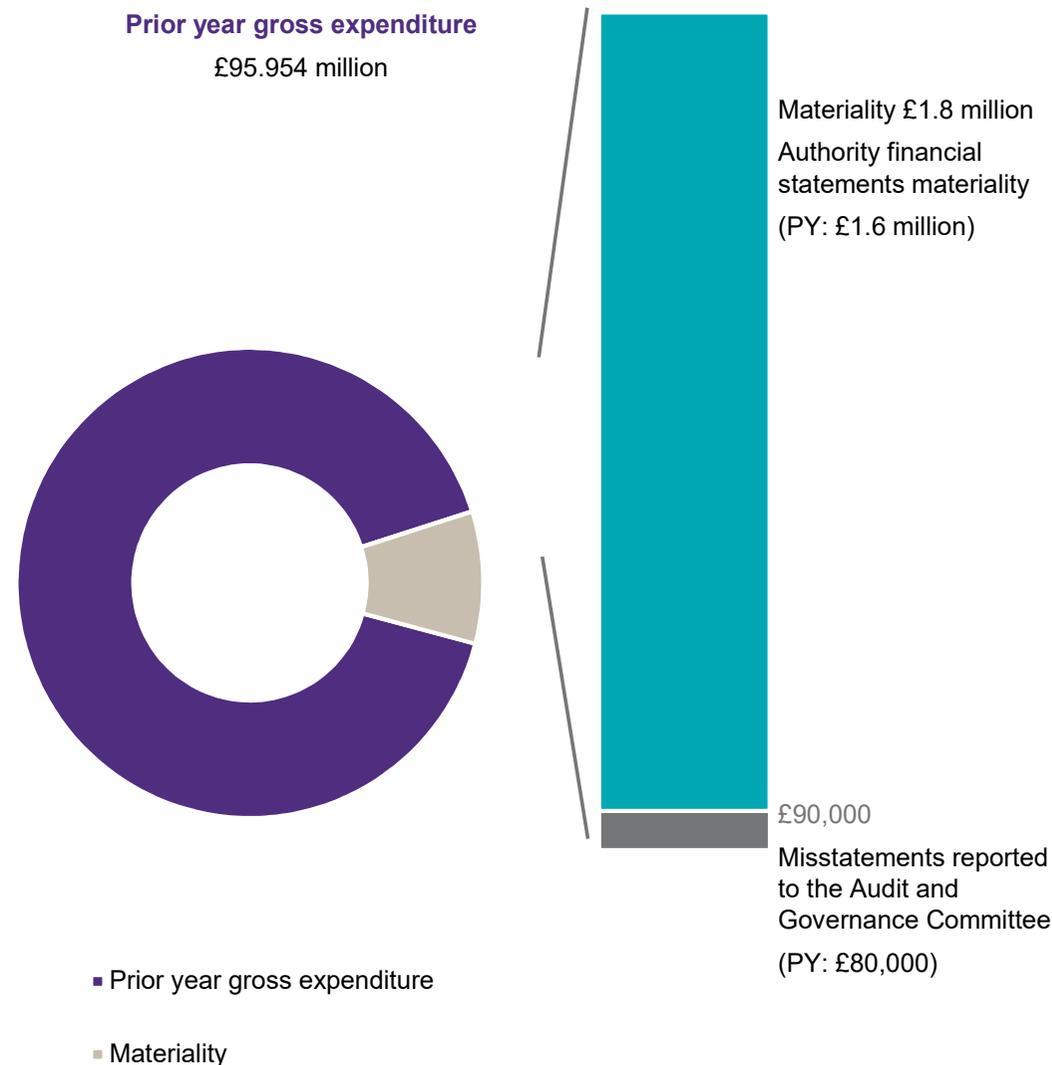
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.8 million (PY £1.6 million), which equates to 1.9% of your prior year gross expenditure.

We will reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report 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) '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) 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 £90,000 (PY £80,000).

