

Agenda for Audit and Governance Committee Thursday, 21st March, 2019, 2.30 pm

Members of Audit and Governance Committee

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

Venue: Council Chamber, Blackdown House

Contact: Amanda Coombes;

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(or group number 01395 517546)

Tuesday, 12 March 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 31 January 2019

3 Apologies

4 Declarations on interest

Guidance is available online to Councillors and co-opted members on making [declarations of interest](#)

5 Late report - EDDC Accounting Policies for adoption (Pages 7 - 9)

It is good practice for the Audit and Governance Committee to approve the Accounting Policies to be adopted in advance of the preparation of the Accounts.

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 **Annual Audit Plan and Charter 2019/20 - SWAP** (Pages 10 - 26)

8 **Audit Committee update - Grant Thornton** (Pages 27 - 40)

9 **Strata ICT Audit 2017/18 - DAP** (Pages 41 - 68)

10 **Strata Annual Assurance - DAP** (Pages 69 - 70)

11 **RIPA update - Strategic Lead Governance & Licensing**

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.

12 **Audit and Governance Forward Plan** (Pages 71 - 72)

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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 the meeting of Audit and Governance Committee held at Council Chamber, Knowle, Sidmouth on 31 January 2019****Attendance list at end of document**

The meeting started at 2.40pm and ended at 4.00pm

36 Public speaking

There were no members of the public wishing to speak.

37 Minutes of the previous meeting

The minutes of the Audit and Governance Committee meeting held on 29 November 2018 were confirmed and signed as a true record.

38 Declarations on interest

Councillor John Dyson, Minute 43; personal interest - has shares in Persimmon PLC and is a member of a Sidmouth committee; for the benefit of the town, which also has shares in Persimmon PLC.

39 Matters of urgency

None

40 Internal Audit Activity- Quarter 3 2018-19 - SWAP

Alastair Woodland, Assistant Director SWAP reminded members that the Audit and Governance Committee agreed the 2018-19 Internal Audit Plan at its March 2018 meeting. The report was to provide an update on the 2018/19 Internal Audit Plan as at 10 January 2019.

The Strategic Lead Housing & Environment answered a question raised by the Committee on the Housing Maintenance Invoicing report which received a Partial Opinion from SWAP.

RESOLVED:

that the Internal Audit Progress Report be noted.

41 External Audit Plan - Grant Thornton

Geri Daly from Grant Thornton, presented the External Audit report which provided the Audit Committee with an overview on progress in delivering their responsibilities as the external auditors. The scope of the audit was set in accordance with the Code and International Standards on Auditing (ISAs) (UK). Grant Thornton was responsible for forming and expressing an opinion on the following;

- EDDC's financial statements that had 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 Council for securing economy, efficiency and effectiveness in its use of resources.

The Chairman welcomed Geri and Grant Thornton as the Council's new external auditors.

RESOLVED:

that the content of the External Audit Plan be noted.

42 **External Audit Progress report and update - Grant Thornton**

Grant Thornton stated they had begun its planning processes for the 2018/19 financial year audit. The interim audit visit was planned for February. They would also;

- continue to hold regular discussions with management to inform their ongoing risk assessment for the 2018/19 financial statements and value for money conclusion work;
- consider the impact of Brexit on their 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 they capture any emerging issues and consider these as part of audit plans.

RESOLVED:

that the progress report be noted.

43 **Risk Management review; half year review**

Risk information for the 2018/19 financial year was supplied to allow the Committee to monitor the risk status of Strategic and Operational Risks. This followed the full review of risks by responsible officers during November 2018

Discussions included the following:

Axminster Relief Road Scheme

- Concerns with over-exposure for the £7m funding for the Axminster Relief Road, as a large liability to the Council.
- This would be in advance of the promised Government funding of £10m for the scheme therefore mitigating the risk.

Community Infrastructure Levy (CIL)

- Concerns over the lack of income from the Community Infrastructure Levy (CIL) with the suggestion that this would be covered by the pooling of S106 restrictions being lifted.
- To mitigate the risk, control mechanisms such as the Regulation 123 list, the control the Planning committee has over approving schemes, having a 5-year land supply as well as leveraging funding from outside bodies all deal with controlling any risk.

RESOLVED:

that the current status of risks following the full risk review undertaken in November 2018 be noted.

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

The Council's Anti-Fraud Theft and Corruption, Anti-Bribery and Whistleblowing Policies required reviewing. Having reviewed the policies the recommendation was that they all remain fit for purpose and therefore no amendments were required.

RESOLVED:

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 would continue to apply unchanged. They would be reviewed again in three years' time or earlier if circumstances require, be agreed.

45 **Review of the Local Code of Corporate Governance**

The Strategic Lead Governance and Licensing & Monitoring Officer's report highlighted the Council's Code of Corporate Governance, which set out the overarching approach to the Council's corporate governance arrangements, and was adopted by Cabinet in December 2016 and was now due for review. It was 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 was 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.

RECOMMENDED:

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.

46 **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.

47 **Audit and Governance Forward Plan**

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

Items to be considered at the March committee included:

- Annual Audit Plan 2019/20
- External Audit Plan
- Audit Committee update
- Accounting Polices Approval
- RIPA update
- Report on outcomes against the Corporate Counter Fraud and Compliance strategy

Attendance List

Councillors present:

M Williamson (Chairman)
J Dyson (Vice-Chairman)
S Gazzard
S Grundy
S Hall
B Ingham
R Longhurst

Councillors also present (for some or all the meeting)

I Hall

Officers in attendance:

Mark Williams, Chief Executive
Simon Davey, Strategic Lead Finance
John Golding, Strategic Lead Housing, Health and Environment
Henry Gordon Lennox, Strategic Lead Governance and Licensing
Amanda Coombes, Democratic Services Officer

Alastair Woodland, Assistant Director SWAP
Georgina Teale, Senior Auditor SWAP
Geri Daly, Associate Director

Councillor apologies:

J Humphreys
C Nicholas

Chairman

Date:



Report to: **Audit and Governance Committee**
Date of Meeting: 21 March 2019
Public Document: Yes
Exemption: None

Agenda item: 5

Subject: **Statement of Accounts 2018/19 – Review of Accounting Policies**

Purpose of report: It is good practice for the Audit and Governance Committee to approve the Accounting Policies to be adopted in advance of the preparation of the Accounts.

Recommendation: **To approve the Accounting Policies for the 2018/19 Statement of Accounts.**

Reason for recommendation: Members of the Audit and Governance Committee have responsibility for the approval of the Annual Statement of Accounts.

Officer: Simon Davey
sdavey@eastdevon.gov.uk

Financial implications: No direct financial implication.

Legal implications: The legal position is detailed in the report and no further comment is required.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: [EDDC Accounting Policies for adoption](#)

Link to Council Plan:

1. Background

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Local Authority Accounting Board is a standing committee of CIPFA and LASAAC and is responsible for developing the Code of Practice on Local Authority Accounting in the United Kingdom.
- 1.2 The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of the Council and is based on European Union adopted International Financial Reporting Standards (IFRS). It is reviewed continuously and normally updated annually by

the CIPFA / LASAAC Local Authority Board, effective for the financial years commencing 1 April.

- 1.3 As specified by regulation 21(2) of the Local Government Act 2003, all Local Authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 1.4 It is therefore essential that the Council's own internal accounting policies are aligned and updated to reflect changes to the Code of Practice and for other transactions that occur during the reporting year.
- 1.5 The Code specifies the principles and practices of accounting required to give a "true and fair view" of the financial position, financial performance and cash flows of the Council. As noted the Code is updated annually to reflect current thinking and accounting practices.
- 1.6 The 2018/19 edition of the Code applies to Account periods on or after 1 April 2018 and supersedes the 2017/18 edition.

2. Key Accounting Changes in 2018/19 Code

- 2.1 A full review of the changes in the 2018/19 Code has been undertaken and there are several changes proposed to the accounting policies for 2018/19 resulting from the adoption of two new standards;
 - IFRS 9 - *Financial Instruments*, which replaces IAS 39 – *Financial Instruments*, and
 - IFRS 15 - *Revenue from Contracts with Customers*, which replaces IAS 18 – *Revenue*.

The key changes under IFRS 9 for local authorities are:

- IFRS 9 has introduced a new classification model based on the business model for holding the financial assets and on the nature of the cash flows that might flow from them. Local authorities will therefore need to identify their financial assets, consider them against the new tests in IFRS 9, re-measure any that have changed classification and prepare the relevant adjustments to opening balances and consider the possible impact of statutory reversals.
- IFRS 9 has also introduced a new expected credit loss model for impairment in contrast to the incurred loss model in IAS 39. This model will require local authorities to assess the risk of default on the relevant financial instruments rather than an assessment based on evidence that the default has already taken place. Local authorities will need to calculate their loss allowances based on this new model and adjust the General Fund Balance for these re-measurements.
- In addition, there are substantial new disclosures to support the objective of the standard to assist users in assessing the amounts timing and uncertainty of cash flows. More detail is included in relation to the disclosure of the carrying amounts and the gains and losses on financial instruments held. The expected credit loss model requires information on the credit losses of local authorities including a new disclosure providing a reconciliation of the loss

allowances and details of the decisions authorities are likely to make in relation to the estimation and measurement of loss.

