

Agenda for Audit and Governance Committee Thursday, 17th November, 2022, 2.30 pm

Members of Audit and Governance Committee

Councillors: S Hawkins (Chair), D Barrow, S Gazzard, J Kemp, P Twiss, C Brown, R Lawrence, P Millar, J Whibley and T Woodward

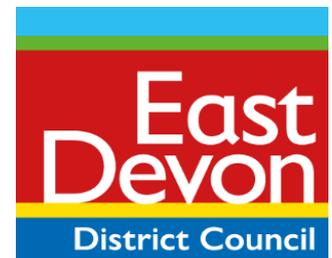
Venue: Council Chamber, Blackdown House, Honiton

Contact: Amanda Coombes;

01395 517543; email acoombes@eastdevon.gov.uk

(or group number 01395 517546)

Tuesday, 8 November 2022



East Devon District Council
Blackdown House
Border Road
Heathpark Industrial Estate
Honiton
EX14 1EJ

DX 48808 HONITON

Tel: 01404 515616

www.eastdevon.gov.uk

1 Public speaking

Information on [public speaking](#) is available online

2 Minutes of the previous meeting (Pages 3 - 6)

Minutes for 28 July 2022

3 Apologies

4 Declarations on interest

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

5 Matters of urgency

Information on [matters of urgency](#) is available online

There is one late report at agenda item 12 - Review of the Local Code of Corporate Governance.

6 Confidential/exempt item(s)

To agree any items to be dealt with after the public (including the Press) have been excluded. There are no items which officers recommend should be dealt with in this way.

Matters for Decision

7 **Internal Audit Plan Progress November 2022 (2022/23) - SWAP** (Pages 7 - 23)

8 **EDDC Sector update - Grant Thornton** (Pages 24 - 35)

- 9 **EDDC Audit Plan 2021/22 - Grant Thornton** (Pages 36 - 54)
- 10 **Partnership Review 2022** (Pages 55 - 58)
- 11 **STRATA ICT Audit 2021/22 -DAP** (Pages 59 - 82)
- 12 **Review of the Local Code of Corporate Governance** (Pages 83 - 85)
- 13 **RIPA update**

At the meeting of 18 January 2018, Members agreed to receive an update on RIPA activity throughout the year (Regulation of Investigatory Powers Act). The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.
- 14 **Audit and Governance Forward Plan** (Pages 86 - 87)

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[Decision making and equalities](#)

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EAST DEVON DISTRICT COUNCIL**Minutes of the meeting of Audit and Governance Committee held at Online via the Zoom app. on 28 July 2022****Attendance list at end of document**

The meeting started at 2.30 pm and ended at 3.44 pm

1 Public speaking

There were no members of the public registered to speak.

2 Minutes of the previous meeting

The minutes of the Audit and Governance Committee held on 16 March 2022 were recommended for approval.

3 Declarations on interest

None

4 Matters of urgency

None

5 Confidential/exempt item(s)

None

6 Internal Audit Plan 2021-22 Outturn - to include Seaton Jurassic Centre Lessons Learnt report

Adam Williams from SWAP provided an update on the outturn of the 2021/22 Internal Audit Plan and highlighted to members any significant findings identified through the audit work that impacted on governance, risk and control.

The Chair agreed to meet with the Leader and Strategic Lead Finance to discuss in more detail the Whistleblowing item in the Audit Plan, and if appropriate would request a further report to come back to the Committee.

Seaton Jurassic Centre Lessons Learnt report

This was a non-opinion 'Lessons Learnt' review offered by SWAP Internal Audit in its consultancy role. SWAP had been asked to review the governance and management of the initial build project for the Seaton Jurassic Centre and determine whether future lessons could be learnt from this.

Discussions around the Seaton Jurassic Centre report included the following;

- To look into past years document management and digital data retention
- the need to discuss the matter further between the Chairs of Audit & Governance and Scrutiny Committees to consider if a more detailed review was required.

Having received the report and noted the contents, members;

RECOMMENDED:

noted the outturn made in delivery of the 2021/22 internal audit plan and significant findings and to agreed to review the Whistleblowing Policy.

7 **Internal Audit Annual Audit Opinion 2021-22**

Adam Williams from SWAP updated members of the Internal Audit function which played a central role in corporate governance by providing assurance to the Annual Audit, Governance and Standards Committee, looking over financial controls and checking on the probity of the organisation. The 2021-22 Annual Audit Plan provided independent and objective assurance on EDDC Internal Control Environment. This work supported the Annual Governance Statement.

Having received the report and noted the contents, members;

RECOMMENDED:

noted the Internal Audit Annual Opinion on the effectiveness of governance, risk and control in the delivery of EDDC Objectives.

8 **Revenue and Capital Outturn Report 2021-2022**

The Finance Manager informed the Committee of the financial outturn position for 2021/22.

Discussions included the following;

- Why had there been an underspend on the maintenance of the council's housing stock?
- Any workload slippage from the contractor had a knock-on effect on residents
- Residents reporting maintenance requirements needed to be followed up quickly
- Any future contractual work would go through the procurement process allowing for possibly multiple contractors working for the council
- There was a housing stock condition survey going ahead with data collect from this being used to improve services.

Having received the report and noted the contents, members;

RECOMMENDED:

To note the Revenue and Capital Outturn position for 2021/22 and the recommendations to Cabinet on 13 July 2022.

9 **Risk Management Review**

Risk information for the 2022/23 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 May/June 2022.

Having received the report and noted the contents, members;

RECOMMENDED:

To note the current status of risks following the full risk review undertaken in May/June 2022.

10 **Auditor's Annual Report 2020-21 - Grant Thornton**

Jackson Murray from Grant Thornton presented the Annual report for 2020-21. During discussions the matter of continuing virtual meeting was raised after 31 October as well as the subject of Cabinet members sitting on the Committee, which went against CIPFA's (Chartered Institute of Public Finance and Accountancy) best practise for good governance and effective audit committees.

Having received the report and noted the contents, members;

RECOMMENDED:

Members noted the Auditor's Annual Report 2020-21.

RECOMMENDED to Council;

To remove Cabinet members from sitting on the Audit and Governance Committee to ensure independence of the executive function.

11 **Contract Standing Orders update**

The Strategic Lead Finance explained that there was an updated version of the Council's Contract Standing Orders for the Committee to consider and if in agreement to recommend adoption by Council. The Government was introducing new procurement legislation, Transforming Public Procurement /the Procurement Bill, but it was not expected to be in place until mid-2023. Contract Standing Orders would be amended to incorporate this legislation once enacted, but in the meantime an interim update was required to reflect the UK having left the EU and the transition period having ended.

RECOMMENDED to Council that;

the updated version of Contract Standing Orders was adopted.

12 **RIPA update**

The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.

13 **Audit and Governance Forward Plan**

RECOMMENDED that;

Members note the contents of the Committee Forward Plan for 2022/23.

Items to be considered at the September 2022 committee included:

- Audit Committee Update
- External Audit Plan 2021/22
- Review of the Local Code of Corporate Governance
- RIPA update
- Strata Annual Internal Audit report
- Internal Audit Activity – Quarter 2 2021/22
- Partnership Register

Attendance List

Councillors present:

S Hawkins (Chair)
D Barrow
P Hayward
N Hookway (Vice-Chair)
J Kemp
C Brown
R Lawrence
P Millar

Councillors also present (for some or all the meeting)

P Arnott
P Faithfull
D Ledger
J Rowland

Officers in attendance:

Amanda Coombes, Democratic Services Officer
Graham Baker, Property and Asset Manager
Simon Davey, Strategic Lead Finance
Jackson Murray, Grant Thornton
John Symes, Finance Manager
Adam Williams, SWAP
Steve Gammon, Housing Systems Manager

Councillor apologies:

S Gazzard
P Twiss

Chair

Date:



Report to: Audit and Governance Committee

Date of Meeting 17 November 2022

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Internal Audit Plan Progress November 2022 (2022/23)

Report summary:

This report is to provide an update on the 2022/23 Internal Audit Plan as at end of October 2022.

Recommendation:

Members are asked to note progress made in delivery of the 2022/23 internal audit plan and findings Reported.

Reason for recommendation:

The Committee are required to review the progress of the audit plan.

Officer: Alastair Woodland, Assistant Director, SWAP.

Portfolio(s) (check which apply):

- Climate Action
- Coast, Country and Environment
- Corporate Services and COVID-19 Response and Recovery
- Democracy and Transparency
- Economy and Assets
- Finance
- Policy Co-ordination and Regional Engagement
- Strategic Planning
- Sustainable Homes and Communities

Financial implications:

There are no direct financial implications identified.

Legal implications:

The legal framework is reflected in the report. While there are no direct legal implications arising, ensuring Key Actions are carried out will reduce risk to the Council which in turn will reduce the chance of failures or challenges occurring.

Equalities impact Low Impact

Climate change Low Impact

Risk: Low Risk;

Links to background information [Internal Audit Plan 2022/23](#)

Link to [Council Plan](#):

Priorities (check which apply)

- Better homes and communities for all
- A greener East Devon
- A resilient economy

East Devon District Council

Report of Internal Audit Activity

Plan Progress 2022/23 November 2022

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The contacts at SWAP in connection with this report are:

David Hill

Chief Executive

Tel: 020 8142 5030

david.hill@swapaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 07720312467

alastair.woodland@swapaudit.co.uk

Adam Williams

Principal Auditor

Adam.williams@swapaudit.co.uk



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Plan Changes

Our audit activity is split between:

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



Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which was presented at the March 2022 Audit and Governance Committee.

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

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

Internal Audit work is largely driven by an Audit Plan. We have adopted an 'agile rolling plan' approach and whilst this will be a 'live' continuous approach, confirmed work will only cover every 6 months with a rolling 'back-log' for future consideration. Priorities will be assessed in conjunction with Senior Management, and we welcome input from members of the Audit and Governance Committee. The 2022-23 Audit Plan was reported to the Audit and Governance Committee and approved at its meeting in March 2022. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk within East Devon District Council.

Internal Audit Plan Progress 2022-23

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.



Internal Audit Work programme

The schedule provided at **Appendix B** contains a list of all audits in the rolling plan for 2022-23 as presented to this Committee in March 2022. It is important that Members are aware of the status of all audits being delivered and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

The following table summarises the Audits finalised from the 2022/23 Plan:

Audit Area	Opinion
Homelessness	Reasonable
Annual Vehicle Declarations and Compliance (Follow Up)	Advisory
Protect and vaccinate	Grant Certification
Housing Rents	Reasonable
Covid Outbreak Management Fund – CIA Sign off	Grant Certification
Disabled Facility Grants and Better Care Fund	Limited
Restart Grants – Post Payment Assurance	Reasonable
Baseline Assessment for Maturity of Fraud Risk	Advisory
Main Accounting	Reasonable

Note we report by exception. Full copies of each Limited/No Assurance Opinion Report and Follow up reports will be uploaded to the audit committee document library for members to read at their discretion.

Significant Corporate Risks

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

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant (High) corporate risks.



