

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 11 March 2015
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer (Committees) on 01392 265115 or email sharon.sissons@exeter.gov.uk

Entry to the Civic Centre can be gained through the Customer Services Centre, Paris Street.

Membership -

Councillors Sheldon (Chair), Baldwin (Deputy Chair), Bowkett, Brock, Donovan, Henson, Laws, Lyons, Morris, Raybould and Williams

Agenda

Part I: Items suggested for discussion with the press and public present

1 Apologies

To receive apologies for absence from Committee Members.

2 Minutes

To sign the minutes of the meeting held on 3 December 2014.

3 Declarations of Interest

Councillors are reminded of the need to declare any disclosable pecuniary interest that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any discussion of the item. Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

4 Local Government (Access to Information) Act 1985 - Exclusion of Press and Public

RESOLVED that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for consideration of Appendix A of Item 15 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part I, Schedule 12A of the Act.

5	Housing Benefits Accounts 2013/14 Qualification Update	The Assistant Director Customer Access to provide a verbal update.	
6	Review of Corporate Governance Risk Register	To consider the report of the Corporate Manager Policy, Communications and Community Engagement.	(Pages 5 - 8)
7	Audit and Governance Committee Update	To consider the report of the Council's Auditors Grant Thornton.	(Pages 9 - 22)
8	Certification Report 2013/14	To receive the report of the Council's Auditors Grant Thornton.	(Pages 23 - 34)
9	Exeter City Council Fraud Detection/Compliance Letter (ISA 240 letter)	To receive the letter of the Council's Auditors Grant Thornton.	(Pages 35 - 42)
10	Internal Audit Charter (Bi-Annual report)	To consider the report of the Audit Managers.	(Pages 43 - 52)
11	Annual Internal Audit Plan 2015/16	To consider the report of the Audit Managers.	(Pages 53 - 58)
12	Internal Audit Progress Report	To consider the report of the Audit Managers.	(Pages 59 - 76)
13	Code of Corporate Governance 2015/16	To consider the report of the Assistant Director Finance.	(Pages 77 - 84)
14	Review of update of the Counter Fraud Strategy (previously Anti Fraud, Anti Bribery and Anti Corruption)	To consider the report of the Audit Managers.	(Pages 85

Part II: Items for consideration with the Press and Public Excluded

15 Review of Corporate Governance Risk Register (Appendix A)

To consider the report of the Corporate Manager Policy, Communications and Community Engagement.

(Pages 97
- 104)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 24 June 2015 at 5.30 pm

Find out more about Exeter City Council by looking at our website <http://www.exeter.gov.uk> . This will give you the dates of all future Committee meetings and tell you how you can ask a question at a Scrutiny Committee meeting. Alternatively, contact the Democratic Services Officer (Committees) on 01392 265107 for further information.

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REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2015

Report of: Corporate Manager (Policy, Communications and Community Engagement)

Title: Corporate Risk Register

Is this a Key Decision?

No

Is this an Executive or Council Function?

Risk Management is an important element of the Council's Code of Corporate Governance. Regular monitoring of the Council's corporate risks helps to ensure that the Council's business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

1. What is the report about?

- 1.1 The report advises the Committee of the Council's risk management progress and presents the updated Corporate Risk Register (Appendix A).

2. Recommendations:

- 2.1 That the Committee reviews the updated Corporate Risk Register.

3. Reasons for the recommendation:

- 3.1 To comply with the Council's Risk Management Policy which states that this Committee is responsible for monitoring the effectiveness of risk management throughout the Council and regularly reviewing the Corporate Risk Register.

4. What are the resource implications including non financial resources.

- 4.1 Assistant Directors, Corporate Managers and other officers, as appropriate, are asked to update the Corporate Risk Register on a quarterly basis. The register is also reviewed by the Chief Executive and Growth Director and the Deputy Chief Executive. This process is facilitated by the Policy, Communications and Community Engagement team.

5. Section 151 Officer comments:

- 5.1 Amongst the risks set out are a number of areas relating to finance. In the Section 151 Officer's opinion the resources and the mitigations in place and proposed, will reduce the risk to the Council.

6. What are the legal aspects?

- 6.1 None.

7. Monitoring Officer's comments:

- 7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

- 8.1 The Corporate Risk Register provides details of those risks which could have a major impact on the city or the Council and need to be monitored and managed at a senior management/political level. Risks which could have an impact on a service, but which would not necessarily impact on a council-wide or city basis, are contained in the operational risk register and managed by Assistant Directors and Corporate Managers.

Assistant Directors, Corporate Managers, the Deputy Chief Executive and the Chief Executive and Growth Director have reviewed the Council's risks. The Corporate Risk Register has been updated to reflect this.

Removal of Risks

The following risks will be removed from the Corporate Risk Register:

13/032 – Back log of land charge searches

New Risks

Four new risks have been identified and these are highlighted on the Corporate Risk Register (see risks 13/039, 13/153, 13/46 and 13/47).

Risk Scores

Three risk scores have reduced from 'high' to 'medium' since the last reporting period due to mitigation measures which have been put in place (see risks 13/040, 13/009 and 13/0011). These risks are highlighted as such on the register and an explanation of the mitigation measures is also provided.

One risk has increased in score from 'medium' to 'high', as a result of a recent audit (see risk 13/006). Further explanation is provided on the register.

9. How does the decision contribute to the Council's Corporate Plan?

- 9.1 This decision helps to ensure the delivery of the Council's purpose 'Well Run Council'.

10. What risks are there and how can they be reduced?

- 10.1 Any risks should be captured in either this document or the operational risk register. However, as a result of the recent Audit of the Council's Risk Management Policy a number of recommendations have been made on how to improve the existing process and procedure. The main recommendations from the report are:

- To raise awareness across all staff of the risk management process and procedure
- To ensure that operational risks are captured from across all service areas

In response to these recommendations, it is proposed that an e-learning course is developed, for completion by all staff. The course will help staff to identify and report any risks from within their service area. Further work will also be undertaken to develop operational risk registers for every service area.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

11.1 The decision to regularly review the Corporate Risk Register will ensure that any risks or issues identified under the above headings will be identified and managed at a senior level. Most of the risks contained within the Corporate Risk Register would have an impact on one or more of the headings identified above.

12. Are there any other options?

12.1 None.

Corporate Manager (Policy, Communications and Community Engagement)

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

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Audit and Governance Committee Update for Exeter City Council

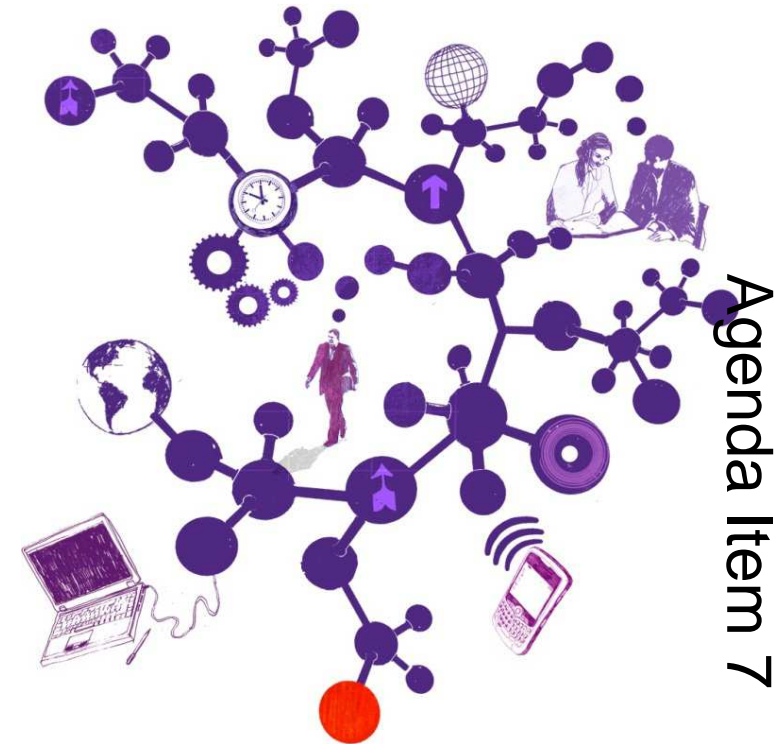
Year ended 31 March 2015

Committee Date: 11 March 2015

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Geraldine Daly
Engagement Lead
T 0117 305 7741
E geri.n.daly@uk.gt.com

David Bray
Senior Audit Manager
T 07880 456 126
E david.bray@uk.gt.com



Agenda Item 7

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 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 your business or any 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

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications referred to in these updates.

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 Audit Manager.

Geraldine Daly, Engagement Lead: T 0117 305 7741 geri.n.daly@uk.gt.com

David Bray, Senior Audit Manager: T 07880 456 126 david.bray@uk.gt.com

Progress at 10 February 2015

Work	Due By	Complete	Comments
<p>2014-15 Audit Fee</p> <p>External Audit fees are determined by the Audit Commission after a period of consultation with the audited bodies.</p>	<p>28 February 2015</p>	<p>Yes</p>	<p>In 2013/14, the Audit Commission increased the audit fee for all District Councils by £900 to reflect the fact additional audit work was required on material business rates balances.</p> <p>This additional work was necessary as auditors were no longer required to carry out work to certify NNDR3 returns. The additional fee was 50% of the average fee previously charged for NNDR3 certifications for District Councils.</p> <p>The Audit Commission has included this additional amount in all audit fees for 2014/15. The audit fee is now £77,183 for Exeter City Council.</p> <p>The indicative certification fee for 2014/15 has been set at £10,890.</p>
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • initial risk assessment to support the Value for Money conclusion. 	<p>30 April 2015</p>	<p>In progress</p>	<p>We undertook our initial planning work in February 2015 and will complete our work in March 2015 in line with the timetable agreed with the Council.</p> <p>We will aim to complete as much testing as possible to reduce the peak over the summer months.</p> <p>We will use the findings of this interim work to inform our audit plan, which we intend to present to the June Audit and Governance Committee.</p> <p>As in previous years, we have written to the Assistant Director, Finance and the Chair of the Audit and Governance Committee in accordance with ISA240. These letters are on the agenda for the March 2015 Audit and Governance Committee meeting and we would appreciate the responses to be considered at the following Committee meeting in June 2015.</p>

Progress at 10 February 2015

Work	Due By	Complete	Comments
<p>2014-15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	30 June 2015	No	We will present our Audit Plan to the June meeting of the Audit and Governance Committee.
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • Whole of Government Accounts (WGA) opinion 	30 September 2015	No	<p>The draft financial statements need to be prepared by 30 June 2015 and the deadline for the completion of the audit is 30 September 2015.</p> <p>We will complete our work in order to present our Audit Findings Report to the Audit and Governance Committee on 23 September 2015 and issue our audit opinion by the statutory deadline of 30 September 2015.</p>
<p>2014-15 VFM Conclusion</p> <p>We are required to assess whether Exeter City Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness 	30 September 2015	No	<p>Our work will be informed by our risk assessment. However, medium term financial planning and the development of savings plans are likely to be key issues of focus.</p>

Progress at 10 February 2015

Work	Due By	Complete	Comments
<p>2014-15 certification work</p> <p>This work is expected to cover:</p> <ul style="list-style-type: none"> • Housing benefits. • Housing capital receipts. 	30 November 2015	No	<p>We qualified the Council's Housing Benefits return in 2013/14 and our certification report for that year is a separate agenda item for the March 2015 Audit and Governance Committee.</p> <p>We plan to make an early start on our certification work in 2014/15.</p>
<p>2014-15 Annual Audit Letter</p>	31 October 2015	No	Our Annual Audit Letter summarises the findings of our audit work in the year.
<p>Other activities</p> <ul style="list-style-type: none"> • We met with your finance staff in January 2015 to discuss our financial statements audit and the Council's response to the issues raised in our 2013/14 audit. We have set up monthly meetings to help our audit run smoothly. • Our annual financial statements workshops, in conjunction with CIPFA, are taking place in February and March 2015. Exeter City Council will be represented at the event in Exeter on 11 February. • We have arranged to meet with the External Auditors of Strata in order to discuss our respective timetables and the assurances we will be seeking from them. 			