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 and Governance Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

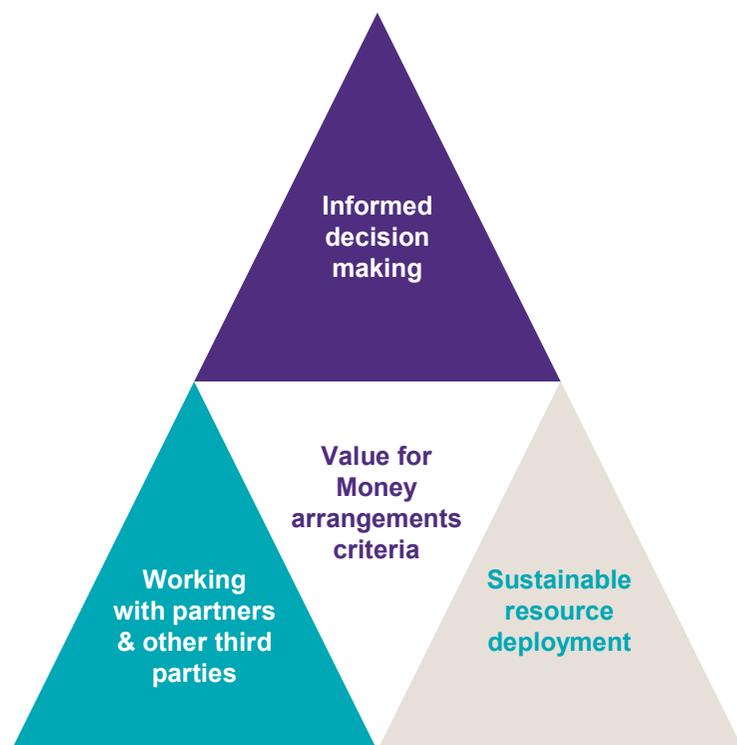
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



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## Significant VFM risks

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



### Financial Sustainability

Local Government funding continues to be stretched with increasing cost pressures from the national pay award, inflation and new homelessness legislation and demand for services. The Medium Term Financial Plan identifies a funding gap of £0.67 million for 2019/20 rising to £4.8 million by 2028/29 if no corrective action is taken. To address this shortfall you have adopted a Transformation Strategy which sits alongside the Financial Plan, this outlines how you will continue to deliver key priorities in the context of reducing government funding and increasing demand for services.

Many local authorities have changed their approach to managing reductions in income, shifting away from reducing spending on services to looking for other savings and sources of income. As part of the Transformation Strategy, you are developing an Asset Investment Strategy to develop alternative sources of income to offset reductions in funding and increasing demand for services.

The 2018/19 budget was approved by full Council in February 2018. At month 6, you are predicting an overspend of £389,000, which will be met by the use of reserves.

We will review your performance against budget and final outturn. We will consider your arrangements for monitoring and reporting the financial position and the assumptions used in producing the Medium Term Financial Plan. We will also consider progress towards delivering transformation priorities.

# Audit logistics, team & fees



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## Geri Daly, Engagement Lead

Relationship partner for the Authority and leads the work performed on the audit. Signs the audit opinion and holds regular meetings with senior managers.



## Samantha Harding, Audit Manager

Responsible for the overall management of the audit; consideration of VFM work; quality assurance of audit work and outputs



## Rob Patterson, Audit Incharge

Performs main detailed work on the audit on a day to day basis. Manages the audit team and first point of contact for the Authority's finance staff.

