

## AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 24 June 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](mailto:sharon.sissons@exeter.gov.uk)

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

### *Membership -*

Councillors Vizard (Chair), Baldwin, Bowkett, Buswell, Harvey, Henson, Laws, Lyons, Robson, Sheldon 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 To sign the minutes held on 11 March 2015**

##### **3 Declaration of Interests**

Councillors are reminded of the need to declare any disclosable pecuniary interests 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 further 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 during consideration of item 14 on the grounds that it involves the likely disclosure of except information as defined in Paragraph 3 of Part 1, Schedule 12A of the Act.

- 5 **Presentation on the Scope of the Audit and Governance Committee**
- 6 **Annual Scrutiny Report 2014/15**  
To consider the report of the Corporate Manager Democratic and Civic Support. (Pages 5 - 22)
- 7 **Audit and Governance Committee Update**  
To consider the report of the Council's Auditors Grant Thornton. (Pages 23 - 36)
- 8 **Audit Plan 2014/15 Grant Thornton**  
To consider the report of the Council's Auditors Grant Thornton. (Pages 37 - 54)
- 9 **Annual Audit Fee Letter 2015/16**  
To consider the annual fee for audit work proposed for the 2015/16 financial year by KPMG. (Pages 55 - 60)
- 10 **Response to Grant Thornton 2014/15**  
To receive the response from the Chair of the Audit and Governance Committee and the City Council's Management Team to Grant Thornton's questions. (Pages 61 - 68)
- 11 **Annual Governance Statement 2014/15**  
To consider the report of the Assistant Director Finance. (Pages 69 - 82)
- 12 **Annual Internal Audit Report for the Year Ended 31 March 2015**  
To consider the report of the Audit Managers. (Pages 83 - 100)
- 13 **Review of Corporate Governance Risk Register**  
To consider the report of the Corporate Manager Policy, Communications and Community Engagement. (Pages 101 - 104)

**Part II: Item for consideration with the Press and Public Excluded**

- 14 **Review of Corporate Governance Risk Register (Appendix A)**  
To consider the report of the Corporate Manager Policy, Communications and Community Engagement. (Pages 105 - 114)

## **Date of Next Meeting**

The next **Audit and Governance Committee** will be held on Wednesday 23 September 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:** SCRUTINY COMMUNITY, SCRUTINY ECONOMY AND SCRUTINY RESOURCES COMMITTEES  
**Date of Meetings:** 16<sup>th</sup> June, 18<sup>th</sup> June and 1<sup>st</sup> July 2015  
**Report of:** The Scrutiny Programme Officer,  
Democratic Services and Civic Support  
**Title:** Annual Scrutiny Review Report

**Is this a Key Decision?**

No

**Is this an Executive or Council Function?**

Council

**1. What is the report about?**

To provide an annual update to the respective Scrutiny Committees as to the Scrutiny work achieved during the municipal year 2014/2015.

**2. Recommendations:**

- i) The Annual Scrutiny Report is noted and approved.

**3. Reasons for the recommendations:**

- a) To provide an opportunity for Members to monitor the progress of the Scrutiny function and process at Exeter City Council.
- b) To provide Members with the opportunity to comment as to the progress and direction of Scrutiny over the past year, together with the proposals for the forthcoming year.
- c) To ensure that the Scrutiny Committees are kept fully up to date as to the issues investigated through specific Task and Finish Groups.
- d) To illustrate how effectively Scrutiny continues to work at Exeter City Council contributing towards an accountable, transparent and democratic process.
- e) To acknowledge the results achieved through Scrutiny during the municipal year 2014/2015.
- f) To promote confidence in the democratic process.
- g) To raise the profile of Scrutiny at Exeter City Council.

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

None.

**5. Section 151 Officer comments:**

This report raises no issues for the Section 151 officer to consider.

**6. What are the legal aspects?**

None.

**7. Monitoring officer Comments**

This report raises no issues for the Monitoring officer to consider.

**8. Report Details:**

Members continue with the opportunity to become directly involved in Scrutiny at Exeter City Council which, in turn, can have an effect upon the development of Council policy through review and exploration of topics identified by Members for specific Task and Finish Group investigation. Effective Scrutiny allows Members to ensure that the work of the Council is subject to democratic checks and that the provision and delivery of services is continually improved wherever possible. A continued outward looking and pro-active approach are essential components to successful scrutiny.

The detail of this report can be divided into six main areas:-

- (a) The Scrutiny Work Programme
- (b) Task and Finish Group investigations
- (c) The Scrutiny process
- (d) Training and profile
- (e) Future improvements
- (f) Timetable for the forthcoming municipal year

The substance of this report appears in the accompanying Appendix and concentrates on these areas to provide Members with an overview of the work, achievements and proposed direction of Scrutiny for the forthcoming year.

For Members' immediate ease of reference, priority topics identified for Task and Finish Group investigation (through the Annual Scrutiny Work Programme Meeting) were:-

- The Future of Exeter Quay
- Review of Income Generating Measures
- Community Patrol/Out of Hours Operatives/Anti Social Behaviour
- Health Issues – Review of the Public Health Plan
- Social Media
- Council's Role in the Community and Tackling Isolation
- Procurement
- Growth and Marketing Exeter
- Scrutiny Spotlight Review of the Parking Review
- Continuation of the work of the Cost of Living Forum

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

Not applicable.

**Anne-Marie Hawley : Scrutiny Programme Officer,  
Democratic Services and Civic Support  
Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report: None**

Contact for enquiries : Anne-Marie Hawley  
Phase I : Room 2.3  
(01392) 265110

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## **ANNUAL SCRUTINY REPORT 2014/2015**

### **APPENDIX**

#### **(a) The Scrutiny Work Programme 2014/2015**

The Annual Scrutiny Work Programme Meeting which took place in July 2014 allowed Members to establish whether they were satisfied with the substance and direction of the proposed Scrutiny Work Programme for 2014/2015. All Members were invited to put forward their suggestions for Task and Finish Group topics (prior to the meeting) and those topics were prioritised taking into account the Council's current aims and objectives.

Topics identified which resulted in Member Briefings included:-

- Pensions
- The HRA re-structure
- The Local Enterprise Partnership.

#### **(b) Task and Finish Group Investigations (Priority Topics)**

Were established as:-

- The Future of Exeter Quay
- Review of Income Generating Measures
- Community Patrol/Out of Hours Operatives/Anti Social Behaviour
- Health Issues – Review of the Public Health Plan
- Social Media
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#### **The Future of Exeter Quay (Scrutiny Committee Economy)**

Group Objectives:-

To promote:-

- Tourism within the Quay area.
- Development and Commercialisation of the Quay area.

To explore ways of improving:-

- Accessibility to the Quay and between the Quay and the City Centre.

To ensure that:-

- The recommendations contained within the Masterplan for the Quay area have been actioned;

And:-

- To continue to work with stakeholders and local businesses to achieve these key objectives.

Group Recommendations:-

- Encourage the formation of a Quay Traders Association.
- Ensure that promotional material covers the wider Quay area and the Basin.
- Support a meeting of Cllr Denham (Portfolio Holder for Economy and Culture), Cllr Owen (Portfolio Holder for Environment, Health and Well Being) and the Assistant Director, Economy to discuss the different areas of the Quay and the feedback obtained from Quay Traders.
- Liaise further with Stagecoach and Devon County Council to ensure that the new promotional branding for the Quay, once available, is featured and advertised through the local public transport system and promotional literature.
- Approach Ring and Ride providers to enquire whether they could provide a circular transport route linking the City and the Quay during the weekends/school holidays.
- Obtain a costing, subject to the recommendations of the Parking Review, as to essential improvements to the Quay Car Park.
- Support a formal partnership for management of the Quay involving stakeholders and traders.
- Investigate opportunities, in the long term, for externally funded improvements to the Quay area.
- Request that the Planning Members' Working Group review the Master Plan for the Quay area to establish whether it requires updating and whether it meets with the Council's current aims and priorities.
- Monitor the progress of these recommendations with an update to be provided to the Scrutiny Committee Economy in 12 months' time.

The Group had the benefit of a visit from Mr Philip Ardley, Consultant, Asset Management Service, Regeneration & Economic Development, Gloucester City Council, who spoke about the waterways regeneration in Gloucester.

The Future of Exeter Quay Task and Finish Group report will be submitted to the Scrutiny Economy Committee on the 18<sup>th</sup> June 2015 for approval.

**Review of Income Generating Measures (Scrutiny Committee Resources)**

Group Objectives:-

- To review/identify what income generating measures the Council has already in place.
- To identify aspects that the Group will not wish to consider to avoid duplication of work.
- To obtain a broad sense of the types of areas which could generate further income with consideration to the available resources.

Group ideas:-

- A Solar Photovoltaic site on Council owned land.
- A dedicated member of staff to bid for external funding.
- Use of St Nicholas Priory for weddings and maximising the use of RAMM for corporate events.
- Selling external advertising on the outside of car parks in a prominent place.
- Exeter has a number of parks and open spaces which are not utilised to their maximum potential. The Council could look into:-
  - holding events (eg concerts) in parks
  - licensed ice cream vendors in parks
  - open air cinemas
  - weddings
  - more car parks
  - more paid facilities in parks
- Museum – voluntary donations for entry.

Group Recommendations:-

- To consider and comment upon the ideas submitted by the Group.
- To approve the selection of income generating ideas detailed within the report with a view to business cases being submitted for consideration to the Scrutiny Committee Resources.
- Decide upon a timescale for the provision of those business cases to the Committee.

- Review progression either at a point in time agreed by the Committee under the above recommendation or 6 months from the date of this report, whichever the sooner.

The Review of Income Generating Measures Report was submitted to the Scrutiny Committee Resources on the 28<sup>th</sup> January 2015 and the recommendations approved (Minute 12).

**Community Patrol/Out of Hours Operatives/Anti Social Behaviour**  
**(Scrutiny Committee Community)**  
**A Spotlight Review**

An update on the current position was provided to the Group by the Housing Solicitor, Assistant Director Environment, Senior Environmental Health Officer, Environmental Health Manager and the Community Safety and Enforcement Service Manager.

This Spotlight Review found that the new team and system which had replaced the old Community Patrol did not have as high a profile as its predecessor. However, Members were satisfied that this did not mean that the new team and system were lacking by comparison. The new team and system were found to be successful in delivering a targeted and focussed approach. The new service was generating good results and this had not been adversely affected by the loss of late night patrollers as was initially thought to be the case by Members. The introduction of the new Anti Social Behaviour legislation in October 2014 and the review of the current service by the Senior Environmental Health Officer were welcomed by Members as positive steps forward for the continued improvement of this service.

**Group Recommendations:-**

- That the Group's findings are noted and that Scrutiny Committee Community are content with the Review.
- Scrutiny Committee Community support a further meeting of the Review Group once the new anti social behaviour legislation has been implemented fully so that any impacts on service delivery can be considered.

A report was submitted to Scrutiny Community on the 11<sup>th</sup> November 2015 which was noted (Minute 51).

**Ancillary to the Review:-**

- An e-mail was circulated to all Councillors with details of the relevant officers in Housing, Environmental Health and Legal Services so that they would know who to approach for advice in respect of anti social behaviour and noise nuisance complaints which they may receive from their constituents.

The Environmental Health Manager will submit an update report to the Scrutiny Committee Community (as per the Group's second recommendation) on the 16<sup>th</sup> June 2015.

**Health Issues – Review of the Public Health Plan  
(Scrutiny Committee Community)**

The Scrutiny Programme Officer advised Members of the Group that following enquiries with Devon County Council in October 2014, it seemed that the Public Health Plan was due to be reviewed by the Health and Well Being Board on the 11<sup>th</sup> November 2014.