Rising to the challenge

Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Group accounting standards (continued)

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parties and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Issue to consider

- Has your Assistant Director, Finance assessed the potential impact of these standards for the authority's financial statements?

Earlier closure and audit of accounts

Accounting and audit issues

The Department for Communities and Local Government (DCLG) is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is over three years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Challenge questions

- Has your Assistant Director, Finance put in place a plan to address the earlier close date?

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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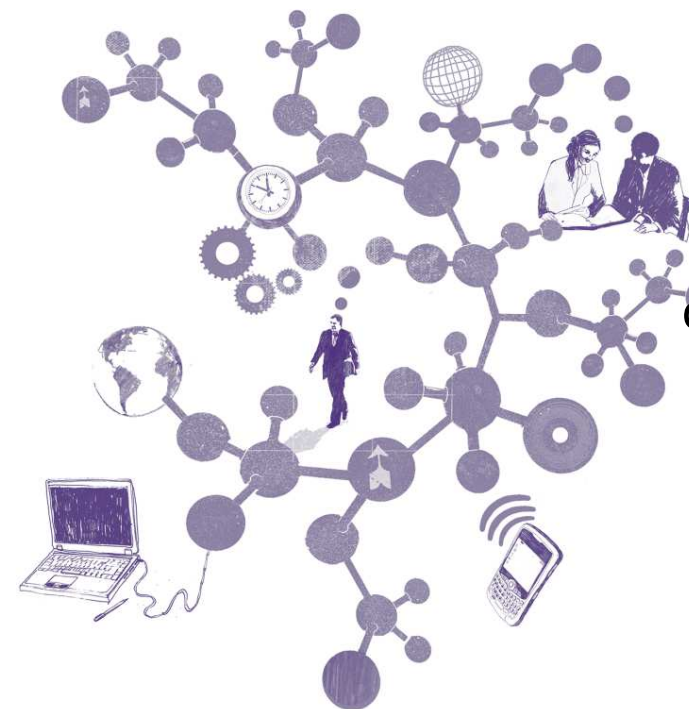
Certification report 2013/14 for Exeter City Council

Year ended 31 March 2014

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20 January 2015

Geraldine Daly
Associate Director
T 0117 305 7741
E geri.n.daly@uk.gt.com

David Bray
Senior Audit Manager
T 0117 305 7889
E david.bray@uk.gt.com



Agenda Item 8

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Section 1: Summary of findings

01. Summary of findings

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Summary of findings

Introduction

We are required to certify certain claims and returns submitted by Exeter City Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns for the financial year 2013/14:

Pooled capital receipts (£2m); and
Housing Benefits (£41m).

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan which we presented to the Audit and Governance Committee in September 2014.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	Both returns were submitted to us on time and we completed our work in accordance with the national timetables.	● Green
Accuracy of claim forms submitted to the auditor	There were no issues with the pooled capital receipts return. However, we identified a large number of errors during our Housing Benefits testing and issued a qualified report.	● Red
Supporting working papers	The Council's records management for Housing Benefits created additional pressures during our work. The Council began the year with one electronic (DIP) system, before reverting to a manual system and then introducing a new electronic filing system.	● Red

Certification fees

The indicative certification fee is set by the Audit Commission.

The fee for 2013/14 for Exeter City Council is based on the final 2011/12 certification fee, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Similarly, the fees for 2012/13 were set by the Audit Commission using 2010/11 as a base year.

Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed from the baseline fee and the fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix C.

Our testing on the Council's Housing Benefits return identified a large number of errors and, in accordance with the audit approach set out by the Audit Commission and the Department for Works and Pensions (DWP) a considerable amount of additional testing needed to be undertaken with a consequent increase in the audit fees. The Audit Commission approve all fee variations that take place. We have submitted a fee variation to the Audit Commission in relation to the additional work that we were required to complete on the Housing Benefit's claim. We are currently awaiting confirmation of this by the Audit Commission.

The way forward

We identified a number of issues during our Housing Benefits testing. The Council has agreed to review these and will report its responses to our findings and its proposed actions at the next Audit and Governance Committee meeting on 11 March 2015.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2015

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Appendices

Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim	£41m	Yes	£582	Yes	<p>We identified a large number of errors during our testing and these are covered in appendix B. Whilst some of these are small in terms of value, the volume of errors identified suggests that the Council's quality assurance arrangements could be improved.</p> <p>In some areas tested, there was a small population which we were able to review in full to establish the total error. The claim was reduced by £582 for these cases.</p> <p>In other areas, the population was too large to test in full and so the error identified was extrapolated across the whole population. Extrapolation of these errors would lead to a total reduction of the subsidy claimed of £36,574.</p>
Capital receipts return	£2m	No	None	No	

Appendix B: Errors identified during the housing benefits testing

Area	Issues Identified
Rent Rebates (Tenants of Non Housing Revenue Account (HRA) Properties)	Overpayment of benefit arose as a result of a duplicate payment of £146 being made to a claimant.
Rent Rebates (Tenants of Non-HRA Properties)	Overpayment arose as a result of Income Support benefit included in a claim where there was no evidence of the claimant's continuing entitlement to this benefit as their entitlement had ceased.
Rent Rebates (Tenants of HRA Properties)	Insufficient evidence was obtained to support the earnings income for claimants in five of the sixty cases we tested. Claimants verbally advise changes to their income but the Council should follow this up by subsequently requesting documentary evidence to support the income amounts. This was not done. It is important to note that insufficient evidence can potentially cause the DWP to determine the entire claim to be invalid and thus not pay the subsidy to the Council.
Rent Rebates (Tenants of HRA Properties).	Incorrect treatment of Employment and Support Allowance (ESA) income resulting in incorrect calculation of housing benefits including overpayments.
Rent Allowances	Housing benefits were underpaid as a result of incorrect rent adjustments being made. An interim adjustment had been entered on the claims whilst the rent was referred to the Rent Officer (RO). This interim adjustment should have been removed once the final RO decision was entered, but it was not.
Rent Allowances	Incorrect calculation of self employment income for claimants as a result of errors in the way such income is apportioned over the period for which benefits are claimed. The system incorrectly excluded the final date for the period entered so calculations were reduced by a day, resulting in overstated self employment income and therefore underpaid housing benefit.

Appendix B cont'd: Errors identified during the housing benefits testing

Area	Issues Identified
Rent Allowances	Housing benefit overpaid as a result of incorrect amount entered for ineligible rent deductions.
Rent Allowances	Overpayment of housing benefits identified as a result of an incorrect rent amount being entered for the claimant following a change in tenancy.
Rent Allowances	<p>A number of errors were identified in respect of the calculation of claimant's weekly income amounts for student loans. There are specific rules for how and over what period the annual student loan should be apportioned to a weekly figure for housing benefit purposes. However in a number of cases these guidelines were not followed, resulting in incorrect housing benefit being paid.</p> <p>Additionally our testing identified an instance where the claimant had provided a revised student loan amount but this was not reflected in the claim.</p>
Rent Allowances	A number of errors were identified in the entry and calculation of claimant's earnings income used in their housing benefit calculation. This included back-dated increase not being applied resulting in overpaid benefits, and incorrect amounts being entered in the system from the evidence provided by the claimant.
Rent Allowances	Misclassification within the subsidy claim arose as a result of the system incorrectly treating prior year underpayments and adjustments.

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Appendix C: Fees

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Page 32 Housing benefits subsidy claim	£12,370	£11,879	£21,467*	£9,097	Our initial testing identified a large number of errors. The audit approach mandated by the Audit Commission and DWP means that a significant amount of additional testing was required in order to certify the claim.
Capital receipts return	£1,481	£1,501	£1,501	£20	
Total	£13,851	£13,380	£22,968	£9,117	

* The actual fee has yet to be determined by the Audit Commission. We will advise the Audit and Governance Committee of the final agreed fee.

Appendix D: Glossary of terms

Term	Explanation
Pooled Capital Receipts Return	Local authorities pay part of a housing capital receipt into a national pool run by the Department of Communities and Local Government (DCLG). A pooled capital receipts return is made quarterly to DCLG detailing the capital receipts for that quarter and the amounts due to this national pool. The annual return is subject to certification by External Auditors.
Rent Rebates (tenants of non-HRA properties)	Housing benefit awards that reduce the rent payable to the local authority on properties which belong or are leased by the local authority but do not form part of the council's Housing Revenue Account (HRA). Typically this will be in respect of homeless and short term accommodation.
Rent Rebates (tenants of HRA properties)	Housing benefit awards that reduce the rent payable to the council in respect of their properties held within the Housing Revenue Account (HRA).
Rent Allowances	Housing benefits payable to claimants in third-party owned accommodation.
Rent Officer	Rent officers are part of the Valuation Office Agency (VOA) who provides third-party valuation of fair rents due in respect of a property. The fair value may not be less than the rent actually paid, but it can never exceed it. Housing benefit guidance has specific requirements for when a Rent Officer valuation is required in assessing the benefit claim.



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grant-thornton.co.uk

Dave Hodgson
Assistant Director – Finance
Exeter City Council
Civic Centre
Paris Street
Exeter
Devon
EX1 1JN

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT
T +44 (0)117 305 7600
F +44 (0)117 305 7784
DX 78112 Bristol
www.grant-thornton.co.uk

10 February 2015

Dear Dave

Exeter City Council
Financial Statements for the year end 31 March 2015

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other senior officers where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to our request to management, we also will need to gain an understanding of how Those Charged With Governance maintain oversight of the above process. I have also attached a copy of the letter that I intend to send to the Chairman of the Audit and Governance Committee, for your information.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses, and the sources of assurance that you have that the relevant management controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

It would be useful to co-ordinate both the Audit and Governance Committee and management responses to our letters in time for discussion at the Audit and Governance Committee meeting on 24 June 2015.