## Audit fees

The planned audit fees are £39,132 (PY: £50,821) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £8,850 of basic fees are planned for the housing benefit certification work, which constitutes non Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	3,000	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £39,132 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit	8,850	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,850 in comparison to the total fee for the audit of £39,132 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non Audit related</b>			
Cost Assurance	2,068	None	Work was undertaken separately from the audit team. This work was completed in 2017/18 prior to our appointment as external auditor.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

# Audit approach

## Use of audit, data interrogation and analytics software

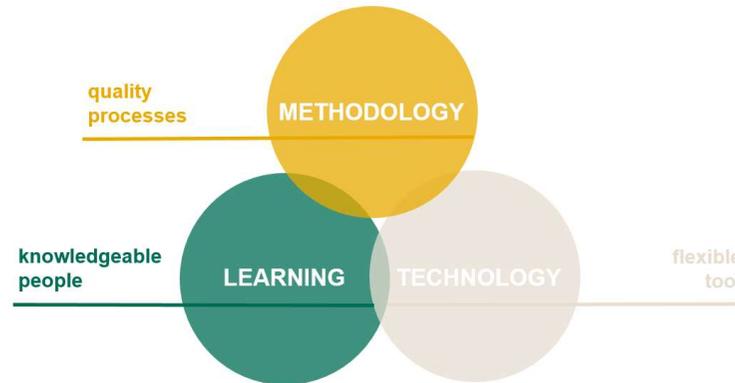
### LEAP



#### Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses

A cloud-based industry-leading audit tool developed in partnership with Microsoft



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### IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

### Appian



#### Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

### Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons



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# Audit Progress Report and Sector Update

East Devon District Council  
Year ending 31 March 2019

January 2019

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Agenda Item 9

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# Introduction

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**Engagement Lead**

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



**Sam Harding**

**Engagement Manager**

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Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

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

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# Progress at 31 January 2019

## 2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our interim audit visit is planned for February.

We will also :

- continue to hold regular discussions with management to inform our ongoing risk assessment for the 2018/19 financial statements and value for money conclusion work;
- consider the impact of Brexit on our audit work including on the valuation of property assets and the Council's pension liability;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

## Other areas

### Certification of claims and returns

#### Housing Benefit Subsidy Return

You have appointed us to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2019.

#### Certification of the Pooling Housing Capital Receipts Return

You have appointed us to undertake this work for 2017/18. This work is being completed in January 2019.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event will be in the early spring covering financial reporting issues. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

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2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	September 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work..	December 2019	Not yet due

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

# Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



# A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

## Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

## Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

## Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: [grantthornton.co.uk/acaringsociety](http://grantthornton.co.uk/acaringsociety)
- Join the conversation at #acaringsociety







**Report to:** **Audit and Governance Committee**

**Date of Meeting:** 31 January 2019

**Public Document:** Yes

**Exemption:** None

**Review date for release** None

**Agenda item:** **10**

**Subject:** **Full Risk Review Nov 2018**

**Purpose of report:** Risk information for the 2018/19 financial year is supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This follows the full review of risks by responsible officers during Nov 2018

**Recommendation:** **That the Audit and Governance Committee considers the current status of risks following the full risk review undertaken in Nov 2018.**

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

**Officer:** Simon Davey, Strategic Lead - Finance

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**Financial implications:** No direct financial implications

**Legal implications:** There are no direct legal implications

**Equalities impact:** Low Impact

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

**Risk:** High Risk

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

**Links to background information:**

- [Appendix A – Full list of Operational Risks Nov 2018](#)
- [Appendix B – Strategic Risks Nov 2018](#)

- [Appendix C – Explanations and definitions](#)

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

## Report in full

1. As part of our corporate governance it is appropriate that we maintain and manage a risk register. The risk register allows us to highlight any risks to our organisation and set out how we are going to mitigate against their impact and likelihood.
2. Our risk management policy requires all risks identified by the council to be reviewed bi-annually. Through the month of May the risk owners were tasked with reviewing their risks in the SPAR system. The complete operational risk register is provided for the Committee to review at [Appendix A](#). This is listed by service area and includes all of the control actions. There are now 84 operational risks, all of which have been reviewed and re-scored in light of all mitigating actions being undertaken. All services were asked to highlight any new and emerging risks with no new risks being put forward at this review
3. In the operational risk register there is one risk currently scored as high. **Lack of funding to enable the delivery of required infrastructure through lack of sufficient income from the Community Infrastructure Levy (CIL) and that this holds up the delivery of development.** - We continue to project a significant shortfall in funding for infrastructure due to issues with the CIL regime which mean that it will never deliver sufficient funds to deliver the required infrastructure. The government has published its views further to a consultation on changes to CIL and these suggest that the S106 pooling restrictions will be lifted. This would present a good opportunity to look at where it may be appropriate to take major developments in particular out of CIL and secure funding for infrastructure through Section 106 which is likely to help to reduce the funding gap. Similarly we can now continue with our review of our CIL charging schedule with an understanding of how the government intends to progress with CIL and try and ensure that income is maximised through CIL.
4. The tables below set out the number of risks in each service by score.