The main question identified was whether it would prove necessary for a Task and Finish Group to review this?

It was established that the terms of reference for the Health and Well Being Board are:-

- To develop and update an annual Exeter Health and Wellbeing Plan setting out evidence based priorities and actions;
- To ensure that all key plans and policies appropriately reflect the health and well being priorities identified through the joint needs assessment process;
- To establish “expert” task and finish groups where additional needs, analysis or guidance on the evidence of the effectiveness of interventions is required.

In order to save Members’ time and ascertain whether any issues would require Task and Finish Group assistance, the Scrutiny Programme Officer attended the Health and Well Being Meeting on the 11<sup>th</sup> November 2014 ensuring that there was provision on the Agenda to specifically consider this point. The Health and Well Being Board decided that Task and Finish Group assistance would not be required on this occasion and that there was no need to investigate any issues surrounding the current Public Health Plan with which the Board were content.

The Assistant Director, Environment agreed to provide an update to the Scrutiny Community Committee in this respect.

**Social Media (Scrutiny Committee Resources)**

Group Objectives:-

To explore:-

- The social media landscape
- The council’s use of Twitter
- The council’s use of Facebook
- Measures of success
- Engaging with communities
- Ideas for future developments

Group Recommendations:-

- Scrutiny Resources have the opportunity to consider and comment upon the findings of the Task and Finish Group;

- Social media training should be incorporated into the Councillors' induction training programme.
- Acknowledge the Group's finding that the Council's current use of and presence through social media is currently of a high standard and as such, no further improvements are considered necessary at this point in time.
- Agree that this Task and Finish Group should meet once more in 9 months' time to review the position to see if it remains the same or whether further improvements can be suggested.
- The Group will report back to the Scrutiny Committee Resources after October 2015 with a review on the position together with any further recommendations.

A report was submitted to the Scrutiny Committee Resources on the 18<sup>th</sup> March 2015 and the recommendations were approved (Minute 11).

**Council's Role in the Community and Tackling Isolation**  
**(Scrutiny Committee Community)**

At the first meeting of this Group a presentation was provided by the Community Involvement and Inclusion Officer to give an overview of the current position and work in progress. It was recognised at an early stage that there was a significant risk of duplicating work given the enormity of the topic associated with the wide ranging areas of existing work. Some areas were identified as already dealt with through existing Council work streams together with the work of outside community organisations and the Health and Well Being Board. A clear focus for the Group would be paramount if realistic and useful recommendations were to be put forward.

The Group highlighted that:-

- Social isolation is an ongoing concern in particular and recognised the valuable work of Community Organisers.
- That the drive is very much towards mobilising services and organisations around individuals.
- The success of the current trial of the Neighbourhood Health Watch project in St Thomas would be reported back to the Health and Well Being Board for consideration.
- Mapping of organisations, services and facilities was recognised as a real challenge in so far as collation and accuracy of information was concerned.

The Group heard from Exeter CVS representatives and Community Organisers from Wonford, Cowick and St Thomas.

The Group established the following points upon which recommendations should be based:-

- To ensure that the Scrutiny Committee Community are kept fully informed and up to date on a regular basis with Community Engagement work which was not the case at present.

- The Scrutiny Committee Community should have the opportunity to investigate any areas of concern which may be highlighted at any point in the future by the Community Involvement and Inclusion Officer.
- To continue to support Exeter communities in so far as the Council is able with consideration to available resources and capacity.
- To encourage stronger communities in line with the Exeter Vision.

#### Group Recommendations:

- The Community Involvement and Inclusion Officer will provide an update to the Scrutiny Committee Community twice a year detailing work in progress, results of work and any areas of concern.
- The Group will hear from the two new Community Organisers in 6 months' time to find out what progress they are making and what issues they may identify as needing attention. The Group will then report back to the Scrutiny Committee Community.
- The Community Involvement and Inclusion Officer, at any point in time, can ask for this Task and Finish Group to reconvene and consider any areas which she would suggest merit further investigation, with a direct reporting line between the Group and the Scrutiny Committee Community.

The Report will be submitted to the Scrutiny Committee Community on the 16<sup>th</sup> June 2015.

This Task and Finish Group is a prime example of how Members and Officers carefully navigated a huge topic and adapted the way in which they approached the subject to avoid duplicating work and to reach both realistic and practical recommendations which would add value and compliment existing work.

#### **Growth and Marketing Exeter (Scrutiny Committee Economy)**

##### Group Objectives:-

- To identify the opportunities within the City which are not being progressed or not being progressed in the way they should be.
- To find out who our competitors are – what are they doing marketing wise and who are their partners?
- Draw comparisons with areas which have strong inward investment and marketing campaigns. What are other cities doing that we are not?
- Identify ways in which the Council can persuade our neighbours, big stakeholders and businesses to contribute.

##### Current Progression:-

- The Group wished to hear from Cambridgeshire County Council given that Cambridge is also a University City and has undertaken significant growth and economic development in recent times. On the 9<sup>th</sup> April 2015 the Business Manager, Enterprise and Economy from Cambridgeshire County Council visited and provided an overview and presentation to the Group followed by a question and answer

session which Members found both interesting and helpful. The next meeting of the Group will be scheduled towards the end of June 2015 when the CEO of a South African Company which has recently re-located to Exeter, will attend to speak with the Group as to why the company specifically chose to re-locate to Exeter. Following this the Group should be in a position to identify recommendations which will be submitted to the Scrutiny Economy Committee during the September 2015 cycle of Scrutiny. It is anticipated that these recommendations will help identify any new ways in which further growth may be supported together with possible new ways and styles of marketing the City.

### **Consideration of the Parking Review (Scrutiny Committee Economy)**

As a result of the Annual Scrutiny Work Programme Meeting (July 2014), Members highlighted that they would like a Task and Finish Group to review the outcome of the Parking Review once the Report is available. The Task and Finish Group would then submit their findings to the Scrutiny Economy Committee.

Officers have liaised at regular points over the last 4 months to monitor progress in respect of the provision of the Parking Review Report so that a timely meeting of this Task and Finish Group can be arranged and is now due to take place on the 27<sup>th</sup> May 2015.

### **The Cost of Living Forum (Scrutiny Committee Economy)**

The Cost of Living Forum membership consisted of Members and Officers together with representatives from outside organisation and support services.

#### **Key Objectives:-**

- Gather evidence to establish a baseline on wages and cost of living in the City of Exeter.
- Gather and analyse evidence on the impact that low wages and high relative cost of living has on residents in the City of Exeter (taking a broad perspective on impacts and to include Health and Wellbeing).
- Gather and analyse evidence on particular problems.
- Explore (in partnership with a broad range of stakeholders) strategies and solutions to problems identified following the gathering of evidence for this Forum.

Following approval from both the Scrutiny Committee Economy and the Executive a report was commissioned from Exeter University to gather detailed, accurate and localised information and statistics particularly in respect of Housing and Wages which were two particular areas identified by the Forum, at an early stage, as requiring further investigation.

#### **Areas Identified for Future Work:-**

1. Working with young people in schools to provide better careers advice and to raise awareness as to what is available in the local economy.
2. Availability of financial advice – it was suggested that the private and voluntary sectors could work together to achieve this.



3. Debt strategy – to look at the immediate future as more families need access to more finance.
4. Availability and access to affordable and ethical credit.
5. Procurement – with particular attention as to how the Council procures and reviewing what powers the Council has under the Social Value Act (with particular reference to the Living Wage).
6. Skills agenda relating to productivity (Knowledge Economy Strategy).
7. Grants – liaising with Local Enterprise Partnership (LEP) to ensure that the Council make the most of any available grants and funding.
8. A need to put forward a business case to all small businesses with particular reference to tangible statistics.

Group Recommendations:-

- a) To hold an ESIF (European Structural and Investment Fund) information event in association with LEP and the Federation of Small Businesses to which private and voluntary sector organisations and stakeholders will be invited to attend.
- b) To hold a 6 month review of ongoing, relevant Council work streams identified by the Forum, reporting back to the Scrutiny Committee Economy with an update.
- c) To promote the Living Wage by putting information on the Council's website, the Exeter Citizen and through social media highlighting the work of the Cost of Living Forum and providing case studies reflecting the Council's success in implementing the Living Wage along with an interview with a local business which has implemented the Living Wage successfully.
- d) The Cost of Living Forum should continue to meet annually.
- e) To engage with existing businesses via their networking events to raise the profile of the Living Wage and the Cost of Living Forum work.
- f) To provide Council staff with information to increase their knowledge of the Living Wage which they can share with outside organisations.
- g) To share the Cost of Living Forum reports with East Devon District Council and Teignbridge Council.

Reasons for the recommendations:-

- (i) To encourage collaborative working between the Council, private and voluntary sectors and stakeholders in relation to ideas and submitting bid applications for ESIF funding. A combined approach to bids may increase the chance of successfully securing funding.
- (ii) To monitor progress in respect of the Council's existing and relevant work streams in direct relation to the work of the Cost of Living Forum.

- (iii) To ensure that the Scrutiny Committee Economy remains up to date on the issues and work taking place in respect of (ii).
- (iv) To ensure that ongoing issues surrounding the Cost of Living and the difficulties faced by Exeter residents are monitored, so that finding further strategies and solutions to tackle these difficulties remains at the forefront of the Council's priorities.
- (v) To highlight the benefits of implementing the Living Wage to businesses and the probable effect on productivity.
- (vi) To identify networking opportunities where the Council may be able to talk about the Living Wage and the Cost of Living Forum work amongst the local and wider business community.
- (vii) To work collaboratively, on a cross boundary basis, with our neighbouring authorities to address this national issue.
- (viii) To invite comments from Members of the Scrutiny Committee Economy in respect of the report, the work of the Cost of Living Forum to date and its final recommendations which all contribute towards a robust and accountable scrutiny process.

#### The Current Position:-

The next Cost of Living Forum (review) meeting is scheduled for 28<sup>th</sup> January 2016 in line with recommendation (d).

The Scrutiny Programme Officer is working with the Chair of the Group, the Council's Economy Department and Media Officer and The Federation of Small Businesses in respect of recommendations (c) and (f).

The Exeter University Report has been forwarded to Teignbridge and East Devon District Councils as per recommendation (g).

A verbal update to the Scrutiny Committee Economy in respect of the proposed ESIF event (recommendation (a)) and progress on existing work streams (recommendations (a), (b) and (e)) is due to be provided at the next Committee meeting on the 18<sup>th</sup> June 2015.

#### **Procurement (Audit and Governance Committee)**

This Task and Finish Group recognised that there is now an agreed budget in place for a dedicated Procurement Officer and that the Corporate Manager, Legal Services and the Housing and Contracts Officer have already worked together on updating the Regulations.

Although a dedicated Procurement Officer has not yet been appointed, an interim Procurement Officer is currently in post.

The Group decided that it would be both sensible and of greater benefit to wait until a full time permanent Procurement Officer is in post before proceeding further. It was recognised that a permanent officer would undertake an imperative role within the Group. The main danger in progressing now with input from the interim Procurement Officer, could be a lack of consistent approach between the interim officer and the permanent officer both of whom may present, at differing points in time, conflicting professional views and suggestions on best working practice. This would have a

detrimental effect on previously proposed and indeed, any approved recommendations. This in turn would only serve to complicate and undermine the procurement process and system. A double review of procurement would be undesirable at best, given the inevitable duplication of work and would also put an unnecessary strain on limited time, resources and capacity of both Members and Officers.

### **(c) Scrutiny Process**

The cross party Scrutiny Review Working Group continue to meet regularly to consider improvements to the scrutiny process. The meeting of this Group provides an additional mechanism to ensure that suggestions are dealt with quickly and efficiently thereby avoiding unnecessary delays and provides a direct reporting line to Executive.