Chartered Accountants

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A list of members is available from our registered office.

Please contact me if you wish to discuss anything in relation to this response.

Yours sincerely

Geraldine Daly
Engagement Lead
For Grant Thornton UK LLP

T 0117 305 7741
E geri.n.daly@uk.gt.com

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?	
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	
How would you assess the quality of the Council's internal control processes?	
How would you assess the process for reviewing the effectiveness of internal control?	
How do the Council's risk management processes link to financial reporting?	
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	
What has been the outcome of these arrangements so far this year?	
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	
Have any reports been made under the Bribery Act?	
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	
Is there any use of financial instruments, including derivatives?	
Are you aware of any significant transaction outside the normal course of business?	
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	
Are you aware of any guarantee contracts?	

Are you aware of allegations of fraud, errors, or other irregularities during the period?	
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	
Although the public sector interpretation of IAS1 means that the financial services should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	
Can you provide details of other advisors consulted during the year and the issue(s) on which they were consulted?	
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	

Cllr Greg Sheldon
Chairman of Audit and Governance Committee
Exeter City Council
Civic Centre
Paris Street
Exeter
Devon
EX1 1JN

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT
T +44 (0)117 305 7600
F +44 (0)117 305 7784
DX 78112 Bristol
www.grant-thornton.co.uk

10 February 2015

Dear Cllr Sheldon

Exeter City Council
Financial Statements for the year end 31 March 2015
Understanding how 'Those Charged With Governance' gain assurance from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how 'Those Charged with Governance' (which for Exeter City Council is the Audit and Governance Committee) obtain assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chairman of the Audit and Governance Committee with your responses to the following questions.

- 1 How does the Audit and Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the Council (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit and Governance Committee gain assurance that all relevant laws and regulations have been complied with?

4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to Dave Hodgson. We suggested that it would be useful to co-ordinate both the Audit and Governance Committee and management responses in time for discussion at the Audit and Governance Committee on 24 June 2015.

Yours sincerely

Geraldine Daly
Engagement Lead
For Grant Thornton UK LLP

T 0117 305 7741
E geri.n.daly@uk.gt.com

Response from Audit and Governance Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	
How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2014?	

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 11th MARCH 2015

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT CHARTER

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

The Internal Audit Charter defines what Internal Audit is and explains its purpose, authority and responsibility. The Public Sector Internal Audit Standards (PSIAS) require that the Charter is reviewed and updated every two year or following a change to the service. The Charter was last approved by this committee in June 2013, but in view of a reduction in internal audit resources with effect from 01 April 2015, now requires updating to reflect these changes.

2. Recommendations:

2.1 The Audit and Governance Committee approve the updated Internal Audit Charter

3. Reasons for the recommendation:

3.1 To meet the requirements of the Public Sector Internal Audit Standards.

4. What are the resource implications including non financial resources.

None.

5. Section 151 Officer comments:

5.1 There are no financial implications contained in the report. The update is required to reflect the change in service provision.

6. What are the legal aspects?

None.

7. Monitoring Officer's comments:

This report raises no issues for the Monitoring Officer.

8. Report details:

8.1 The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. It establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the

performance of engagements and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Audit and Governance Committee.

8.2 In addition to the above, for public sector bodies the charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work, and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities

8.3 As a result of a reduction in the Internal Audit resource, the Internal Audit Charter has now been reviewed and updated to reflect these changes and to meet the requirements of the PSIAS and a draft is attached to this report. This was reviewed and approved by the Strategic Management Team on 3 March 2015.

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

N/A

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

Helen Putt & Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

Internal Audit Charter

Author:	Helen Kelvey
Source Location:	S:/Audit/Audit Documents
Related Documents:	Audit Manual Quality Assurance and improvement programme Counter Fraud Strategy Whistleblowing Policy
Date Created:	March 2015
Document Status:	Live

Document Control

This document is subject to change control and any amendments will be recorded below.

Change History

Version	Date	Changes
2.0	March 2015	Reviewed and updated to reflect changes in service provision



Exeter City Council

Internal Audit Charter

Ref.	Contents
1	Introduction
2	Purpose, scope and authority
3	Objectives
4	Roles and responsibilities
5	Code of Ethics
6	Service Standards
7	Reporting
8	Quality Assurance
9	Relationships
10	Fraud and irregularities
11	Review

1. Introduction

1.1 The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility

1.2 For the purposes of internal audit activity the following terms are defined as follows:

‘board’ – the Audit and Governance Committee

‘senior management’ – the Senior Management Team which is made up of the Chief Executive and Growth Director, Deputy Chief Executive and Assistant Directors/Corporate Managers.

2. Purpose, Scope and Authority

2.1 Purpose

The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit as:

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

2.2 Scope

Financial Regulations 6(a) states:

‘Internal Audit may investigate such financial records, systems and management procedures of the Council and its employees as considered necessary for the purposes of audit. For this purpose Internal Audit shall have authority at all reasonable times to visit all Council establishments and have access to all records and property of the Council and may require such explanations/assistance as he/she considers necessary’

2.3 Authority

The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which required that authorities shall *‘make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs’*. The Accounts and Audit (England) Regulations 2011 requires that *‘A local government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control’*. Exeter City Council has delegated these responsibilities to the Assistant Director Finance.

3. Objectives

3.1 Internal Audit’s main objectives are to:

- provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves operations and helps protect public resources
- provide assurance to management that the Council’s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- provide advice and support to management to enable an effective control environment to be maintained
- promote a counter fraud culture within the Council to aid the prevention and detection of fraud
- investigate allegations of fraud, bribery and corruption

4. Roles and responsibilities

4.1 Role of Internal Audit

To meet Internal Audit objectives, Internal Auditors are responsible for:

- reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management
- reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate
- reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- checking for compliance with legislation, Council policies and procedures
- promoting and assisting the Council in the effective use of resources
- undertaking independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation

4.2 Provision of the Internal Audit Function

The Internal Audit Function is provided 'in house' and consists of the Audit Manager and 2 auditors each working 4 days per week, Monday to Thursday.

4.3 Management Structure

Internal Audit is part of the Office of Assistant Director Finance. However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and Growth Director and/or the Leader of the Council and/or the Chair of the Audit and Governance Committee should circumstances warrant such. In addition, there is a right of access to Councillors as a matter of last resort. Internal Audit does not carry out any non-audit functions.

4.4 The Audit Manager is responsible:

- in managerial terms to the Assistant Director Finance
- for the performance of the Internal Audit Service to the Audit and Governance Committee

4.5 The Audit Manager's responsibilities to the Audit and Governance Committee include:

- presenting for approval the internal audit charter
- presenting and obtaining approval of the risk-based annual audit plan
- reporting quarterly on the work undertaken by Internal Audit
- reporting any serious weaknesses found in the internal control systems, and any instances where corrective action has not been taken by management
- reporting any instances where responses to audit reports have not been received within a reasonable timescale of the issue of draft and/or final audit reports, and any instances where agreed Audit recommendations have not been actioned within an acceptable time period
- providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment
- reporting annually on conformance with the Public Sector Internal Audit Standards
- reporting annually performance against the quality assurance and improvement programme
- reporting annually on the Council's counter fraud work

4.6 The Audit and Governance Committee responsibilities are in accordance with the committee's terms of reference

5. Code of Ethics

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit standards 2013 (PSIAS) by:

- ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency
- implementing the Attribute and Performance Standards as detailed in Section 5 of the standard

5.2 Internal Audit staff are required to make an annual affirmation of their knowledge of, and compliance with, the PSIAS Code of Ethics and must also have regard to the Committee Standards of Public Life's *Seven Principles of Public Life*.

6. Service Standards

6.1 What you can expect from us:

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

It is essential that Auditors are impartial so that when an audit opinion is requested it will be unbiased and based upon the facts available. Should a situation arise where impartiality could be questioned, then another Auditor will be assigned to undertake the task concerned.

Where an auditor was previously employed within a service/area subject to audit then the Audit Manager will ensure that the auditor concerned is not assigned audits in that area until an appropriate amount of time has elapsed.

6.2 Audit Strategy

The Audit Manager prepares a risk-based audit strategy and translates this into a four year rolling plan that shows cyclical coverage of audits. All systems rates as 'high' risk are audited annually, 'medium' risk systems are audited every two years and 'low' risk systems audited every four years. Where there is a difference between the strategy/plan and resources available, this is reported to the Audit and Governance Committee

6.3 Annual Audit plan & resourcing

To implement the audit strategy, an annual audit plan is established using a risk-based assessment methodology. The plan determines in broad terms the resources and skills needed, and is used for allocating Auditors' work. Should the plan indicate a need for additional resources, this will be discussed with the Assistant Director Finance. Assistant Directors/Corporate Managers are consulted on the plan during the planning process and asked if there are any areas or work they wish specifically to be incorporated into the audit coverage. The plan is then presented to senior management for approval prior to being approved by the Audit and Governance Committee in March each year. The plan is flexible and includes a contingency to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc.

6.4 The Council will make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence. Any delegation of budgets for Internal Audit to service level will not compromise the scope of Internal Audit or the ability of Internal Audit to provide assurance on the Annual Governance Statement.

6.5 What we expect from you

Managers and staff should co-operate with the Auditors, and responses should be made to draft reports within 10 working days of issue of report. Where a response is not forthcoming a reminder will be issued. However, if a response is not received then the matter will be referred up to the next level of management, and ultimately to the Assistant Director/Corporate Manager, Chief Executive and Growth Director, Deputy Chief Executive, as appropriate.

7. Reporting

7.1 Audit reports

Audit reports:

- show the findings based on a risk assessment e.g. high, medium and low or may be advisory (a finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice)
- include an action plan showing the agreed actions and the target date for implementation
- give an opinion of the system as at the time of the audit
- define the circulation of the draft and the final reports

7.2 Audit report circulation/Reporting structure:

- Line managers receive a draft report for discussion followed by the final report
- Assistant Directors/Corporate Managers receive a copy of all final reports within their service
- Deputy Chief Executive receives a copy of all final reports
- Assistant Director Finance receives a copy of all reports for information
- CX and Growth Director is advised of any 'high' or 'medium' recommendation not agreed by management and of any recommendations agreed by management but not subsequently implemented

7.3 Reporting standards

Upon completion of audits, draft audit reports are issued to the relevant line managers for them to confirm the accuracy of the audit findings. Managers are invited to meet with the Auditor within 10 working days to discuss the report and their response to each recommendation on the draft report. The managers' responses are then recorded in the final report, along with dates for action or implementation.

In accordance with professional standards, after three months from the date of issue of the final report, follow-up audits are undertaken to ensure that the agreed controls and actions have been implemented. Where the implementation date for the recommendation is beyond three months, then the follow-up will be due at three month intervals, as appropriate.