Finance	High	Medium	Low
<i>Risks by score</i>		2	10

Economy	High	Medium	Low
<i>Risks by score</i>	1	8	6

Housing	High	Medium	Low
<i>Risks by score</i>		13	7

Environment	High	Medium	Low
<i>Risks by score</i>		10	3

Governance & Licensing	High	Medium	Low
<i>Risks by score</i>		10	4

Organisational Development	High	Medium	Low
<i>Risks by score</i>		1	9

5. As part of this review our strategic risks have also been reviewed by their owners and are now submitted for Committee's consideration.

There are 9 risks on the strategic register

- **Adequacy of financial resource planning to deliver the Council's priorities**  
Insufficient financial resources to deliver Council priorities as a consequence of: a) Failure of financial forecasting, budgeting, monitoring and reporting system resulting in insufficient financial resources and inadequate reserves b) Failure to use resources available effectively c) Reduction in government funding

- **Risk: Major disruption in continuity of computer and telecommunications services**  
Major disruption in continuity of computer and telecommunications facilities to the detriment of service delivery including Cyber-attack
- **Risk: Adequate emergency planning and business continuity**  
A failure to adequately plan for emergencies and understand what issues arise in planning for business continuity could lead to a major service failure.
- **Risk: Office Relocation**  
Not relocating would mean the continued high cost of management and maintenance of Knowle Offices. Increasing inefficiency of current accommodation and reducing capacity to deliver improving services, modern working practices and performance improvements. Challenged ability to maintain high quality services and projects in a time of reducing funding and resources.
- **Risk: Delivery of Growth Point**  
Delivery of Growth Point – Failure to delivery planned housing and business growth, including a successful and vibrant new town.
- **Risk: Increased homelessness**  
Failure to meet our statutory obligations for homelessness applications including securing suitable and cost effective temporary accommodation. Poor homelessness decisions risk legal challenge, reputational damage and disadvantage applicants.
- **Risk: Failure to ensure the Council’s sustainability**  
The failure to ensure that the Council is able to sustain its service provision in the long term and meet its priorities as set out in the Council Plan could lead to financial and reputation loss and impact on our communities.
- **Moved from operational to strategic risk: Property safety**  
Failure to ensure that our corporate property portfolio is fully compliant with legal requirements.
- **Moved from operational to strategic risk: Health and safety**  
Failure to adequately protect staff health and safety at work

These are all scored in in the medium / low range with none currently showing as high risk. More details for each risk can be seen in [Appendix B](#).

Strategic Risks	High	Medium	Low
Risks by score		8	1

***Suggested new strategic risk – Work is ongoing with the formation of this risk including setting out our control actions***

*With the on-going Brexit negotiations and the uncertainties around our deal to leave the EU there are direct implications within the operational boundaries of this Council for us to consider including the loss of direct EU funding, uncertainty around the impact on inward investment, effects on business rate income, possible increases in demand pressures, the effects on our investments and borrowing, possible impact on pension fund deficits and the effects on supply of labour.*

6. An explanation and definitions of these risks including the risk matrix can be found in [Appendix C](#).



**Report to:** **Audit and Governance Committee**

**Date of Meeting:** 31 January 2019

**Public Document:** Yes

**Exemption:** None

**Review date for release** None

**Agenda item:** 11

**Subject:** **Review of the Anti-Fraud Theft and Corruption Policy, Anti-Bribery Policy and Whistleblowing Policy**

**Purpose of report:** The Council's Anti-Fraud Theft and Corruption, Anti-Bribery and Whistleblowing Policies require reviewing. Having reviewed the policies the recommendation is that they all remain fit for purpose and therefore no amendments are required.