#### **Developments 2014/2015:-**

- **Scrutiny Arrangements**

A report was submitted to the Executive on the 7<sup>th</sup> October 2014 updating Members as to the implementation of the new Scrutiny arrangements following the report of the cross party Scrutiny Review Working Group to Executive dated 9 April 2013 (Executive Minute 46) and Council, 23<sup>rd</sup> April 2013 (Minute 22). The 2014 report reviewed implementation of the previous scrutiny arrangements and Committee structure which recommended, amongst other things, the need for a dedicated Scrutiny Officer to support Scrutiny Members.

The 2014 report recommendations were approved by Council on the 15<sup>th</sup> October 2014 (Minute 52).

- **Scrutiny System**

A report was submitted to the respective Scrutiny Committees updating Members as to the success of the changes to the Scrutiny Agendas and structure of meetings which were trialled during the September and November 2014 cycles of Scrutiny. The report outlined the findings of the cross party Scrutiny Review Working Group and comments received from both Members and Officers. Members agreed that the changes had improved the efficiency and quality of the Scrutiny Committee meetings and resolved that the findings of the Scrutiny Review Working Group together with other Member/Officer comments should be noted. It was recommended to Full Council that the trial changes be implemented on a permanent basis with immediate effect and that the arrangements should be reviewed in 12 months. The recommendations were approved by Executive (9<sup>th</sup> December 2014: Minute 125) and by Full Council (16<sup>th</sup> December 2014: Minute 66).

- The Scrutiny Topic Proposal Form

This newly devised form was made available to Members on the 25<sup>th</sup> November 2014 under the documents section of their ipads. This allows Members to highlight topics or issues, throughout the municipal year, which they consider should be the subject of Task and Finish Group investigation.

- Scrutiny presence through Twitter

Will be trialled through the Council's Corporate Twitter Account as soon as the 2015/2016 Task and Finish Groups are established. Groups will decide at their initial meeting whether it is appropriate and of potential benefit to use social media to gain public feedback on the topics.

#### **(d) Training and profile**

- Scrutiny training for Members is now a regular feature of the Members' Induction Training Programme and 2014 provided the highest number of attendees for a Members' induction training session.
- As a new initiative this year Exeter are taking the lead in the providing joint Members' scrutiny training in conjunction with East Devon District Council and Teignbridge Council. This is scheduled to take place on the 16<sup>th</sup> July 2015 at the Guildhall, Exeter.
- Mid Devon and Gloucester Councils have approached Exeter to find out more about the way in which we currently run our scrutiny process which is developing a reputation as an example of good practice within the South West Region.
- The South West Charter for Member Development was awarded to the Democratic Services Team this year with particular mention of scrutiny:-

["The development of Scrutiny and how it is used to shape policy was seen as good practice by the assessment team and an area where there was scope to share ideas and developments with other Councils".](#)

- Current discussions are underway for Exeter to host the next South West Network Overview and Scrutiny event to be held in October 2015.
- The Association of Democratic Service Officers' conference in October 2014 provided a good opportunity to compare Scrutiny practice with other Authorities in which Exeter, Gloucester and Devon County Council Scrutiny Officers took the lead on discussions.
- The Democratic Services Team were awarded runners up place in the Association of Democratic Service Officers' Awards 2015.

#### **(e) Future Improvements**

- The Scrutiny Review Working Group will explore whether committee meetings/cycles can be compacted in future and whether it would be of benefit for two consecutive Scrutiny Committee meetings to take place during each cycle for each respective Scrutiny Committee where one meeting will

deal with the usual Scrutiny Committee Agenda and the second meeting will allow time for specific presentations and debate upon areas of particular interest to Members.

- A running list of Task and Finish Group topics and outcomes (year by year) to be made available in spreadsheet form so that progress of approved recommendations may be tracked, updates provided and reviews carried out where appropriate. This will ensure continuity and a check system for follow up of work resulting from approved recommendations and will also provide a quick point of reference to identify those topics which have already been investigated in recent times.
- The Strategic Management Team will be informed of the topics for Task and Finish Group investigation following the Annual Work Programme meeting. This will ensure (for the most part) the availability of Senior Officers for the Group meetings and will allow detailed and helpful information to be sourced for Members at an early opportunity.

**(f) Timetable for forthcoming municipal year:-**

19/05/15	:	Annual Council meeting (Membership of Scrutiny Committees to be decided)
03/06/15	:	Scrutiny Induction training for Exeter Members
16/06/15	:	First Scrutiny Committee Community Meeting
18/06/15	:	First Scrutiny Committee Economy Meeting
24/06/15	:	First Audit and Governance Committee Meeting
01/07/15	:	First Scrutiny Committee Resources Meeting
09/07/15	:	Annual Scrutiny Work Programme Meeting
16/07/15	:	Joint Local Authority Scrutiny Training initiative
28/07/15	:	Full Council and confirmation of Task and Finish Group membership nominations
01/08/15	:	Commence with first tranche of Groups.

**Conclusion**

The Scrutiny process at Exeter City Council continues to provide Members with the chance to examine the workings of the Council and get directly involved in the development of Council policy. Through effective scrutiny, Members can ensure that the work of the Council is subject to democratic checks and that the provision and delivery of services is continually improved wherever possible. Task and Finish Group investigations are an integral part of that process as are the Members who give up their time to participate and to whom I would like to extend my thanks for their time and effort.



# Audit and Governance Committee Update for Exeter City Council

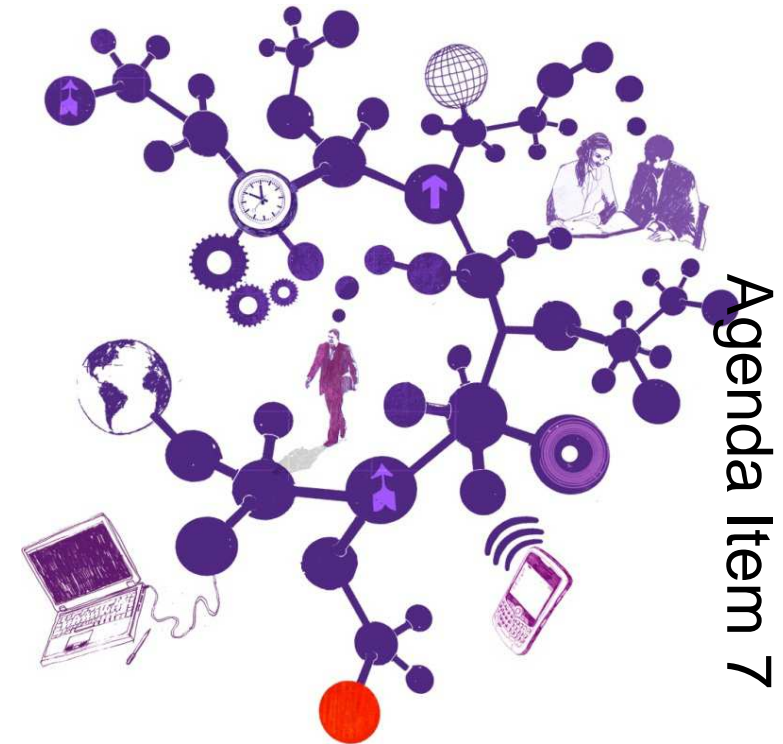
Year ended 31 March 2015

Committee Date: 24 June 2015

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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](http://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.

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# Progress at 2 June 2015

Work	Due By	Complete	Comments
<p><b>2014-15 Audit Fee</b></p> <p>External Audit fees are determined by the Audit Commission after a period of consultation with the audited bodies.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 27</p>	28 February 2015	Yes	<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><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• initial risk assessment to support the Value for Money conclusion.</li> </ul>	30 April 2015	Yes	<p>We completed our work in March 2015 in line with the timetable agreed with the Council. We undertook as much testing as possible to reduce the peak over the summer months.</p> <p>We have used the findings of this interim work to inform our audit plan, which is a separate agenda item for the June 2015 Audit and Governance Committee.</p>

# Progress at 2 June 2015

Work	Due By	Complete	Comments
<p><b>2014-15 Accounts Audit Plan</b></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	Our Audit Plan is a separate agenda item for the June 2015 Audit and Governance Committee.
<p><b>2014-15 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• Whole of Government Accounts (WGA) opinion</li> </ul>	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 have agreed our audit timetable with the Council and will commence work in the week beginning 20 July 2015.</p> <p>We will report our findings to the Audit and Governance Committee on 23 September 2015.</p>
<p><b>2014-15 VFM Conclusion</b></p> <p>We are required to assess whether Exeter City Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience</li> <li>• challenging how it secures economy, efficiency and effectiveness</li> </ul>	30 September 2015	No	<p>Our planned work has been informed by our initial risk assessment, the results of which are reflected in our audit plan.</p> <p>We will:</p> <ul style="list-style-type: none"> <li>• Review the Council's medium term financial planning;</li> <li>• Assess the Council's future savings plans and how these impact on the its medium term financial plans; and</li> <li>• Review the Council's performance against its 2014/15 budget, including consideration of performance against its savings plans.</li> </ul>

# Progress at 2 June 2015

Work	Due By	Complete	Comments
<p><b>2014-15 certification work</b></p> <p>This work is expected to cover:</p> <ul style="list-style-type: none"> <li>• Housing benefits.</li> <li>• Housing capital receipts.</li> </ul>	30 November 2015	No	<p>We qualified the Council's Housing Benefits return in 2013/14.</p> <p>We have made an early start on our certification work in 2014/15</p>
<p><b>2014-15 Annual Audit Letter</b></p>	31 October 2015	No	Our Annual Audit Letter summarises the findings of our audit work in the year.
<p><b>Other activities</b></p> <ul style="list-style-type: none"> <li>• We have met with your finance staff on a monthly basis to discuss our financial statements audit and the Council's response to any emerging issues, particularly around the accounting treatments of Strata Service Solutions Limited and Exeter Canal and Quay Trust.</li> <li>• We have agreed our 2014/15 audit plan with the Council's Assistant Director, Finance.</li> </ul>			

# All Aboard? - Local Government Governance Review 2015

## Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

**Governance of the organisation** – the main area of concern highlighted in this year's governance survey  
Is the level of dissatisfaction with the scrutiny process.

**Governance in working with others** – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

**Governance of stakeholder relations** – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

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



# Provision for Business Rates Appeals

## Accounting and audit issues

### Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

### Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

### Issues to consider

- Has your Assistant Director, Finance reassessed the methodology for making the business rates provision?
- Has your Assistant Director, Finance got arrangements in place for the estimation of appeals to be charged against the provision?

# Inclusion of overtime in the calculation of holiday pay

## Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

### Issue to consider

- Has Exeter City Council taken legal advice and assessed if a provision is required in the 2014/15 accounts?



# Earlier closure and audit of accounts

## Accounting and audit issues

In our March 2015 update we advised you of consultation being undertaken by the Department for Communities and Local Government regarding the proposed changes to the deadlines for the production of Local Government financial statements and their subsequent audit.

Legislation was recently passed to bring forward these deadlines from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 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.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.

# Developing Local Authority Trading Companies

## Grant Thornton Publications

Austerity has made a significant impact on local government. Our report *'Responding to the challenge: alternative delivery models in local government'* looked at the increased use of alternative delivery models to protect and develop services. This trend has continued over the last year.

Whilst some councils have always had a commercial approach, many traditionally avoided commercial considerations. This is no longer the case.

As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures. For many councils, the use of Local Authority Trading Companies (LATCs) is a step towards becoming self-financing.

Over the last five years, we have seen a significant increase in the use of different service delivery models by local government. The introduction of LATCs has been a key part of this innovation. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – they have grown into new areas such as highways, housing and education.