Summary of Work Completed – Limited/No Assurance Opinions & Follow up

One audit has resulted in a Limited Assurance opinion, **Disability Facility Grants and Better Care Fund**. A one-page summary of this audit is included in **Appendix C**.

Two follow up audits have been completed within since the previous update in relation to **Baseline Assessment of Maturity of Fraud** and the **Annual Vehicle Declarations and Compliance** Audit. Summary details of both audits are contained in **Appendix C**.

Plan Changes

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Audit Plans are undertaken on a rolling quarterly basis.



Approved Changes to the Plan

The audit plan for 2022/23 is detailed in **Appendix B**. We operate a rolling plan agreeing priorities for each quarter in turn. The reviews below are those agreed with management that were incorporated to the plan for Q3 and Q4 from the rolling plan presented to this committee in March 2022.

Assignment	Amendment	Reason
Covid Outbreak Management Fund	Added	Requirement for CIA Sign off
Housing Compliance – Asbestos	Deferred	Deferred from Q1 due to capacity with the EDDC team. Now scheduled for Q3.
Data Protection & GDPR	Added	Previous follow up identified a number of actions outstanding. Assurance also sought around dashboards that have been created to aid data sharing are still compliant with DPA requirements in that access to data is appropriate.
Revenues & Benefit Fraud Support	Added	Support to be provided by SWAP Counter Fraud Team.
Cranbrook Town Development Project Governance	Added	Review to look into the governance arrangements of the Cranbrook Strategic Delivery Board and decision making.
Worksmart+ strategy	Added	To provide assurance on the Worksmart+ strategy.
Cyber Security	Added	Assessment of cyber security controls from an end user perspective.
Firmstep	Added	Previous audit received limited assurance and was followed up in February 2022 and identified a number of recommendations had still not started. A further review has been included in the plan to provide assurance on delivery.
Housing Invoice Payment Process Follow Up	Added	Follow up of previous limited assurance audit.
Value For Money	Added	Scope to be discussed with the s151 Officer about area to focus on.

Plan Performance

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



SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective performance position for East Devon District Council for quarters 1, 2 (Apr to Sep) as at the end 3 November were as follows:

Performance	Target Year End	Q1	Q2
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Yet to complete	>90%	100% 0% 0%	57% 43% 0%
<u>Quality of Audit Work</u> Customer Satisfaction Questionnaire	>95%	100%	
<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>	>95%	100%	

Assurance Definitions	
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Non-Opinion/Advisory	In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

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

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Assurance	Homelessness	1	Final	Reasonable	5	-	3	2	
Follow Up	Annual Vehicle Declarations and Compliance	1	Final	Follow Up	1	-	1	-	1 P2 outstanding.
Grant Certification	Protect and Vaccinate – CIA Sign off	1	Final	Advisory	-	-	-	-	Sign off requirements were changed after audit work completed.
Assurance	Housing Rents	1	Final	Reasonable	2	-	1	1	
Assurance	Disability Facility Grants and Better Care	1	Final	Limited	10	-	5	5	
Assurance	Restart Grants	1	Final	Reasonable	0	0	0	0	
Advisory	Baseline Assessment for Maturity of Fraud Risk	1	Final	Advisory	0	0	0	0	16 amber actions to resolve
Grant Certification	NEW: Covid Outbreak Management Fund (COMF)	2	Final	Advisory	-	-	-	-	
Assurance	Main Accounting	2	Final	Reasonable	7	-	2	5	
DRAFT									
Follow Up	Small Works and Services Contract Management	2	Draft	Follow Up	1	-	1	-	

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Assurance	Debtors	2	Draft						
IN PROGRESS									
Advisory	NEW: Recommendation Tracking	2	In Progress						
Assurance	Climate Change	2	In Progress						
Assurance	Economic Resilience	2	In Progress						
Assurance	Housing Compliance – Asbestos	3	Initiation						
NOT STARTED									
Assurance	Data Protection & GDPR	3							
Advisory	Revenues & Benefit Fraud Support	3							
Assurance	Worksmart+ strategy	3							
Assurance	Cyber Security	3							
Assurance	Cranbrook Town Development Project Governance	4							

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Assurance	Firmstep	4							
Follow Up	Housing Invoice Payment Process Follow Up	4							
Advisory	Value For Money advice	4							

The list below constitutes the rolling ‘unscheduled’ audits for consideration as shared with this Committee in March 2022. This list will be reviewed and updated periodically and I welcome the input of Audit Committee Members for area to consider on the rolling plan.

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Audit Type	Audit Area	Audit Type	Audit Area	Audit Type	Audit Area
Assurance	Decision Making	Assurance	Partnership Arrangements	Assurance	Beach/coast Management
Assurance	Corporate Property Health and Safety	Assurance	Complaints Arrangements	Assurance	Car Parking
Assurance	Financial Planning (MFTP)	Assurance	FOI & Environmental Information Regulations	Assurance	Apprenticeships
Assurance	Voluntary Sector Engagement	Assurance	Recruitment and on-boarding	Assurance	Streetscene
Assurance	Supply Chains and Third-Party Risk	Assurance	Emergency Planning	Assurance	IR35
Assurance	Related Party Disclosures	Assurance	Home Safeguard	Assurance	VAT

Assurance	Health and Safety at Work
Assurance	Council's Response to energy crisis
Assurance	Play Schemes/Areas
Assurance	Information Management
Assurance	Firmstep Implementation
Assurance	Flood Management
Assurance	Major Projects

Assurance	Regeneration Projects
Assurance	Ethical Governance
Assurance	Public Health
Assurance	Asset Management Strategy and Planning
Assurance	Performance Management and Data Quality
Assurance	Community Safety
Assurance	Environmental Protection

Assurance	Waste and Recycling Services
Assurance	LG Transparency Code
Assurance	Absence Management
Assurance	Risk Management
Assurance	Workplace Culture - Discrimination & Staff Inequality
Assurance	Empty Homes
Assurance	Disability Facility Grants and Better Care Follow Up

Better Care Funds – Final Report – September 2022



Audit Objective To provide assurance that appropriate controls are in place to manage the Better Care Fund and administer the statutory Disability Facility Grants and other discretionary housing grants.

Assurance Opinion	Number of Actions	
	Priority	Number
<p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>	Priority 1	0
	Priority 2	5
	Priority 3	5
	Total	10

Risks Reviewed	Assessment
1. The £30k limit per property is no longer sufficient due to the impact of inflation. This could result in the Council having to make difficult choices when awarding grants and could result in reputational damage.	Medium
2. Financial loss and reputational damage due incorrect payments, fraudulent activity, or poor budgetary control. Also, vulnerable residents are not getting the support they are entitled to.	Medium

Key Findings	
	There is insufficient record keeping in relation to Better Care grants, particularly around financial means testing, variations and completion of works. Due to the lack of evidence on Uniform it was not possible to be able to confirm that appropriate processes are being followed and policy is being adhered to.
	Application forms do not include relevant and up-to-date data protection declarations and should therefore be updated.
	The Land Charges team are not always informed of completed grant works that exceed £5,000. Therefore, local land charges are not always placed against relevant properties and the Council's interests are not always appropriately protected.
	We have observed from our analysis that the cost of completing Disabled Facilities Grants has increased, and the number of applications being received has also increased, which will have an impact on the budget in the longer term. Due to this and the effects of the rising cost of living and inflation, the risk has been assessed as Medium.

Audit Scope

The audit included a review of the following controls:

- The annual Better Care Fund planning and agreement process.
- That there are policies and procedures in place to support the effective administration and management of the Better Care Fund.
- That grants are processed in accordance with the applicable policy and procedure and supporting documentation is in place to include the application process, approvals, means testing, Occupational Health, tendering, local land charges and completion of works.
- That there is a budget set for the provision of the grants service, which is subject to regular monitoring and appropriately reported upon.

Summary

Uniform has not been fully utilised to support grant applications and the resulting works, with relevant fields not being completed and documentation is often not retained on the system. It was however noted that the Private Sector Housing Team have only recently had a full complement of staff in place and that, with relevant training, this should now enable the issues identified to be addressed and associated risks to be mitigated. The audit was welcomed at this time, and the Private Sector Housing team are aware of many of the issues noted from the audit and are already putting measures in place to make improvements. Graphs can be found in Appendix 2 to support the findings.

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Annual Vehicle Declarations and Compliance – Follow up Audit

The original audit of the Annual Vehicle Declaration and Compliance was completed in January 2022 and received a limited assurance opinion. The objective of the audit was to confirm that white fleet drivers are adhering with the Annual Vehicle Declaration and that the Council is monitoring compliance. The follow up audit has found the majority of actions have now been completed. Key findings from the audit follow up have been summarised below.

Follow Up Progress Summary				
Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	3	1	0	4
Priority 3	0	0	0	0
Total	3	1	0	4

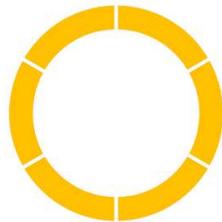
Issues – January 2022	Position July 2022
Resource – No dedicated Fleet Officer	A new Fleet Administrator Officer was agreed in the 2022/23 budget and is now in place.
Mobile tracking App inconsistent usage	SMT+ members reminded staff to use tracking device app. The current Budget & Equipment Monitoring Officer role is currently being redesigned to become the Fleet & Equipment Officer. Once this is completed the role will include monitoring the use of the Mobile App.
Records not retained of driving induction	Sign off of induction now in place are evidence retained.

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Baseline Assessment of Maturity in relation to Fraud – September 2022
Follow Up review



Baseline Assessment of Six Themed Areas



- Resource and Communication
- Fraud Risk Management
- Policy Related
- Committee Related
- Culture and Awareness
- Reporting, Investigating and Monitoring

Scope and Ambition

This baseline assessment is a corporate view of fraud maturity within the organisation. This exercise is a revisit of the assessment performed in 2021 and shows any progress with regards to counter fraud work and any increase in the level of maturity at the authority.

Management should ensure the key findings from this work are considered to reduce risk of fraud and to protect the public purse.

SWAP's Counter Fraud Team is committed to helping Partners and Clients to reduce the risk of fraud and to protect the public purse.

Key Findings

	There is no agreed training and awareness planning for staff and Members in relation to fraud and corruption. However, an e-learning course is currently being developed with the assistance of SWAP.
	There is no assigned portfolio holder for fraud at Member level and there is a lack of evidence to support regular reporting to Committee on counter-fraud activity.
	The update of the Counter Fraud and Corruption Strategy is an action in the 2022/23 Service Plan but is overdue for review. There is currently no Fraud Plan for 2022 which is aligned to assessment of risk.
	A fraud risk assessment has been completed but no further work has been undertaken to set risk appetite. There is no plan to treat risks or reduce residual risk and there is no agreed update mechanism for this document.
	There have been some changes in the resources within the team and there is now only one qualified fraud investigator in the team. Resources are not aligned to fraud risk. The Council are currently working with SWAP to establish whether any further support can be provided.

