

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 22 June 2016
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

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

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

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

Membership -

Councillors Vizard (Chair), Wood (Deputy Chair), Baldwin, Ashwood, Gottschalk, Harvey, Sheldon, Mrs Henson, Lamb, Packham and Warwick

Agenda

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

1 Apologies

To receive apologies for absence from Committee Members.

2 Minutes

To sign the minutes of the meeting held on 9 March 2016.

3 Declaration of Interests

Councillors are reminded of the need to declare any discloseable 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 on 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 - 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 10 on the grounds that it involved the likely disclosure of exempt 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

To receive a presentation on the scope of the Audit and Governance Committee.

6 KPMG External Audit Technical Update

To consider the report of the Council's External Auditor KPMG.

(Pages 3 -
30)

7 KPMG Fee Letter for 2016/17

To receive the fee letter from the Council's External Auditor KPMG.

(Pages 31
- 38)

8 Annual Internal Audit Report 2015/16

To consider the report of the Audit Managers.

(Pages 39
- 56)

9 Annual Governance Statement 2015/16

To consider the report of the Assistant Director Finance.

(Pages 57
- 70)

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

10 Review of Corporate Governance Risk Register

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

(Pages 71
- 84)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 28 September 2016 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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Technical update

Incorporating the External Audit Progress Report

Exeter City Council

June 2016

Contents

The contacts at KPMG in connection with this report are:		Page
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Tara Westcott Senior Manager KPMG LLP (UK) Tel: 0117 905 4358 tara.westcott@kpmg.co.uk	1. 2015/16 audit deliverables	25

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact

 Medium impact

 Low impact

 For information



External audit progress report

External audit progress report

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

Summary of work performed since last Audit Committee

Since the last meeting of the Audit Committee in March 2016 we have:

- Completed our interim audit which includes understanding the Authority's control environment and performing testing on your key controls. The outcome of our work and any observations that we have identified will be reported back to you as part of final ISA 260 report in September 2016;
- Held our quarterly catch up meeting with your Chief Executive & Growth Director and Director of Resource in order to aid our value for money work and conclusions;
- We have agreed the timing of our certification work on your housing subsidy and pooling of capital receipt grants; and
- We have responded to a number of technical queries from your finance department.

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Summary of work to be performed for the next audit committee

Over the next quarter we plan to:

- Complete our final audit fieldwork and provide our opinion on the Authority's Statement of Accounts; and
- Issue our ISA 260 report detailing our key findings from the audit.

Actions arising from this report

We are asking the Committee to **NOTE** the progress outlined above.



KPMG resources

Local government budget survey

KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:

- The content of budget monitoring reports;
- Savings plans;
- Invest-to-save projects;
- The type of savings being made;
- Assumptions underlying the medium term financial plan; and
- Reserve movements.

The Survey also poses questions for management and Members to consider when reviewing their budget setting and budget monitoring processes.

We produced this report in February 2016 and it was provided to management in February 2016 for consideration.

For more information, and a copy of the report, please contact Darren Gilbert.

Publication 'Value of Audit - Perspectives for Government'

What does this report address?

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.

Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.

What are the key issues?

- The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.
- The importance of trust and independence of government across different markets.
- How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making.
- The importance of technology integration and the issues that need to be addressed for successful implementation
- The degree of reliance on government financial reports as a result of differing approaches to conducting government audits

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at <https://home.kpmg.com/xx/en/home/insights.html>

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

Publication 'Reimagine - Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the Care Act to deliver

- Momentum behind last year's Care Act risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

What is *The future of cities*?

The future of cities is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on kpmg.com/futurecities where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.



Technical developments

New local audit framework

Level of impact: ● (Medium)	KPMG perspective
<p>The <i>Local Audit and Accountability Act 2014</i> included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for principal local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; currently, there is nothing definite in place whether there will be a sector-led body that is able to undertake this role on behalf of bodies. However the Local Government Association (LGA) has been seeking views and expressions of interest to gauge the appetite in the sector for this approach.</p> <p>CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf. The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.</p>	<p><i>Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.</i></p>