**Recommendation:** **That the Committee agree that following review the following policies;**

- (i) Anti-Fraud, Theft and Corruption Policy**
- (ii) Anti-Bribery Policy**
- (iii) Whistleblowing Policy**

**remain fit for purpose and will continue to apply unchanged. They will be reviewed again in three years' time or earlier if circumstances require.**

**Reason for recommendation:** The Council regularly reviews the policies, codes and procedures that govern the way we operate. This report relates to a review of three of our Key Policies; namely, the Anti-Fraud, Theft and Corruption Policy, the Anti-Bribery Policy and Whistleblowing Policy.

These policies were last reviewed and updated in March 2016 (Whistleblowing) and September 2016 (Anti-Fraud Theft and Corruption and Anti-Bribery) by this Committee. A link to the existing policies is contained in the background links.

There have been no legislative changes that would require any of the policies to be changed / updated.

In relation to the operation of the policies, there have been no instances where the Anti-Bribery Policy or the Whistleblowing Policy have had to be considered or invoked. Under the Anti-Fraud, Theft and Corruption Policy there have been three instances in the last two years where a matter has been identified that might have necessitated the calling of the Fraud Forum. In all instances it was concluded that the activities were management / staffing related matters rather than falling within the ambit of the policy.

The Serious and Organised Crime Audit (carried out by SWAP in September 2017) found the '*whistleblowing arrangements [to be] effective and guidance on reporting suspicious behaviour or activity [as] clear and effective*'. In the Healthy Organisation audit (reported to the June 2017 A & G meeting) the Council received 'high assurance' in

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relation to both the Corporate Governance and Financial Management themes.

It is considered that these policies are up to date with legal requirements and remain fit for purpose. For the above reasons it is recommended that the three policies continue to apply without amendment.

<b>Officer:</b>	Henry Gordon Lennox, Strategic Lead Governance and Licensing & Monitoring Officer <a href="mailto:hgordonlennox@eastdevon.gov.uk">hgordonlennox@eastdevon.gov.uk</a> 01395 517401
<b>Financial implications:</b>	There are no direct financial implications.
<b>Legal implications:</b>	The review indicates that no changes are required to any of the listed policies. It should be noted that the Council must adhere to any adopted policy in the circumstances where it applies but otherwise there are no legal implications arising.
<b>Equalities impact:</b>	Low Impact
<b>Risk:</b>	Low Risk
<b>Links to background information:</b>	<ul style="list-style-type: none"><li>• <a href="#">Anti-Fraud, Theft and Corruption Policy</a></li><li>• <a href="#">Anti-Bribery Policy</a></li><li>• <a href="#">Whistleblowing Policy</a></li></ul>
<b>Link to Council Plan:</b>	Encouraging communities to be outstanding and Continuously improving to be an outstanding council



**Report to:** **Audit and Governance Committee**  
**Date of Meeting:** 31 January 2019  
**Public Document:** Yes  
**Exemption:** None  
  
**Review date for release:** None

**Agenda item:** **12**

**Subject:** **Review of the Local Code of Corporate Governance**

**Purpose of report:** The Council's Code of Corporate Governance, which sets out our overarching approach to our corporate governance arrangements, was adopted by Cabinet in December 2016 and is now due for review. It is a requirement of the Constitution that Cabinet consult with Audit & Governance in relation to the approval, implementation and monitoring of the Code of Corporate Governance. Having reviewed the Code, it is recommended to the Committee that they recommend to Cabinet to continue to use the current Code unchanged with a further review in two years' time.