Assessments per Area Reviewed

Resource and Communication 	Fraud Risk Management
Policy Related 	Committee Related
Culture and Awareness 	Reporting, Investigating and Monitoring

Comparison of Results Between Years



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East Devon District Council Sector Update

7 November 2022

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

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Introduction

Your key Grant Thornton team members are:

Jackson Murray

Engagement Lead

T: 0117 305 7859

E: jackson.murray@uk.gt.com

Beth Bowers

Senior Manager

T: 0117 305 7726

E: beth.ac.garner@uk.gt.com

This paper provides the Audit, Standards & Governance Committee with a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit, Standards & 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 www.grantthornton.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 Update

Financial Statements Audit 2020/21

In July 2021 we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements and reported this to the Audit and Governance Committee.

The significant risks we identified within that plan were as follows:

- Management override of control;
- Valuation of land and buildings, including Investment Properties and Council Dwellings; and
- Valuation of net pension fund liability.

The Accounts and Audit (Amendment) Regulations 2021 pushed back the date by which principal authorities needed to publish their draft financial statements to the first working day of August 2021. In 2020 this date was 31 August. The date by which authorities are required to publish audited financial statements is 30 September 2021. In 2020 this date was 30 November.

Given the ongoing impact of Covid-19, the Authority did not produce draft financial statements until November 2021. We commenced our audit work in November 2021. Shortly after this, a national issue relating to Infrastructure was identified. As a result our audit opinion will not be able to be signed until the issue is resolved. This is subject to national consultation and we expect Government to issue a statutory instrument in respect of some of the challenges raised nationally.

Financial Statements Audit 2021/22

Given ongoing pressures, the Authority has not yet produce draft financial statements. We have undertaken planning work and have presented our Audit Plan to the Audit & Governance Committee meeting in November 2022.

Once draft financial statements are available, we will be able to agree a mutually agreeable timeline for completion of our main audit work.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards.

We issued our draft Auditor’s Annual Report for 2020/21 in July 2022. This report will be finalised on the completion of our financial statements audit work.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements. We expect to issue our Auditor’s Annual Report for 2021-22 within three months of issuing our audit opinion. In September 2022 we wrote to the Chair of the Audit & Governance Committee to confirm that we would not report our work by 30 September 2022, the date originally envisaged by the NAO Code of Audit Practice.

Certification of claims and returns

We certify the Authority’s annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim was completed on 21 March 2022. The certification work for the 2021/22 claim is underway and will be completed in early 2023.

We also certify the Authority’s annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Department for Levelling up, Housing and Communities (DLUHC). The certification work for the 2020/21 return was completed on 4 February 2022. The certification work for the 2021/22 return is due to begin this month, subject to the receipt of central guidance from DLUHC.

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

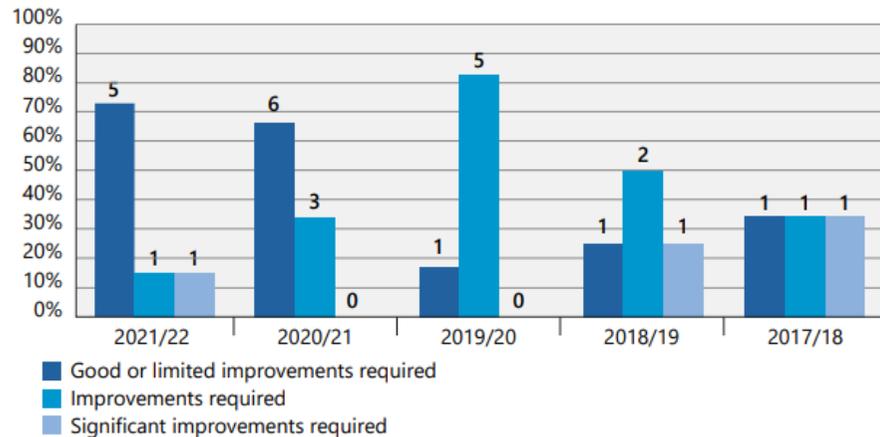
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



The full report can be found [here](#).

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



Sector Update

Authorities continue to try 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 local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

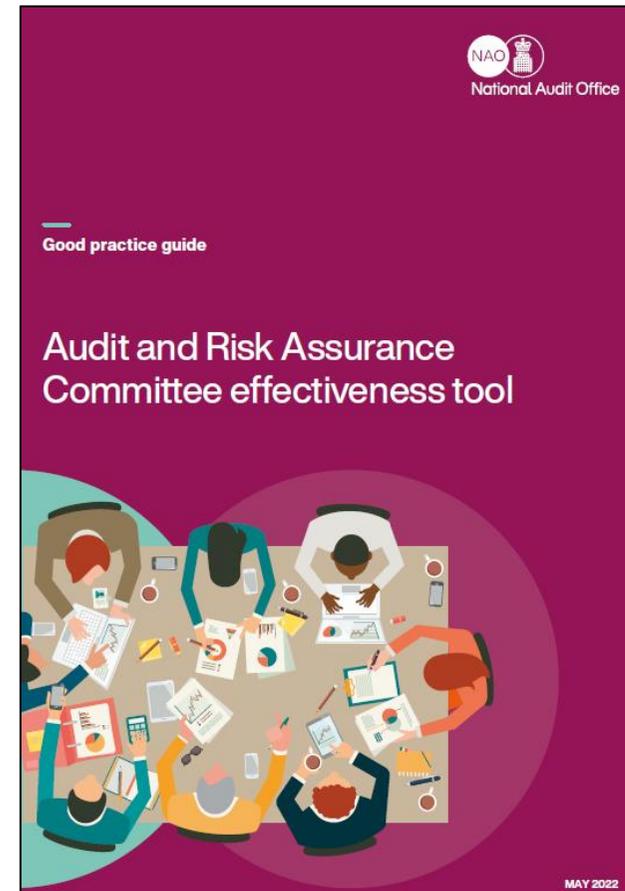
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

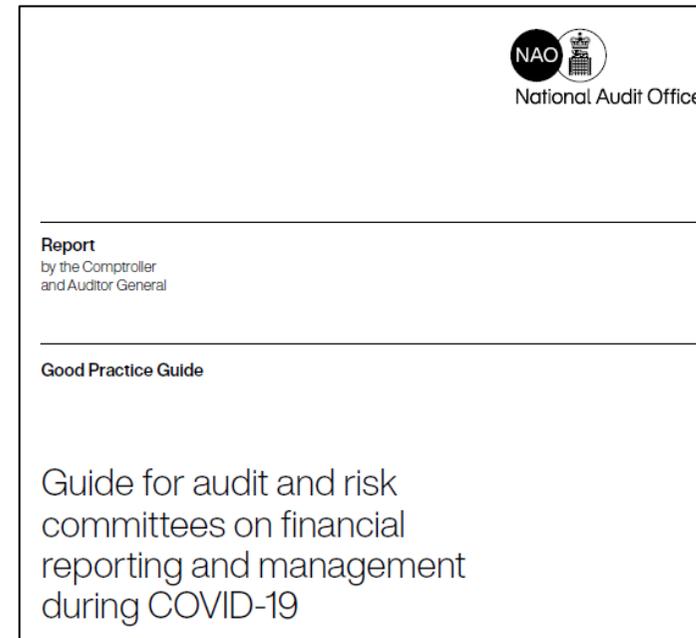
The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error

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East Devon District Council Audit Plan

Year ending 31 March 2022

East Devon District Council
September 2022



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Your key Grant Thornton team members are:

Jackson Murray

Key Audit Partner

T 0117 305 7859

E Jackson.Murray@uk.gt.com

Beth Garner

Senior Manager

T 0117 305 7726

E Beth.AC.Garner@uk.gt.com

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Key matters

Factors

Housing Revenue Account

The Local Government and Housing Act 1989 requires a local housing authority that owns 200 or more social dwellings to account for them within a Housing Revenue Account (HRA), which East Devon District Council does. In November 2020, MHCLG issued guidance in respect of the operation of the HRA ring-fence. This guidance highlights the need to be fair to both tenants and council taxpayers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund. In 2021 CIPFA was commissioned to examine the nature and legitimacy of payments made relating to the HRA at a major local authority. It was subsequently identified that the HRA ring-fence had been breached and the S151 Officer issued a section 114 notice.

Audit Quality

On 29 October 2021, the FRC published its annual reporting setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year.

Grant Thornton are one of seven firms which currently deliver local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year the FRC looked at nine of our audits. More detail is included on pages 21 and 22.

Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets and requires these to be reported in the Balance Sheet at depreciated historical cost (i.e. historic cost less accumulated depreciation and impairment.)

Nationally, this has become an area of regulator interest, with CIPFA and the NAO also reviewing this issue and Government considering the need for a statutory override to remove the problem.

There a risk that where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, they may not readily be able to identify the original assets being replaced or enhanced.

This could result in an overstatement of both gross book values and accumulated depreciation, and potentially also net book values where assets lives have not been assessed regularly and on an appropriate basis.

Our response

We will undertake specific procedures in relation to the HRA to confirm whether there are any indicators the council is in breach of the ring-fence requirement.

As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, will support the delivery of high quality audit work.

The results of last year's FRC review are reported in their annual report.

We will be alert to the emerging guidance in relation to infrastructure.

As East Devon District Council has material infrastructure assets (£12.9m gross book value at 31 March 2021), we will work with management to understand how the Council is accounting for these assets.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

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

- Management override of controls (assumed risk at all entities under ISA 240);
- Valuation of land and buildings including Investment Properties and Council Dwellings; and
- Valuation of net pension fund liability.

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

Materiality

We have determined planning materiality to be £1.7m (PY £1.8m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.085m (PY £0.090m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money remains ongoing and at this stage we have not identified any risks of significant weakness.

Audit logistics

As the 2020/21 audit remains ongoing, our audit progress is behind where we would normally be. We have undertaken planning procedures to allow us to issue this audit plan. The final areas of our interim procedures will be completed during our post statements visit. The council is yet to publish its draft 2021/22 financial statements. We will discuss delivery timetables once these have been produced. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £63,232 (PY: £TBC) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent revenue transactions (ISA240)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of material fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • there are adequate controls in place to deter and identify material fraud; and • the culture and ethical frameworks of local authorities, including East Devon District Council, mean that all forms of fraud are seen as unacceptable. 	At the planning stage we do not consider this to be a significant risk for East Devon District Council. We will continue to consider this risk as we progress through the audit.
Risk of fraud related to expenditure recognition (PAF Practice Note 10)	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p> <p>We have determined that the risk of material fraud arising from expenditure recognition can be rebutted because, per Practice note 10, misstatements may arise where the audited body is under pressure to meet externally set targets. This environment does not exist at the Council.</p>	At the planning stage we do not consider this to be a significant risk for East Devon District Council. We will continue to consider this risk as we progress through the audit.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings, including Investment Properties and Council Dwellings	<p>The Council revalues its land and buildings on a rolling five-yearly basis at 31 December each year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£85.5m at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>The Council revalues its housing stock (£247.8m at 31 March 2021) at 31 March each year, using the Beacon Methodology as required by the CIPFA Code. Investment Properties (£3m at 31 March 2021) are also valued at fair value annually at 31 March.</p> <p>We therefore identified valuation of land and buildings, including investment properties and Council Dwellings, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimates, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation experts; • discuss with the valuers the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • review the Council's valuation reports and the assumptions that underpin the valuations to ensure that they appear reasonable; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current (or fair) value at year end.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£84m at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified no recommendations in our 2020/21 audit in relation to the Council's estimation processes.