The key changes under IFRS 15 for local authorities are:

- IFRS 15 introduces a five-step model for assessing the performance obligations in a contract for the provision of goods or services and how much of the transaction price is to be taken as each obligation is satisfied. In most cases, this will not change the way revenue is currently recognised within the accounts.
- However, IFRS 15 might require some reconsideration of contracts where there is a significant timing difference between the authority providing goods and/or services and receiving payment. Payments in advance will bring a particular risk that the recognition point for income might have to be pushed back.
- Revenue relating to such things as council tax, business rates, and housing rents shall be measured at the full amount receivable as these are statutory duties of the Council and there can be no difference between the delivery and payment dates

2.2 The linked Accounting Policies for 2018/19 incorporate the above changes. Due to the nature of the financial activities with the authority the change is not expected to have a material impact to the 2018/19 accounts.

2. Reminder of closedown timetable

2.1 From 2017/18 there was a statutory requirement bring forward the date the annual statement of accounts needed to be completed and on our website to 31st May and approval and publication of financial statements with audit opinion by 31st July.



Report to: **Audit and Governance Committee**

Date of Meeting: 21 March 2019

Public Document: Yes

Exemption: None

Review date for release: None

Agenda item: 7

Subject: **EDDC Internal Audit Plan 2019-20 & Audit Charter**

Purpose of report: This report introduces the Internal Audit Plan for 2019/20 and also incorporates the 'Internal Audit Charter' which sets out the operational relationship between EDDC and the South West Audit Partnership (SWAP).

The Assistant Director for SWAP, together with the Council's S151 Officer and in consultation with the Senior Management Team, has produced an Audit Plan for 2019/20 that requires the approval of the Audit and Governance Committee. This is a flexible plan that may be amended during the year to deal with shifts in priorities or new and emerging risks. Any changes to the plan will be reported to this Committee.

Recommendation:

- 1. That the Audit and Governance Committee approve the Internal Audit Plan for 2019-20 (Appendix 1)**
- 2. The Audit and Governance Committee approve the Internal Audit Charter (Appendix 2)**

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

Officer: Alastair Woodland, Assistant Director, SWAP.

Financial implications: There are no direct financial implications identified.

Legal implications: Internal audits assist in testing and demonstrating compliance with regulatory frameworks, including governance and best value.

Equalities impact: Low Impact

Risk: Medium Risk

Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. EDDC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

Failure to gain independent assurance over the internal control arrangements of the Council's activities, using a risk-based

methodology, impacts negatively (i.e. financial, reputational, operational) on the Council.

Links to background information: N/A

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

East Devon District Council

Proposed 2019-20 Internal Audit Plan and Internal Audit Charter

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The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2019/20 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.

Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's AGS.

It is the responsibility of the Authority's Senior Management Team and the Audit Committee, to confirm that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.

Approach to Internal Audit Planning 2019/20

The factors considered in putting together the 2019/20 internal audit plan have been set out below:



Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will adopt an 'agile' approach and each quarter I will review the next quarter's plan to ensure that we are auditing the right areas at the right time; any necessary changes will of course be agreed with Senior Management and the Audit and Governance Committee will be kept informed.

The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

As above, it is the responsibility of the Authority's Leadership Team, and the Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.

Internal Audit Annual Risk Assessment

Our 2019/20 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for East Devon District Council:



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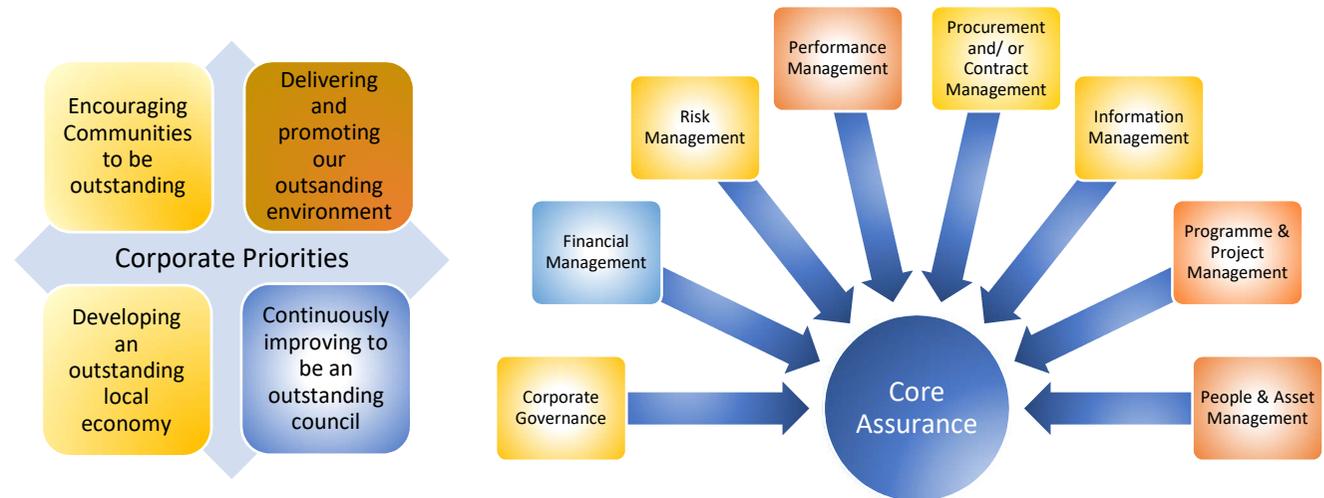
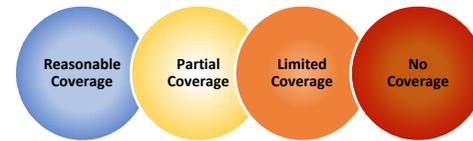
The Internal Audit Plan: Coverage

Following our SWAP Risk Assessment above, we have set out how the proposed 19/20 plan presented in Appendix 1 provides coverage of the Authority's key corporate outcomes, as well as our core areas of recommended coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

Internal Audit Coverage in 2019/20

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives, as well as our core areas of recommended coverage. Where we have highlighted limited or no coverage, Senior Management and Audit Committee should seek and document assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:



Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 26 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

Your Internal Audit Service

Audit Resources

The 2019/20 internal audit programme of work will be equivalent to 376 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for East Devon District Council are:

Alastair Woodland, Assistant Director – Alastair.woodland@SWAPaudit.co.uk, 07720312467
Georgina Teale, Senior Auditor – Georgina.teale@SWAPaudit.co.uk

Conformance with Public Sector Internal Audit Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in March 2016 which confirmed conformance with the Public Sector Internal Audit Standards.

Conflicts of Interest

We are not aware of any conflicts of interest within East Devon District Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, and Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and risks
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><u>Delivery of Annual Internal Audit Plan</u> Completed at year end</p>	>90%
<p style="text-align: center;"><u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%
<p style="text-align: center;"><u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Key Control: Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.					
Accounts Receivable (Debtors)	Accounts receivable that hasn't been looked at since 2013-14. £320 m in income. Should include debt management (problem debt for customers). This review will seek to provide assurance around key controls, namely, reconciliations between non-centralised systems, regular and timely action in chasing debts, processes for identification of all debts, management information and monitoring arrangements.	1	Strategic: Insufficient Financial Resources to achieve Council Priorities	Continuously Improving to be an outstanding council	Financial Management
Treasury Management	Review areas of investment to ensure money is safe and secure and in line with the treasury management strategy. Changes in this area include: <ul style="list-style-type: none"> • Prudential Code (2017) • Treasury Management Code (2017) • Statutory Guidance on Local Authority Investments (2018) • Statutory Guidance on Minimum Revenue Provision (2018) 	3	Operational: Management of Investments	Continuously Improving to be an outstanding council	Financial Management
Housing Benefit	With the roll out of Universal Credit the volume of work in HB has reduced. However, risks remain the same as before and it is imperative that claims are processed without error to avoid EDDC picking up the cost of incorrectly processed applications/amendments. Significant volumes of transactions and money still flow through the HB system.	3	Operational: Delay in Processing Housing Benefit/Reduction on HB subsidy	Continuously Improving to be an outstanding council	Financial Management
Governance, Fraud & Corruption: Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk.					
Corporate Health and Safety	Health and Safety is a high-risk area in certain parts of the Council such as for litter picking on busy highways. Also, protection of staff from abusive customers that visit at Exmouth Town Council which has been an issue.	1	Strategic: Failure to adequately protect staff health and safety at work	Continuously Improving to be an outstanding council	Risk Management