Any agreed recommendations not implemented within a reasonable timescale and any 'high' risk recommendations that are not accepted will be reported to Strategic Management Team (performance) and the Audit and Governance Committee in accordance with the committee's terms of reference.

Internal Audit works to the reporting quality standards of:

- draft audit reports to be issued within 10 working days of the completion of the results table
- final audit reports to be issued within 10 working days of the discussion of the draft audit report
- final reports to be followed-up within 3 months of the date issue of the final audit report, to

ensure that the accepted recommendations due for implementation have been established

8. Quality assurance

8.1 Internal Audit has established a Quality Assurance and Improvement Program (QAIP). This has been designed to provide reasonable assurance to the various stakeholders of the Internal Audit Service that Internal Audit:

- performs its work in accordance with this Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics;
- operates in an effective and efficient manner; and is perceived by stakeholders as adding value and improving Internal Audit's operations. To that end, Internal Audit's QAIP will cover all aspects of the Internal Audit activity including:
 - ✓ Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner
 - ✓ Ensuring compliance with the *Standards*, Definition of Internal Auditing and Code of Ethics
 - ✓ Helping the Internal Audit activity add value and improve organizational operations
 - ✓ Both periodic and ongoing internal assessments
 - ✓ An external assessment at least once every five years, the results of which are communicated to SMT and the Audit & Governance Committee

The Audit Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting (where applicable).

8.2 External assessments of the internal audit service are conducted annually by the Council's external auditors.

8.3 Internal auditors are required to enhance their knowledge, skills and other competencies through continuing professional development.

9. Relationships

9.1 General - in all of these relationships the person/s concerned will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with, or reported to, Internal Audit staff will be dealt with in an appropriate manner. Where issues could cause embarrassment to the Council, the appropriate manager will be advised immediately so that the issue can be addressed without delay.

9.2 Internal - the main contacts are with: Council employees, line managers, Assistant Directors/Corporate Managers, Deputy Chief Executive and the Chief Executive and Growth Director. Prior to the start of each audit, the auditor will meet with the manager to complete a pre-audit questionnaire. As part of this process, the auditor will agree with the manager concerned the timing and scope of the audit and the circulation of the audit report.

9.3 Councillors – the main means of communication between Internal Audit and Councillors is via the Audit and Governance Committee which meets 4 times per year.

9.4 External – Internal audit will liaise with the external auditors in order to:

- foster a co-operative and professional working relationship
- eliminate the incidence of duplication of effort
- ensure appropriate sharing of information
- co-ordinate the overall audit effort

10. Fraud and irregularities

10.1 The Audit Manager is responsible for reviewing and updating the Council's Counter Fraud Strategy and for promoting an anti-fraud culture within the Council. This is achieved by the following:

- raising awareness of fraud by providing counter fraud training via an e-learning package to all existing staff and all new staff as part of their induction
- assessing the Council's level of compliance with the recommendations contained in the Fighting Fraud Locally Strategy
- specific detailed testing in high risk areas
- participation in the Audit Commission national fraud initiative data matching exercise
- provision of a fraud hotline to allow suspected fraud and irregularity to be reported by telephone/internet directly to Internal Audit either anonymously or with contact detail provided
- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing policy.

10.2 Assistant Directors/Corporate Managers are responsible for managing risks in order to prevent fraud, irregularity, waste of resources, etc. Internal Audit will assist Assistant Directors/Corporate Managers to effectively manage these risks.

10.3 However, no level of controls can guarantee that fraud will not occur, even when the controls are performed diligently with due professional care.

10.4 Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred, then this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's 'Counter Fraud Strategy' and 'Whistleblowing Policy' and the Fraud Response Plan.

11. Review

11.1 The Internal Audit Charter will be reviewed biennially by the Audit Manager and presented to senior management and the board for approval.

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11th March 2015

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PLAN 2015/16

Is this a Key Decision? No

Is this an Executive or Council Function? Council

1. What is the report about?

The Audit and Governance Committee has responsibility for approving the annual audit plan and ensuring that appropriate risk assessments have been carried out when formulating the plan. This report details the reduction in resources available for the 2015/16 plan and the processes (including risk assessment processes) undertaken by the Audit Managers when formulating the plan. It also seeks members' approval of the plan.

2. Recommendations:

- 2.1 That the reduction in the audit resource and therefore the reduction in the audit plan for 2015/16 be noted.
- 2.2 That the 2015/16 Internal Audit Plan be approved.

3. Reasons for the recommendation:

- 3.1 To meet the required savings within the internal audit service
- 3.2 To meet the terms of reference of the Audit and Governance committee.

4. What are the resource implications including non financial resources.

- 4.1 No additional resources implications

5. Section 151 Officer comments:

- 5.1 There are no financial implications contained within this report. The audit plan reflects the reduced resources within the Service. In the Section 151 Officer's opinion the resources are sufficient to maintain an effective Internal Audit function.

6. What are the legal aspects?

- 6.1 None.

7. Monitoring Officer's comments:

- 7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

- 8.1 As a result of increasing financial pressures on local government, a review of the internal audit service has been undertaken with a view to making a 30% cost saving. As a result, with effect from 1 April 2015, staffing of the service will be reduced by 1 FTE Auditor from 3.4 FTE to 2.4 FTE. This reduction has been achieved by voluntary redundancy of the part time auditor post (0.4 saving) and by each of the remaining 3 full time posts voluntarily reducing hours to 4 days per week (0.6 saving) resulting in a cost saving on provision of the service of approximately £44,000.
- 8.2 With the reduction in resources comes a reduction in the number of audit days available within the audit plan which will reduce from 597 days in 2014/15 to 470 days in 2015/16.
- 8.3 The Internal Audit Strategy including the audit rolling plan was established in line with internal control and risk management best practice, and is used to establish the basis of the Audit Plan.
- 8.4 The Council's Internal Auditors use the 'Enterprise Risk Management Approach' (ERMA) they devised to check that there are adequate internal controls and separation of duties and that risk is adequately considered throughout the Council. This approach ensures that non-financial systems (such as corporate governance, health & safety and risk management) are afforded the same 'fundamental systems' status as the traditionally important financial systems (such as creditors, housing benefits, payroll and council tax).
- 8.5 The fundamental systems are audited on an annual basis using the Council's 'Enhanced Systems Based Auditing control matrices' testing papers as required by our external auditors, whilst the remaining 'non-fundamental' systems will be audited either biennially for medium risk systems or once during the four-year rolling plan cycle for low risk systems.
- 8.6 The Audit Plan has also been linked to the Corporate Risk Register and the appropriate risk reference is shown against the relevant audit in Appendix A.
- 8.7 The areas with the highest audit coverage are Creditors and Housing Benefits. Creditors is a high risk system as it has the potential for fraud and costly error to the Council. A significant amount of time is required to audit creditors due to the significant number of transactions processed. Housing benefits is considered high risk because of the national problem of external claimant fraud and the serious financial affect that would be caused should the Council's benefits subsidy claim be reduced due to significant input or classification errors.
- 8.8 In addition to the risk analysis, the Audit Managers have also discussed with Assistant Directors and Corporate Managers their strategic priorities, their responsibilities under the corporate risk register and to identify any specific concerns they may have. The outcomes of these meetings have also fed into the formation of the 2015/16 Internal Audit plan.

9. How does the decision contribute to the Council's Corporate Plan?

Contributes to the council's commitment to finding savings of £4 million over the next three years whilst recognising that an effective internal audit is part of good governance that enables the Council to operate an effective control environment and therefore contributes to the purpose 'A well run council'.

10. What risks are there and how can they be reduced?

Reduction in audit resources will result in the council accepting a higher level of risk that the control environment may not be operating as effectively as it might and that the risk of fraud and irregularity is increased. However, high risk areas will be prioritised within the plan with a view to reducing the Councils exposure to risk in those areas.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

12. Are there any other options?

Helen Putt/Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

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AUDIT PLAN - 2015/16		
Description	Days	CRR Risk Ref
FINANCE		
Main Accounting (inc VAT)	20	13/017
Income Management/Sundry Debt	25	
Procurement	20	13/026
Creditors (inc Corporate CC)	40	
Insurance	5	
ENABLING SERVICES		
ICT (inc Shared Service)	10	13/022 13/030
Corporate Property Assets	10	13/011
People management (inc Payroll)	20	
ENVIRONMENT		
Trade Waste	5	13/004
Trade Recycling	5	13/004
Recyclate Processing	5	13/004
Statutory Returns on Waste	2	
Health and Safety	10	13/028
PUBLIC REALM		
Car Parks	5	13/019
HOUSING		
Housing - Property	10	
CUSTOMER ACCESS		
Housing Benefits (inc HB Subsidy)	40	13/005 13/006
Council Tax	25	
One View of Debt (OVD)	25	13/038 13/040
NDR	10	
Housing - Tenants	10	
CORPORATE		
Corporate governance (AGS, etc)	10	
Equalities and Diversity	10	13/023
Risk Management	10	
Business Continuity Management	13	13/027
Information Governance	10	13/024
Counter Fraud/Anti-Fraud/NFI	10	13/025
External Audit	2	
Audit planning & control	40	
Partnerships	5	
Contract Management	10	
External Funding & Grants	5	
RIPA	2	
Review of hospitality/disclosures	1	
Follow-up's	10	
Contingency (special/frauds, etc)	30	
TOTAL	470	

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REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 11th MARCH 2015

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 3RD QUARTER 1ST OCTOBER TO 31ST DECEMBER 2014

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

To report on internal audit work carried out during the period 1st October to 31st December 2014, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

- 2.1 That the Internal Audit Progress Report for the third quarter of the year 2014/15 be noted.
- 2.2 Members decide whether the audit report recommendation not implemented by management, as detailed in 8.2, is an acceptable risk to the Council.
- 2.3 That the proposed revised Audit Plan for 2014/15 be approved and that members note that the Audit Service will not meet the Audit Plan 2014/15 due to the approval of the voluntary redundancy of the part time auditor post with effect from 31 January 2015.

3. Reasons for the recommendation:

- 3.1 One of the roles of this committee is to review quarterly internal audit reports and the main issues arising and seek assurance from management that action has been taken, where necessary.

4. What are the resource implications including non financial resources.

- 4.1 None.

5. Section 151 Officer comments:

- 5.1 There are no financial implications contained in this report. The revised audit plan is a consequence of the reduction in staffing in the section.

6. What are the legal aspects?

- 6.1 None.

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management regarding audit recommendations that have not been accepted or those not implemented within a reasonable timescale. The 2014/15 Audit Plan was approved at this Committee on 12th March 2014.

The purpose of Internal Audit is to provide an independent and objective review of the adequacy and effectiveness of the Council's arrangements for internal control, risk management and governance. The activities we audit are given an assurance rating as follows:

Excellent	★★★★★	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	★★★★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.
Some improvement required	★★★	There is a basic control framework in place, but not all risks are well managed and a number of controls are required to be strengthened.
Significant improvement required	★★	Most of the areas reviewed were not found to be adequately controlled. Risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Fundamental weakness	★	Controls are seriously lacking or ineffective in their operation No assurance can be given that the system's objectives will be achieved.