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Introduction

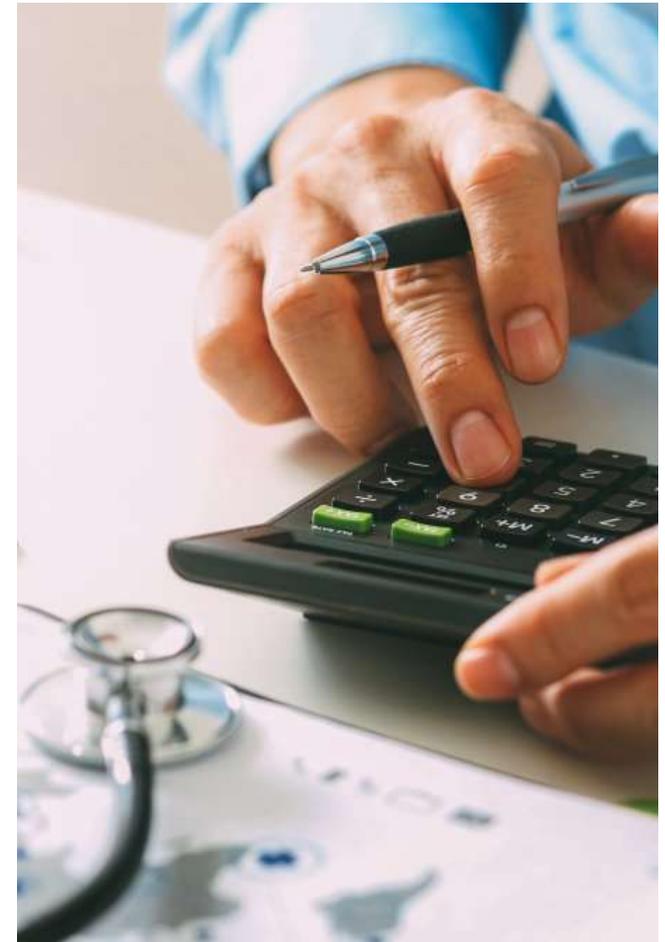
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- valuations of land and buildings (including Council Dwellings) and investment properties;
- depreciation;
- year end provisions (specifically provisions for Non-Domestic Rate Appeals) and accruals;
- credit loss and impairment allowances;
- valuation of defined benefit net pension fund liability; and
- fair value estimates.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have sent enquiries to management that will be presented at Audit and Governance Committee. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.7m (PY £1.8m) for the Council, which equates to 1.9% of your gross expenditure for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.020m for Senior officer remuneration, an area of lower specific materiality level due to the sensitivity of these disclosures.

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

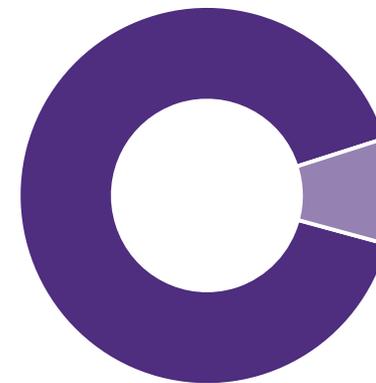
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.085m (PY £0.090m).

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

Prior year gross operating costs

£91m Council
(PY: £95m)



■ Prior year gross operating costs

Materiality

£1.7m
Council financial statements materiality
(PY: £1.8m)



£0.085m
Misstatements reported to the Audit and Governance Committee
(PY: £0.090m)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
E-financials	Financial reporting	Streamlined ITGC assessment (design effectiveness)
iTrent	Payroll	Streamlined ITGC assessment (design effectiveness)
Academy	Housing Rents, Council Tax, Business Rates, Benefits, Grants	Streamlined ITGC assessment (design effectiveness)

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

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We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



Audit logistics and team

Planning and risk assessment

Audit committee
September 2022

Audit Plan

Year end audit
TBC

Audit committee
TBC

Audit Findings Report/Draft Auditor's Annual opinion Report

Audit committee
TBC

Auditor's Annual Report

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Jackson Murray, Key Audit Partner

Jackson's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Beth Garner, Audit Manager

Beth's role will be to be a key contact with the Section 151 Officer and the Audit and Governance Committee. She will take responsibility for the team's completion of the audit work and ensure effective communication with the Key Audit Partner.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

Audit fees

In 2017, PSAA awarded a contract of audit for East Devon District Council to begin with effect from 2018/19. The fee agreed in the contract was £42,132. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 8 to 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

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	Actual Fee 2019/21	Actual Fee 2020/21	Proposed fee 2021/22
East Devon District Council Audit	£66,127	£TBC*	£63,232
Total audit fees (excluding VAT)	£66,127	£TBC*	£63,232

*TBC as audit remains ongoing.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis - Council

Scale fee published by PSAA	£42,132
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Increased challenge, complexity and lower materiality	£3,125
Enhanced audit procedures for Property, Plant and Equipment	£688
Enhanced audit procedures for Pensions	£688
Recurring Audit fee 2019/20	£46,632
<i>Ongoing increases to scale fee first identified in 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Additional work on Journals	£3,000
Increased audit requirements of revised ISAs	£2,100
Recurring Audit fee 2020/21	£60,732
Infrastructure assets	£2,500
Total audit fees (excluding VAT)*	£63,232

*The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local authorities are exploring new ways of working to support its officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to the Council, and its workforce, both in providing more flexibility and reducing its environmental impact. Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

As part of our planning for 2021/22, we have been engaging with the Council to explore completing some elements of our work on-site. With Covid restrictions now lifted, this is the appropriate thing to do. We have been discussing this with PSAA and propose that where councils continue to have a preference to undertake audits remotely, either fully or in part, that audit fees would be uplifted to reflect the inefficiencies that this would cause. For East Devon District Council, we estimate this uplift to be in the region of £5,000.

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

Other services

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

Service	Fees £	Threats	Safeguards
Audit related			
Agreed upon procedures on the Housing Benefit receipts return	20,000*	Self-Interest (because these are recurring fees) Self review (because the financial information in the returns are included within the Council's financial statements)	The level of recurring fees taken on their own and in totality are not considered a significant threat to independence as the when compared to the total fee for the audit and in particular are not significant relative to Grant Thornton UK LLP's turnover overall. Further, they are fixed fees and there are no contingent elements. We do not prepare the returns which we are auditing and do not expect material misstatements to the financial statements to arise from this work.
Agreed upon procedures in respect of the Council's pooling of housing capital receipts return	6,000	Management (because we may make recommendations to management)	The factual accuracy of our report, including any representations from management, are agreed with informed management. These factors all mitigate the perceived threats to an acceptable level.
Non-audit related			
Place Analytics subscription	5,000	Self-Interest (because these are recurring fees)	The level of recurring fees taken on their own and in totality are not considered a significant threat to independence as the when compared to the total fee for the audit and in particular are not significant relative to Grant Thornton UK LLP's turnover overall. Further, they are fixed fees and there are no contingent elements. These factors all mitigate the perceived self-interest threat to an acceptable level.

* The Housing benefit fee quoted is for initial testing. Any work required on errors identified will be charged at a day rate of £850. Based on previous experience, we anticipate this to be in the region of £4,000 if the errors remain at a similar level to previous periods.



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Report to: Audit and Governance Committee



Date of Meeting 17th November 2022

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Partnership Review 2021/22

Report summary:

Partnership information for the 2021/22 financial year until March 2022 is supplied to allow the Audit and Governance Committee to monitor the status of our partnerships. This follows the year-end review of partnerships by responsible officers for 2021/22.

Is the proposed decision in accordance with:

Budget Yes No

Policy Framework Yes No

Recommendation:

That the Audit and Governance Committee considers the current status of our partnerships following the full partnership review undertaken in July 2022.

Reason for recommendation:

To ensure that the Partnership Management Policy and Guidance is being followed and all partnership are being monitored.

Officer: Simon Davey, Strategic Lead - Finance sdavey@eastdevon.gov.uk ext 2690 and Joanne Avery, Management Information Officer javery@eastdevon.gov.uk ext 2332

Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Democracy, Transparency and Communications
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities
- Tourism, Sports, Leisure and Culture

Equalities impact Low Impact

Climate change Low Impact

Risk: High Risk; Failure to identify, assess, monitor, review and manage partnerships could impact negatively (i.e. financial, reputational, operationally) on the council.

Links to background information

[Appendix A – Year-end Partnership Review 2021/22](#)

Link to [Council Plan](#)

Priorities (check which apply)

- Better homes and communities for all
- A greener East Devon
- A resilient economy

Report in full

1. The EDDC’s Partnership Policy requires all partnerships identified by the council to be reviewed annually. There are currently 12 active partnerships as defined by our policy which states that EDDC uses the following as the definition of a partnership: “An agreement between two or more independent bodies to work collectively to achieve an objective.” Also a partnership must reflect the following criteria:
 - critical to the delivery of the Council’s corporate priorities
 - strategic in nature
 - require significant resource input from the Council
 - have constitution and governance arrangements in place
 - have multi-agency membership

2. For this year-end review for 2021/22 all lead officers involved with a partnership were asked to assess the overall partnership, reviewing budget issues, achievements, forward plans and the ongoing benefit of continuing engagement with the partnership.

3. The partnerships are active and met at least three times annually, some more often. There are no major current budget issues with any of the partnerships although most receive some funding from EDDC. It is recommended that our involvement with each of the partnerships continues with benefits of continued engagement with each being outlined below.

Partnership	Active or inactive partnership	Benefit of continued engagement
Shared ICT service with Exeter City and Teignbridge Councils (Strata)	Active	Council Plan Outstanding Council: efficiencies - both financial, time saving and service resilience
South West Audit Partnership (SWAP)	Active	Council Plan Outstanding Council: efficiencies - both financial, time saving and service resilience
Exeter Science Park (Exeter Science Park Company Ltd – ESPL)	Active	Key objective of the Council is delivery of a thriving, competitive local economy
Cranbrook Strategic Delivery Board	Active	The delivery of the Cranbrook new community cuts across all of the key priorities in the Council Plan.
Enterprise Zone	Active	Continued delivery of new employment space and job opportunities. Overcoming

Partnership	Active or inactive partnership	Benefit of continued engagement
		barriers to delivery including in relation to Cranbrook town centre.
Placemaking in Exmouth Town and Seafront Group (formerly Exmouth Queen's Drive Delivery Group)	Active	Delivery of contemporary additions to the seafront leisure and visitor attractions to enhance local economy, social value and wider town reputation. Process of transition underway toward creating a Delivery Group to focus on completing Phase 3 of Queen's Drive redevelopment.
Exe Estuary Partnership	Active	To support the conservation and management of an internationally site for both wildlife and to educate and inform its users.
Devon Rural Housing Partnership	Active	To help ensure that good quality rural affordable housing for local people continues to be delivered in an attempt to meet the need.
DCHOP (Devon & Cornwall Housing Options Partnership)	Active	Sharing of good practice. Opportunity to discuss issues and solve problems with other LA's. Shared training (and cost benefits). Joint working opportunities, including joint funding bids. Consistent and supportive approach to challenges such as new government legislation, funding cuts etc
Blackdown Hills Area of Outstanding Natural Beauty (AONB)	Active	Proven partnership delivering AONB Management Plan and Duty of Regard for EDDC under Sec 85 CROW Act 2000 Significant multiplier of EDDC's contribution Continuation of partnership working with key public and private sector partners. Ability to access additional funding for local projects Working with farming & local communities – e.g. via farm facilitation group (with 110 farmer members)
East Devon Area of Outstanding Natural Beauty (AONB)	Active	Proven partnership delivering AONB Management Plan and Duty of Regard for EDDC under Sec 85 CROW Act 2000 Significant multiplier of EDDC's contribution Continuation of partnership working with key public and private sector partners.