More recently, LATCs dedicated to the delivery of social care services have emerged.

However, the delivery of a successful company is not easy.

Our report *'Spreading their wings'* is the first in a series looking at alternative service delivery models in more detail. The report provides practical guidance – drawn from interviews with councils and from the successful companies we have worked with – on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company

Copies can be obtained via your Engagement Lead or Audit Manager.





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# The Audit Plan for Exeter City Council

Year ended 31 March 2015

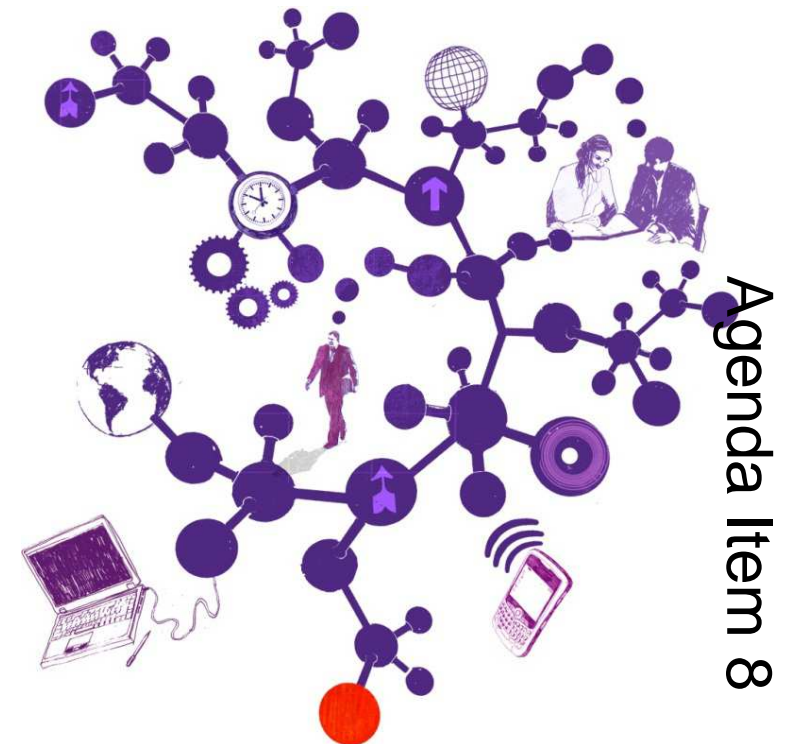
18 May 2015

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12. Communication of audit matters with those charged with governance

## Appendices

- A. Action plan

# Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance. We set out a summary of our understanding below.

Developments and other requirements					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Adoption of new group accounting standards (IFRS 10,11 and 12).</li> </ul>	<p><b>2. Accounting for Transport Infrastructure Assets</b></p> <ul style="list-style-type: none"> <li>• With effect from 2016/17 local authorities will be required to reflect transport infrastructure assets on their balance sheets.</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword.</li> </ul>	<p><b>4. LG Finance Settlement</b></p> <ul style="list-style-type: none"> <li>• The local government spending settlement showed local authorities are facing a reduction in their spending power in 2015-16.</li> <li>• At the same time local authorities are facing increasing demands for services.</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans.</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>

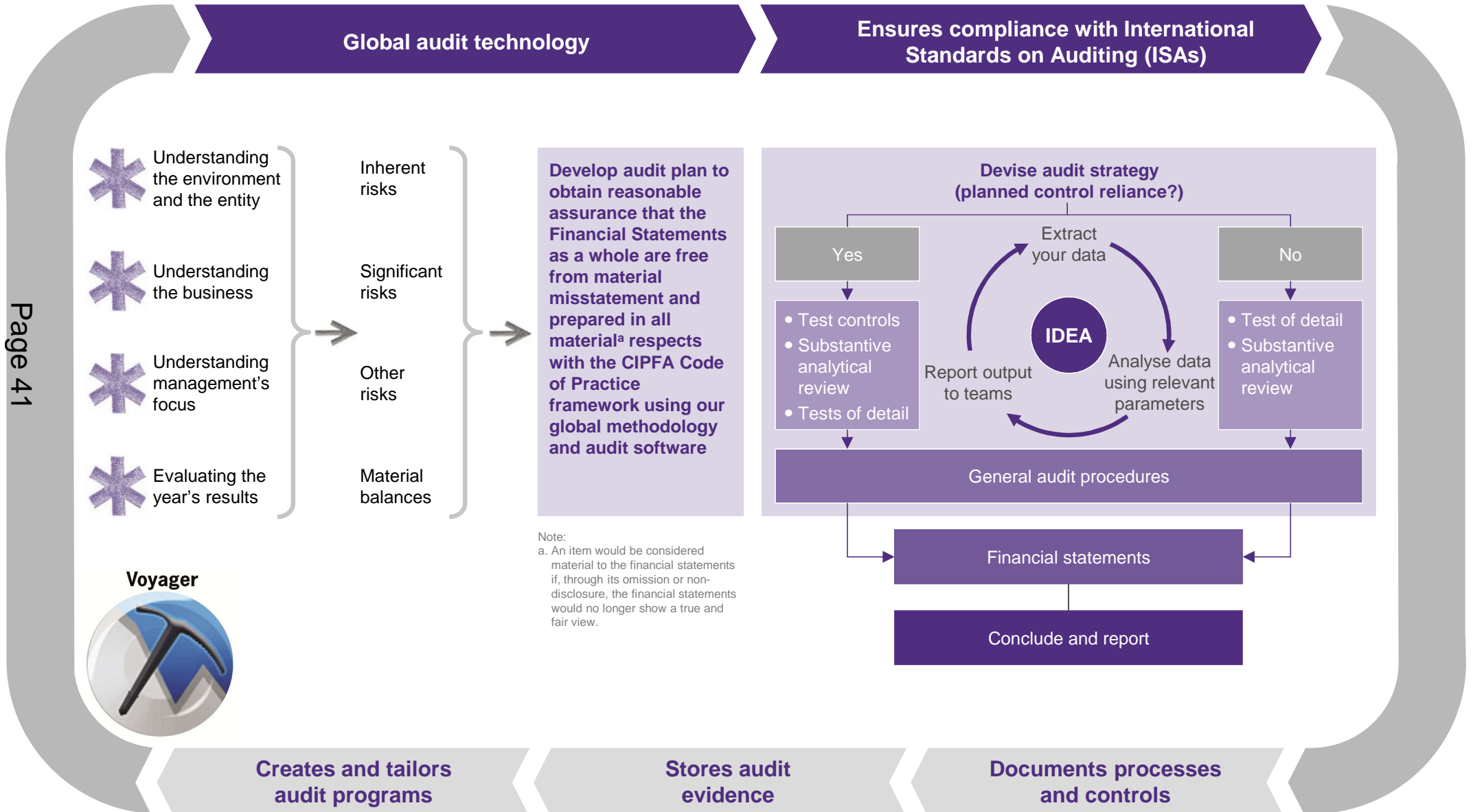
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Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>• the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly. We will pay particular attention to Strata Service Solutions Ltd and the Exeter Canal and Quay Trust.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the progress the Council has made in this area.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan.</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify the pooled capital receipts return and the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company took over the Audit Commission's responsibilities for grant certification from 1 April 2015.</li> </ul>



# Our audit approach

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Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Exeter City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Initial testing of journal entries from April 2014 to January 2015</li> <li>• Initial review of unusual significant transactions from April 2014 to January 2015.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for February and March 2015 and completion of interim work</li> <li>• Review of unusual significant transactions entries for February and March 2015 and completion of interim work.</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses  Page 43	Creditors understated or not recorded in the correct period (Operating expenses understated).	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transactions</li> <li>• Substantively tested a sample of operating expenses from April 2014 to January 2015.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive testing of material expenditure streams for the remainder of the 2014-15 financial year</li> <li>• Substantive testing of significant creditor balances</li> <li>• Review of creditor/liability balances for unusual amounts</li> <li>• Review of after date payments to ensure all liabilities identified.</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transactions</li> <li>• Substantively tested a sample of remuneration transactions from April 2014 to January 2015.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive testing of a sample of remuneration transactions for the remainder of the 2014-15 financial year.</li> <li>• Predictive analytical review.</li> </ul>

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Comments	Planned audit approach
Exeter Canal and Quay Trust	To be determined	To be determined	Following the adoption of new group accounting standards (see slide 4) the Council is reviewing the accounting treatment of the Exeter Canal and Quay Trust.  This will determine whether group accounts are required for 2014/15.	To be determined.
Exeter Business Centre Limited	No	Analytical	This component is not considered to be material.	Desktop review performed by Grant Thornton.
Exeter Science Park Limited	To be determined	To be determined	The Council is reviewing whether Exeter Science Park Limited is material.	To be determined.
Strata Service Solutions Limited	No	Analytical	We have worked with the Council to help it determine the accounting status of Strata Service Solutions Limited. We agree with the Council's assessment that this should be accounted for as a joint operation.	Full scope UK statutory audit performed by non GT member firm (Francis Clark).

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

Page 4/5

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review of your medium term financial planning
- Assessment of your future savings plans and how these impact on the Council's medium term financial plans; and
- Review the Council's performance against its 2014/15 budget, including consideration of performance against its savings plans.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

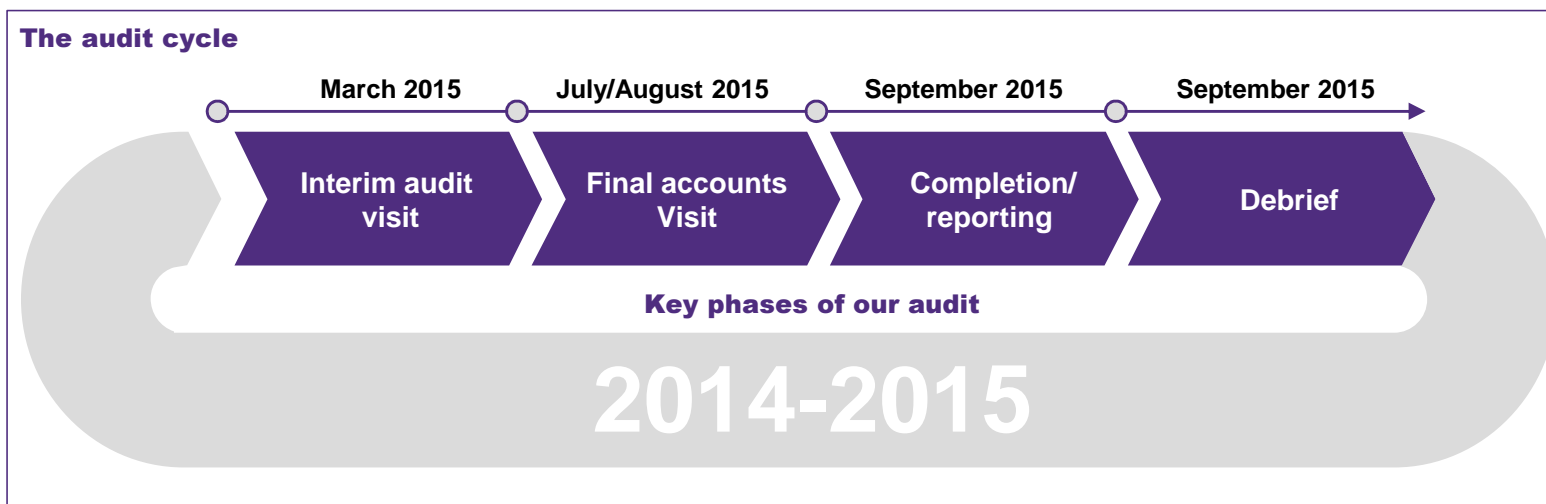
	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work to date has not identified any weaknesses in the Council's key financial systems which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in the following areas:</p> <p>Operating Expenses; Employee remuneration and Welfare Expenditure. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices.</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

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# Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	Our IT auditor is currently working on a review of the Council's IT controls. We will report our findings to the Council once this work is complete.	To date, there are no issues we need to report to the Audit and Governance Committee or reflect in our audit strategy.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>As previously reported a material weakness has again been noted as there is no authorisation process for journals prior to their posting.</p>	<p>A material weakness has again been identified as there is no authorisation process for journals prior to posting.</p> <p>Further testing of journals will be undertaken as part of the final accounts audit. This will include examination of the remaining months of the financial year and year end journal processing.</p>
<b>Early substantive testing</b>	Some early substantive testing has been carried out on operating expenditure, other revenues and payroll transactions in months one to nine, and some initial trend analysis has been undertaken.	No issues have been identified with the testing that has been completed to date. Further testing will need to be undertaken to cover the remainder of the financial year.