8.1 Work Undertaken

Internal Audit's objective is to examine the Council's financial and non-financial systems to check that there are adequate internal controls in place to prevent loss due to frauds, errors and inefficiency, and due attention is paid to corporate governance and risk management.

A summary of progress against the annual audit plan to date is shown at Appendix A, together with the current status of each area for review and the outcomes of the review, where completed.

The table is based on the audit plan and the systems grouped into the twelve strategic purposes as per the Corporate Plan.

A further summary of the outcomes of audits completed can be found at Appendix B.

Progress against the annual audit plan was on target as at 31st December, however, please see section 8.2.3 below for an update on audit resources for the final quarter of 2014/15.

8.2. Issues for consideration

8.2.1 There are no instances to report where recommendations were not accepted by management during this quarter.

8.2.2 There is one agreed recommendation that has not been implemented within a reasonable timescale to report during this quarter. This is from the Main Accounting Audit (Part 1) report dated 27/03/13 which was agreed by the manager in September 2013 and relate to external funding.

Finding

There is no corporate guidance on the management of external funding such as grants from grant awarding bodies Accountants are dependent on their budget holders for information on external funding

Recommendation

The Council should introduce corporate guidelines on the management of external funding

This was agreed and the Manager's response was that financial regulations would be updated to detail Finance's requirements for external funding arrangements
Target date Sept 2013

As part of the normal follow-up process the following responses were received from management:

October 2013 - a supplementary response was provided that as well as updating financial regulations, any future external funding would be included in the monthly SMT reports. A revised target date was set at March 2014

April 2014 - follow up was undertaken as part of the 13-14 Part two audit
Revised response – still outstanding, Finance to decide who needs to be informed about external grant income, the relevant Committees, SMT or both
Revised target date of July 14 was set.

November 2014 follow-up undertaken – this recommendation has still not been implemented.

This was reported to SMT on 17.02.15

8.2.3 During the quarter, a request was received from the occupant of the part time auditor post (who was on maternity leave) to be considered for voluntary redundancy in accordance with the council's current policy. This request was subsequently approved and the post will be deleted from the establishment with effect from 31 January 2015. As a result of this, 26 audit days will be lost from the audit plan for the final quarter and the service will therefore not meet the 2014/15 audit plan.

It is proposed that following areas originally approved as part of the plan will not now be audited in order to made the required saving of 26 days:

Business continuity – 20 days
Contracts – 5 days
Remaining day to be saved from contingency time

These proposed changes have been reflected in the summary of progress against the audit plan at Appendix A.

8.3 External review of Public Sector Internal Audit Standard (PSIAS)

The Public Sector Internal Audit Standards (PSIAS) were introduced in April 2013. As part of the standards, every public sector body is required to ensure an ongoing commitment to meeting the standards and, at least once every 5 years, arrange for the external assessment of the internal audit service against the standards either by:

- a full external review and assessment of the internal audit service or,
- a detailed self assessment followed by an independent validation of the self assessment findings.

The Council elected to undertake a self assessment followed by an independent validation of the findings. The results of the self-assessment undertaken were reported to this committee in June 2014 as part of the Annual Audit Report. The independent validation took place in October 2014 and the reviewer's overall opinion was as follows:

'Taking into account the outcome of discussions with the Audit Manager coupled with the testing carried out I am of the opinion that the content of the 2014 self assessment of the Internal Audit service against the Public Sector Internal Audit Standards presents a true and fair view'.

However, there were two areas of concern highlighted in the report:

Access to internal audit electronic files – It is understood that ICT employees by the nature of their work have access to audit reports and working papers held on the Council's servers. However unlike audit employees, they are not required to sign the Council's Code of Ethics statement each year. This inconsistency could give rise to a failure to successfully discipline employees in the event of the content of audit reports or working papers being disclosed. It is recommended that the Council require all ICT employees sign the Code of Ethics statement annually thereby covering the Council in the event of a leak of audit or any other data/information of a personal or confidential nature.

Contract audit – It was reported that the audit team currently lack skills in respect of contracts. Given that the Council will spend many hundreds of thousands (if not millions) every year I would recommend that the Council investigate either buying in a specialist contracts auditor and/or invest in training a member of the audit team.

8.4 Measuring the effectiveness of the Audit Committee

The completed self assessment checklist is attached at Appendix C. There is one response that was received following the last meeting which needs to be noted by members that is:

Are members sufficiently independent of the other key committees of the council?

In order to be effective the audit committee needs to be independent from executive and scrutiny as it needs to retain the ability to challenge executive on issues and report to it on major issues and contraventions. The audit committee chair should not be a member of the executive.

Whilst the council meets the requirement in respect of the independence from Executive, it is not possible to meet the requirement to have all members independent of any scrutiny function.

One area for improvement was also identified:

The audit committee to ensure that officers are monitoring action taken to implement external audit recommendations

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

Helen Putt & Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2014/15 AUDIT PLAN AS AT 31/12/14

Audit Area	Budget Days	Actual Days	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
						High	Med	Low

Leader

'A stronger city'

External Funding & Grants	5	1.1	Will not be undertaken due to VR					
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Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2014-15	25	17.2						
- Pt 1 Budget setting			Complete	↔	Good	0	0	0
- Pt 2 System management			To start Q4					
Income Management/Sundry Debt	35	12.6	To start Q4					
Procurement	30	3.1	In progress					
Creditors	50	42.2						
Quarter 1			Complete	↑	Good	0	5	3
Quarter 2			Complete	↔	Good	0	2	5
Treasury Management	5	5.4	Complete	↔	Good	0	2	4
People Management	35	43.1	Complete	No previous report	Some improvement required	0	8	11
Payroll			In progress					
ICT – Shared service	30	13.6	No report due					
Business Continuity	15	0.5	Will not be undertaken due to VR					
Risk Management	10	8.4	Draft Report					
Contracts	5	0.2	Will not be undertaken due to VR					
Counter Fraud/Anti-Fraud	15	23.3	Completed	N/A	N/A Self assessment	-	-	-
Corporate governance	15	4.2	Ongoing					
Information Governance	10	8.8	No report due					
Equalities & Diversity	10	0	To start Q4					
Safeguarding	15	16.8	Completed	No previous report	Some improvement required	0	8	2
Partnerships	5	0.3	In progress					

External Audit	5	0.7	No report due					
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Customer Access

'Help me with my housing and financial problem'

Housing Benefit Subsidy	50	20.3	14/15 To start Q4					
Council Tax	30	23.6	In progress					
NDR	12	11.7	Complete	↓	Some improvement required	2	5	4
One View of Debt (OVD)	25	9.0	In progress					
Housing - Tenants	25	34.3	Draft report					

Housing

'Provide suitable housing'

'Be a good landlord'

Housing - Property	15	1.4	To start Q4					
Private Sector Housing	10	0	To start Q4					

Environment, Health & Wellbeing

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	13.5	No report due					
Licensing	5	7.6	Completed	No previous report	Some improvement required	1	4	5

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

Culture/Events (Rugby World Cup)	2	0	Ongoing					
Museums	11	16.6	Completed	No previous report	Some improvement required	0	5	10

City Development

'Deliver good development'

Planning	5	0.5	To start Q4					
New Homes Bonus	8	8.6	Completed	No previous report	Excellent	0	0	0
CIL/Section 106	8	0	To start Q4					

Public Realm

'Keep place looking good'

Car Parks	10	0.2	To start Q4					
CCTV	5	5.6	Completed	No	Good	0	4	2

				previous report				
Homecall	5	5.4	Completed	No previous report	Good	0	3	1

Contingency (special/frauds) including unplanned work	40	11.0
Follow-ups	10	9.7
PSIAS Peer Review	2	2.1
Total	597	384.4

Note: 26 days lost from plan due to voluntary redundancy of part time auditor (due back from maternity leave 31 December 2014)

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Summary of Work Completed October to December 2014

Audit Area	Summary
<p>Main Accounting 2014-15 Part One – Budget Setting</p> <p>Assurance rating: Good ★★★★★</p>	<p>The Main Accounting system is the collective name given to a number of processes such as budget setting and control, maintenance of financial records, reconciliations, VAT control, capital accounting and year end processes.</p> <p>The Main Accounting audit is completed in three sections. This is the first of the three sections and checks the budget setting process and the management of VAT.</p> <p>The objectives of this audit were to ensure that processes and controls are in place that allow for:</p> <ul style="list-style-type: none"> a) the annual budget setting task to be undertaken in a structured manner b) VAT records to be maintained accurately and VAT returns to be submitted in accordance with the HMRC statutory requirements <p>There were no issues arising from the testing carried out in this audit. However, there are a number of agreed recommendations that are still outstanding from previous audits and on that basis, an 'Excellent' opinion is not appropriate and it is considered that an audit opinion of 'Good' is more accurate. This is based on the number of medium and low risk agreed recommendations that are still outstanding</p>
<p>Creditors</p> <p>Quarter 1</p> <p>Assurance rating: Good ★★★★★</p> <p>Quarter 2</p> <p>Assurance rating: Good ★★★★★</p>	<p>Quarter 1 – the scope of this audit included a review of the following areas:</p> <p>Policies and procedures – reviewing policies and procedures to ensure that they are current and readily available to staff and that there is a training plan in place for employees.</p> <p>System Access – reviewing the process for removing EFIN system access when either the employee leaves, or transfers to another role which does not require similar system access rights</p> <p>Invoice checks - reviewing invoices to ensure that they quote all of the relevant information, are arithmetically correct, that VAT has been correctly accounted for and that the invoice has not been paid twice</p> <p>Payments - checking that the amount paid agrees to the value of the invoice. The testing also reviewed the BACS transmission process</p> <p>A total of 5 medium and 3 low recommendations were made, all of which were agreed by management.</p> <p>Quarter 2 – use of the Council's corporate credit card was reviewed and the scope of the audit included:</p> <ul style="list-style-type: none"> a) reviewing all of the policies and procedures that cover the use of the corporate credit card