Modern Slavery Act 2015

Level of impact: ● (Medium)	KPMG perspective
<p>The <i>Modern Slavery Act 2015</i> has now been enacted.</p> <p>All organisations, including local authorities / public bodies, with a year end on or after 31 March 2016 and a turnover greater than £36m have to produce a statement about the current financial year setting out what steps they have taken to ensure that slavery or human trafficking is not occurring in their supply chain or in their own organisation.</p> <p>All local authorities should already be considering what needs to be done to ensure compliance.</p> <p>Background</p> <p>The Act introduces the concept of 'transparency in supply chains' and requires all commercial organisations which carry on a business in the UK with a total annual turnover of at least £36 million to produce an annual slavery and human trafficking statement. Local authorities satisfy the definition of 'commercial organisations' set out in the Act, so many will be caught.</p> <p>A supply chain includes both direct and indirect suppliers and is very wide ranging including outsourced services supplied by agencies. Local authorities need to be satisfied that modern slavery does not exist at any point in the chain leading to a good or service supplied to them.</p> <p>Examples of suppliers where risks may exist across all departments are:</p> <ul style="list-style-type: none">— firms engaged to build / refurbish public buildings / areas;— agencies supplying cleaners; and— suppliers of repair / maintenance materials and / or services. <p>As recent cases in the media demonstrate, modern slavery is not something occurring solely outside the UK and the implications both reputationally and legally can be significant.</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Modern Slavery Act 2015 (cont.)

What should the statement include?

The statement must set out what steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not occurring either in your supply chain or within your own organisation. Although a statement could simply be made saying no steps have been taken in relation to slavery and human trafficking, the legislation suggests the statement should cover the following:

- The organisation's structure, business and supply chains;
- Its policies in relation to slavery and human trafficking;
- Its due diligence processes in relation to slavery and human trafficking;
- The parts of its business and supply chain where there is a risk of slavery and human trafficking taking place and the steps it has taken to assess and manage that risk;
- Its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chain measured against appropriate performance indicators;
- The training and capacity building about slavery and human trafficking available to its staff.

The statement needs to be approved and published on the website, with a link in a prominent place on the website's home page. The statement should be published within six months of the financial year end.

There are no financial or criminal penalties for failing to produce a statement, although the Secretary of State may seek an injunction through the High Court requiring the organisation to comply. However, the reputational damage an organisation may suffer if it chooses not to report or to take no action may be significant.

What should local authorities be doing?

There is obviously a lot for local authorities to consider in order to be able to publish their first statement relating to the current financial year. In preparation they should be considering what type of statement they want to make, who will be responsible for compliance, how they identify and assess the risks of slavery and trafficking in their supply chain and how they determine the level of due diligence that needs to be undertaken, what policies and training is going to be put in place and how they are going to ensure effective ongoing monitoring and review. But the clock is ticking and time is running out.....

For further information or if you would like us to come out and see you to discuss how the Modern Slavery Act could impact the Authority please contact Julie Bruce (Julie.bruce@kpmg.co.uk) (0115 935 3420) or Darren Gilbert.

CIPFA/LASAAC briefing on Highway Network Assets

Level of impact: ● (Low)

KPMG perspective

Authorities will be aware that the CIPFA/LASAAC consultation on the Draft Code of Practice on the Highways Network Asset (HNA Code) closed in April 2016.

Following the consultation, the second in a series of Briefings on the Highways Network Asset has been made available on the CIPFA website at: <http://www.cipfa.org/policy-and-guidance/local-authority-highways-network-asset>.

The Briefing covers the HNA Code consultation, the definition of the Highways Network Asset, 2015/16 reporting requirements and the Central Assurance process.

Further guidance, and future briefings, on this topic are also available on this same webpage.

The Committee may wish to understand the progress their Authority has made in its plans to meet the new reporting requirements.

Exercising electors' rights - 2015/16 changes

Level of impact: ● (Low)	KPMG perspective
<p>Authorities may be aware that the <i>Accounts & Audit Regulations 2015</i> have introduced new arrangements for the exercise of electors' rights, which take effect from the 2015/16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts.</p> <p>Regulation 15 requires the Responsible Financial Officer (RFO), after signing and dating the draft accounts on behalf of the Authority, to commence the period for the exercise of electors' rights. This period is limited to 30 working days, and for 2015/16 must include the first 10 working days of July.</p> <p>Authorities should also note that Regulation 9(2) is clear that the authority's meeting to consider and approve the accounts should take place after the period for the exercise of electors' rights has ended. Due to the requirement in Regulation 15 for a common inspection period during July, the inspection period this year cannot end before 14 July 2016. This means that authorities should not approve and publish their accounts before 15 July 2016.</p> <p>Electors' rights are important, and the courts have in the past been critical of those who have not ensured that adequate provision for the exercise of these rights is made.</p> <p>Auditors are mindful that they may be contacted by electors or their representatives during the 30 working day inspection period. Given the limited time available, auditors will ensure that they have adequate arrangements in place during the prescribed period for receiving and identifying promptly whether any correspondence received includes formal questions under the <i>Local Audit and Accountability Act 2014</i>, and/or objections to the accounts.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

DCLG consultation on pension fund investment returns

Level of impact: ● (Low)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes.</p> <p>The revised regulations can be found here at www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</p> <p>The outcome of the consultation will be published here: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