Partnership	Active or inactive partnership	Benefit of continued engagement
		Ability to access additional funding for local projects e.g. Corry & Coly NFM project Working with farming & local communities - ELM trials and facilitation group
East and Mid Devon Community Safety Partnership	Active	It is a statutory requirement but it does demonstrate the added value of partnership working. Links to funding streams for OPCC and Safer Devon Partnership.

4. A report showing the partnerships detail appears in [Appendix A](#).

Financial implications:

No direct financial implications

Legal implications:

There are no direct legal implications

Internal Audit Report

Strata ICT Audit

Strata Services
Solutions - ICT
Partnership
organisation of
Exeter, East Devon
and Teignbridge

July 2022

Official



Support, Assurance & Innovation

Devon Audit Partnership

Devon Audit Partnership (DAP) has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid-Devon, South Hams & West Devon, Torridge and North Devon councils and we aim to be recognised as a high quality public sector service provider.

We work with our partners by providing professional internal audit and assurance services that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards (PSIAS) along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

1 Introduction

Strata Service Solutions has three founding partners (The Partners), East Devon District Council (EDDC), Exeter City Council (ECC) and Teignbridge District Council (TDC). The creation of Strata in 2014 represented an innovative approach that has positioned the Partners well as many Councils around the country increasingly look to enter similar partnership arrangements.

Strata has been in operation for seven years on 1st November 2021 and has established itself as a successful provider of IT services within the South West region. Despite encountering both expected and unexpected challenges during this period, a common infrastructure platform and desktop technology are now well established, benefitting the Partners and Strata alike. This has been achieved whilst exceeding expectations, including substantial and tangible financial savings. The current Strata Business Plan (2021 and Beyond) reinforces the desire to continually improve and fulfil the critical role of enabling technology driven transformational change.

Computer technologies continue to evolve at pace leading to big advances in the enabling of remote working for staff and in improving customer engagement. These areas alone have provided opportunities for the Partners to improve service delivery, engagement and create operational efficiencies. These are fundamental components in delivering services at a time when Council's around the Country reach financial tipping points and as they struggle to deliver services with the resources available.

As stated in our July 2020 report, Strata have positioned themselves well to add value to the Partners and fulfilling the role of an effective strategic enabler and an 'agent for change'. The Covid 19 pandemic has also reinforced the importance of Strata as a vital 'Business as Usual' (BAU) enabler.

Based on the risks Strata are currently exposed to, this report focusses on key strategic risks with a more granular review being commenced in March 2022.

*Reduce
Cost,
Reduce
Risk and
Deliver a
Capability
and
Capacity
for Change.*

2 Audit Opinion

Reasonable Assurance

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

3 Executive Summary

Entering its eighth year of operation, Strata is potentially facing its most challenging period since the early years and creation of a unified delivery platform upon which it provides ICT services to the Partners. The chosen delivery model remains a robust and relevant to business change needs within extremely challenging financial constraints. Indeed, as highlighted within last year's report, the partnering approach has become increasingly popular.

The ongoing Covid 19 pandemic introduced unforeseeable challenges for Strata and the Partners alike. This has impacted the ability to evolve and deliver business change, with the provision of BAU service rightly being prioritised. This, however, has understandably created varying degrees of frustration within Strata and for the Partners.

The departure of the Infrastructure & Support Team Manager in late 2021 and now the IT Director not only represents a significant loss of expertise and wisdom, but also potentially has a destabilising effect on Strata as a whole. The loss of the IT Director potentially undermines stability and creates uncertainty across the entire Strata business. Any reduction in staff morale represents a significant risk to organisational progress and the potential value adding benefits of Strata will decrease or be lost.

The annual review of Cyber Security using the technical basis of the Governments Cyber Essentials scheme confirmed that Strata continue to provide a strong network security baseline on which the Partners can deliver their respective services. The absence of critical and high risk issues identified by the PSN Health Check and positive comments from the inspection all provide notable assurance. However, the level of threat posed by Cyber criminals in particular is concerning and this must be recognised by Strata and the Partners.

The Cyber risk environment has changed considerably since Strata's inception, and it is imperative that all organisations suitably reflect this in mitigating strategies and operational processes. The importance of this cannot be overstated due to the high level of reliance of the Partners upon technology to provide essential services and deliver essential business change.

The Log4Shell incident that impacted Strata during December 2021 provided assurance that Strata have the necessary processes and capabilities to respond in a timely and effective manner to potentially damaging security incidents. It also served as a relatively pain free reminder that there are endless computerised vulnerabilities that are exploited by a wide range of would-be attackers.

A Freedom of Information request by a UK privacy group found that 114 councils experienced at least one cyber-attack between 2013 and 2017. However, it is the three high profile local government ransomware attacks occurring in the past three years that provide the starkest picture of the impact of a major cyber security compromise.

The ransomware attacks on Copeland, Redcar & Cleveland (Redcar) and Hackney Borough Councils serve as a warning that Local Authorities must not stand still but continue to strengthen and evolve their security operations and strategies. Without doing so the Partners risk sleep walking into a major security incident that would

cause significant disruption to services beyond the bounds of the individual Partner Council's and impact the members of the local community. In financial terms, the cost of recovering after such a major cyber-attack could create in unaffordable budgetary impacts.

We are yet to fully understand the extent of the Gloucestershire attack that occurred just prior to Christmas 2021. However, the attack used 'sleeper malware' that made its way into the local authority's system embedded in an email that had been sent to a council officer.

The question needs to be asked of the Partners "how would you deliver services without your network being available?". Business Continuity Planning (BCP) exercises commonly reveal that organisations and individual service areas incorrectly see cyber BCP as an IT Department/ Service responsibility.

Within its Policy Themes for 2021, SOCITM* identifies the value of partnering, collaboration and sharing proven best practice with both the Service design and Transformation and, Modernising ICT service delivery themes. The message highlights that by combining financial and knowledge resources in an effective and well governed manner, authorities can optimise service delivery and modernisation opportunities.

In establishing Strata in 2014, the Partners established a delivery platform that provides significant opportunities to take advantage of the strengths it offers. Despite seven years having elapsed since Strata was established, no combined ICT Roadmap exists, which undermines the ability to obtain best value for money from Strata.

As a minimum, a combined ICT Roadmap that includes core enterprise requirements such as data storage, communication and, key operational drivers to achieve value for money, must be in place. The recently created Digital Strategy provides an opportunity for the Partners to identify opportunities for greater technological alignment. However, if the Partners cannot agree upon a combined and collaborative IT Road Map, then serious consideration must be given to how the current strategic and operational weaknesses this creates can be best managed.

Teignbridge District Council (TDC) have largely completed the first stage of a project to implement Microsoft Office 365 (M365), commissioning a specialist company to assist with service design and configuration. This resulted in disproportionately focussed and consumed resource however this should assist the other Partners as M365 will need to be delivered to a greater or lesser extent to both of them.

The M365 platform does provide many opportunities to modernise operational processes to bring about much needed transformational business change. However, the overall platform, and the range of potential service options and configurations it offers, is vast and complex. It is therefore key that the M365 project must not deliver a collection of technologies, but a platform that's service design and configuration that is secure and drives efficiency and improved service delivery. Crucially, it would benefit Strata and all of the Partners if a collaborative approach to identifying business goals, functional requirements and opportunities is achieved, with this delivered sooner rather than later.

There are significant security and information governance risks associated with poor M365 configuration and practices, hence it is critically important that both financial and resource investments are made to ensure risks are understood and mitigated.

* *.Socitm is the professional network for digital leaders in the transformation of local public services. It is the membership association for these professionals – those who work in local and central government – as well as the broader public and third sectors, and suppliers to those sectors.*

4 Observations and Findings

The Cyber Security Table of Disparity

	Partner Councils	Cyber Criminals
<i>Governance Arrangements</i>	Complex, bureaucratic and slow to respond.	Clear, autocratic and responsive.
<i>Business Objectives</i>	Statutory, moral and complex.	Financial gain.
<i>Financial Resources</i>	Reducing and difficult to allocate to meet specific granular service objectives.	Growing, pooled and allocated as required to achieve financial gain.
<i>Time Resources</i>	Reducing and increasingly pressurised.	Allocated as required to meet with objectives.
<i>Technological Resources</i>	Cost limited and allocated to meet specific business needs.	Able to take advantage of rapid advances in computing power.

The Changing Cyber Risk Environment

Strata and the Partners must learn from the growing catalogue of high profile cyber-attacks, paying particular attention to the ever increasing use of ransomware. This goes beyond acknowledging their occurrence and being aware of the details surrounding these significant incidents. They confirm increased levels of frequency, complexity and, for those perpetrating them, profitability.

Strata benefit from having individuals who have been part of regional information security and management bodies and communities that create a high level of awareness of current incidents, trends and risks. However, DAP consider that, in line with many organisations, the level of understanding within the Partners is unlikely to reflect the current level of risk.

Globally, cyber-crime is already more profitable than the drugs trade and its low risk high reward nature will continue to encourage an ever increasing proliferation. Ransomware in particular is an increasingly profitable criminal activity and is fuelled by private sector companies generally calculating that it's more cost effective to pay out. It is therefore imperative to understand the resources available for cyber criminals to continually advance their capabilities.

The position is now so serious that a global coalition of technology companies have

called for “aggressive and urgent action”. Microsoft, Amazon the FBI and the National Crime Agency (UK) have joined the Ransomware Task Force in giving 50 recommendations to governments around the world.

All organisations increasingly rely upon its computerised systems to provide modern digital services, administer key services, communicate with the public and create the efficiencies required within current financial constraints. This increase in technological reliance has been incremental and so, as such, the understanding of the risks and rewards associated with greater technological reliance has been largely overlooked.

There also needs to be a reflection on the progressive split access to some systems, where some are in the ‘cloud’, which is systems and data held in third party data centres and needing a stable internet, and others operating from the local (Strata) environment. Both have their strengths and weaknesses, however without a well planned design, in the event of an internet or computer network failure this could result in challenges to access the complete suite of systems needed to deliver the key services.