# Key dates



Date	Activity
January/February 2015	Planning
March 2015	Interim site visit
June 2015	Presentation of audit plan to Audit and Governance Committee
July/August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Assistant Director, Finance
September 2015	Report audit findings to those charged with governance
September 2015	Sign financial statements opinion
October 2015	Annual Audit Letter



# Fees and independence

## Fees

	£
Council audit	77,183
Grant certification	10,890
<b>Total fees (excluding VAT)</b>	<b>88,073</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list

The scope of the audit, and the Council and its activities, have not changed significantly

The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification covers pooled capital receipts and housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
We have invoiced the following amounts in 2014/15:	
Trade waste claim	£6,667
VAT advice	£1,800
	<b>£8,447</b>

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit plan	Audit findings Report
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Appendices

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 52	The Council should introduce a sample-based approach to journal review and authorisation covering all journals.	Medium	As an alternative to introducing a sample based approach, our Systems Accountant has established that the Efinancials system has the functionality for journal authorisation to be introduced as a control and this is now subject to testing. We are currently seeking advice from the software supplier regarding whether the journal authorisation controls can be introduced for specific journal types, rather than applied to all journal types (e.g. interface journals). If this is not possible, we may consider reverting back to the recommended sample based approach.	31 July 2015  Dave Hodgson Assistant Director, Finance



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David Hodgson  
Director of Finance  
Exeter City Council  
Civic Centre  
Paris Street  
Exeter, Devon  
EX1 1JN

Our ref **DG/TW/ECC/1516**

21 April 2015

Dear David

### **Annual audit fee 2015/16**

I am writing to confirm the audit work and fee that we propose for the 2015/16 financial year at Exeter City Council.

### ***Closure of the Audit Commission***

Although the Audit Commission formally closed at the end of March 2015, it was responsible for setting audit fees for the audit of the 2015/16 financial year. Our fee proposals are therefore based on the Audit Commission's *Work Programme & Scales of Fees 2015/16*.

Following the closure of the Audit Commission, responsibility for determining audit fees in the future has transferred to Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association. PSAA will oversee the management of the Audit Commission's audit contracts until they end in 2017, or 2020 if they are extended. The Secretary of State for Communities and Local Government has delegated certain functions formerly exercised by the Audit Commission to PSAA to enable it to deliver these functions.

Also following the Audit Commission's closure, the National Audit Office (NAO) is now responsible for producing and maintaining the Code of Audit Practice (the Code) and providing supporting guidance to auditors. We will follow the requirements of the Code and supporting guidance when delivering our audit work.

### ***Planned audit fee***

The planned audit and certification fees for 2015/16 are shown below. All fees are exclusive of VAT.

<b>Audit area</b>	<b>Planned fee 2015/16</b>
Code of Audit Practice audit fee – Exeter City Council	<b>57,887</b>
Certification of grant claims & returns	<b>16,100</b>

In general, the Audit Commission set 2015/16 scale fees based on a reduction of 25 per cent to the fees applicable for 2014/15. This reduction is in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012. The planned fee is in line with the scale fee.

As 2015/16 is our first year of audit following our appointment as your external auditor, we will liaise with the out-going auditor, Grant Thornton UK LLP, as their 2014/15 audit progresses to inform our risk assessment, and fees will be reviewed and updated as necessary. We will naturally keep you informed.

#### ***Factors affecting audit work for 2015/16***

We tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering changes affecting our audit responsibilities or financial reporting standards.

The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that a change in accounting policy will be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities. Fees for any additional audit work required in 2015/16, the preparatory year, in relation to disclosures in the financial statements, will be subject to approval under the normal fee variations process. The Audit Commission decided that it was not appropriate to increase scale fees because the amount of work required at individual authorities will vary based on local circumstances, and may not be required for more than one year.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources. The 2015/16 fees have been set on the basis that the NAO's Code maintains the scope of work required by auditors under the Audit Commission's previous Code and supporting guidance. The NAO has not yet published guidance for auditors on the required approach to work on value for money arrangements for 2015/16.

#### ***Certification work***

As well as our work under the Code, we will certify the 2015/16 claim for housing benefit subsidy to the Department for Work & Pensions



There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

### ***Assumptions***

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued in early 2016. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit and Governance Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Exeter City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

### ***Our team***

The key members of our audit team for the 2015/16 audit are:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
Darren Gilbert	Director	darren.gilbert@kpmg.co.uk 029 2046 8205
Tara Westcott	Senior Manager	tara.westcott@kpmg.co.uk 0117 905 4358

*Quality of service*

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Trevor Rees (on 0161 246 4063, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited  
3rd Floor  
Local Government House  
Smith Square  
London  
SW1P 3H

Yours sincerely



Darren Gilbert  
Director

## **Appendix 1 – Audit fee assumptions**

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2015/16 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Appendix 2: Planned outputs**

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance Committee.

<b>Planned output</b>	<b>Indicative date</b>
External audit plan	March 2016
Interim audit report	June 2016
Report to those charged with governance (ISA260 report)	September 2016
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2016
Opinion on Whole of Government Accounts return	September 2016
Annual audit letter	November 2016
Certification of grant claims and returns	February 2017

## **REPORT TO AUDIT & GOVERNANCE COMMITTEE**

**Date of Meeting: 24 June 2015**

**Report of: Assistant Director Finance**

**Title: RESPONSES TO GRANT THORNTON – 2014/15**

### **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 responses of the Chair of Audit & Governance and the Council's Management team to the questions from Grant Thornton, which were reported to this Committee on 11 March 2015.

#### **2. Recommendations:**

It is recommended that:

2.1 Audit and Governance Committee supports the responses made.

#### **3. Reasons for the recommendation:**

3.1 The Council is required to respond to the questions as part of the External Audit arrangements of the Council.

#### **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 responses made are in line with our understanding of the arrangements currently in place within the Council.

**6. What are the legal aspects?**

6.1 None.

**7. Monitoring Officer's comments:**

7.1 This report raises no issues of concern for the Monitoring Officer.

**8. Report details:**

8.1 Appendix A and B set out the questions raised by Grant Thornton and the responses of management and the Chair respectively.

**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

## 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?	Strata Service Solutions trading
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?	Yes There have been no significant changes other than in respect of Strata (joint operation)
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	No – other than above
How would you assess the quality of the Council's internal control processes?	Internal audit have given an opinion that it is operating soundly with no fundamental breakdown.
How would you assess the process for reviewing the effectiveness of internal control?	The audit plan is risk based and reported to and approved by the Audit and Governance Committee so therefore meets the needs of the Council.
How do the Council's risk management processes link to financial reporting?	Risk management is reported quarterly to Audit and Governance. Significant areas of risk requiring financial intervention would be included within the medium term financial plan.
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	Adequate for the needs of the Council
What has been the outcome of these arrangements so far this year?	No significant frauds identified, although a number of allegations have been made and investigated – 1 member of staff and 1 agency worker have been dismissed.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Housing Benefits, Council Tax, Grants
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Yes – all allegations were either reported directly to Internal Audit or passed to Internal Audit and Legal to investigate.
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Via quarterly and annual reports to the A&G Committee
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Regular email reminders of relevant policies.
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Via insurance or legal services depending on the nature of the issue.

Is there any use of financial instruments, including derivatives?	Some forward trades have been undertaken although none exist at year end. Some soft loans are provided.
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of allegations of fraud, errors, or other irregularities during the period?	No
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?	No
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No
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?	No
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?	As disclosed in the Accounts
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
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?	The MTFP looks at future funding models. The Council has set a minimum reserve level which is considered annually along with levels of insurance protection. Full risk assessments are carried out for all major projects. Monthly reporting of financial management to SMT.
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?	Ashfords – Bus station site acquisition, RAMM claim against contractors, Leisure Complex
Can you provide details of other advisors consulted during the year and the issue(s) on which they were consulted?	GT – VAT and Strata Bevan Brittan – Strata Arlingclose – Treasury Management



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?	No

Dave Hodgson

Assistant Director Finance

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## 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?	Yes
What are the results of this process?	Identification of a number of small Housing Benefit and Council Tax cases, One member of staff has been sacked following an investigation into alleged theft from Pay and Display machines, no other material risk has been identified
What processes does the Council have in place to identify and respond to risks of fraud?	Housing Benefit investigation team, on-line reporting facility, Internal Audit
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No
Are internal controls, including segregation of duties, in place and operating effectively?	Yes, however it has been noted as an area of future risk as resources diminish
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)?	None identified
Are there any areas where there is a potential for misreporting?	None identified
How does the Audit & Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	Quarterly audit reports Annual report on investigations Report to Chair immediately when an incident reported / identified
What arrangements are in place to report fraud issues and risks to the Audit & Governance Committee?	See above

How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Code of Conduct  Quarterly reminders to staff of key policies  Survey of staff regarding ethics undertaken 2014  City News
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	As above plus promotion of the whistleblowing policy  No
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2014?	Alleged theft reported in Car Parks

#### Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Internal Audit Legal Services / Monitoring Officer
How does management gain assurance that all relevant laws and regulations have been complied with?	Monitoring Officer comments on all Committee reports
How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	Quarterly reporting Reports from Monitoring Officer / Head of Legal
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014?	None Identified
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Legal team plus Insurance
Is there any actual or potential litigation or claims that would affect the financial statements?	South West Water claiming not to own part of the sewerage network
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

Cllr Natalie Vizard

Chair – Audit & Governance Committee

## **REPORT TO AUDIT & GOVERNANCE COMMITTEE**

**Date of Meeting: 24 June 2015**

**Report of: Assistant Director Finance**

**Title: ANNUAL GOVERNANCE STATEMENT – 2014/15**

### **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 Annual Governance Statement that will accompany the Council's Statement of Accounts for 2014/15.

#### **2. Recommendations:**

It is recommended that:

2.1 Audit and Governance Committee supports the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2014/15; and

2.2 Council notes and approves the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2014/15.

#### **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. The Code of Corporate Governance was last approved by the Audit and Governance Committee on 11 March 2015.

#### **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 Annual Governance Statement is a statutory requirement.

## **6. What are the legal aspects?**

6.1 The Annual Governance Statement 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 Annual Governance Statement should include the following information:

- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control);
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide;
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant;
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
  - the authority;
  - the executive;
  - the audit committee/overview and scrutiny function/risk management committee/standards committee (as appropriate)
  - internal audit
  - other explicit review/assurance mechanisms
- An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

8.2 The Annual Governance Statement is attached at Appendix A.

## **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

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Exeter City Council

APPENDIX A

# Annual Governance Statement

2014/15

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DRAFT

## Scope of Responsibility

Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council 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.

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, including arrangements for the management of risk.