	<p>b) ensuring that corporate credit card holders are fully aware of their responsibilities as a card holder c) selecting and testing a sample of credit card transactions against the policies and procedures</p> <p>A total of 2 medium and 5 low recommendations were made, all of which were agreed by management.</p>
<p>Treasury Management</p> <p>Assurance rating: Good ★★★★★</p>	<p>The Treasury Management (TM) function has responsibility for the management of the Council's cash flow and investments, its banking, money market and capital market transactions, the effective control of the risk associated with those activities and the pursuit of optimum performance consistent with those risks.</p> <p>The Council is required to have a Treasury Management Strategy based on the requirements of the DCLG's guidance on local authority investments. According to the government guidance the core principles that local authorities should follow when investing money are:</p> <ul style="list-style-type: none"> • to make the deposits secure • to ensure they have sufficient liquidity for their daily demands • to produce the highest available yield, once the first two considerations have been met <p>The objectives of the audit were to check that TM policies and procedures meet the requirements of the CIPFA Treasury Management in the Public Services: Code of Practice, that Council policies, procedures and financial regulations are being complied with and to assess the effectiveness of the Treasury Management's (TM) internal controls.</p> <p>A total of 6 recommendations were made (2 medium and 4 low) all of which were agreed by management.</p>
<p>People Management</p> <p>Assurance rating: Some improvement required★★★</p>	<p>People management encompasses the tasks of recruitment, management, and providing ongoing support and direction for the employees of an organization. These tasks can include the following: compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration and training.</p> <p>The audit included a review of the following areas:</p> <ul style="list-style-type: none"> Equal treatment Recruitment Working Conditions Learning & Development opportunities Employee Relations Discipline and difficult situations Cessation of employment Baseline Security Checks and Vetting Expenses and Benefits Cessation of employment by means of redundancy <p>A total of 8 medium and 11 low recommendations were made, all of which were agreed by management.</p>
<p>Non-Domestic Rating</p> <p>Assurance rating:</p>	<p>Non-domestic Rates are collected by the council on behalf of the government. Under the business rates retention arrangements introduced from 1 April 2013, authorities now retain a proportion on the business rates paid locally, whereas in previous years' business rates collected were paid to the government and then re-distributed by them. It is, therefore,</p>

Some improvement required ★★★	<p>important that the Council:</p> <ul style="list-style-type: none">• identifies and bills as many new properties as possible• issues the correct amount of reliefs• collects a high percentage of NDR <p>The scope of the audit included a review of the process for the identification of new and amended properties, liability and billing, collection and recovery.</p> <p>A total of 2 high, 5 medium and 4 low recommendations were made, all of which were agreed by management.</p> <p>The two high risk recommendations related to:</p> <ul style="list-style-type: none">• the identification of new properties –new properties are not being visited to establish completion dates at an early stage and the service is not proactive in identifying new properties/hereditaments. Management advised that this was due to a lack of resources which will be addressed when the service is restructured as provision has been made for one permanent and one temporary visiting officer• checks on properties receiving empty property relief - properties in receipt of empty property relief have not been visited for in excess of twelve months to check that the properties are still empty. As above, management advised that this was a resource issue. Once the visiting officers are in place, vacant properties will be visited within three months of the vacation date.
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Measuring the Effectiveness of the Audit Committee – Self-assessment Checklist

Collective responses from members of the Audit & Governance Committee 3rd December 2014

Issue	Yes	No	N/A	Comment
Terms of Reference				
Does the audit committee have written terms of reference?	Yes			Form part of the Council's constitution
Have the terms of reference been approved by full council?	Yes			
Do the terms of reference follow the CIPFA model?	Yes			
Does the audit committee periodically assess its own effectiveness?	Yes			Completion of this self assessment is that exercise
Membership				
Has the membership of the committee been formally agreed and a quorum set?	Yes			
Is the Chair free of executive or scrutiny functions?	Yes			
Are members sufficiently independent of the other key committees of the council?		No		Some members sit on planning and licensing committees and also have scrutiny functions
Have all members' skills and experiences been assessed and training given for identified gaps?		No		Training is made available to members but it is up to members to take up the training offered.
Is induction training provided to members?	Yes			As above.
Is more advanced training available as required?	Yes			As above.
Can the committee access other committees as necessary?	Yes			
Meetings				
Does the committee meet regularly?	Yes			Quarterly
Are meetings free and open without political influences being displayed?	Yes			
Are decisions reached promptly?	Yes			
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Yes			
Does the authority's s151 officer or deputy attend all meetings?	Yes			
Are the key officers available to support the committee?	Yes			
Are separate, private meetings held with the external auditor and internal Audit Manager?		No		The Chair suggested that in future meetings should commence 10

				minutes later to allow time at the start for members to meet with internal and external audit independently of Council officers.
Internal Audit Process				
Does the audit committee approve the annual audit plan ensuring that risk assessments have been carried out when formulating the plan?	Yes			
Does the audit committee regularly monitor performance against the plan and approve any revisions to the plan?	Yes			
Does the audit committee review quarterly reports from the Audit Manager and ensure that officers are acting on and monitoring action taken to implement internal audit recommendations?	Yes			
Does the audit committee receive a report from the Audit Manager on agreed recommendations not implemented within a reasonable timescale?	Yes			
Is the annual report, from the Audit Manager presented to the committee?	Yes			
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the committee?	Yes			
Does the committee input into the external audit programme?			N/A	In Local Government external audit is set down in the code of practice and therefore it is more difficult for the Audit Committee to influence the work of external audit.
Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Yes			However, the process could be improved.
Does the committee take a role in overseeing: <ul style="list-style-type: none"> • risk management strategies? • annual governance statements? • anti-fraud arrangements? • whistleblowing strategies? • members and employee codes of conduct? • member/officer relationships protocols? • the Council's constitution? 	Yes Yes Yes Yes Yes Yes Yes			Item 23 of the Terms of

			reference of the committee states: 'to monitor the Council's constitution and, having regard to any report of the Monitoring Officer, to make appropriate recommendations where necessary.
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REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2015

Report of: Assistant Director Finance

Title: CODE OF CORPORATE GOVERNANCE – 2015/16

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 The report sets out the proposed updated Code of Corporate Governance.

2. Recommendations:

It is recommended that:

2.1 Audit and Governance Committee supports and Council approves the updated Code of Corporate Governance for 2015/16;

3. Reasons for the recommendation:

3.1 The Council is required to prepare and publish an Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. It reports on the Council's performance against the Code of Corporate Governance. As the Code is out of date, it is necessary to update the Code to ensure that the Annual Governance Statement is accurate and meaningful.

4. What are the resource implications including non financial resources.

4.1 There are no resource implications contained within the report.

5. Section 151 Officer comments:

5.1 The production of the Code of Corporate Governance is considered best practice. However the requirement to produce An Annual Governance Statement, which reports on the Council's performance with reference to the Code is a statutory requirement.

6. What are the legal aspects?

6.1 The Annual Governance Statement, which reports on performance against the Code of Corporate Governance complies with Regulation 4 of the Accounts and Audit (England) Regulations 2011

7. Monitoring Officer's comments:

7.1 The report raises no issues for the Monitoring Officer.

8. Report details:

8.1 The Code of Corporate Governance is required to be updated annually. The updated Code is attached at Appendix A.

8.2 Other than minor updating, there are no significant changes to the Code.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 This is a statutory requirement and does not contribute directly to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

10.1 There are no direct risks associated with this report

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

11.1 Not applicable.

12. Are there any other options?

12.1 Not applicable

Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

EXETER CITY COUNCIL

CODE OF CORPORATE GOVERNANCE 2015/16

1. SCOPE OF RESPONSIBILITY

- 1.1 Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on the Council's website.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled together with activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its purposes and to consider whether those purposes have led to the delivery of appropriate, cost-effective services.
- 2.2 The Council's system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. There is an ongoing process designed to identify and prioritise risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.
- 2.3 The Council supports the six core principles set out in *The Good Governance Standard for Public Services (2004)* developed by the Independent Commission on Good Governance in Public Services. The following paragraphs describe the arrangements in place to meet the six core principles of effective governance.

3. PRINCIPLE ONE - FOCUSING ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA

- 3.1 The Council aims to use resources effectively and provide high performing, value for money services that focus on customer needs.
- 3.2 We have a comprehensive performance management framework that supports the effective monitoring and management of performance. The main elements of our performance management arrangements are summarised below:-

- **The Exeter Vision** is the city's community strategy. It was written in consultation with key partners in the city. It sets out the priorities for the city.
- The Council's **Corporate Plan 2014-15 update** and its **Purposes** support the themes of the Exeter Vision. They are reviewed regularly.
- Each member of staff has an **Annual Growth & Development Review** where they review performance against targets and set objectives for the forthcoming year.
- The availability of quality, timely, accurate and comprehensive performance information is critical for the Council's decision-making process. **Performance measures** are monitored by each Service and are reported to the Strategic Management Team on a Monthly basis. They include financial performance, key issues logs, and areas of risk alongside traditional performance indicators. Any issues are reported to the Transformation Board, consisting of the Council's Portfolio Holders.
- Finally, the website and the Exeter Citizen are used to communicate performance to the public. A summary of our key achievements and overall performance is available on the website and publicised with Council Tax bills.

3.3 A range of financial management measures are in place to ensure the effective use and management of resources including: -

- A medium-term financial plan covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements.
- Budget Monitoring is reported to Councillors quarterly, and is reviewed monthly by the Strategic Management Team. This is supported by an established budget monitoring process by managers and Finance staff.
- Standing Orders and Financial Regulations contained within the Council's Constitution set out the overall framework that governs the management of the Council's finances.

3.4 The Council operates a complaints procedure and uses this to identify areas where service quality is not satisfactory, and to take action to improve.

4. **PRINCIPLE TWO - MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES**

4.1 The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. This is contained in the Council's Constitution which sets out how the Council operates and how decisions are made. In particular it sets out a clear statement of the roles of committees, the full council, members and senior officers.

4.2 The Constitution also includes a Member/Officer Protocol which describes and regulates the way in which Members and Officers should interact to work effectively together.

4.3 All Committees have clear terms of reference and work programmes to set out their roles and responsibilities. The Audit & Governance Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management and internal control arrangements.

4.4 The Council's Chief Executive & Growth Director (Head of Paid Service) leads the Council's officers and chairs the Strategic Management Team.

- 4.5 The Assistant Director Finance, as the s151 Officer, carries overall responsibility for the financial administration of the City Council.
- 4.6 The Monitoring Officer (Corporate Manager Legal Services) carries overall responsibility for regulatory compliance.
- 4.7 When working in partnership the Council will ensure that:-
- Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council;
 - Representatives understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.
- 5. PRINCIPLE THREE - PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR**
- 5.1 To ensure that members and officers exemplify good standards of behaviour the Council has in place appropriate codes of conduct. These clearly set out the standards of conduct and personal behaviour expected of members and officers. In particular, the codes put in place arrangements to ensure that members and officers of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.
- 5.2 The Council takes fraud, corruption and maladministration very seriously and has in place the following which aim to prevent or deal with such occurrences: -
- Anti-fraud, Anti-Bribery and Anti-corruption Strategy;
 - Whistle Blowing Policy;
 - Human Resources Policies and Procedures regarding the disciplining of staff involved in such occurrences;
 - Fraud reporting facility on the website.
- 5.3 The Council's Audit & Governance Committee advises the City Council on the adoption of Codes of Conduct with the aim of promoting and maintaining high standards of conduct by members and officers and the subsequent monitoring and updating of the codes.
- 5.4 The Council has a complaints procedure in place to receive and investigate any complaints that are made.
- 6. PRINCIPLE FOUR - TAKING INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK**
- 6.1 The Council's Constitution sets out how the Council operates and the processes for policy and decision making.