The true level of cyber threat is naturally only really understood by security professionals and a limited number of IT Managers and infrastructure engineers. It is, therefore, important that Strata continue to highlight the true nature and impact of a successful cyber-attack so that appropriate governance, communication and funding are consummate with the overall risk.

The responsibility for keeping an organisation Cyber secure resides with all within an organisation. In order to ensure that this is achieved, corporate leadership must provide a strong top down message based on a level of understanding that allows for risks to be properly considered and informed decisions to be made with regard to mitigating actions.

Information Security Governance

The ability to deliver modern local authority services in a cost effective and efficient way is almost totally reliant upon its IT infrastructure and business solutions. Despite this, many local authorities have not fully recognised this reliance within their Information Governance and IT Security governance structures, often with a wide variety of approaches taken.

Individual services within the Partner Councils are overseen and governed by senior managers who are subject area experts and who understand how they can best operate with the resources they have. Since all IT Security expertise resides within Strata, there is a real and developing risk that information security understanding and decisions are not fully informed. Strata must continue to effectively convey a strong message so that the Partners recognise the level of risk posed by the need to modernise how we obtain, store and use information presents within the current cyber risk environment.

Strata operate processes to appropriately control the introduction of new solutions, whether as part of the Data Protection Impact Assessments (DPIA) or as part of the project management and business change processes. However, these ensure security on a granular level. The current and evolving level of strategic and operational threat heightens the risk of sleepwalking into a significant cyber incident. An assessment of the effectiveness of Information Security governance should be

conducted to ensure that Leadership Teams at all Partner Councils are sufficiently informed of the cyber risk environment in which they operate.

Organisational Risks

The level of both costs and service disruption associated with a major cyber incident would make an already resource critical position worse. The severity and range of the impacts are such that it should be recorded within each Partner Council's Strategic Risk Register and the risk appetite formally recorded. The high-level granular risks include those associated with:

- The fulfilment of their statutory and moral obligations.
- The ability to deliver statutory and non-statutory services.
- Making payments to service providers, suppliers, those in receipt of Housing Benefit.
- Procuring/ paying for operationally critical goods such as fuel and vehicle maintenance supplies.
- Denial or Loss of Information Assets.
- Receiving and processing income.
- The compiling of the Council's accounts and Housing Benefit (HB) subsidy claims.
- Reputational damage.
- Short and Medium term financial impacts.

There is no doubt that suffering a major cyber-attack would damage the Partner Councils reputation, but the reputational damage to Strata would inevitably also have a significant impact. The Partners rely on Strata for security expertise, even though it is they that have the overriding legal and moral responsibilities to the local citizens that they serve.

It is in Strata's interest to maintain its reputation for being a secure IT service provider. Failure to do so could significantly impact its future viability as an IT service provider. It is, therefore, important that Strata provide effective guardianship to inform and protect the Partners from the growing Cyber threat and that, in turn, the Partners understand and respect the need for Strata to fulfil this critical role.

Lessons Learnt

The key message from the October 2021 Hackney cyber-attack is that a local authority whose IT security was of a high standard can be operationally crippled by a successful cyber compromise. It could be argued that Hackney had a much more prioritised and well-funded approach to safeguarding their network and information systems prior to the attack than the Partners/ Strata currently have.

Hackney had top-down buy-in from Senior management, underpinned by the existence of a director level Information Governance Group and a Chief Information Officer (CIO) led ICT Security Group. Of note, is that Hackney had conducted a ransomware exercise during 2016, at very least demonstrating an understanding of the risk.

Another key message is that the exploit utilised a sequence of relatively low risk vulnerabilities and a limited number of operational errors. The level of expertise and skill demonstrated by those conducting the attack was highly impressive. The

window of opportunity for conducting reconnaissance, seeding and detonating the attack was extremely limited. How do the Strata ensure that this level of risk is mitigated?

However, all of the good governance and operational practices were undermined due to the failure of an individual technician to comply with expected good practice and having access privileges that could be considered to be excessive for the role being undertaken.

In the light of the Hackney incident, both Strata and the Partners must consider the following:

- How extensive are your current security assurances and how will you identify knock on / combination risks?
- How do you know that your policies are fully implemented all the time?
- How extensive could an attack be and how will you recover (suggest using a range of scenarios)?
- How well do you understand the data you hold and associated potential risks?
- How are you using data retention management to reduce risk?
- What is your organisations risk appetite and insurance position against (a range of) these risks?
- Are all staff sufficiently cyber aware and understand and recognise cyber risks and potential cyber-attacks?

Minimising the Software Estate

There are material inefficiencies in maintaining too many business solutions for the Partners. Within Strata much needed capacity can be consumed that could be better utilised, including undertaking security or project related tasks.

The rationalising and alignment of the combined software estates to create financial savings and efficiencies has been one of the business change drivers for the Partners since the creation of Strata. However, the reduction of the Partners software estate is not only fundamentally important to the reduction of costs and improved information management, but also information and network security.

There are four clear security weaknesses in having too large a software estate, namely:

- Knowledge - The expertise required to maintain a wide range of business solutions securely.
- Volume - The variety of middleware required to make them operate (often with known vulnerabilities).
- Capacity - Increased numbers of BAU and scan vulnerability remedial actions created consume resources.
- Patching – The higher the number of differing business systems, the easier it is to miss critical patching of the solution or supplementary software.

Cyber Security Cyber Essentials Review

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 Appendices.

1.	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.	Reasonable Assurance*
2.	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.	Reasonable Assurance
3.	Access Control - User accounts, particularly those with special access privileges (e.g. administrative accounts) are assigned only to authorised individuals, managed effectively and provide the minimum level of access to applications, computers and networks.	Reasonable Assurance
4.	Malware protection - Computers that are exposed to the internet are protected against malware infection using malware protection software.	Reasonable Assurance
5.	Patch Management - Software running on computers and network devices are kept up-to-date and have the latest security patches installed.	Reasonable Assurance
6.	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.	Reasonable Assurance

The level of control in the six areas reviewed continues to provide Reasonable Assurance (**previously defined as 'Good Standard'*). DAP continue to use and advocate the National Cyber Security Centres' (NCSC) Cyber Essentials scheme and it is pleasing to note that Strata intend to obtain the Cyber Essential Plus accreditation. The involves an independent assessment by an NCSC approved company to confirm compliance with the schemes control framework. It is envisaged that best value could be provided by timetabling DAP's work in this area to preclude any Cyber Essentials Plus assessment.

Strata's latest Public Sector Network (PSN) Certification was achieved on 1st July 2021 providing a further level of assurance from what constitutes a mandatory and independent security assessment. Furthermore, no high or critical (risk) issues were identified, other than the 'end of life' Server 2008 issues, with the PSN

assessor commenting that good compared to other organisations.

The extended use of LogPoint by Strata to log and record Firewall changes and send alerts is considered by DAP to be good practice. The use of LogPoint for other intelligence also provides further assurance. The LogPoint system was upgraded during 2021 which provides 'SOAR' (security orchestration, automation and response) capability is planned to be trialled once capacity allows. This should better identify cyber threats to the network, in particular unusual events.

The management of high-privilege network accounts provide some compensating controls to help mitigate some of the risks associated with this area. To further manage the associated risks, Strata have significantly reduced the number of the highest privilege accounts providing least privilege accounts in their place targeted to each purpose.

A minimal number of 'end of support' servers still exist, with appropriate mitigations being put in place to ensure continued PSN certification. The network server environment benefits from ongoing investment with SQL Server 2016 and 2019 being introduced. The continuing upgrade of network infrastructure is an essential BAU component in ensuring that the Partners respective networks operate on an up-to-date platform that is both secure and optimises the opportunity to potentially take advantage of new technologies.

The monitoring of network logs is conducted to allow for more effective monitoring to supplement the alerts and warnings already embedded within existing software and workflow configuration. Strata also possesses the capability to use log data available to conduct effective analysis to identify potentially unusual activity or anomalies.

Patch Management, Firewall and Malware arrangements utilise a combination of well-known solutions. The Head of Security and Compliance maintains an up-to-date awareness of current threats and mitigations, which allows for security and operational needs to be kept in balance.

The need to ensure that software solutions operate using the most recent 'patches' and updates available can't be over emphasised. The lack of Critical and High risk issues identified as part of the latest PSN Health Check help provide good assurance that the essential patch management processes are effective. This is largely due to performing monthly network scans which has significant benefits in safeguarding the network.

Whilst not part of the Cyber Essentials scheme, incident response is a critical component in ensuring that when incidents occur, they are dealt with in the most appropriate and timely manner. Two incidents have occurred during the timeframe of this report, with one relating to the deployment of a new mobile solution and the other a global software vulnerability event. In both instances the response, remediation and organisational learning were of a high standard.

Strategy

There are no 'silver bullets' when it comes to selecting a local authority's IT Service delivery model, but the current trend is to retain a higher degree of control through in-house or local authority partnering arrangements. This helps demonstrate that the Partners positioned themselves strongly in creating Strata when they did and should be ahead of the game in fulfilling current best practice. However, despite Strata now being well established with strong technical foundations, the Partners are yet to fully optimise its value.

Having three 'masters' was always the greatest challenge, and risk, to the success of the chosen delivery model. The existence of three separate organisations, with their own respective leadership, strengths, weaknesses and cultures, creates significant strategic differences. However, the services they deliver and the extreme financial pressures they are exposed to binds them through common future challenges. Closer alignment is an inevitability, either via organisational change or financial necessity.

DAP highlighted in June 2016 that there were clear strengths that the chosen strategic direction that continues to benefit the three founder partners. These included:

- Assisting in protecting the local economy through local employment:
- Mitigating financial risks associated with entering an unsustainable outsourcing contract and returning tangible savings:
- Retains the ability to make considered and timely decisions about future service delivery and retain multiple delivery options:
- Ensures partners have control and better transparency of ICT costs:
- Ensures that partners have direct input on information governance and security arrangements:
- Offers some opportunity for leverage in the marketplace.

The approach taken by the Partners has successfully fulfilled all the advantages listed in our 2016 report. However, having created a robust and modernised core network services the value of collaborative change now becomes of paramount importance. DAP have increasingly highlighted the change in Strata's value to the Partners, with emphasis on its value as the key enabler for collaborative transformational change.

It is fair to say that whilst an extremely solid baseline from which to offer BAU and business change services has been established, Strata is not being utilised fully as an enabler for cross partnership change (using best practice). The approach to achieving transformation business change remains too disparate to fully exploit the opportunities that have been created.

The current Strata Business Plan SWOT analysis is well constructed and identifies weaknesses and threats that negatively impact the ability to optimise transformational digitalised change. DAP would like to highlight the following four identified issues:

- Limited IT visioning or needs analysis coming from the three authorities, Strata expected to be reactive, without any clear authority lead IT Strategy

- Lack of roadmap knowledge on installed products and solutions
- Lack of a clear IT Strategy for each of the three authorities meaning that Strata do not understand the direction of travel of the authorities.
- One of the partner authorities choosing to take a different direction in terms of IT than the other two authorities leading to Strata needing to deliver a two-tier IT platform / service.