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Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Commercial Property Investment (Framework)	<i>Whether it's CIPFA, Central Government, the press or the public, there is significant interest in local authorities' commercial investments. A new framework has just been introduced. It's essential that an agreed Commercial Strategy is in place. This review would seek to ensure that the governance arrangements being proposed would stand up to scrutiny, including; budget (minimum revenue provision (MRP) consideration), risk assessment, business case, compliance to regulations (Prudential Code), scrutiny process, monitoring arrangements and challenge.</i>	2	Not currently in any risk register	Developing an Outstanding Local Economy	Procurement &/or Contract Management
Reserves Management	<i>Whilst the key Financial Control audits provide a useful routine check on the main revenue and expenditure areas, they will not provide a full picture to how sound the financial position of the organisation is. With 'Austerity' still firmly in place for local government (in Feb 2016 the DCLG published a four-year settlement offer to LAs it detailed RSG would reduce by up to 78% by 2020) and central government failing to provide clarity on future funding arrangements (Business Rates) financial pressures in future years will remain challenging. This audit is to look at key strategic aspects of the financial position and future projection of finances of the Authority. Key areas that will be included are: reserves position and management; review of risk assessment on minimum level of reserves; use of reserves. Work from the transformation audit and key control audits will help shape a picture of the financial position and direction of travel.</i>	2	Strategic: Insufficient Financial Resources to achieve Council Priorities	Continuously Improving to be an outstanding council	Financial Management
Business Continuity	<i>No assurance able to be provided in 2018/19. Office locations have changed, and some ways of working have changed. This review will seek to ensure that business impact analysis has been undertaken, 'critical systems and services' have been identified, staff have been appropriately trained and key systems from a BCP point of view tie in with the ICT recovery plan.</i>	3	Strategic: Failure to adequately plan for emergencies and understand what issues arise in planning for business continuity could lead to a major service failure	Continuously Improving to be an outstanding council	Information Management
Relocation - Benefits Realisation	<i>We are currently undertaking a review on the benefit realisation for Exmouth. The 2019/20 review will focus on the benefit realisation around the move from Knowle to Blackdown House. Aspects of this review will consider whether the key benefits identified in the original business case have been delivered. Any learning aspects will also be captured.</i>	4	Strategic: Not relocating would mean the continued high cost of management and maintenance of Knowle Offices	Continuously Improving to be an outstanding council	Financial Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Information Governance (including GDPR)	<p>Only looked at certain areas in 2018-19. Could include management of breaches. Will also follow up the recommendations from 2018/19.</p> <p>Aspects to consider:</p> <ul style="list-style-type: none"> - gap analysis - law Enforcement Directive implementation - data storage arrangements, both physical and electronic - confidentiality & integrity & availability of data - roles and responsibilities and identification of third-party relationships - organisational awareness and training - Data classification and management 	4	Operational: Failure to process information in accordance with FOI and Data Protection legislation	Continuously Improving to be an outstanding council	Information Management
Members Declaration of Interest (ModernGov)	<p>The Localism Act 2011 requires the Monitoring Officer to establish and maintain a Register of Interest of elected members, as well as a Code of Conduct for members which includes the notion of registering and disclosing pecuniary interest and other interests. The requirement for Officers is covered under the Local Government Act 1972 Section 117. A new system is being used by Members. This review would look at Committee Administration, Gifts and Hospitality and Declaration of Interests.</p>	2	Operational: Failure of members to observe their Code of Conduct	Continuously Improving to be an outstanding council	Corporate Governance
Impact of Universal Credit	<p>Pressure on rental income with tenants receiving income directly and a risk of tenants not paying their rent. This review will look at what EDDC is doing to minimise the impact of universal credit on income and how effective these arrangements are. Also consider the wider impact on poverty.</p>	4	Operational: Loss of Rental Income	Encouraging Communities to be outstanding	Financial Management
Transformation					
Transformation Strategy	<p>Transformation Strategy and Financial Plan has been adopted for 2019-29. How is the Council going to bridge the budget gap for 2020/21? - could involve significant restructuring (Succession Planning). Will the Elections in May cause any significant changes in direction for the Council?</p>	3	Strategic: Insufficient Financial Resources to achieve Council Priorities	Continuously Improving to be an outstanding council	Programme & Project Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Operational: Operational audits are a detailed evaluation of a Service’s control environment. A risk matrix is devised and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.					
Housing Compliance (Fire, Legionella, Asbestos, Gas)	H&S (Fire, Legionella, Asbestos, Gas) <i>Rolling Programme of audits covering Gas Safety, Fire Safety Management, Asbestos Management and legionella. For 2019-20 the focus will be on Fire Safety Management. General Fund Health & Safety.</i>	2	Operational: Failure to satisfy a compliance requirement.	<i>Encouraging Communities to be outstanding</i>	Asset Management
Tree Management	<i>The Council must ensure trees within the district which are the responsibility of EDDC need a routine survey to assess the Health and Safety against risks relating to property and injury/death. Will consider the way all Council owned trees are identified, logged and inspected to ensure records meet the Healthy and Safety requirements in this area to prove the Authority is legally compliant.</i>	1	Operational: Arboricultural professional liability for dangerous trees - H&S and legal risk	<i>Delivering and Promoting our Outstanding Environment</i>	Risk Management
Integrated Asset Maintenance Contract	<i>New Significant Contract starting in June - different type of contract. Management information, setting up of systems. Automation.</i>	4	Operational: Failure of responsive repairs contractor	<i>Encouraging Communities to be outstanding</i>	Procurement &/or Contract Management
Development Control	<i>Planning is one of the 'High' profile services of a Local Authority. This review will consider the effectiveness of the processes in place to 'offer planning advice', processing of applications, consultation process, meeting of statutory time frames, processes to ensure 'undue' influence is not placed on officers and/or by members, and effective enforcement arrangements are in place.</i>	1	Operational: Failure of correct procedures and practices causing challenges to decisions	<i>Developing an Outstanding Local Economy</i>	Performance Management
Follow -up: Follow up reviews are undertaken where a previous audit has returned a 'Partial Assurance' or 'No Assurance'. This is to provide assurance that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review.					
Housing Payments	Invoice <i>Housing Maintenance still included to ensure controls effective for invoice payments as the contract comes to an end in June 2019.</i>	1	Operational: Failure of responsive repairs contractor	<i>Encouraging Communities to be outstanding</i>	Procurement &/or Contract Management
Planning, Advice and Support					
Follow Up	<i>Time to follow up Partial/No Assurance audits that arise in year and need to be followed up.</i>	2-4	N/A	N/A	N/A
SWAP Development	Audit <i>The importance of the IA team keeping up to date with developments in the services they audit, latest audit and risk developments in the Public Sector and necessary training.</i>	1-4	N/A	N/A	N/A
Corporate Advice	<i>Guidance and advice on best practice, members training</i>	1-4	N/A	N/A	N/A

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Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link Corporate Risk Register (Strategic or Operational)	Link to Corporate Outcome	Healthy Organisation Theme
Committee Reporting & Attendance	<i>Drafting Reports and attending Audit and Governance Committees</i>	1-4	N/A	N/A	N/A
Planning/Client Liaison	<i>Audit planning, liaison with S151 Officer, Senior Officers, SMT and External Audit</i>	1-4	N/A	N/A	N/A

The Internal Audit Charter

Purpose

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

Approval

This Charter was approved by the Audit and Governance Committee on 26 July 2018 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit and Governance Committee on 21 March 2019*.

Provision of Internal Audit Services

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

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

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

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

Responsibilities of Management and of Internal Audit

Management¹

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

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

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

¹ In this instance Management refers to the Senior Management Team.

*subject to approval in March 2019

Internal Audit

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

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

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

Relationship with the External Auditors/Other Regulatory Bodies

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

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP, the Executive Director and Assistant Director also report to the Strategic Lead - Finance, as Section 151 Officer, and reports to the Audit and Governance Committee as set out below.

The Assistant Director will be the first and primary point of contact for East Devon District Council for all matters relating to the Audit and Governance committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the partner or client.

Scope and authority of Internal Audit work

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

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

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;

- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether East Devon District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

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

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

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

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Strategic Lead – Finance (Section 151 Officer) and to other relevant line management.