The 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. This statement explains how Exeter City Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, paragraph 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the six principles of good governance and describes the arrangements the Council has put in place to meet each of these principles:

1. Creating and implementing a local vision
2. A common purpose for Members and Officers
3. Upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions
5. Developing the capacity and capability to be effective
6. Ensuring robust public accountability

A copy of the Council's code is available on our website at <http://www.exeter.gov.uk/Code>

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The 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 the Council's aims and objectives, but it seeks to provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on going process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

The governance framework has been in place at Exeter City Council for the year ended 31 March 2015 and up to the date of approval of the annual statement of accounts.

## The Governance Framework

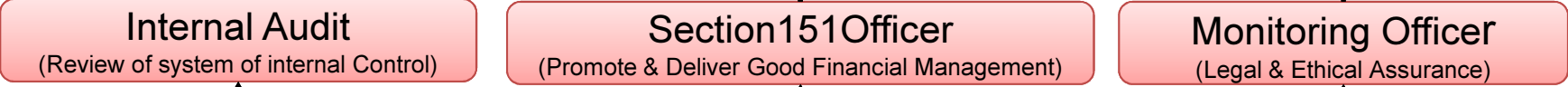
The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Corporate Plan. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

The local Code of Corporate Governance is reviewed annually through the Audit and Governance Committee. This last happened on 11 March 2015 and will be reviewed on 9 March 2016. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Strategic Management Team (SMT) which comprises the Chief Executive and Growth Director, Deputy Chief Executive, Assistant Directors, Corporate Managers and a Business Manager.

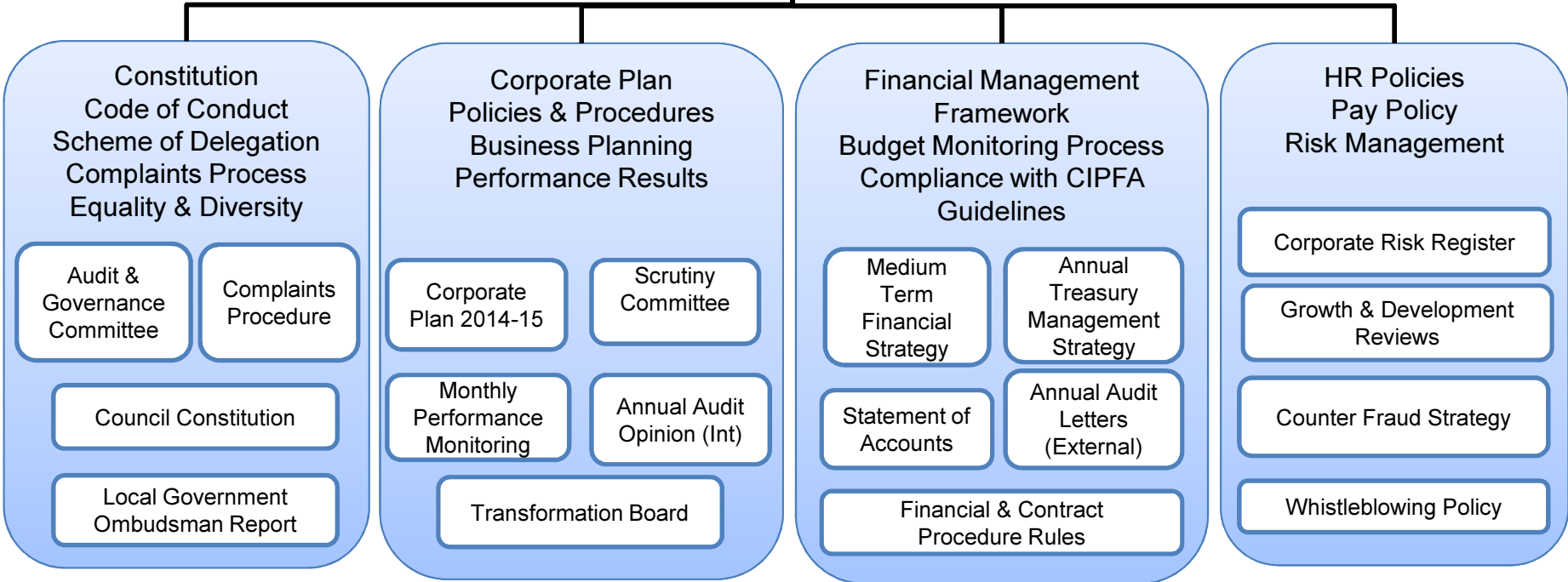
The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

# Governance Framework

## Annual Governance Statement (Meets Account & Audit Regulations and is published with Annual Accounts)



## Code of Corporate Governance (The Council's commitment to good governance based on the six principles of CIPFA/SOLACE framework)



## Review of Effectiveness

Exeter 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:

- ✓ the work of the Strategic Management Team who have responsibility for the development and maintenance of the governance environment;
- ✓ the Audit Manager's annual report;
- ✓ comments made by the external auditors and other review agencies and inspectorates; and
- ✓ the Audit & Governance Committee review the elements of the governance framework that are in place and to ensure that it is effective complies with the 6 principles. They also reviewed the system of internal audit and concluded it was effective and remained a key source of assurance for the Council in 2014/15.

The Council's Monitoring Officer has a legal responsibility to look into matters of potential unlawfulness within the Council. The role is undertaken by the Corporate Manager Legal who attends every Full Council Meeting along with the Section 151 Officer, who is responsible for ensuring that all expenditure approved is legal.

Other key officers have also been consulted for their views on the standards of governance within the Council – specifically the

- ✓ Section 151 Officer,
- ✓ Monitoring Officer and
- ✓ Audit Manager.

The Audit & Governance Committee has monitored standards of conduct of Members and advised the Council on probity issues. Changes to, and entries made in the Register of Members' Interests were reviewed by the Monitoring Officer.

The Performance Management Framework has improved during the year. Monitoring information on key areas of performance has been provided to the Strategic Management Team for review and action, with key issues reported to the Transformation Board. Budget monitoring reports have been presented to all three Scrutiny Committees along with the Executive.

The Constitution is reviewed regularly to ensure it is up to date, and reflects best practice and legal requirements. The Monitoring Officer last reviewed Standing Orders during 2013-14. The Constitution is approved by Full Council.

In 2014/15 the Council responded to **xxx** customer complaints. All complaints were responded to by the relevant Assistant Director or Corporate Manager so that any issues identified could be actioned.

## Review of Effectiveness

The Audit & Governance Committee have undertaken a self-assessment in accordance with The CIPFA publication '*Audit Committees: Practical Guidance for Local Authorities*' to evaluate its performance against the responsibilities set out in the terms of reference and to demonstrate the Council's commitment to improving its governance. One area for improvement was identified.

Internal Audit undertook a risk management 'health check' against the 'Alarm National Performance Model for Risk Management in Public Services' in order to assess the Council's current risk management maturity level and the results of this have been reported to the Audit and Governance Committee. There has also been a major review of risk in respect of the Council's key project – the leisure complex

All key systems were audited in 2014/15 and a total of 24 audit reports were provided to management and the Audit & Governance Committee.

In September 2014 the Council's external auditor (Grant Thornton) provided the Council with an unqualified opinion on the Council's accounts within their Annual Audit and Inspection letter, and a positive value for money opinion has been received

Based on the assurance work undertaken by Internal Audit, the Audit Manager has provided an opinion on the adequacy of the control environment which concluded that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy. It should, however, be noted that all risks of failure cannot be eliminated, and the assurance given is therefore reasonable and not absolute. Isolated areas in which controls were below the required standard are reported initially to the relevant Assistant Director who ensures prompt corrective action is taken, and ultimately to the Audit and Governance Committee who monitor progress with improvements via follow up reports from Internal Audit.

In the 2013/14 Annual Governance Statement, seven key issues were identified, which are set out along with the action taken.

- The Code of Corporate Governance required updating – completed.
- Internal audit identified some data quality issues – managers have been reminded.
- Separation of duties risk – ongoing review.
- Debtors requires significant improvement – ongoing.
- No service operational risk registers in place – an operational risk register is currently being populated.
- No protocol for partnership working – ongoing.
- Although under review, the Council does not have an agreed Business Continuity process in place - ongoing.

## Significant Governance Issues

This Statement is intended to provide reasonable assurance. It is stressed that no system of control can provide absolute assurance against material misstatement or loss. In concluding this overview of the Council's governance arrangements, six issues have been identified that need to be addressed to ensure continuous improvement in the Governance Framework. The aim is to address these weaknesses during the 2015/16 financial year, by way of an action plan for improving the governance framework and system of internal control. This will be subject to regular monitoring by the Committee.

Issue No.	Issue Identified	Summary of Action Proposed
1	Risk of Fraud – the risk of fraud is a continual threat to any organisation and all managers and employees need to be proactive in preventing fraud.	Promote the Counter Fraud Strategy and Counter fraud Leaflet via City News. Provide Fraud statistics to staff and follow up all allegations.
2	Housing Benefit Data Quality – due to the reduction in quality control checks on housing benefit assessments there has been an increase in the error rate and this has a potential significant impact on the Housing Benefit subsidy received from Government.	Increased checking resources have been re-introduced into the Service.
3	Business continuity – Although reported last year this area is still under review and the Council does not have an agreed Business Continuity process in place leaving the Council at risk of service delivery failure in the event of an incident.	The Council, with support from Zurich Municipal is developing a detailed Business Continuity Plan. Work is continuing in 2015-16.
4	Partnership Working Protocol - the Council currently does not have a protocol for partnership working, as reported in our annual report last year.	It has been agreed that this will be a priority for the Policy Unit. However the work is still continuing and not yet complete.

## Significant Governance Issues

Issue No.	Issue Identified	Summary of Action Proposed
5	Shared ICT Service – due to the lack of clarity regarding responsibility for providing assurance of internal controls for Strata it is difficult provide any form of opinion relating to the Council’s ICT service.	Devon Audit Partnership will be providing an internal audit function to Strata, which is intended to provide the assurance required by our own internal audit function.
6	Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud.	Managers will continue to review the arrangements for separation of duties as a matter of course. No fundamental weaknesses have yet been identified.



## Approval of the Annual Governance Statement

Through the action referred to on the previous page, we propose over the coming year to address the issues that have been identified, with a view to further enhancing our governance arrangements. These steps will identify improvements that are needed and we will monitor their implementation and operation as part of our next annual review.

**Signed:** .....

**Date:** .....

Councillor Natalie Vizard  
**Chair of Audit & Governance Committee**

**Signed:** .....

**Date:** .....

Dave Hodgson CPFA  
**Assistant Director Finance & Section 151 Officer**

**Signed:** .....

**Date:** .....

Councillor Pete Edwards  
**Leader of the Council**

**Signed:** .....

**Date:** .....

Karime Hassan  
**Chief Executive & Growth Director**

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## REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 24<sup>TH</sup> JUNE 2015

Report of: AUDIT MANAGERS

Title: ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2015

### 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 annual Internal Audit Report conforming to the Public Sector Internal Audit Standards and timed to inform the Council's Annual Governance Statement, including the quarterly update on the progress of Internal Audit work.

#### 2. Recommendations:

Members are recommended to:

- 2.1 Note the contents of the Annual Internal Audit Report.
- 2.2 Advise whether the recommendations detailed in section 2 of Appendix B, which were not accepted by management, are acceptable risks to the Council.

#### 3. Reasons for the recommendation:

To comply with the Public Sector Internal Audit Standards and Corporate Governance best practice.

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

None.

#### 5. Section 151 Officer comments:

The issues identified in the report have been included within the Council's Annual Governance Statement and will be monitored to ensure that they are addressed in the current financial year.

#### 6. What are the legal aspects?

None.

#### 7. Monitoring Officer's comments:

Clearly improving the Assurance ratings for key areas identified would be of benefit to the Council.