Councillors' travel expenses

Level of impact: ● (Low)	KPMG perspective
<p>HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.</p> <p>The previous rules</p> <p>Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.</p> <p>HMRC Compliance Reviews</p> <p>Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.</p> <p>The new rules</p> <p>With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).</p> <p>How KPMG can help</p> <p>KPMG's public sector Employment Tax specialists provide practical advice on dealing with HMRC Employer Compliance reviews. We regularly assist local authorities in liaising with HMRC and staying ahead of legislative and practice developments. If you would like to speak to one of our specialists please contact your normal KPMG contact.</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Capital receipts flexibility

Level of impact: ● (Low)	KPMG perspective
<p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"> — the flexibility is available from 1 April 2016 to 31 March 2019; — only capital receipts generated during that period can be used for the flexibility; — the Secretary of State's direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period; — authorities will not be allowed to borrow to fund revenue expenditure on service reform; and — authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility. <p>We understand that DCLG's aim is that the final signed direction will be issued with the final settlement in February 2016.</p> <p>A copy of the draft guidance can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf</p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>
Level of impact: ● (Low)	KPMG perspective
<p>The Department of Health, in conjunction with the Department for Communities and Local Government, has recently published 2016/17 Better Care Fund planning guidance.</p> <p>The guidance introduces a number of changes, requiring local clinical commissioning groups (CCGs), councils and providers to establish risk sharing arrangements to fund unplanned emergency admissions. Local areas will also have to agree to 'stretching' local targets for cutting delayed transfers of care supported by an action plan.</p> <p>The guidance can be found here: www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017</p>	<p><i>The Committee may wish to seek assurances how their Authority is developing these arrangements.</i></p>

2015/16 Code of Practice Update

Level of impact: ● (Low)	KPMG perspective
<p>CIPFA/LASAAC has issued an update to the <i>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.</p> <p>Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.</p> <p>The Code update also includes amendments as a result of legislative changes and particularly the <i>Accounts and Audit Regulations 2015</i> for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.</p>	<p><i>The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code</i></p>

2016/17 Work Programme and Scale of Fees

Level of impact: ● (For Information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at <http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees>

Level of impact: ● (For Information)

Published on 20 April, this report finds that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended.

The report is available free of charge and the full version or a summary can be accessed at <https://www.nao.org.uk/report/english-devolution-deals/>

Greater Manchester Combined Authority

Level of impact: ● (For Information)

Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. 'Devo Manc' encompasses a broad range of proposals to address the challenges and opportunities GM is facing:

Health and Social Care

Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care.

As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.

GM proposals

In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:

- Investment in transport infrastructure
- New funding mechanisms to support site remediation and infrastructure provision
- Making better use of Social Housing Assets to support growth
- Locally led low carbon
- A scaled-up GM Reform Investment Fund
- Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance
- Fundamental review of the way services to children are delivered
- Research and innovation funding
- Investment in integrated business support to drive growth and productivity
- Reform of the New Homes Bonus
- Further employment and skills reform
- GM approach to data sharing across public agencies
- Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax

All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.

Proposed changes to business rates and core grants

Level of impact: ● (For Information)

The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.

Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved.

The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

'Cities and Local government Devolution Act 2016'

Level of impact: ● (For Information)

Authorities will wish to note that the *Cities and Local Government Devolution Act 2016* received Royal Assent on 28 January 2016. The Act provides the enabling legislation to:

- allow for the election of mayors for a combined authority area;
- allow for the devolution of functions, including transport, health, skills, planning and job support; and
- provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area.

Most of the changes under the Act, including the implementation of 'devolution' deals, will be implemented by Orders to be made under the Act.



Appendix

2015/16 audit deliverables

Deliverable	Purpose	Timing of Audit Committee	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	Completed
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	September 2016	To be performed as part of final audit.
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC

Appendix 1

2015/16 audit deliverables (cont.)

Deliverable	Purpose	Timing of Audit Committee	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC



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Our ref **DG/TW/ECC/1617**

Contact

25 April 2016

Dear David,

Annual audit fee 2016/17

I am writing to confirm the audit work and fee that we propose for the 2016/17 financial year at Exeter City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd.'s (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2016/17 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2016/17	Planned fee 2015/16
Code of Audit Practice audit fee – Exeter City Council	57,887	57,887
Certification of grant claims & returns	To be confirmed by PSAA	16,100

PSAA has set the 2016/17 scale fees at the same level as for 2015/16, thereby preserving the 25 per cent reductions that were applied that year which in turn was in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. The planned fee is in line with the scale fee.

The 2016/17 certification fee for the Council has not yet been set by PSAA. However, they will be based on the 2014/15 final fees, and cover certification of housing benefit subsidy claims only. We anticipate that that this will be the fee for 2016/17. If we are informed of any changes to this by PSAA we will update you.