The Assistant Director will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

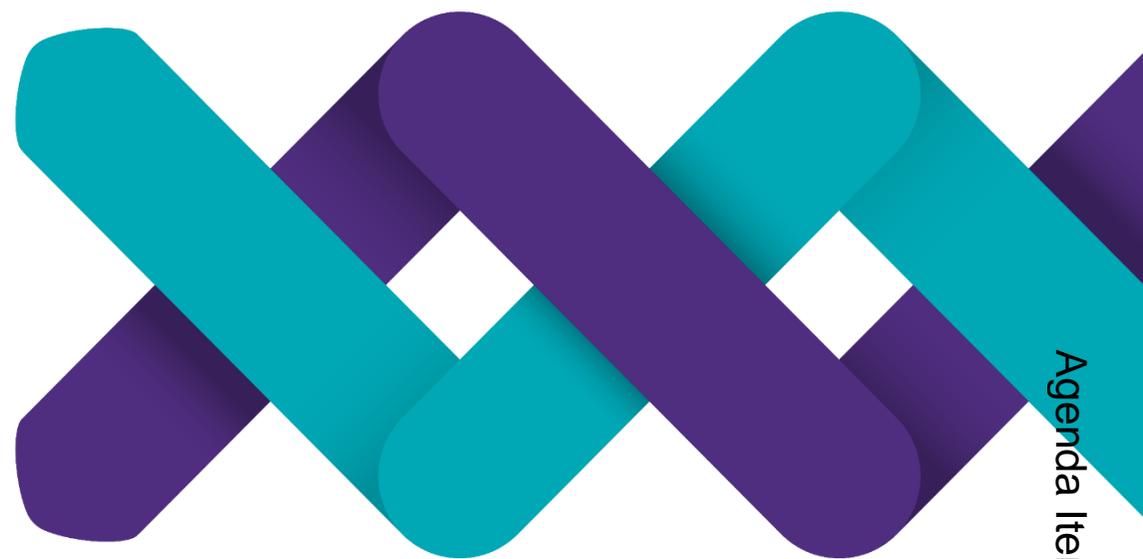
In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the Council's Chief Executive Officer or the External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

Revised March 2019

Audit Progress Report and Sector Update

East Devon District Council
Year ending 31 March 2019

March 2019



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Introduction



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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)



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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.

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.

Progress at March 2019

Financial Statements Audit

We have undertaken planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in February 2019. Our interim fieldwork visit included:

- Updated review of the Council's control environment
- Understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early substantive testing

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin on the 19 June with findings reported to you in the Audit Findings Report by the deadline of July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

Meetings are planned on a regular basis to discuss the Council's strategic priorities and plans.

We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Grant Certification

We were engaged to complete certification assurance work on the Council's pooling capital receipts return. This work is nearing completion at an agreed fee of £3,000.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your finance team receive invitations to these events.

Insights

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below. We will be on site at the Council in April to complete our interim procedures.

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's reports issued to date.	Our review of internal audit's work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Review of the Council's IT control environment	The Council's IT system is operated jointly with Exeter City Council and Teignbridge District Council through a jointly controlled company Strata Service Solutions Ltd. Our IT specialists are undertaking a joint review of the IT control environment.	Our work is ongoing in this area.

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	Work performed	Conclusions and recommendations
Understanding Significant Business Processes	<p>We have commenced documenting our understanding of significant business processes for key systems.</p> <p>Business process have been documented in respect of:</p> <ul style="list-style-type: none"> Accounts payable Housing Rents Housing Benefits Accounts receivable Payroll Collection Fund Cash 	<p>Our work to date has not identified any issues which we wish to bring to your attention.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>Our work in this area is ongoing.</p>
Early substantive testing	<p>We have carried out:</p> <ul style="list-style-type: none"> • Substantive testing of operating expense transactions to month 10. • Substantive testing of employee remuneration to month 10 	<p>We have no issues to report.</p> <p>Audit corroboration currently on-going. Testing for the last two months of the financial year will be carried out at our final audit visit.</p> <p>Substantive testing of other significant balances will undertaken at our next interim visit in April.</p>

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	September 2018	Complete
Accounts Audit Plan 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
Interim Audit Findings 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	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work..	December 2019	Not yet due

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Sector Update

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.

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.

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.

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- **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 by clicking on the logos below:

Public Sector

Local
government

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

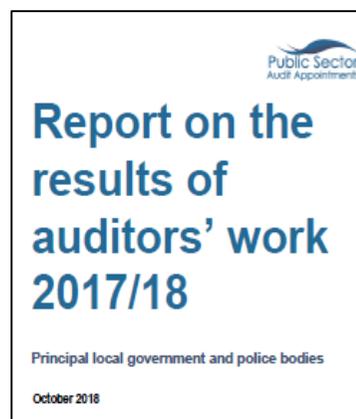
<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

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PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

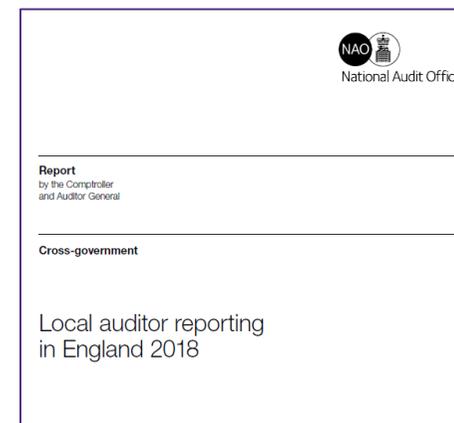
The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

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NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

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Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

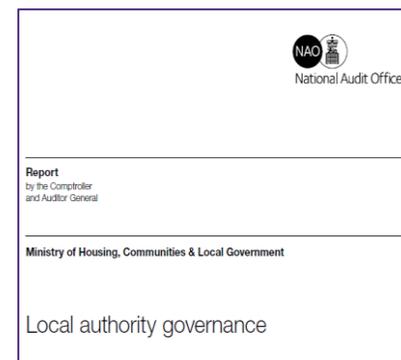
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report

Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

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CIPFA Consultation

Challenge question:

Has your Head of Finance briefed members on the Council’s response to the Financial Resilience Index consultation?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.





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Internal Audit Report

Strata ICT Audit 2017/18 Strata Services Solutions

September 2018

OFFICIAL



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1 Introduction

Strata Service Solutions has three founding partners; East Devon District Council, Exeter City Council and Teignbridge District Council (The Partners). The three founding partners took an innovative approach in setting up Strata, with shared service arrangements often being the model of choice for two-tier district authorities.

In creating Strata the partners have created a dedicated ICT company that provides opportunities in terms of costs, enhancing workforce capacity and, potentially, some additional leverage in the marketplace. The strategic path enables each individual Council to better maintain its own aims, objectives and service delivery priorities. This does not limit the opportunities for creating financial and operational benefits of using identical computerised solutions and, potentially, end to end business processes where considered appropriate by the Partners.

Core processes and functions are both maturing and considered to be of a 'good standard'. With the first two phases of Strata's strategy effectively delivered, there are increasing opportunities to measure the demand for services from the individual Partners. This allows for Strata to further refine its operational processes, better identify capacity requirements and evolve its strategic focus.

As highlighted in last year's report, once a strategic path has been chosen then it is crucial that the benefit realisation is optimised. Strata's principle objectives are to:

- *Reduce Risk;*
- *Reduce Cost;*
- *Increase Capability to Change.*

Strata now offer the Partners greater opportunities in delivering affordable services in the short and medium term. This report will predominantly focus on the operational baseline upon which Strata deliver ICT services to the Partners and the security afforded to their computerised information assets. It will also summarise the ongoing progress made in respect of Strata's ability to fulfil the third principle object and assist the Partners in delivering transformational change to the Partners.

2 Overall Audit Opinion

Good Standard. The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

3 Executive Summary

Strata has been in operation since 1st November 2014 for three and a half years has established itself as a successful provider of ICT services to its founder Partners. Whilst there have been challenging times, not least the establishing of the global desktop, there is clear recognition of progress against the original business plan.

A former weakness of Strata, and indeed most public sector IT service providers, was in the way 'customer satisfaction' was managed, or more precisely, customer perception. Customer satisfaction relies upon perception and Strata must continue to manage client and user perception through effective communication strategies if their value is to be fully realised.

The work undertaken by the IT Director and his Management Team to improve the quality of performance reporting and customer satisfaction over the past twelve months has paid dividends. The overall level of customer satisfaction and the overall appreciation of the services Strata provides is significantly greater than at any time since the company was created. This benefits both Strata and the Partners as it creates an environment of trust and allows more measured conversations to be had regarding both current and future services.

On an operational level Strata demonstrate that they discharge fundamental IT operational activities to a good standard. From a user perspective, the problems experienced in rolling out the Global Desktop across the whole estate have been resolved, although some server performance issues remain.

The 'Global Desktop' demonstrated its value during the snow events of March 2018, allowing staff to work remotely and effectively whilst away from their respective office locations. The global desktop provides a good example of what are the risks and benefits of adopting 'bleeding edge' technologies. However, above all, it demonstrated a will to make things work for the benefit of the Partners and gain resolutions to issues that were mainly beyond their direct control.

The overall level of Cyber Security is of a good standard, with the majority of controls according to those generally accepted as being good practice for an organisation of its size and resources. The virtual environment operated by Strata offers some benefits in the event that the network is breached by malware. There are, however, issues to be addressed in respect on the use and management of some high privilege network accounts.