- 6.2 The full Council, comprising 40 Members, meets several times each year to decide the Council's overall policies and set the budget. In addition to recommending major strategies to the Council, the Executive is responsible for the most significant and day to day decisions which are not delegated to officers. There are three scrutiny committees which scrutinise the work of the Executive and the Council as a whole. They consider issues and review services within their remit and make recommendations to the Executive and the Council on its policies, budget and service delivery issues. Scrutiny Committees also monitor the decisions of the Executive and can in certain circumstances "call-in" a decision which has been made but not yet implemented. In June 2013, the Council set up the Audit & Governance Committee, which is independent from the Executive and reports directly to Full Council. Its role is to approve and review the work of Internal Audit, monitor risk and governance issues, approve the Council's Statement of Accounts and respond to all External Audit reports.
- 6.3 The Forward Plan, which is published on a monthly basis, identifies key decisions which are likely to be made, either by the Executive or the Council, in the following four month period.
- 6.4 Other decisions are made by officers under delegated powers. The list of decisions made by officers in consultation with portfolio holders is maintained by Member Services, to whom completed delegated powers forms are sent. The decisions are also reported on the Council's internet. A record of delegated decisions in relation to staffing matters is maintained by Human Resources.
- 6.5 Policies and procedures governing the Council's operations include:-
- Financial Regulations and Standing Orders;
 - Access to Information (incorporating Data Protection and Freedom of Information);
 - Risk Management;
 - Business Continuity.
- 6.6 Internal Audit is an independent appraisal function that reviews all of the Council's activities, both financial and non-financial. Internal Audit provides a service to the whole Council in order to provide assurance on the arrangements for risk management, internal control and corporate governance, and to provide advice to support achievement of best practice.
- 6.7 Exeter City Council is committed to the effective management of risk at every level within the Council. A Risk Management Policy has been established that states the Council's objectives, approach, procedures and responsibilities. To support the policy, risk management procedures have been produced that explain how the Council's risk management process works. The procedures show the various documents used, and explain how the risk analysis form should be completed. The Council's risk management process is audited on a regular basis by its Internal Auditors using the enhanced systems based auditing approach they devised.
- 6.8 The Council maintains a corporate risk register. Its purpose is for reporting quarterly to the Audit & Governance Committee - the 'High', 'Medium' and 'Low' corporate risks, mitigating actions agreed and taken, etc. so that risk management progress can be monitored.

- 6.9 Financial management processes and procedures are set out in the City Council's Financial Regulations and include the following:-
- Financial Management Responsibilities
 - Financial Planning
 - Control of Expenditure and Income
 - Banking Arrangements
 - Disposal of Assets
 - Insurance
 - Orders and Payment for Goods, Work or Services
- 7. PRINCIPLE FIVE - DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS**
- 7.1 The Council aims to ensure that members and officers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new members and officers undertake an induction to familiarise them with the policies, procedures, values and aims of the Council. The Council has also signed up to the South West Charter for elected Member Development.
- 7.2 There is a Councillor Development Framework which broadly outlines the skills and knowledge required by Councillors to perform their different roles and provides an indication of how they might carry them out effectively. It is not intended to be exhaustive or prescriptive but to provide a structure for officers to develop learning & development programmes and act as a prompt for new and existing Councillors to identify areas where they need support. This support could be in the form of information, training, facilitated workshops, coaching and mentoring, or opportunities to learn from observation. The framework is designed to be flexible, so that Councillors can work with officers to identify the most effective methods to meet learning development needs.
- 7.3 The Council has also developed its own Councillors' Information Portal. This gives members access via the intranet to a wide range of information on a range of key topics.
- 7.4 The Council recognises that the quality of the services provided by the Council depends on the quality of its employees. The Growth & Development Review is the way in which employees and their managers can identify their training and development needs and one way in which managers can talk to their staff about their work and the work of the Council.
- 7.5 A full programme of training and development is available to all managers to provide them with the understanding, knowledge and skills to carry out their managerial responsibilities effectively. This is managed centrally to achieve cost savings while enhancing equality of opportunity of accessing resources.
- 8. PRINCIPLE SIX - ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY**
- 8.1 As a community leader the City Council works with numerous partners to contribute to the overall quality of life in the city, but it is also concerned with providing the highest quality public services and the widest access to those services. Individual services are continuously assessing service levels and making improvements in line with legislative requirements and customer feedback.

8.2 The Council has a continuous programme of consultation and engagement with its residents and communities which informs its activity. A range of methods are employed to ensure that it hears the views of all our residents. These include:

- Surveys – used to obtain detailed feedback about services;
- Focus groups – used to obtain detailed feedback about services;
- Exhibitions and roadshows – used to launch new ideas and initiatives.

9. REVIEW OF EFFECTIVENESS

9.1 The City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors and also by comments made by the external auditors and other review agencies and inspectorates.

9.2 The processes for maintaining and reviewing the effectiveness of the governance framework are: -

- Executive is responsible for considering overall financial and performance management and receives comprehensive reports throughout the year;
- Scrutiny Committee Resources monitors the overall financial performance of the Council;
- Audit & Governance Committee monitors the effectiveness of risk management, Internal Audit and the system of internal control. Budget monitoring reports are also presented to both Scrutiny Committee Economy and Scrutiny Committee Community quarterly;
- Annual reviews of the Council's key financial and non financial systems by Internal Audit against known and evolving risks and cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks are reported on a quarterly basis to the Audit & Governance Committee;
- The Monitoring Officer provides assurance that the Council has complied with its statutory and regulatory obligations;
- Annual reviews of the Council's financial accounts and records by the External Auditors leading to their opinion as published in the year-end statements;
- Ongoing reviews of strategic and operational risks in each service area and the conduct of risk analysis and management in respect of major projects undertaken by the Council;
- Reviews and, where appropriate, updates of the Council's Financial Regulations and Standing Orders.

10. DATE OF NEXT REVIEW

10.1 The Code of Corporate Governance will be reviewed annually by the Section 151 Officer in consultation with the Policy Unit and presented to the meeting of the Audit & Governance Committee in March 2016.

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11th March 2015

Report of: AUDIT MANAGERS

Title: COUNTER FRAUD STRATEGY

Is this a Key Decision? No

Is this an Executive or Council Function? Council

1. What is the report about?

To seek approval for the revisions to the Council's Counter Fraud Strategy (formerly Anti-Fraud, Anti-Bribery and Anti-Corruption Policy) – Appendix A.

2. Recommendations:

2.1 That the revised Counter Fraud Strategy be approved.

3. Reasons for the recommendation:

3.1 The Policy has been revised to bring it up to date and in-line with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on Managing the Risk of Fraud and Corruption, the latest Government best practice and to clarify roles and responsibilities.

4. What are the resource implications including non financial resources.

4.1 None

5. Section 151 Officer comments:

5.1 There are no financial implications contained within the report.

6. What are the legal aspects?

6.1 None.

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

Following a self assessment of the Council's counter fraud capability the Council's Counter Fraud Strategy (formerly Anti-Fraud, Anti-bribery and Anti-Corruption Policy) has been updated to bring it in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on Managing the Risk of Fraud and Corruption, the latest Government best practice and to clarify roles and responsibilities. The key amendments to the policy are as follows:

1. Name changed from Anti-Fraud, Anti-Bribery and Ant-Corruption Policy to Counter Fraud Strategy
2. Section 5.4 now includes details of manager's responsibilities in recruitment vetting relating to fraud prevention
3. Section 5E includes an update to the responsibilities of Internal Audit
4. 6.4 includes an emphasis on penalties for breaking public trust
5. Removal of sections on investigation, sanctions and redress and replaced with reference to the Fraud Response Plan that covers these areas in more detail
6. Addition of a Dos and Don'ts Guide at the end of the document

9. How does the decision contribute to the Council's Corporate Plan?

Having a strong Counter Fraud Strategy underpins the Council's zero tolerance towards fraud and contributes to "a well run council".

10. What risks are there and how can they be reduced?

N/A

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

None

**H Putt / H Kelvey
AUDIT MANAGERS**

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on Managing the Risk of Fraud and Corruption

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

Counter Fraud Strategy

(Formerly Anti-fraud, Anti-bribery and Anti-corruption Policy)

Author:	Helen Putt
Source Location:	
Related Documents:	Constitution Fraud Response Plan Investigations Guidance Whistle-blowing policy Member's Code of Conduct Officer's Code of Conduct Financial Regulations
Date Created:	November 2014
Document Status:	Live

Document Control

This document is subject to change control and any amendments will be recorded below.

Change History

Version	Date	Changes



Counter Fraud Strategy

(Formerly Anti-fraud, Anti-bribery and Anti-corruption Policy)

Ref.	Contents
1	Introduction
2	Definitions
3	Key principles
4	Corporate framework
5	Roles and responsibilities
6	Culture
7	Prevention strategy
8	Detection strategy
9	Fraud response plan
10	Review
11	Dos and Don'ts table

- 1.1 Exeter City Council is committed to the prevention and detection of fraud, bribery and corruption. Any suspected cases of fraud, bribery or corruption will be investigated and wherever possible, the Council will refer the matter to the police in order that perpetrators can be prosecuted, and losses recovered through all appropriate means.
- 1.2 Misuse of public funds deprives the Council of finance it needs to achieve its agreed goals and strategic objectives. As a consequence of lack of finance, citizens (particularly those in need) may be deprived of vital services.
- 1.3 The purpose of this policy is to set out for councillors and its employees, the Council's key principles and approach to countering fraud, bribery and corruption.
- 1.4 The table at the end of this document provides a simple reference of dos and don'ts should you suspect a fraud.

- 2.1 **Fraud** is an intentional criminal activity. Types of fraud that could affect the Council include obtaining assets or services by deception; forgery and false accounting intended to mislead or misrepresent, for example, providing false information when submitting a claim.

The Fraud Act 2006 provides that people carrying out serious frauds can be imprisoned for up to 10 years. Fraud includes:

- taking something you are not entitled to (e.g. cash, supplies, even peoples' identities)
- false accounting
- deception
- forgery

- 2.2 **Bribery** is the offering, giving, receiving or soliciting of something of value for the purpose of influencing the action of an official in the discharge of his or her public or legal duties. The Bribery Act 2011 came into force in July 2011. The Act is significant not only because the new penalties are described as the toughest in the world, but also because it forces organisations to evaluate how, and with whom, they do business. The Act also makes them accountable for ensuring that safeguards are in place to prevent bribery.
- 2.3 **Corruption** is when an individual abuses their position or powers to make gains for themselves or someone else, and often involves collusion between two or more individuals.