## **8. Report details:**

8.1 The Public Sector Internal Audit Standards (PSAIS), which came into effect in April 2013, require that:

- The Audit Manager must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
  
- The annual report must incorporate:
  - the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

## 8.2 OPINION ON THE COUNCIL'S CONTROL ENVIRONMENT

### **a) Internal Control Statement**

In accordance with the Accounts and Audit Regulations 2011 the Council is responsible for maintaining an adequate and effective system of internal audit.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the effectiveness of these systems. It is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the internal control systems are to ensure:

- compliance with the Council's policies, procedures and directives in order to achieve the Council's objectives
- high standards of Corporate Governance are achieved and maintained throughout the Council
- that assets are safeguarded
- the relevance, reliability and integrity of information, and the completeness and accuracy of records
- compliance with statutory requirements, recognised standards and best practice.

Systems of control can only ever provide reasonable, but not absolute, assurance that control weaknesses and irregularities do not exist, and that there are no risks of material errors, losses, fraud or breaches of laws or regulations. The Council is therefore continually seeking to improve the effectiveness of its systems of internal control.

Internal Audit is charged with continually reviewing the system of internal control system on behalf of the Council and its management. Internal Audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The work of Internal Audit is based upon a risk assessment of the Council's financial and non-

financial systems, from which an annual audit plan is established that was referred to the Audit and Governance Committee in March 2014 for approval.

**b) Basis of Opinion**

Our evaluation of the control environment is informed by a number of sources:

- the work undertaken by Internal Audit during the year to 31 March 2015
- the acceptance of significant recommendations by management
- reports issued by the External Auditors
- risks identified in the Council's Corporate risk register
- the review of the adequacy and effectiveness of the Council's system of internal control as it relates to corporate governance, risk management and quality of data arrangements
- other sources of assurance and information

**c) Work undertaken in the year**

The Audit Progress Table shows the work completed during this year (see Appendix A).

A summary of the work undertaken by Internal Audit in the previous quarter is presented to this committee throughout the year, therefore only a summary of the work undertaken in the last quarter has been included to avoid duplication (see Appendix B). This also includes details of the recommendations not accepted by management during the last quarter and requires consideration by this committee.

In addition to the planned work, Internal Audit has also worked on a number of reported concerns and investigations. A summary of this work is included in Appendix C. Appendix C also shows all fraud that has been identified throughout the Council during the year(excluding housing benefits fraud).

Internal Audit is also required to maintain a Quality Assurance Improvement Program which includes details of conformance with the PSIAS. The results of this program are included in Appendix D.

**Regulation of Investigatory Powers (RIPA)**

As co-ordinators of RIPA for Exeter City Council we are required to report to this committee on the use of RIPA by the Council during the year. During 2014/15 RIPA was not used by Exeter City Council. However, during the year formal training has been provided to all appropriate employees to improve awareness and understanding of this legislation.

On 7th January 2015 the Office of Surveillance Commissioners undertook a routine inspection of the Council's RIPA procedures and records. I am pleased to report that the only matters arising related to improvements in the wording of our policy and procedures. The recommendations made by the inspector were accepted and our policy and procedures have been updated accordingly.

**d) Areas of Concern**

As a result of the audit work that has been undertaken throughout the year some issues, that have an impact on the organisation as a whole, have been identified. The main areas of concern that we wish to highlight are:

- i) Risk of Fraud – the risk of fraud is a continual threat to any organisation and all managers and employees need to be proactive in preventing fraud. Employees have received anti-fraud training via an e-learning module but it is important to continue to maintain awareness of fraud risks. A specific fraud threat that has been affecting the Council relates to external email spam. During the last twelve months the Council has been receiving an ever increasing number of spam emails, which can appear quite legitimate. Many attach fraudulent invoices requesting payment but some have requested us to change bank details of our existing suppliers. Some contain viruses that can affect the Council's ICT systems. So far the Council has successfully avoided falling foul of these emails and the Council has been working hard to block them. However, such threats are continually evolving and changing.
- ii) Housing Benefit Data Quality – due to the reduction in quality control checks on housing benefit assessments there has been an increase in the error rate and this has a potential significant impact on the Housing Benefit subsidy received from Government.
- iii) Business continuity – Although reported last year this area is still under review and the Council does not have an agreed Business Continuity process in place leaving the Council at risk of service delivery failure in the event of an incident.

Business Continuity (BC) is defined as the capability of the organization to continue delivery of products or services at acceptable predefined levels following a disruptive incident. (*Source: ISO 22301:2012*)

- iv) Partnership Working Protocol - the Council currently does not have a protocol for partnership working, as reported in our annual report last year.

Partnership working is playing an increasingly important role in the future of policy development and service delivery for the public sector. It is important to understand that partnership working at any level, however small or seemingly insignificant, may carry important legal and financial implications for the Council. Partnership working presents a number of challenges which need to be considered at the outset of any joint working venture.

A Partnership Working Protocol provides:

- clear guidance and allows a Council wide approach to developing partnership working initiatives
  - a framework within which partnership working across the Council can improve and develop practical advice and assists Council Officers, elected Members and external bodies who are actively involved in partnership working or who are considering entering into a partnership initiative
- v) Shared ICT Service – due to the lack of clarity regarding responsibility for providing assurance of internal controls for Strata it is difficult provide any form of opinion relating to the Council's ICT service.

- vi) Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud. Therefore, it is important that the introduction of new processes and changes to existing processes are effectively managed to ensure that essential internal controls are not compromised.

**e) Opinion**

From the audit work undertaken during the year, and despite the areas of concern that we have identified above, we consider that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy.

However, as mentioned above, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is only intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 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

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**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**PROGRESS OF 2014/15 AUDIT PLAN AS AT 31/03/15**

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	2.4	One off task complete	N/A	N/A			
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**Enabling Services**

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2014-15	25	27						
- Pt 1 Budget setting			Complete	↔	Good	0	0	0
- Pt 2 System management			In progress					
Income Management/Sundry Debt	35	38.8	Draft report					
Procurement	30	7.8	c/f 15/16					
Creditors	50	49.1						
Quarter 1			Complete	↑	Good	0	5	3
Quarter 2			Complete	↔	Good	0	2	5
Treasury Management	5	5.6	Complete	↔	Good	0	2	4
People Management	35	45.8	Complete	No previous report	Some improvement required	0	8	11
Payroll			Complete	↔	Some improvement required	0	7	8
ICT – Shared service	30	17	No report due					
Business Continuity	15	0.5	Will not be undertaken due to VR/savings					
Risk Management	10	9	Complete	No previous report	Significant Improvement Required	2	12	2
Contracts	5	0.2	Will not be undertaken due to VR/savings					
Counter Fraud/Anti-Fraud	15	26.1	Completed	N/A	N/A Self assessment	-	-	-
Corporate governance	15	12	Ongoing					

Information Governance	10	11.5	No report due					
Equalities & Diversity	10	0.2	Will not be undertaken due to VR/savings					
Safeguarding	15	18	Completed	No previous report	Some improvement required	0	8	2
Partnerships	5	0.9	Combined with Corp Gov work					
External Audit	5	5.7	No report due					

### Customer Access

'Help me with my housing and financial problem'

Housing Benefit Subsidy	50	54.5	In progress					
Council Tax	30	34.2	Complete	↔	Some improvement required	1	6	11
NDR	12	13.3	Complete	↓	Some improvement required	2	5	4
One View of Debt (OVD)	25	25.6	Complete	No previous report	Significant improvement required	8	2	7
Housing - Tenants	25	39.5	Complete	No previous report	Some improvement required	0	5	5

### Housing

'Provide suitable housing'

'Be a good landlord'

Housing - Property	15	1.4	Time used for Housing tenants as requested. Recharges to be looked at 15/16					
Private Sector Housing	10	0	As above					

### Environment, Health & Wellbeing

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	13.8	No report due					
Licensing	5	8.1	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					
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Museums	11	17	Completed	No previous report	Some improvement required	0	5	10
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### City Development

'Deliver good development'

Planning	5	2.6	In progress					
New Homes Bonus	8	9.2	Completed	No previous report	Excellent	0	0	0
CIL/Section 106	8	0.1	In progress					

### Public Realm

'Keep place looking good'

Car Parks	10	0.7	c/f 15/16					
CCTV	5	5.9	Completed	No previous report	Good	0	4	2
Homecall	5	5.4	Completed	No previous report	Good	0	3	1

Contingency (special/frauds) including unplanned work	29	20.4
Follow-ups	10	11.3
PSIAS Peer Review	2	2.1
<b>Total</b>	<b>597 *(less 46=551)</b>	<b>542.7*</b>

**\*Note: 26 days lost from plan due to voluntary redundancy of part time auditor. Also 20 days had been planned for provision by third party, however, this was not commissioned and used towards savings required.**

**Available time to work towards planned work was also lost due to increased time for corporate mandatory training and additional help with elections.**

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**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**Internal Audit Summary of Work Completed & Audit Recommendations Not Accepted by Management  
January to March 2014/15**

**1.0 Internal Audit Summary of Work Completed**

Audit Area	Summary
<p><b>Main Accounting – System Management (14/15)</b></p> <p>Assurance rating: Good ★★ ★★</p>	<p>The objective of this audit was to ensure that processes and controls are in place that allow accurate financial records to be maintained and that any variations from budgets are notified to and agreed by Members.</p> <p>Recommendations were made in respect of 1 high risk, 3 medium risks and 3 low risks identified as a result of the audit, all of which were accepted by management. The high risk finding was in respect of the VAT suspense account and ensuring that VAT invoices are obtained promptly. The medium risk findings were in respect of clearing suspense and holding accounts promptly, dealing promptly with issues arising from the bank reconciliation and issues arising from the reclassification of VAT for trade waste.</p>
<p><b>Creditors Q3</b></p> <p>Assurance rating: N/A</p>	<p>This piece of work focused on a review of the Grant Thornton 'procurement review and grant income' audit report 2012 and check on progress of the agreed recommendations. Some recommendations relating to procurement are still in the process of being fully implemented; however, progress is being made.</p>
<p><b>People Management - Payroll</b></p> <p>Assurance rating: Some improvement required ★ ★ ★</p>	<p>The objective of this audit was to check that suitable controls remain in place for the processing of payroll data to ensure that employees are accurately paid in a prompt manner and that all statutory deductions are collected and paid across to the relevant external agencies.</p> <p>Recommendations were made in respect of 7 medium risks and 8 low risks identified as a result of the audit, all of which have been accepted by management. The medium risk findings relate to; starters forms, recording receipt of P45/P46, compliance with the Council's policy on the payment of overtime (e.g. not paying employees on grade 8 and above), reconciliation of suspense and holding accounts, improve awareness of working time directive amongst managers and employees and improve availability of WTD opt-out form.</p>
<p><b>Council Tax</b></p> <p>Assurance rating: Some improvement required ★ ★ ★</p>	<p>The objectives of the audit were to test that adequate controls are in place and working effectively within the council tax system. This audit covered new and amended properties, notifications to valuation office, Valuation Office listings, reconciliations, including annual billing reconciliation, amendments to liabilities, discounts and exemptions, council tax support, appeals, setting of council tax, issuing demands, calculations and payments, revisions and suppressions, credits and refunds and collection performance.</p> <p>Recommendations were made in respect of 1 high risk finding, 6 medium risk findings and 11 low risk findings, all of which were accepted by management.</p> <p>The high risk recommendation related to recovery action and monitoring of collection rates (this is also covered in the OVOD</p>