Since the last years audit, good progress has been made to establish governance structures and working practices to manage and support the respective change programmes of the Partners. The existence of a Joint IT Steering Group (JITSG) that can identify potential projects that would benefit the Partners as a whole is good practice. This should also help provide the JSC, JEC and Strata Board with a clearer and more holistic view of potentially mutual benefits.

Efforts continue to evolve processes and procedures to enable Strata to more successfully deliver projects to meet with the Partners requirements and manage the resources it needs to achieve this. The adoption of a new project management process, based on protocols developed by the Association of Project Managers, is being implemented with key staff having received training on the methodology.

3.1.1 Key Operational Functions

Overall operational functions and processes continue to be assessed as of a good

standard and appropriate to what should be expected from a relatively small public ICT service. Strata, and the Partners, benefit from the broadly standardised technical baseline that has been established. These are both materially evident in the level of service provided by Strata and, crucially, in the demonstrable savings delivered.

The majority of operational risks are being appropriately mitigated, although the concept of continual service improvement that Strata has demonstrated to date should not be lost now that a sound operational baseline has been achieved. Where appropriate, the provision of timely and well-reasoned arguments to the Partners for investment in new infrastructure remains essential for safeguarding availability and security.

Looking forward, operational knowledge must be maintained, whilst programme and project management processes must contribute to the identification of skill requirements for new or developing service solutions. Where possible, staff should continue to be mentored and upskilled to enhance capacity and, maintain high service availability and incident remediation.

3.1.2 Service Design (& Delivery)

The primary objective of this part of this review was to assess the effectiveness of processes to transform the strategic requirements of Strata into effective business solutions. It is pleasing to report that progress has been made to lay the foundations for improved service delivery in this area. However, it is clear that there is both opportunity and an appetite within Strata to improve programme delivery and what are essentially intelligent client functions.

The delivery of transformational projects is now a fundamental requirement for Strata. Overall governance structures have improved and the creation of the Joint IT Steering Group (JITSG) provides a degree of transparency and control over the Partners three individual project streams. This also provides a holistic view of the three programmes in order to better identify opportunities for all of the Partners.

A knowledge hub has been created, not only to capture internal knowledge and learning, but to create a repository of market awareness. The hub can be used to detail technological opportunities identified by staff, but also to record information provided by suppliers regarding their products and capabilities. Financial and human resource information can also be stored to help with future costings and provide an understanding of what skills and capabilities may be required.

The prioritisation and timetabling of individual projects becomes more challenging when the requirement for transformational change is driven by the need for cross organisational cost saving. In Strata's case, they have to serve the needs of the three Partner Councils. An internal review conducted by the Strata Management Team revealed that some projects had stagnated, generally as a result of the volume of projects being managed.

Strata have invested time and effort into the production of a 'Priority' matrix in order to more scientifically identify and highlight what projects were of most importance to the individual Partners. This is considered by Internal Audit to provide a baseline process for gaining an effective overview of which projects potentially add most value to the individual Partners.

The provision of greater visibility of what projects remained on the project portfolio has also allowed decisions to be made to reduce their number to more manageable numbers. Moving forward, the ability to manage the project portfolio effectively is a

challenge that Strata need to meet in order to maximise the potential for timely delivery of new service solutions.

As a minimum, Strata and the Partners need to gain timely visibility into what financial, staff and knowledge resource is required to deliver individual projects. It is hoped that the new project methodology will add significant value to financial, capacity and knowledge management. However, for the methodology to be successfully implemented a not insignificant degree of operational and cultural change will be required within Strata and the Partners.

Internal Audits initial opinion on the new project management process is that it appears to offer potential to add value to Strata's project management and, potentially, other functions. Two additional positions, of Project Manager and Supplier Manager, have also been created to provide additional roles and skills to supplement those that exist within Strata.

3.1.3 Cyber Security

The level of control in the six areas reviewed was considered to be of a good standard with strengths being provided by technical, procedural and, 'human' controls.

The loss or compromise of individual network devices can present an organisation with a range of challenges, but the virtualised VMWare environment adopted by Strata provides certain benefits. With all data being held centrally, the Partners data is more readily protected against a potential malware infection spreading across the computerised estate. A further advantage exists due to all user devices receive a new image each time a session is commenced and so any compromised device is effectively re-built, negating the need to physically re-image individual machines.

The area of most concern related to the use of high privilege network accounts. The number of these accounts used to manage Strata's network is excessive and bears no resemblance to what is advocated as best practice by Microsoft. The reduction of Domain Admin accounts within the Active Directory will take time to fully address as alternative lower privilege accounts need to be configured.

Some older server infrastructure still exists and these have to be appropriately managed to maintain security. The continued modernisation of the windows server infrastructure introduces more security by default and the ability to manage security using security through default and fine tuning using the Security Compliance Manager. The ongoing upgrading of server infrastructure is a major contributor to network security and Strata must continue to advocate the ongoing update of network hardware to benefit from technological advances.

Additional steps have been taken to improve the quality of information provided by logs. Monitoring is conducted to permit logs to be more effectively analysed and supplement alerts and warnings already embedded within existing software and workflow configuration. Patch Management, Firewall and Malware arrangements utilise a combination of well-known solutions. The Compliance & Security Manager maintains an up to date awareness of current threats and mitigations, which allows for security and operational needs to be kept in balance.

3.1.4 Follow Up (of previous issues and recommendations)

A total of eight recommendations were considered to have been fulfilled, whilst a further eight were considered ongoing and worthy of further review as part of the

2018/19 audit review process. Strategic recommendations are ongoing and the time allocated within the IT Audit Plan will be used to measure overall strategic progress.

The detailed findings and recommendations regarding these issues and less important matters are described in the Appendix A. Recommendations have been categorised to aid prioritisation. Definitions of the priority categories and the assurance opinion ratings are also given in the Appendix C.

5 Assurance Opinion on Specific Sections

The following table summarises our assurance opinions on each of the areas covered during the audit. These combine to provide the overall assurance opinion at Section 2. Definitions of the assurance opinion ratings can be found in the Appendix C.

Areas Covered		Level of Assurance
1	Key Operational Functions - Key operational functions and processes provide stable services that help deliver business outcomes.	Good Standard
2	Service Design - Processes to transform the strategic requirements of Strata into effective business solutions are effective.	Good Standard
3	Cyber Security* - Cyber (Security) can be considered to be a body of technologies, processes and practices designed to protect networks, computers, programs and data from attack, damage or unauthorised access.	Good Standard

* Work undertaken was based on the Government's Cyber Essentials Scheme. It is often stated that compliance with the Cyber Essentials framework assists in guarding organisations against 80% of malware attacks. However, additional controls have been included within this programme in order to add the potential for further assurance to be obtained.

The findings and recommendations in relation to each of these areas are discussed in the "Detailed Audit Observations and Action Plan" **Appendix A**. This appendix records the action plan agreed by management.

6 Scope and Objectives

As part of the formal audit planning process five key areas were identified for review within what was year one of a three year audit cycle, namely:

- Key Operational Functions;
- Service Design;
- Cyber Security

The work undertaken was to perform a high level review of these key areas in order to assess if there were any significant weaknesses, or risks, that Strata, and the Executive Board, should be aware of. Recommendations to mitigate any risks and to identify, or highlight, areas of improvement are also made. The programmes of work utilised to perform the reviews are based upon industry best practice.

The scope and objectives for the four individual audit areas reviewed as part of the plan of work for are provided in **Appendix B**.

7 Inherent Limitations

The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

8 Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

Robert Hutchins
Head of Partnership

Appendix A

Detailed Audit Observations and Action Plan

<p>1. Area Covered: Key Operational Functions - Key operational functions and processes provide stable services that help deliver business outcomes.</p>		<p>Level of Assurance</p>
<p>Opinion Statement:</p> <p>The level of control across core ICT functions is considered to be of a ‘good standard’. Having established a technical baseline for core ICT services, Strata are now in a position to evolve and refine their technical solutions and operational processes in order to deliver service improvements where possible. In terms of the core functions, this will often be in the form of greater resilience or security rather than providing more visible service improvements.</p> <p>The maintenance and development of the core operational functions is reliant on having a good understanding of developments within the ICT industry. The further development of Strata’s ‘intelligent functions’ has a direct impact on the ability to maintain it’s Business As Usual (BAU) tasks effectively and not just the transformational programmes of the Partners.</p>		<p>Good Standard</p>
<p>Agenda page 50</p>	<p>Observation and implications</p>	
<p>50.1</p>	<p>In order to ensure that changes to legislation or best practice are understood and embedded into policy and procedure there needs to be processes in place to recognise relevant changes and perform period policy reviews. This is recognised by the Compliance & Security Manager who is to create a timetable for the Strata policy suite.</p>	

	Recommendation	Priority	Management response and action plan including responsible officer
1.1.1	Ensure that Strata's policy suite remains valid and up to date by timetabling review dates.	Low	Will be reviewed in May Responsible Officer: Head of Security & Compliance Target Date: 31/05/2019
No.	Observation and implications		
1.2	There is no formal Network Strategy in place to capture and define the future network requirements of Strata, the Partners, or potential future business opportunities. However, a Business Case for network improvements has been written/ is pending.		