- 3.1 The commitment to eliminate fraud, bribery and corruption are summarised by the principles that the Council will:
- **Culture** - create an anti-fraud, anti-corruption, anti-bribery and zero tolerance culture
 - **Prevention** - review existing, and check new, policies and systems to ensure that any apparent weaknesses are removed and fit-for-purpose
 - **Detection** - provide appropriate mechanisms for employees to voice their concerns and protect those who do make reports
 - **Investigation** - maintain formal procedures to investigate fraud or corruption whenever it is suspected
 - **Sanctions** - deal robustly with perpetrators of fraud or corruption, and to have no hesitation in referring cases to the police where it is appropriate to do so
 - **Redress** - use reasonable measures to seek redress to recover any monies defrauded

- 4.1 Everyone has a role to play in the prevention and detection of fraud, bribery or corruption. The Council expects its employees and elected members to lead by example.
- 4.2 A key element of prevention is the range of interrelated policies and procedures the Council has in place that together seek to create a zero tolerance culture. These have been formulated in line with appropriate legislative requirements and include:
- this Counter Fraud Strategy
 - the Fraud response plan
 - codes of conduct for councillors and employees
 - standing orders and financial regulations
 - accounting procedures and records
 - internal control systems
 - Internal Audit
 - recruitment and selection procedures
 - disciplinary procedures
 - anti-money laundering procedures
 - the Whistleblowing policy
 - Regulation of Investigatory Powers (RIPA) procedures

- 5.1 The corporate framework can only be effective in prevention or detection if the policies, procedures and arrangement are complied with, and there are clear lines of accountability and responsibility which are:
- A. Management responsibilities**
- 5.2 The day-to-day responsibility for the prevention and detection of fraud and corruption rests with line managers who are responsible for:
- identifying the risks to which systems, operations and procedures are exposed, including maintaining awareness of potential new and emerging fraud risks;
 - developing and maintaining effective controls to prevent and detect fraud; ensuring that controls are being complied with
- 5.3 Managers must ensure that all of their staff are aware of the Council's counter fraud arrangements, as well as the Whistleblowing Policy. Managers must also encourage an environment in which their staff feel that they are able to approach them should they suspect irregularities are occurring.
- 5.4 During the recruitment process, managers should ensure that, as far as possible, potential employees are appropriately screened and vetted to establish the integrity of potential employees, whether permanent, temporary or casual posts. This should be done in consultation with Human Resources. This is a key preventative measure against fraud and could include, for example, verifying qualifications, identity checks, eligibility to work in the UK, and for certain posts credit checks (e.g. for posts with financial responsibilities) or Disclosure and Barring Service (DBS) checks (previously CRB checks) where appropriate.
- B. Employees' responsibilities**
- 5.5 All employees must:
- act with propriety in the use of resources and in the handling and use of public funds, whether they are involved with cash or payment systems, receipts or dealing with

- contractors, suppliers or customers;
- immediately report, without fear of recrimination, if they suspect or believe there is evidence of irregular or improper behaviour or that fraud may be being committed
- comply with the employees' code of conduct (available on the Intranet)

C. Councillors' responsibilities

Councillors have a duty to the citizens of Exeter to protect Council assets from all forms of abuse. This is reflected by the adoption of this policy and compliance with the code of conduct for members, relevant legislation, policies and procedures.

D. Role of the responsible officer

- 5.7 Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations make the 'responsible officer' (Executive Director Resources and Chief Financial Officer) responsible for ensuring the Council has adequate control systems and measures in place.

E. Role of internal audit

- 5.8 The purpose of internal audit is to provide independent and objective assurance to the Council on risk management, control and governance, by evaluating their effectiveness in achieving the Council's stated objectives. This includes promoting an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- 5.9 Responsibility for managing counter fraud has been assigned to Internal Audit. This will include responsibility for horizon scanning for potential new and emerging risks and sharing information about this with managers, as appropriate.
- 5.10 Amongst the range of services provided it includes fraud and irregularity investigations in which:
 - specialist skills and knowledge will be provided to assist in an investigation, or lead where appropriate; and
 - fraud prevention controls and detection processes are assessed for effectiveness.
- 5.11 All suspected fraud or irregularities should be reported to Internal Audit, with the exception of benefit and tenancy fraud which will be investigated by the relevant service provider. However, statistics relating to these types of fraud should be reported to Internal Audit on a periodic basis in order that Internal Audit can maintain a central record of all reported fraud.

F. Role of the benefits investigation officer

- 5.12 The benefit investigation officer undertakes the investigation of allegations of fraud and discrepancies in the housing and council tax benefits systems, including national benefits, in accordance with the benefit fraud policy (wef May 2015 this will be carried out by DWP)

G. Role of the external auditor

- 5.13 The external auditor reviews the Council's arrangements for preventing and detecting fraud, bribery and corruption. Whilst external auditors do not have a specific preventative role, they are always alert to the possibility of fraud, bribery and corruption and will report any grounds for suspicion that comes to their attention.

- 6.1 Exeter City Council expects all persons and any organisation associated with it to act with

integrity and operate high ethical values, and operates a zero tolerance culture. The Council expects councillors and its employees to strictly comply with the Nolan Committee's Seven Principles of Public Life:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership

- 6.2 The councillors and the employees' codes of conduct define the Council's expectations, and state what behaviour is deemed acceptable and what is unacceptable. The codes are published on the Council's website and are thus readily accessible.
- 6.3 Counter fraud training is delivered via an e-learning module, and provided to all councillors and employees. New councillors and employees must undertake the training as part of their induction training process, during which they are made aware of the Council's culture and of the policies and procedures they must comply with. This training ensures councillors and employees are aware of the different types of fraud and of the sanctions that can be taken against wrong-doers.
- 6.4 Those working and serving in the public sector hold a position of trust and so are expected to act with the upmost honesty and integrity. Public servants that commit fraud, corruption or bribery can expect Courts to apply maximum penalties and sentences for breaking that public trust.

7

Prevention Strategy

- 7.1 The Council has established robust systems of internal controls that are designed to prevent and detect fraud, bribery and corruption, examples of these include:
- cross-checking data and information provided by applicants with that held on other systems to check that the information agrees and is accurate
 - baseline checking of job applicants in order to combat identity fraud and false claims. These measures include checking: proofs of identity; employment history; educational and professional qualifications, experience, etc.
 - active participation in the National Fraud Initiative data matching exercise that crosschecks data held by the Council with data held by other local and public authorities, Government departments and other organisations. Where suspect data is found, the cases are thoroughly investigated, and appropriate action taken or sanctions imposed.
- 7.2 Internal Audit will:
- risk assess fraud risks using the Internal Audit risk assessment method used to establish the annual audit plan;
 - horizon scan for emerging and latest fraud threats using publications and information issued by Government and other relevant bodies (e.g. CIFAS newsletter) and Internal Audit will report those emerging threats to relevant managers and work with them to develop plans to address and tackle those threats;
 - ensure internal audit staff attend relevant training and seminars to keep up to date with the latest fraud trends and emerging risks;
 - as appropriate and in consultation with management, publicise proven frauds to raise awareness of fraud risks to help identification of fraud;
 - keep an up to date Fraud Response Plan and Collection of evidence policy giving guidance on conducting an investigation
 - send out regular reminders to employees to raise awareness of:

- the Council's policies, procedures and rules;
- the fact that they must report any suspicions of fraud, bribery and corruption they may have
- test internal controls are in place and working effectively. Where actual or potential weaknesses are identified, recommendations are made to enhance the effectiveness and robustness of controls

7.3 The Benefits Investigation officer uses risk-based techniques as a means of ensuring that the types of claims regarded as high risk are identified to ensure that they can be given careful attention, constantly monitored and regularly reviewed.

8	Detection Strategy
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- 8.1 The Council provides appropriate mechanisms to detect fraud, bribery and corruption, and to enable employees and members of the public to voice their concerns, these include:
- Internal Auditors assessing the effectiveness and robustness of systems' internal controls by, for example, checking transactions are valid.
 - providing fraud reporting mechanisms, such as on-line reporting or dedicated fraud reporting phone number, to encourage the reporting of benefits and other types of frauds.
 - maintaining a Whistleblowing Policy and procedures (that are published on the Council's website) to encourage employees to report concerns about malpractice

9	Fraud Response Plan
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9.1 Exeter City Council has established a [Fraud Response Plan](#) to compliment this strategy and lays out, in more detail, how it will respond to suspected fraud including investigations, sanctions and redress.

10	Review
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10.1 This policy will be reviewed by Internal Audit, in consultation with other relevant persons, at least biennially. Any significant changes will be reported to the Audit and Governance Committee for consideration and approval.

Review Dates:

Last reviewed: November 2014

DOS AND DON'TS

Do	Don't
<p>Make a note of your concerns</p> <ul style="list-style-type: none"> • Write down the nature of your concerns • Make a note of all the relevant details, such as what is said over the telephone or any other conversations • Note the names and, if known, the position of those involved • Notes do not need to be overly formal, but should be timed, signed and dated • Notes should be held in a secure place • Timeliness is most important. The longer you delay writing up, the greater the chances of recollections becoming distorted and the case being weakened • Note the date and time when the suspicion was reported onwards 	<p>Be afraid of raising your concerns</p> <ul style="list-style-type: none"> • The Public Interest Disclosure Act provides protection to employees who raise reasonably held concerns through the appropriate channels. • The Council's Whistle-blowing Policy provides guidance on how to do this. • You will not suffer discrimination or victimisation as a result of following these procedures and the matter will be treated sensitively and confidentially.
<p>Report your concerns promptly</p> <ul style="list-style-type: none"> • In the first instance, report your suspicions to your line manager. If this action is inappropriate further guidance on disclosure can be found in the Council's Whistle-blowing Policy. • If you are unsure who to report to, contact Internal Audit for advice • All suspected information security irregularities must be reported via the Incident Reporting System on the Intranet • All concerns must be reported to the Internal Audit Manager 	<p>Convey your concerns to anyone other than authorised persons</p> <ul style="list-style-type: none"> • There may be a perfectly reasonable explanation for the events that give rise to your suspicions. Spreading unnecessary concerns may harm innocent persons and the reputation of the Council. • Don't discuss your suspicions with anyone other than the officer you formally raised the issue with. • Don't report the matter to the police unless you have been authorised to do so by your line manager or internal audit.
<p>Retain any evidence you may have</p> <ul style="list-style-type: none"> • The quality of evidence is crucial and the more direct and tangible the evidence, the better the chances of an effective action. • Retain and keep all relevant records/evidence that may have been handed over to you or discovered as a result of the initial suspicion in a secure and confidential location. 	<p>Approach the person you suspect or try and investigate the matter yourself</p> <ul style="list-style-type: none"> • There are special rules relating to the gathering of evidence for use in criminal cases and to protect human rights. Any attempt to gather evidence by persons who are unfamiliar with these rules may prevent appropriate action being taken. • Don't interfere with or alter any documentary or computer based evidence as a result of any suspicion • Don't attempt to interview or question anyone unless agreed with the Internal Audit Manager

If you suspect fraud or irregularity, the most important thing to remember is - DON'T DO NOTHING

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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