Strata continues to demonstrate value to the Partners in the way of tangible financial savings that comfortably exceed those forecasted within the original Business Case produced in 2014. The delivery of £3.65m of savings over the last six years of operation for a relatively small IT service is to be commended, especially since the service delivery costs are typical using industry benchmarking.

The Business Plan (2021 & Beyond) is once again of a high standard with a notable level of measurable detail, including that provided for how services will continually improve perform the role of an effective enabler for transformational change. Strata's monthly performance monitoring and reporting continues to be of a high standard, providing the Partners with meaningful data and metrics. This is crucial in helping to remove unhelpful and misplaced subjectivity which negatively impacts customer perception and staff morale alike.

The current IT Director left Strata at the beginning of April 2022, which follows the departure of the Infrastructure & Support Team Manager in late 2021. This comes at a time of diminishing morale and frustration within the management team and wider Strata organisation as demonstrated in annual staff surveys. Failure to identify this as a significant risk to Strata and the Partners would potentially result in creating operational deficiencies in capacity and knowledge. This, in turn, would have a disruptive effect on BAU service provision, business change and projects alike.

Strategically, Strata has benefitted from the leadership and expertise that the management team has provided over the past seven years. It is essential that the Board recognise this and ensure that all appropriate steps are taken to support Strata's management team and help safeguard future morale and the culture of the organisation, which has underpinned the success of Strata.

Service Design and Transformation

The absence of a truly joined up strategic IT Roadmap demonstrates a lack of collective appetite or, full realisation of how to optimise value for money from Strata. Whilst DAP consider there are good practices in respect of administering business change and project work, there are few examples of truly collaborative transformation projects that would provide material organisational changes to safeguard future service delivery. This also limits the opportunity to link associated functional requirements, so limiting the opportunity to identify processes and solutions that can be re-used in other end to end service delivery designs.

A 'Digital Strategy' has now been developed by the three authorities to define a roadmap as to where the authorities wish to move in relation to how best the authorities support their citizens with Digital technologies and channels over the coming years. The challenge is now to map the existing IT environment against this

Digital Strategy to identify what projects Strata need to undertake to provide the IT environment upon which the authorities can deliver their Digital vision. Strata had engaged a 3rd party (Agilisys) to undertake a review of the organisation's Digital readiness, the results of this exercise were presented back to the authorities during the first quarter of 2022/23.

Investment in good service design helps deliver value over the full service lifecycle as the business solution and associated processes create efficiency and save revenue costs. Whenever possible, Strata's finite resources should be focused on the delivery of projects that deliver the most value for money, and preferably, to all three partner authorities.

TDC have identified M365 as a means of transforming core functions within the Authority and are well on the way to completing their first phase. This, along with other TDC projects, has resulted in the consumption of considerable and disproportionate Strata resources. Whilst it may be considered that TDC are acting as a pathfinder, it is difficult to see how a configuration blueprint that truly fulfils the specific business needs of all the Partners can be achieved in this way without continued review and input from all through the project lifecycle.

The number of ways that M365 can be used for communicating and sharing information or documentation is considerable, which from an information governance perspective is concerning. The Devon Information Security Partnership (DISP) has identified M365 configuration as potentially introducing significant risks.

DISP includes information governance and security practitioners from local government, health and emergency services in the region and the membership have raised a wide variety of challenges and concerns. These are significant enough for the subject to be replacing the GDPR as a key agenda item, not least because of the clear risks to organisational data protection compliance.

Being the most popular 'office suite' in the world, the selection of M365 as a solution is both common and understandable. However, it must be understood that in not looking at end to end processes and undertaking a competitive procurement process creates a range of risks and project weaknesses. The review of a range of methods and means of providing end to end solutions is crucially lost, which can limit the opportunity to understand the variety of ways core business functions can be provided. This can limit the potential for radical and cost effective change as well the resultant service configuration or, for configuration to be myopic in nature.

Assuming TDC's M365 project is perceived as being successful, Strata resources will be consumed through a greater number of incidents and problems during the implementation, release, and early life phases. This will impact implementation, support and training resources. This is clearly inefficient and highly disruptive for both Strata and The Partners and a likely contributor to dissatisfaction on all sides.

As a 'fallback' it is imperative to capture all lessons learnt in respect of M365 so that any potential future implementations within ECC and EDDC benefit from the knowledge and experience gained during the TDC deployment. However, it would be far more effective to ensure that all Partners had a defined and collaborative design that ensured that respective organisational requirements were appropriately balanced and delivered.

The delivery of solutions utilising Software as a Service (SAAS) and hosted environments requires an understanding of different and additional risks that require different thinking and mitigating controls. There is a clear distinction between project risks and the risks associated with a specific IT solution and the operational end to end process. The later assessment is fundamental to ensuring that the organisations data assets are appropriately safeguarded in live operation.

Transition/ Change Management must also recognise risks effectively, particularly as IT platforms continue to evolve at pace to meet with changing business requirements. The need to assess risks effectively within each discipline, and merge them where appropriate, must not be lost. It would, therefore, be of value to all of the Partners to manage and mitigate these risks through collaborative effort and mirrored end to end processes. The current project framework allows for this, but regular review of its effectiveness in managing risk would be beneficial.

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

4 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 Appendices.

Risks / Areas Covered		Level of Assurance
1	Strategy & Governance	Reasonable Assurance
2	Service Delivery	Reasonable Assurance
3	Cyber Essentials	Reasonable Assurance

The findings and recommendations in relation to each of these areas are discussed in the "Detailed Audit Observations and Action Plan" appendix. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed.

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.

Acknowledgements

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

Tony Rose
Head of Partnership

Appendix A

Detailed Audit Observations and Action Plan

1. Area Covered: Strategy & Governance		Level of Assurance	
<p>Opinion Statement:</p> <p>The Strategic approach remains both valid and in line with the concept of greater partnering and collaboration. The latest Business Plan is of a high quality and assists in detailing and measuring the value of services delivered. However, the level of partnering and collaboration limits the value of the delivery model and fails to take advantage of the opportunities available.</p> <p>The ever increasing cyber threat changes the risk environment in which Strata and The Partners operate and essential transformational change is delivered. There is an urgent need for all organisations to re-evaluate their respective information governance structures, with particular regard to IT security.</p>		<p>Reasonable Assurance</p>	
No.	Observation and implications	Priority	Management Response (Including action plan and responsible officer)
1.1	The loss of the IT Director and the Infrastructure & Support Team Manager potentially undermines the stability that Strata has enjoyed over the past five years. This also comes at a time of much frustration and diminishing moral. The loss of other members of the management team or, other key staff, represents both an operational and potentially strategic risk.		
1.1.1	The Strata Board should oversee current IT Directors exit interview.	High	<p>A transition plan has been drawn up and presented to the board enabling identified key activities to be handed over to either members of the management team or to the incoming Interim Director of IT and Digital Transformation.</p> <p>The outgoing IT Director will complete an exit questionnaire and will be requesting an exit interview as part of the process.</p> <p>Actioned: March 2022</p>
1.1.2	The reasons for the Head of Infrastructure & Support’s departure must be captured as part of the IT Directors exit process.	Medium	<p>An exit form was completed by the Infrastructure and Support team manager and submitted to the IT Director and HR for analysis.</p>

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			Actioned: October 2021
1.1.3	Upon the appointment of the new IT Director, the new incumbent should capture and formally report back to the Board Strata's Management Team's observations and concerns for the future of Strata.	Medium	It is expected that the incoming Director of IT and Digital Transformation will undertake a review of Strata within the first 100 days, capturing initial observations and concerns, with Strategic and operational recommendations. This analysis would then be presented back to the Strata Board. Actioned: March 2022
No.			
1.2	The risk environment is continually changing due to the increasing Cyber threat. The level of cyber risk is such should that organisations should be suitably recognised this within their respective risk management processes. It is of utmost importance that senior management within the Partner Council's properly understand the risks and that investment and budget are appropriately maintained.		
	Recommendation	Priority	Management Response (Including action plan and responsible officer)
1.2.1	In the light of the current Cyber threat, Strata must re-evaluate the suitability of information governance structures within the respective Partners and if the level of support, advice, and influence that Strata currently provide is sufficient. Strata should ensure that their role in providing the Partners with specific information security expertise is appropriately recognised.	High	The Partners and Strata have agreed to use the NCSC Incident in a Box series of scenarios to better understand the various needs and interactions of information governance. One iteration of this exercise has been undertaken with the three partners and Strata all participating, including the BCP leads from each authority.
1.2.2	Strata and the Partners should ensure that the Cyber threat is appropriately recorded within their respective corporate risk registers.	High	Cyber threat is recorded within the Strata Risk register which is maintained by the Strata Head of Security and Compliance. Risk is reviewed as a standing item at each Strata Board meeting. The Council also hold Cyber as a corporate risk in their own registers.

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2. Area Covered: Service Delivery (Service Design)		Level of Assurance	
<p>Opinion Statement:</p> <p>Whilst it is understandable that a single Partner Council will choose a specific transformational path that fits with their own respective business needs, this also potentially erodes the Strata’s value as an enabler for change. Furthermore, this potentially creates a range of risks to itself, Strata and the two other Partners since resources are being disproportionately consumed. This not only applies to the project phase, but potentially for the lifetime of the M365 solution if the two remaining Partners choose an alternative solution or differing elements of the M365 application suite.</p> <p>The TDC M365 project must not deliver a collection of technologies, but a platform that's service design and configuration that is secure and drives efficiency and improved service delivery. Crucially, it would benefit Strata and all the Partners if a collaborative approach to identifying business goals, functional requirements and opportunities is achieved. Strata are a member of the Devon Information Partnership (DISP) who recognise the potential risks that poor configuration represents. It would be highly beneficial for the shared knowledge within DISP to help inform the TDC project.</p> <p>Strata and the Partners have made progress in converging software solutions, but the security aspect of having to maintain large numbers of software solutions must be increasingly factored into decision making. The use of Multi Factor Authentication (MFA) solutions is becoming more common and represents an effective means of mitigating the considerable risks associated with ongoing poor password practices by network users.</p>		<p>Reasonable Assurance</p>	
No.	Observation and implications		
2.1	Strata are a member of DISP who are to include M365 as a standing agenda item in the short and medium term. Due to the number and range of organisations attending, this shared understanding and learning is an invaluable source of information regarding configuration and associated risks.		
	Recommendation	Priority	Management Response (Including Action Plan and responsible officer)
2.1.1	All intelligence obtained from attendance at DISP should be provided to the project team. Where necessary, information should be used to inform/ revise the Data Protection Impact Assessment (DPIA).	Medium	DISP is a valuable resource however this has been supplemented by technology and security specialists to increase the delivery and governance capability to better inform the project. Target Date: Ongoing
No.	Observations and implications		
2.2	The number and variety of business solutions administered by Strata not only creates operational pressures and inefficiencies but heightens the security risks.		