	Recommendation	Priority	Management response and action plan including responsible officer
Agenda page 52	1.2.1 As the new project management processes embed and 'intelligent functions' evolve, consideration should be given to: <ul style="list-style-type: none"> • Identifying and detailing the Strategic objectives for Strata and the Partners; • Producing a Strategy or strategic statement to detail and list strategic priorities; • Identifying and documenting Architectural Principles to provide a clear and standardised development direction; 	Opportunity	<p>The new project management process is being successfully embedded. The process is already adding value to Strata and the Partners whose prioritised needs can now be understood and delivered more effectively. This, and the developing governance structures, will also help limit the number of platforms and technologies to those within Strata's Service catalogue and preferred technical direction.</p> <p>Working in Partnership with the Partners, Strata is looking to follow the principles of the Local Digital Declaration , this initiative which is prescribed by central government for the delivery of applications within the public sector prescribes a code of conduct which it is looking for authorities to adopt. This initiative will also greater collaboration across the authorities through knowledge sharing and sharing of best practice. Further examples of standards followed by Strata are the OWASP application security standards.</p> <p>The new processes also help ensure that business continuity and data security requirements are understood early in any project, again assisting in maintaining standards.</p> <p>Responsible Officer: Strata Senior Management Team (SMT)</p> <p>Target Date: Ongoing</p>
No.	Observation and implications		
1.3	Business Continuity & Service Level Management – IT Business Continuity Plans for 'Critical IT Systems has been produced, but the IT business continuity requirements of the Partners still need refining and documentation. Completion of a full IT BCP to reflect the operational needs of the Partners would also provide a valuable strategic overview that would inform proposals for a new data centre.		

	Recommendation	Priority	Management response and action plan including responsible officer
1.3.1	Continue to work with the Partners to improve BCP arrangements, including the maintenance of prioritised schedules for the recovery of key business systems and solutions.	Medium	<p>The Business Continuity position has now changed significantly over the past year, with a standard recovery priority list provided These define Recovery Time (RTO) and Point Objectives (RPO). Strata have also now further developed the capability of the Oakwood Disaster Recovery (DR). Strata are also undergoing an 11 stage process as part of the GDIP programme to demonstrate that investment is being made into making sure the technology is stable, flexible, but also has the capability and capacity to meet with the ever changing requirements of the three authorities. . Work conducted to improve BCP is also informing discussions and considerations for the potential development of a more suitable secondary Datacentre.</p> <p>Responsible Officer: Strata SMT Target Date: Ongoing</p>
No.	Observation and implications		
1.4	Network and Information Security (High Privilege Accounts) - Default 'super user' or 'system' accounts only exist to perform known functions that assist in the maintenance, integrity and resilience of the application or database and their use is monitored.		
	Recommendation	Priority	Management response and action plan including responsible officer
1.4.1	Consideration should be given to producing a policy to govern the use of all high privilege accounts. Further consideration should be given to managing any such policy through the Change Advisory Board (CAB).	Low	<p>A guidance document for the use of high privilege application accounts will be produced as part of the DPO data protection awareness programme.</p> <p>Responsible Officer: Head of Security & Compliance Target 31/12/2018</p>

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No.	Observation and implications		
1.5	<p>Backup Arrangements - There is currently no schedule of tests to verify whether the backups made will actually be sufficient to rebuild a system and, therefore, no full system recoveries have been carried out. If backups have never been used to perform a full system recovery (including tests of the system by the business) they do not provide any assurance of resilience in the event of a system failure.</p> <p>Noted: There are ad hoc recoveries performed for files and servers. Veem can bring back multiple servers.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
1.5.1	Strata should plan towards conducting full BCP failovers once arrangements for BCP and data centre provision have been finalised.	Medium	<p>In line with the original Strata Business Plan, business continuity testing will be conducted to reinstate multiple business solutions following a major incident. As planned, Strata are commencing this during Summer 2019, building confidence in new SRM and Veeam configurations that support the failover.</p> <p>Responsible Officer: Head of Security and Compliance</p> <p>Target Date: 31/08/2019</p>
No.	Observation and implications		
1.5	<p>Backup Arrangements – Backup arrangements have been configured by IT staff based on technical requirements. However, without approval, or agreement, from the individual business area, there is no way of knowing that the customer is satisfied with the level of service provided. As a minimum, the ability to restore on a timely basis should be included as part of business continuity planning, which would also identify prioritisation of key business systems. Recovery Time Objective (RTO) and Recovery Point Objective (RPO) have been discussed with BCP Leads from the three clients, which provides Strata with a clear measure of what their ‘customers’ expect.</p>		

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	Recommendation	Priority	Management response and action plan including responsible officer
1.5.2	Strata should formally recognise the Recovery Time Objective (RTO) and Recovery Point Objective (RPO) identified within the BCP as defining the level of service required by the individual business areas for BAU purposes. Strata should also confirm that the current technical and procedural elements accord to these BCP specifications.	Low	<p>Actioned</p> <p>Strata have now agreed RTO & RPOs with the Partners for key systems and applications. Strata are working to deliver the infrastructure to support the required RTO's and RPO's. In addition, the Business Continuity Lead (TDC) has sent out communications to all senior managers at TDC outlining their roles and responsibilities in respect of data retention, backup and recovery.</p>

Agenda Item 2.5	<p>2. Area Covered: Service Design - Processes to transform the strategic requirements of Strata into effective business solutions are effective.</p>	<p>Level of Assurance</p>
	<p>Opinion Statement:</p> <p>Strata have demonstrated both an appetite and ability to make tangible improvements in this difficult area. The progress made in the past six months already demonstrates that Strata are putting the correct processes in place to improve the design and delivery of new service solutions for the Partners. The ability to recognise that there was room to make improvements in service delivery and to act upon it in a timely and swift manner not only provides assurance that service design and delivery will improve further, but also lends assurance to the Partners about Strata as a valued service provider.</p> <p>The ICT industry continues to evolve rapidly which necessitates an awareness of what opportunities exist to provide benefit to the Partners. The initiatives to improve project and supplier management can all contribute to gaining market visibility and the timely identification of new solutions whether for visible service improvement or to provide greater warranty and security for the Partners. Strata should continue to develop their 'intelligent' functions so that the Strata Board has good visibility of opportunities, warranty and security and compliance requirements.</p> <p>Few recommendations have been made to support service improvements at this stage as work has already commenced to review this area. As part of this work, more specific observations will be made along with more granular recommendations.</p>	<p>Good Standard</p>
No.	Observation and implications	

2.1	Strata are looking to undertake a timely and effective change to the project management processes and associated interdependencies. Time has, therefore, been allocated to look at the new project management process and those in place to assist with the delivery of new service solutions.		
	Recommendation	Priority	Management response and action plan including responsible officer
2.1.1	DAP and Strata's IT Director to agree upon suitable Terms of Reference (TOR) to provide assurance that the approaches taken are appropriate to the needs of the Partners.	High	Actioned
2.1.2	DAP and Strata's IT Director to agree upon suitable Terms of Reference (TOR) for the audit time to add further value by identifying additional opportunities where appropriate.	High	Actioned
2.1.3	DAP to provide formal feedback during the third quarter of 2018/19, detailing observations, recommendations and opportunities by way of a formal situation report or report as deemed appropriate.	High	Agreed Responsible Officer: DAP Senior Auditor (IT) Target Date: 30/10/2018

<p>3.1 Area Covered: Boundary firewalls and internet gateways - Information, applications and computers within the organisation’s internal networks are protected against unauthorised access and disclosure from the internet, using boundary firewalls, internet gateways or equivalent network devices.</p>		<p>Level of Assurance</p>	
<p>Opinion Statement:</p> <p>Boundary firewalls and internet gateways are considered to be configured and managed to a ‘good standard’. The Fortinet Firewall was used to protect all three of the Partners prior to Strata, and the limited number of staff who administer it benefit from many years’ experience with Fortinet products. The use of Logpoint to log and record Firewall changes and send alerts was considered to be of good practice. The use of Logpoint for other intelligence also provides further assurance.</p>		<p>Good Standard</p>	
No.	Observation and implications		
3.1.1	<p>Penetration testing is performed by an appropriately on a periodic basis so that vulnerabilities and weaknesses can be proactively identified. However, the annual IT Health Check testing (ITHC), and quarterly testing by the Compliance and Security Team has been conducted using the same company in recent years. Whilst there are some advantages in this, best practice would require the use of a variety of companies so that testing was approached using varied methodologies and personnel.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
3.1.1.1	<p>Consideration should be given to periodically using different (accredited) security assurance companies to provide penetration testing and IT Health Checks (ITHC).</p>	Medium	<p>Actioned</p> <p>This was already planned and is included within the new Strata Business Plan to have half yearly ITHCs, using alternative suppliers. Surecloud, used for the PSN compliance process, are to be retained as they are well recognised and this fits in with the onsite vulnerability testing platform that we use from them. Alternative companies will also be used for independent penetration tests of key systems.</p>