	<p>report see below). The medium risk recommendations relate to following up of expired recovery suppressions, granting of exemptions and discounts and the correct calculation of refunds.</p>
<p><b>One View of Debt (OVOD)</b></p> <p>Assurance rating Significant improvement required ★★</p>	<p>A corporate review of the three main individual debt areas, i.e. Council Tax, Housing Rent and Housing Benefit Overpayments resulted in the areas merging to form the One View of Debt (or OVOD) team, with their Mission Statement being “Maximum contact results in minimum debt” and their purpose defined as “To deal with a customer’s total debt as one, and to help customers get fixed and stay fixed”. The collection of recoverable repairs and Non-HRA debtors also transferred to OVOD.</p> <p>Prior to the formation of OVOD, each individual debt area was focused on debt recovery, however, in accordance with their Mission Statement and Purpose, the focus is now to provide a more individual service to customers.</p> <p>The scope of this audit was to review the combined debt recovery processes, document them detailing the processes and then check that the processes are working well.</p> <p>Recommendations were made in respect of 8 high risk findings, 2 medium risk findings and 7 low risk findings all of which have been accepted by management.</p> <p>The high risk recommendations relate to:</p> <ul style="list-style-type: none"> <li>• Consider increasing the staffing resource to enable OVOD purpose but maintain Council Tax target collection rates</li> <li>• Introduce additional performance measures beyond collection rates to give fruitful measure of performance</li> <li>• Re-introduce the Council Tax reminder schedule to ensure reminders are issued regularly</li> <li>• Consider moving acceptance of telephone payments away from OVOD to another service unit</li> <li>• Improve arrangements for recovery action of special arrangement cases</li> <li>• Monitoring arrangements of suppressed recovery action cases</li> <li>• Better arrangements to collect debts with liability orders</li> <li>• Better enforcement of liability orders</li> </ul> <p>The medium risk recommendations relate to; improvements for recovery of former and current non-HRA tenant debts and improvements in arrangements for invoicing of rechargeable housing repairs.</p>
<p><b>Housing tenants - Homelessness</b></p> <p>Assurance rating Some improvement required★★★</p>	<p>The National Practitioner Support Service (NPSS) is a new service which was set up specifically to develop and administer a framework for providing continuous improvement in front line housing services through the development and delivery of the Gold Standard Challenge.</p> <p>The challenge is a local authority, sector lead peer review scheme designed to help local authorities deliver more efficient and cost effective homelessness prevention services. The challenge follows a 10 step continuous improvement approach that starts with a pledge for local authorities aspiring to ‘strive for continuous improvement in front line housing services’ and culminates in an application for the Gold Standard Challenge.</p> <p>The NPSS has developed toolkits to assist with the process and The Housing Options Manager requested that Audit complete four of the toolkits as a self assessment to help identify areas where improvements could be made in order to gain the gold standard.</p>

	<p>Recommendations were made in respect of 10 medium risk findings and 5 low risk findings. All medium risk findings have been accepted by management.</p> <p>The medium risk recommendations relate to; applicant's supporting documentary evidence, assessments should ascertain the clients preferred options/outcome, maintaining documentary evidence of advice given, ensuring that follow-ups are diary dated to remind, issue of closure letters and a number of recommendations relating to the general quality of data.</p>
<p><b>Risk Management</b></p> <p>Assurance rating Significant improvement required ★★</p>	<p><i>Risk management is an essential part of good governance within any organisation and is intended to provide a framework and process that enables an organisation to manage uncertainty in a systematic, effective and consistent way. It supports informed decision making thereby enabling opportunities to be exploited or action to be taken to mitigate or manage key risks to an acceptable level.</i></p> <p>The objectives of the audit were to evaluate the effectiveness of the Council's risk management processes. In order to assess the Council's current risk management maturity level, a 'health check' has been undertaken against the 'Alarm National Performance Model for Risk Management in Public Services' which enables organisations to measure current performance against a recognised achievement standard. It also acts as a catalyst for improved performance and informs assurance in governance terms.</p> <p>The high risk recommendations relate to; improvements in the involvements of member and employee identification of risks, consideration to increase staff resource to risk management to help develop the maturity of the risk management process and provide training to employees in risk management. The medium risk recommendations relate to; allocating responsibility for risk management to a lead officer, communicating risk management to all employees, updating the risk management policy and guidance, implementation of service risk registers, risk identification process, identification and recording of opportunities as well as risks, establishing a budget for risk management initiatives, introducing cost benefit analysis in the risk management process and introducing an information asset register.</p> <p>The majority of recommendations were accepted by management, however, there were 2 medium risk recommendations that were not accepted, these are detailed below.</p>

## 2.0 Recommendations not accepted by management:

### Risk Management Audit Report (3<sup>rd</sup> March 2015, Helen Kelvey)

#### 2.1 Risk Management (medium risk)

Whilst the Council currently has a Corporate Risk Register and an Operational Risk Register these are used to manage risks identified at strategic level, there is no process in place for risk management to be considered at service level. Management of risk has to be undertaken in every function and at every level to ensure that it is effective.

Effective management of service risks has a number of benefits including improved:

- service delivery – increase in number of targets achieved, improved internal controls, added value across service areas

- financial performance – reduced level of fraud, increased capacity through reduction in decisions that need reviewing or revising, improved income generation
- human resources management – reduced staff turnover, absenteeism and stress
- corporate governance and compliance systems – fewer regulatory visits, reduction in legal challenges, increased public satisfaction
- insurance management – reduced cost of premiums and number and level of claims, reduced insurance losses

A recommendation was made that consideration should be given to introducing Service Operational Risk Co-ordinators to support the identification of risks within services and to aid in compiling service operational risk registers. This role would be the link between business units and AD's/SMT and will further support the embedding of RM throughout the Council.

The Corporate Manager Policy, Communications and Community Engagement did not agree with this recommendation and advised that:  
*“This is for ADs to manage within their existing resource allocation”*

## **2.2 Risk Management (medium risk)**

Risk financing is currently not part of the Council's risk management strategy. Risk financing is a continuous activity which involves deciding how to provide financial cover for potential losses associated with identified financial aspects of risks.

A recommendation was made that a budget should be allocated to fund cost-effective risk management initiatives.

The Assistant Director Finance did not agree with this recommendation and advised that:

*“In the current financial climate, seeking an additional budget would be inappropriate at a time when substantial budget reductions are being undertaken. The Council already receives £7,000 in funding from Zurich Municipal to spend on risk management initiatives.”*



**Summary of investigations 2014/15**

Internal Audit received 22 reports during 2014/15, of which:

- 11 were received via the “Report It” facility on the website (6 were reported anonymously)
- 10 were concerns raised direct with Internal Audit where investigations were carried out by Internal Audit
- 1 concern was raised with Internal Audit which was referred on to the relevant service to investigate.

**Of the 11 website ‘Report It’ instances:**

- 1 was in relation to possible fraudulent claim of housing benefit. This was referred on to the DWP for investigation as the claimant was in receipt of pass-ported housing benefit
- 4 cases were in respect of Trading Standards matters so were referred on to them.
- 3 repeated allegations were in respect of possible tenancy fraud however were not proven.
- 2 related to members of the public reporting that they had received cold callers purporting to be from Exeter City Council asking for bank details to provide Council Tax refunds (other services in the Council also received these reports and so a press release was issued to advise the public to be aware).
- 1 concern was referred onto the relevant service to investigate

**Internal Audit Investigations**

- 5 were proven. One case involved a joint management and Internal Audit investigation which lead to an employee being dismissed for theft of cash. This matter was referred to the Police.
- 5 were not proven

**Fraud identified within other services 1 April 2014 to 31 March 2015**

Date Notified	Type of Fraud	Number of cases	Total value of fraud	How detected
10.11.14	Council Tax – Single Occupier Discount	7	£3195.15	NFI Data matching exercise 2013-14

21.11.14	Procurement Fraud – creditor payment	1	£3500.00 Money not paid over	Checking of change of bank account details of supplier
24.02.15	Procurement Fraud Fraudulent transactions on corporate credit card	3	£2411.97 Money refunded from bank	Bank identified fraud and notified card holder
19.02.15	Council Tax – Single Person Discount	37	£13264.85	SPD Review
24.02.15	Council Tax – Single Person Discount	3	£1008.00	SPD Review
20.02.15	Council Tax – Student Exemption	17	£45160.93	Student Exemption Review (569 letters sent to owners of private student accommodation resulting in 18 student exemptions being cancelled)
25.02.15	Council Tax – Student Exemption	1	£2998.57	Student Exemption Review (569 letters sent to owners of private student accommodation resulting in 18 student exemptions being cancelled)
12.03.15	Council Tax – Single Occupier Discount	16	£4012.62	SPD Review

### Internal Audit Performance Management and Quality Assurance

The Public Sector Internal Audit Standards (PSIAS) state that the Audit Manager must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity and to demonstrate that the internal audit service is:

- (a) meeting its aims and objectives;
- (b) compliant with the PSIAS;
- (c) meeting internal quality standards;
- (d) effective, efficient, continuously improving; and
- (e) adding value and assisting the organisation in achieving its objectives

The results of the programme must be reported at least annually to the Audit and Governance Committee.

Performance, quality and effectiveness should be assessed at two levels:

- for each individual audit; and
- for the internal audit service as a whole.

### Performance Indicators

There are no national performance indicators in existence for Internal Audit, but we do monitor the following Local Performance Indicators (LPI's):

Local Performance Indicator	Target	Actual
Percentage of adjusted Audit plan completed*	95%	98.4%
Percentage of 'high' risk systems reviewed annually	100%	100%
Customer satisfaction - % Good or Excellent as per feedback forms	90%	100%
Draft reports produced within 10 days	90%	94.5%
Final reports produced within 10 days	90%	92%

\* 26 days lost from plan due to voluntary redundancy of part time auditor. Also 20 days had been planned for provision by third party, however, this was not commissioned and was used towards savings required.

Overall, performance against the indicators is good.

### User Feedback

The customer satisfaction results are derived from the customer satisfaction surveys issued following each individual audit. Out of 15 issued, 10 were returned.

Some of the feedback comments received include:

- Very useful planning and debrief sessions
- Those that were involved in the audit process (*of the service being audited*) were extremely impressed with the background research that had conducted prior to commencing the audit. This meant that the time needed from the team was kept to

a minimum.

- We were pleased that the auditor was prepared to take on board our comments before the Final Report was issued, bearing in mind that the re-structure within our System has taken longer than anticipated and this has adversely effected some of the work within the Section. Hopefully when the next Audit is carried out improvements will have been achieved.
- Audit staff always very approachable and helpful in agreeing realistic deadlines
- Less strict compliance with audit framework, greater appreciation of the constraints on the organisation and practicality of some recommendations would enhance the effectiveness of the audit

### **Public Sector Internal Audit Standards (PSIAS) Independent Assessment**

During 2014/15 the Council's Internal Audit Service had a successful independent assessment of its compliance with the PSIAS. Findings from the assessment were reported to this committee in December 2014.

## REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 24<sup>th</sup> June 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?

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

#### 2. Recommendations:

That the Committee reviews the updated Corporate Risk Register.

#### 3. Reasons for the recommendation:

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.

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:

Amongst the risks set out are a number of areas relating to finance. I am comfortable at the moment that the mitigations in place and proposed, will reduce the risk to the Council.

#### 6. What are the legal aspects?

None

#### 7. Monitoring Officer's comments:

No issues.

## **8. Report details:**

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

Risks 13/016, 13/021 and 13/025 will be removed from the Corporate Risk Register.

### New risks

One new risk has been added to the Corporate Risk Register (see risk 13/048).

### Risk scores

One risk score has increased from a low to medium risk (13/041) and one risk has increased from a medium to high risk (13/046). These risks are highlighted as such on the register and an explanation is also provided.

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

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?**

Any risks should be captured in either this document or the operational risk register.

## **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?**

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?**

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

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