**Recommendation:** **That the Committee recommend to Cabinet that the current Local Code of Corporate Governance should continue without amendment and be reviewed again in two years' time, unless circumstances require an earlier review.**

**Reason for recommendation:** The Council regularly reviews the policies, codes and procedures that govern the way we operate. The Code of Corporate Governance (see background link) provides the overarching framework for the Council's Corporate Governance. It was updated in December 2016 following revised guidance from CIPFA/SOLACE. It is not a standalone document but rather identifies the key principles that the Council agrees to follow in establishing our governance framework. It is supported by a number of other documents, being our key policies, which in combination seek to ensure that the Council has systems, processes, culture and values that we engage with and act by and are accountable in respect of. Ultimately the Code is about ensuring that the Council does the right things, in the right way for the right people in a timely, inclusive, open, honest and accountable manner.

The effectiveness of the Code of Corporate Governance is effectively monitored through a number of routes, including the production of the Annual Governance Assurance Statement which comes before this Committee for approval. Section 11 details other mechanism which contribute on an ongoing basis to monitoring the overall effectiveness. In that regard the role of both our internal and external auditors plays an important part and it should be noted that in the Healthy Organisation audit (reported to the June 2017 Audit & Governance meeting) the Council received 'high assurance' in relation to both the Corporate Governance and Financial Management themes.

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There have been no concerns raised regarding the suitability or effectiveness of the Code of Corporate Governance and there has been no legislative or guidance changes that would necessitate any revisions being made. KPMG, as part of the formally auditing of the Council's accounts for 2017/18, considered the Annual Governance Statement and they found that it was '*consistent with their understanding and did not raise any issues*'.

It is therefore considered that the adopted Code of Corporate Governance continues to reflect the current standard as to what constitutes good governance and that the Council's approach remains relevant and effective. The monitoring processes identified in the Code will continue including the continued publication of the Annual Governance Assurance Statement.

For the above reasons it is recommended that the adopted Code continues to be of effect without amendment with a further review to be carried out by the Monitoring Officer in two years' time.

<b>Officer:</b>	Henry Gordon Lennox, Strategic Lead Governance and Licensing & Monitoring Officer <a href="mailto:hgordonlennox@eastdevon.gov.uk">hgordonlennox@eastdevon.gov.uk</a> 01395 517401
<b>Financial implications:</b>	There are no direct financial implications.
<b>Legal implications:</b>	The Code accords with the CIPFA/SOLACE guidance. The Corporate Governance framework is a fundamental control element to the Council's activities. This document is the overarching document which sets out our overall approach to governance. It is supported and expanded upon by our key policies and the other monitoring activities set out therein. It is important that the Council has an up to date Code of Corporate Governance, not least because it helps inform the production of the statutory Annual Governance Assurance Statement but also because it helps demonstrate to the public that there are appropriate internal controls and accountability for actions. The review confirms that there are no amendments required to the Code and that it should continue to apply as adopted. The Council must have regard to it when formulating related policies or when considering governance related matters. Otherwise there are no legal implications arising.
<b>Equalities impact:</b>	Low Impact
<b>Risk:</b>	Low Risk
<b>Links to background information:</b>	<ul style="list-style-type: none"><li>• <a href="#">Current Code of Corporate Governance</a></li></ul>
<b>Link to Council Plan:</b>	Encouraging communities to be outstanding and Continuously improving to be an outstanding council

<b>Audit and Governance Committee</b>		
<b>Forward Plan 2018/19</b>		
<b>Date of Committee</b>	<b>Report</b>	<b>Lead Officer</b>
21 March 2019	<ul style="list-style-type: none"> <li>• Annual Audit Plan 2019/20</li> <li>• External Audit Plan</li> <li>• Audit Committee update</li> <li>• Accounting Policies Approval</li>   <li>• RIPA update</li>   <li>• Report on outcomes against the Corporate Counter Fraud and Compliance strategy</li> </ul>	SWAP Grant Thornton Grant Thornton Financial Services Manager  Strategic Lead – Governance & Licensing  Service Lead Revenue & Benefits