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<p>3.2. Area Covered: Secure Configuration - Computers and network devices are configured to reduce the level of inherent vulnerabilities and provide only the services required to fulfil their role.</p>		<p>Level of Assurance</p>	
<p>Opinion Statement:</p> <p>Controls in this area are generally of a good standard. Network devices are built from a standard image and 'due to the environment employed, re-built for each session. This is undertaken in the DMZ, access to which is limited by firewall rules. However, for the main network Servers, normal Microsoft services are left enabled to avoid unexpected disruption.</p> <p>All default passwords that exist to administer initial server build are changes and tested, before safeguarding the new 'complex' passwords. In the medium term, modernising the server infrastructure to predominantly use Windows Server 2012 and beyond would significantly strengthen network security by default. Whilst all current servers are hardened in line with best practice, the production of a policy template to define and potentially record the hardening process would strengthen current procedures.</p>		<p>Good Standard</p>	
<p>Agenda page 58</p>	<p>3.2.1. Observation and implications</p>		
<p>3.2.1.1</p>	<p>There is no formal policy/ procedural guidance to define what steps server engineers take to 'harden' the security of servers/ network devices as part of the installation process. There have been various procedures put in place however these are not currently enforced.</p> <p>Noted: All hardening done in the DMZ – using 2012 within DMZ. About 30>50% on Windows Server 2012 (Hardened by default).</p>		
	<p>Recommendation</p>	<p>Priority</p>	<p>Management response and action plan including responsible officer</p>
<p>3.2.1.1</p>	<p>Consideration should be given to producing a Server Hardening policy/ template to define and record new server build standards.</p>	<p>Medium</p>	<p>Actioned</p> <p>Strata have already identified this and went through the process of testing Group Policy Objects, however at the time there was considerable concern that this may cause failures. With the introduction of Server 2016 and the withdrawal of 2008 Servers the default hardening from Microsoft is now much improved and subject to a final review will become the default.</p>

No.	Observation and implications		
3.2.1.	Approximately half of the server infrastructure is older than Windows Server 2012. Whilst these servers can still be managed to ensure that they are fundamentally secure, there are security and administration advantages in utilising newer server infrastructure.		
	Recommendation	Priority	Management response and action plan including responsible officer
3.2.1.1	Strata Management Team should continue to advocate the value of using up to date server infrastructure, incorporating any associated principles within any future IT Strategy or Roadmap.	Low	<p>Actioned</p> <p>Strata SMT will continue to advocate the value of suitably specified server infrastructure. Windows Server 2008 will remove just under 200 Servers from the estate by January 2020, most being rebuilt as 2012 and 2016 Windows Servers.</p> <p>Where necessary, and if appropriate, Strata will consider the use of cloud based applications.</p>

<p>3.3. Area Covered: Access Control - User accounts, particularly those with special access privileges (e.g. administrative accounts) are assigned only to authorised individuals, managed effectively and provides the minimum level of access to applications, computers and networks.</p>		<p>Level of Assurance</p>	
<p>Opinion Statement:</p> <p>The area of most significant weakness related to the use of high privilege Active Directory (AD) accounts that deviates considerably from common and long established best practice within the ICT industry. This represents a potentially significant vulnerability to the Councils network in the event that the network perimeter was compromised.</p> <p>The number of Domain Admin accounts is exaggerated by the existence of four separate domains. However, the number of Domain Admin users is excessive and inappropriate to operational requirements and increases the risk of severe compromise of the network and the information assets held upon it. A process to administer and authorise additional higher AD privileges is in place which is considered to be good practice.</p> <p>The three Partners still operate individual user management processes that, whilst interacting with the Strata Service Desk, provide information through differing processes. This is both inefficient and requires Service Desk operatives to have knowledge of the three differing processes. Efforts to bring about a single process that utilises automated workflow to create operational efficiencies should be appropriately resourced to add further value to the HR/ Payroll convergence.</p>		<p>Improvements Required</p>	
<p>3.3.0.</p>	<p>Observation and implications</p>		
<p>3.3.1</p>	<p>The number of Domain Admin accounts far exceeds what is considered to be acceptable good practice.</p>		
	<p>Recommendation</p>	<p>Priority</p>	<p>Management response and action plan including responsible officer</p>
<p>3.3.1.1</p>	<p>A work stream to reduce the number of Domain Admin accounts should be initiated and a timeline should be agreed to perform the following remedial actions:</p> <ul style="list-style-type: none"> A policy or standard should be produced to define to whom high privilege accounts are allocated applying the principle of least privilege in all cases. The standard should meet with best practice including the need for domain admins to 	<p>High</p>	<p>Work continues to reduce the number of true Domain Admin accounts within the Partners network domains.</p> <p>All use of domain admin accounts are being logged and monitored and account creation requires the approval of the Head of Security & Compliance. Initiatives to better inform their use and to change behaviours are also ongoing.</p> <p>Responsible Officer: Head of Security & Compliance</p>

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	<p>have separate network user accounts and prohibiting the provision of an email account to domain admin accounts;</p> <ul style="list-style-type: none"> • A review of domain admin account holders should be undertaken and inappropriately allocated accounts deleted and replaced with new AD accounts that provide appropriate access; • All changes should be managed through the Change Advisory Board (CAB) so that all risks to service availability are formally assessed and any potential risks are appropriately mitigated. 		<p>Target Date: Ongoing</p>
<p>No.</p>	<p>Observation and implications</p>		
<p>Agenda page 61</p>	<p>3.2.1 The three Councils have historically used their own respective starter/ leaver user access management processes to get the notification to Service Desk. The lack of a single standardised process creates operational inefficiencies for the Service Desk. Furthermore, the overarching Information Security Policy (ISP) produced by Strata to ensure that policy standards converge does not currently include User Access Management (Starters, Changes, Leavers), or password standards. This issue was originally raised within last year's report (Appendix A Item 4.4).</p> <p>Strata are striving to have a single process and this issue is also recognised by the three Council business leads, but progress has been slow, partially due to the use of two different HR systems. The convergence to the iTrent HR/ Payroll system allows for these issues to be more easily rectified.</p>		
	<p>Recommendation</p>	<p>Priority</p>	<p>Management response and action plan including responsible officer</p>
<p>3.2.1.1</p>	<p>All the opportunities presented by the introduction of the iTrent HR/ Payroll system should be captured to inform the introduction of a single user access management processes for all three Partner organisations.</p>	<p>Medium</p>	<p>Due to personnel changes within TDC, the project stalled. However the project is now being championed and good progress being made. It is hoped that a decision to 'go live' will be taken in the Autumn.</p> <p>Responsible Officer: Strata SMT</p> <p>Target Date: Ongoing</p>

3.2.1.2	Policies for user access management and password quality should be written into the Acceptable Use and IT Supplier sub policies.	Medium	Agreed Responsible Officer: Head of Security & Compliance Target Date: Ongoing
3.2.1.3	Consideration should be given to capturing the functional requirements for creating efficient workflows to highlight any deficiencies within the current Service Desk solution.	Opportunity	The process to select a new Service Desk is now well advanced having seen four alternative systems. The creation of effective and efficient workflows is considered to be of high importance. Responsible Officer: Strata SMT Target Date: Ongoing
3.4. Area Covered: Malware protection - Computers that are exposed to the internet are protected against malware infection through the use of malware protection software.			Level of Assurance
Agenda Page 63	Opinion Statement:		Good Standard
	Malware protection is provided through layers of controls provided by a variety of protection software solutions. Appropriate protection was found to be provided to safeguard servers and end user devices utilising real-time protection and a range of security products. Some legacy computers are not as well protected as the majority of network devices, but this is to be addressed in the coming months. The VMWare environment operated by Strata provides additional malware protection benefits, not least because data is held centrally and not on individual devices. The Virtual Desktop Infrastructure (VDI) virtual machine becomes blank and effectively rebuilt each time the local device is re-booted. Therefore, any potential infection does not get through to an individual or local machine. However, obtain reports to help administer tis area contain excessive 'noise' and currently require refining using Logpoint. Logpoint is also used to send real-time alerts to four members of staff in the event of an infection.		
No.	Observation and implications		
3.4.1	None made.		