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	Recommendation	Priority	Management Response (Including Action Plan and responsible officer)
2.2.1	Strata should continue to advocate convergence and rationalisation of the Partners software estates, further highlighting the security risk posed by maintaining high numbers of differing software solutions that all require varying knowledge and patching requirements.	Medium	Given the upcoming Digital drive which includes further adoption of hosted solutions, this would appear to be the appropriate vehicle to support these considerations and objectives. Target Date: Ongoing
No.	Observations and implications		
2.3	Most organisations struggle to ensure that their network users comply with password policies and comply with organisational policy and best practice initiatives.		
	Recommendations	Priority	Management Response (Including Action Plan and responsible officer)
Page 78 2.3.1	Consider the introduction of additional security measures to supplement network and application passwords and use of MFA such as the use of biometric solutions such as Windows Hello.	Medium	Biometrics could be considered but also come with real concerns on the use of personal data. There is also the need to ensure that each biometric solutions False Rejection Rate and in particular False Acceptance Rate are suitable for the access needs. Windows Hello for Business relies on specific hardware. Target Date: Ongoing

3. Area Covered: Cyber Essentials Review		Level of Assurance	
<p>Opinion Statement:</p> <p>The annual review continues to provide ‘Reasonable Assurance’* that the controls provided by Strata to mitigate against the most common cyber threats are effective. The intention to attain the Cyber Essentials Plus accreditation is also considered to a further positive. The requirement for a formal assessment by a duly accredited IT security assessor will not only provide further assurance, but also ensure that Strata is seen as a secure provider of IT services by potential would be partners.</p> <p>Good cyber security also requires robust and effective incident response processes to administer the impacts and remediations required following a security compromise. The two incidents that have occurred in recent months, evidence that Strata have the capability to respond and remediate effectively and appropriately. Furthermore, a high level of review and organisational learning was demonstrated.</p>		<p>Reasonable Assurance</p>	
No.	Observation and implications		
3.1	In conducting the annual cyber security review the following observations, recommendations and opportunities have been identified.		
page 79	Recommendation	Priority	Management response and action plan including responsible officer
3.1.1	<p>There have been no Business Continuity tests conducted in the past twelve months with continual focus on Covid and Covid recovery.</p> <p>It is recommended that the planned Business Continuity and Disaster Recovery testing should resume at the earliest opportunity.</p>	High	<p>Cyber tests have now been prioritised above Business Continuity., However, it is becoming increasingly evident that Cyber can be considered an additional threat type, but that follows the BC approaches. An initial NCSC Exercise in a Box was undertaken in March 2022 with a commitment to take actions forward and complete further Exercise in a Box sessions.</p> <p>Target Date: Ongoing</p>
3.1.2	<p>The Server Build Standard 11 Checklist does not make specific reference to changing default passwords. However, it is noted that the form does require sign off by the Security Team.</p> <p>It is recommended that a prompt in the Server Build Standard 11 Checklist is introduced to ensure that engineers consider and action any changes to default passwords and that this is checked as part of the sign off process.</p>	Low	<p>Server passwords are managed by LAPS for domain joined and otherwise for non-joined and the passwords are entered in the password system. It is noted that there is not a direct reference to changing the passwords and this can be added even though practice and vulnerability scanning does not show this to be an issue.</p> <p>Target date: Sep 2022 (checklist update)</p>

3.1.3	<p>From April 1st, 2021, Strata have been informed of leavers via a feed from the Partners payroll systems (iTrent). However, there is not a common leaver processing place across all three clients.</p> <p>It is recommended that a standard/common process for identifying and processing leavers of each client organisation is introduced.</p>	Low	<p>Due to other commitments, especially those caused by Covid and the associated activities this low priority exercise to develop a common process has not been undertaken.</p> <p>There is an expectation that there will be a wider focus on processes within Strata over the next 12 months of which this will be one of.</p>
3.1.3	<p>There are two non-standard email routes. One relates to a company needing to route via M365 directly and the another supports the requirement for some members to have emails forwarded from Devon County Council (DCC) to their TDC account. It then becomes necessary for that individual to create DMARC exceptions.</p> <p>It is recommended that Request Management Response regarding confirmation/explanation that the level of email filtering for non-standard routed email is subject to adequate filtering (in line with/equivalent to standard routed email filtering).</p>	Low	<p>The company which needs M365 direct routing has limited and specific email requirements that we feel are mitigated.</p> <p>The DCC email account is reviewed and once that Councillor moves to M365 this option will need to be withdrawn as the filtering approach appears to be different at DCC resulting in additional threats being received but not managed as effectively as they are seen to come from a trusted source 'DCC'</p> <p>We have also implemented Trend Cloud One security that does a secondary scan of all email entering and existing M365.</p>
3.1.4	<p>At present Strata do not have a documented response plan(s) /Playbook for use in the response to a significant malware/ransomware incident.</p> <p>An incident response plan "playbook" should be developed for use when a significant incident (malware or other incident effecting IT Services) occurs.</p>	Low	<p>These are likely to be developed as part of the Incident in a Box exercises. The upgrade of Logpoint now includes SOAR capability, which provides automated threat response will also develop playbooks.</p> <p>Target Date: 31/03/2023</p>

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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.
Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.

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.
Official: Sensitive	A limited subset of OFFICIAL information could have more damaging consequences if it were lost, stolen or published in the media. This subset of information should still be managed within the 'OFFICIAL' classification tier, but may attract additional measures to reinforce the 'need to know'. In such cases where there is a clear and justifiable requirement to reinforce the 'need to know', assets should be conspicuously marked: 'OFFICIAL-SENSITIVE'. All documents marked OFFICIAL: SENSITIVE must be handled appropriately and with extra care, to ensure the information is not accessed by unauthorised people.

Report to: Audit and Governance Committee



Date of Meeting 17 November 2022

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Review of the Local Code of Corporate Governance

Report summary:

The Council's Code of Corporate Governance, which sets out our overarching approach to our corporate governance arrangements, was adopted by Cabinet in February 2019 and is now due for review. It is a requirement of the Constitution that Cabinet consult with Audit & Governance in relation to the approval, implementation and monitoring of the Code of Corporate Governance. Having reviewed the Code, it is recommended to the Committee that they recommend to Cabinet to continue to use the current Code unchanged with a further review in two years' time.

Is the proposed decision in accordance with:

Budget Yes No

Policy Framework Yes No

Recommendation:

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

Reason for recommendation:

The Council regularly reviews the policies, codes and procedures that govern the way we operate. The Code of Corporate Governance (see background link) provides the overarching framework for the Council's Corporate Governance. It was last updated in December 2016 following revised guidance from CIPFA/SOLACE and reviewed in January / February 2019. It is not a standalone document but rather identifies the key principles that the Council agrees to follow in establishing our governance framework. It is supported by a number of other documents, being our key policies, which in combination seek to ensure that the Council has systems, processes, culture and values that we engage with and act by and are accountable in respect of. Ultimately the Code is about ensuring that the Council does the right things, in the right way for the right people in a timely, inclusive, open, honest and accountable manner.

The effectiveness of the Code of Corporate Governance is monitored through a number of routes, including the production of the Annual Governance Assurance Statement which comes before this Committee for approval. Section 11 of the Code details other mechanisms which contribute on an ongoing basis to monitoring the overall effectiveness. In that regard the role of both our internal and external auditors plays an important part. At the 16th March 2022 Audit & Governance Committee meeting, Grant Thornton presented their Audit Findings Report 2021. This report did not conclude that the Council's Annual Governance Statement did not confirm to the CIPFA / Solace 2016 guidance on disclosures or that there was anything misleading or inconsistent in it when considered against their findings. Audits are now expected to look in greater detail at the

issue of value for money including the Council's wider arrangements in relation to improving economy, efficiency and effectiveness, financial stability and governance. The report identified a risk in relation to the Council's governance arrangements in responding to results from a Health and Safety Survey. It was noted that this risk would be considered further. At the 28th July 2022 Audit & Governance meeting, Grant Thornton presented their Annual Report 2020/21. This considered in more detail the value for money issue and ultimately concluded that there were 'no significant weaknesses in arrangements' in relation to improving economy, efficiency and effectiveness, financial stability and governance, although there were a series of improvements identified. At the same meeting of the Audit & Governance Committee, SWAP presented their Internal Audit Annual Assurance Opinion 2021/22. The report recognises that '*Internal Audit function plays a central role in corporate governance by providing assurance to the Annual Audit, Governance and Standards Committee, looking over financial controls and checking on the probity of the organisation. The 2021-22 Annual Audit Plan provided independent and objective assurance on EDDC Internal Control Environment. This work supported the Annual Governance Statement.*'. The opinion noted that '*there is generally a sound system of governance, risk management and control in place*' and gave a '**Reasonable Assurance opinion**'.

There have been no concerns raised regarding the suitability or effectiveness of the Code of Corporate Governance and there has been no legislative or guidance changes that would necessitate any revisions being made.

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

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

Officer: Henry Gordon Lennox, Strategic Lead Governance and Licensing & Monitoring Officer

Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Democracy, Transparency and Communications
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities
- Tourism, Sports, Leisure and Culture

Equalities impact Low Impact

Climate change Low Impact

Risk: Low Risk;

Links to background information

[Code of Corporate Governance](#)

[28th July Audit & Governance Committee meeting](#)

[16th March Audit & Governance Committee meeting](#)

Link to [Council Plan](#)

Priorities (check which apply)

- Better homes and communities for all
 - A greener East Devon
 - A resilient economy
-

Financial implications:

There are no direct financial implications.

Legal implications:

The Code accords with the CIPFA/SOLACE guidance. The Corporate Governance framework is a fundamental control element to the Council's activities. This document is the overarching document which sets out our overall approach to governance. It is supported and expanded upon by our key policies and the other monitoring activities set out therein. It is important that the Council has an up to date Code of Corporate Governance, not least because it helps inform the production of the statutory Annual Governance Assurance Statement but also because it helps demonstrate to the public that there are appropriate internal controls and accountability for actions. The review confirms that there are no amendments required to the Code and that it should continue to apply as adopted. The Council must have regard to it when formulating related policies or when considering governance related matters. Otherwise there are no legal implications arising.

Audit and Governance Committee
17 November 2022

Audit and Governance Committee		
Forward Plan 2022/23		
Date of Committee	Report	Lead Officer
19 January 2023	<ul style="list-style-type: none"> • Internal Audit Activity – Quarter 3 2021/22 • Audit Committee update • Audit Findings Report • Auditor’s Annual Report • Statement of Accounts including Governance Statement 2020/21 • Risk Management review – half year review • Strata Annual Internal Audit report • Review of the Anti-Fraud Theft and Corruption Policy, Anti-Bribery Policy and Whistleblowing Policy • RIPA update 	<p>SWAP</p> <p>Grant Thornton Grant Thornton Grant Thornton</p> <p>Strategic Lead Finance Management Information Officer</p> <p>DAP</p> <p>Strategic Lead Governance & Licensing</p> <p>Strategic Lead Governance & Licensing</p>

16 March 2023	<ul style="list-style-type: none"> • Annual Audit Plan 2022/23 and Review of Internal Audit Charter • Internal Audit Plan Progress • External Audit Plan • Audit Committee update • Accounting Policies Approval • RIPA update 	SWAP SWAP Grant Thornton Grant Thornton Financial Services Manager Strategic Lead Governance & Licensing
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