<p>3.5. Patch Management - Software running on computers and network devices are kept up-to-date and have the latest security patches installed.</p>		<p>Level of Assurance</p>
<p>Opinion Statement:</p> <p>Software and hardware patches were found to be appropriately managed using a combination of Microsoft and VMWare products to administer patches and updates. Windows patches are largely automated managed using the Microsoft System Centre Configuration Manager (SCCM) and the Windows Server Update Service (WSUS). Business applications and other third party software patches and updates are managed using VMWare App Volumes and App Stack. These provide the ability to update software utilised within the virtualised environment and add to the baseline 'Golden Image'.</p> <p>Business critical servers are managed by way of manual deployment to better manage the potential risk of service outages. There is some caution taken with applying patches, but only when balancing potential negative impacts with security risks. Appropriate 'checks and balances' exist in the form of security layers and overall awareness.</p> <p>The amount of legacy software is limited to a very few desktops. Any risks highlighted as part of the IT Health Check procedure are managed and remediated.</p>		<p>Good Standard</p>
<p>No.</p>	<p>Observation and implications</p>	
<p>3.5.1</p>	<p>None Made</p>	

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<p>3.6. Area Covered: Backup & Business Continuity - Backup procedures exist to safeguard the system and system data and provide for an appropriate 'point in time' restoration that accords to business needs..</p>		<p>Level of Assurance</p>
<p>Opinion Statement: Comprehensive backup processes exist to provide a good standard of assurance. The performing of monthly test restores is good practice as is the existence of anti-ransomware protection for the Oakwood backup servers. This affords the backup servers more protection in the event that the network gets compromised by determined attackers. Improvements to current IT Business Continuity Planning (BCP) would further strengthen this area and ensure that there is a direct relationship between backup and restore schedules and the timescales agreed as part of the BCP process (See Appendix A Section 1.5 above).</p>		<p>Good Standard</p>
No.	Observation and implications	
3.6.1	All recommendations made as part of the Key ICT Functions review (See Section 1.5 for recommendations).	

Terms of Reference for Individual Audits

Key Operational Functions & Processes

To perform a high level review of core operational processes using best practice principles that include; the ISO 27001/2, ITIL v3, the Information Commissioners Office (ICO) and industry best practice.

The review will identify any areas of significant weakness and highlight potential areas for future improvement. The review will also inform potential areas of work to be included within the ICT Audit Plan for 2016/17 and 2017/18.

Audit Scope will include:

- ICT Policies & Procedures;
- Core Infrastructure;
- User Management;
- Backup Procedures & Business Continuity;
- Compliance, including Public Services Network (PSN), DPA, Software Licensing.

Service Design (and Delivery)

During the first two years of the current IT Audit Plan, DAP have concentrated on four key areas of IT service delivery as described within the ITIL v3 framework, namely:

- IT Strategy;
- Service Transition -Change Management;
- Service Operation (Process);
- Service Operation (Function).

Service design - The key area that has not been reviewed to date is that of **Service Design** and a review will be conducted to assess the effectiveness of delivery in this area. The primary objective of this review is to assess the effectiveness of processes to transform the strategic requirements of Strata into effective business solutions.

Cyber Security

To undertake a high level review of network arrangements with an emphasis on arrangements in place to protect the corporate networks provided by Strata Service Solutions. The audit will, therefore, refer to the HM Government's "Cyber Essentials Scheme" which forms a baseline for the basic controls that organisations implement to mitigate the risk from common internet based threats.

The audit will focus on and provide opinion based recommendations regarding its effectiveness of the following areas and associated processes:

- Boundary firewalls and internet gateways;
- Secure Configuration;
- Access Control;
- Malware Protection;

- Patch management;
- Backup & Availability.

Follow-Up on Previous Recommendations

As part of the audit process progress against existing recommendations will be assessed. Consideration will be given to the overall progress made and the high level review will look to identify evidence of continued service improvement. Any outstanding issues will be managed appropriately, with any significant weaknesses being included as part of the 2017/18 report.

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

The following statement of assurance is provided by the Head of Audit Partnership, the provider of Internal Audit Services to Strata Service Solutions for audits in relation to the 2017-18 internal audit plan.

The provision of ICT services is the responsibility of Strata Services Solutions under the arrangements specified within the original Partnership Agreement between Exeter City Council, East Devon District Council and Teignbridge District Council .

This statement has been compiled to meet the assurance needs of The Partners, as the interested bodies for the provision of ICT services.

This assurance statement consists of the following elements:

- Overall Assurance Statement;
- Governance;
- ICT Service operations.

Overall, based on work performed during the year and our experience from the current year progress, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the internal control framework in the Strata Service Solutions. (see key)

Good Standard - The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit of the ICT service operations, the recommendations made serve to strengthen what are mainly reliable procedures. However, governance arrangements for business continuity require improvement to ensure they are current, relevant and operating to link in with and meet Partner needs.

The work completed in this third year it has been at a combination of overview level in a developing company and more detailed service delivery areas in the plan. This assurance must be read in consideration of the evolving nature of complex ICT provision involving the merged ICT services from the three partner organisations whose infrastructure, service provision and service needs are at different levels but with a common objective; to improve the value and quality of ICT provision.

The scope of the audit for the year has included the following areas and are shown with the levels of assurance ;

Assurance Opinion on Risks or Areas Covered • key concerns or unmitigated risks	Level of Assurance	Direction of travel
Risk Management • significant improvement has been made to the risk management process and risk register. Further clarity is still needed between actual mitigating controls and that of further management action required.	Good Standard	
Performance Management: • is in the process of being restructured with a new shortened performance report more targeted to customer needs. • the performance monitoring processes are reliable and supported by practice recognised service desk	Good Standard	

<p>Business Continuity Plan:</p> <ul style="list-style-type: none"> • there is a sound structure of processes designed to support business continuity which have been tested through management of incident and recent weather related service pressure. • there is, however, no defined business continuity plan nor integration with Partner BC Plans. Strata is currently working with Partners to identify and agree service continuity requirements and an action plan from this gap analysis is being established. 	Improvements required	
<p>Cyber Security (Cyber Essentials Scheme (CE))</p> <ul style="list-style-type: none"> • CE presents the requirements for mitigating the most common Internet based threats to cyber security. • Using CE, no significant weaknesses identified with all of the five control areas achieving a good standard. 	Good Standard	
<p>Key IT Operational Functions Key operational functions and processes provide stable services that help deliver business outcomes.</p> <ul style="list-style-type: none"> • Looking at all core requirements for delivering ICT services, no areas of material concern were found. 	Good Standard	
<p>Service Design Turning service strategy into plans for delivering business objectives.</p> <ul style="list-style-type: none"> • High level review to assess future needs and assist in the delivery of service solutions identified no material control weaknesses. • A project prioritisation process has been developed, but further opportunities exist to improve the delivery of new services. 	Good Standard	

Our audit remit and coverage does not extend to financial and operational procedures as a business (outside of ICT service delivery) which are provided / supported by the Partners in 'host arrangements'. Assurance on financial and operational procedures should be sought from the Partner organisations audit services.

Further, more in-depth, audit reviews will be completed in the coming cycle as the maturity of the organisations arrangements develop and harmonise.

David Curnow
Deputy Head of Partnership

Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.	Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.	No Assurance	Risks are not mitigated and weaknesses in control, and / or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Audit and Governance Committee
25 July 2019

Audit and Governance Committee		
Forward Plan 2019/20		
Date of Committee	Report	Lead Officer
25 July 2019	<ul style="list-style-type: none"> • External Audit Report 2018/19 • Statement of Accounts 2018/19 including Governance Statement • Letter of Representation • Review of Internal Audit Charter • Annual Report inc. Quarter 4 • Internal Audit Activity – Quarter 1 2019/20 • Audit Committee update • Risk Management Review • RIPA update 	Grant Thornton Strategic Lead Finance Strategic Lead Finance SWAP SWAP SWAP Grant Thornton Management Information Officer Strategic Lead Governance and Licensing
26 September 2019	<ul style="list-style-type: none"> • Annual audit letter • Certification Report • RIPA update • Expenditure on consultants and agency staff 2018/19 • Report on outcomes against the Corporate Counter Fraud and Compliance strategy 	KPMG KPMG Strategic Lead – Governance & Licensing Strategic Lead - Finance Service Lead Revenue & Benefits

28 November 2019	<ul style="list-style-type: none"> • Internal Audit Activity – Quarter 2 2019/20 • Partnership Register • RIPA update 	SWAP Management Information Officer Strategic Lead – Governance & Licensing
30 January 2020	<ul style="list-style-type: none"> • Internal Audit Activity – Quarter 3 2019/20 • Audit Committee update • Risk Management review – half year review • RIPA update 	SWAP Grant Thornton Management Information Officer Strategic Lead – Governance & Licensing
19 March 2020	<ul style="list-style-type: none"> • Annual Audit Plan 2020/21 • External Audit Plan • Audit Committee update • Accounting Policies Approval • RIPA update 	SWAP Grant Thornton Grant Thornton Financial Services Manager Strategic Lead – Governance & Licensing