As we have not yet completed our audit for 2015/16 the audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Redistribution of Audit Commission surplus

Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2016/17

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, 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 any changes affecting our audit responsibilities or financial reporting standards.

CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for highways network assets. CIPFA/LASAAC has indicated that it is unlikely that these changes will apply to district councils as it is unlikely that they hold assets which form part of the highways network, however this will need to be assessed by the Authority. If the Authority does hold material highways network assets then this change will require additional work in 2016/17, but PSAA has indicated that it is not appropriate to increase the scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances. The fees for this additional work will therefore be discussed and agreed with you in due course and will be subject to PSAA's normal fee variation process. PSAA expects that the additional fees for a non-highways authority to be up to £5,000, where authorities are able to provide the information required and the auditor is able to rely on central assurance of the valuation models in use. This amount is indicative and therefore higher costs may be necessary.

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 and to do this we will undertake appropriate value for money (VFM) audit work. The 2016/17 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise

that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

Certification work

As well as our work under the Code, we will certify the 2016/17 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 early next year. 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, we 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. A statement of our independence is included at Appendix 3.

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 2016/17 audit are:

Name	Role	Contact details
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, Andy Sayers (andrew.sayers@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, by telephoning 020 7072 7445 or by writing to:

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

Yours sincerely



Darren Gilbert
Director, KPMG LLP

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 2015/16;
- 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 2016/17 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.

Planned output	Indicative date
External audit plan	March 2017
Interim audit report	June 2017
Report to those charged with governance (ISA260 report)	September 2017
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2017
Opinion on Whole of Government Accounts return	September 2017
Annual audit letter	November 2017
Certification of grant claims and returns	February 2018

Appendix 3 – Independence & objectivity requirements

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Governance Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.

- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 25 April 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 22nd JUNE 2016

Report of: AUDIT MANAGERS

Title: ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2016

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 note the contents of the Annual Internal Audit Report.

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?

The Monitoring Officer has not identified any legal aspects.

7. Monitoring Officer's comments:

Internal Audit raise a number of areas of legitimate concern which require urgent attention.

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 2015 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 2016
- 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). There were no instances of recommendations not being accepted by management during the last quarter that require 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.

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 2015/16 RIPA was not used by Exeter City Council. However, during the year refresher training has been provided to all appropriate employees to improve awareness and understanding of this legislation.

e) 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) STRATA – there are currently no performance measures in place which results in a lack of accountability
- ii) 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. Internal Audit are aware of some instances where services are having to override separation of duties controls due to either lack of staff because of the reduction in resources or as a result of long term staff sickness. 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 i.e. compensating controls are effectively managed to ensure that essential internal controls are not compromised.

- iii) Reduction in resources – general reductions in staffing numbers increase the impact of staff absences and other service interruptions. Absences may also increase owing to greater pressure of work and loss of motivation. As reported above, Internal Audit are aware of instances where long term sickness is impacting on service delivery.
- iv) Procurement – the Council currently does not have a procurement function in place that is fit for purpose. A recent audit of procurement identified a number of shortcuts in the procurement process e.g. extending contracts rather than retendering, a lack of effective contract management. The Interim Procurement Officer left the authority at the end of March and has not been replaced. However, the Council has engaged a consultant to review the current procurement process to help meet the requirements of the Public Contract Regulations 2015 but this review has yet to be finalised.
- v) Contract Regulations – current contract regulations conflict with the legislative requirements of the Public Contract Regulations 2015, therefore the Council is at risk of breaching legislation.
- vi) Increase in commercial activities - as the Council increases the number of new companies that it sets up e.g. Strata, ESCO (District Heating Scheme), there is a requirement for existing staff to act as directors of these new companies, sometimes without training or being fully aware of their responsibilities or liabilities under the role. Staff that take on a Directorship of a Council company have a conflict of interest i.e. they have a legal obligation to work in the interest of the company as a director, but that could mean they then don't work in the best interests of the Council. In addition, with the requirement to increase the Council's commerciality as a response to the current economic climate, staff must not forget the principles of public life and their obligations.

f) 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 satisfactorily and that there are no fundamental breakdowns of controls resulting in material discrepancy. However, we would advise that the Audit and Governance Committee should closely monitor the weaknesses we have identified.

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 2016.

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 2015/16 AUDIT PLAN AS AT 31/03/16

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	4.4	In progress					
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Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2014-15	20	10.9	Draft report					
Income Management/Sundry Debt	25	25.4	Final report	↓	Some improvement required	2	3	8
Procurement	20	28.7	Final report	↔	Significant improvement required	5	6	0
Creditors	40	42.8						
First half year			Final report	↔	Good	0	5	5
Second half year			Final report	↔	Good	0	4	3
Insurance	5	7.9	Final report	↑	Good	2	2	1
People Management	20	25.5	Final report	↓	Significant improvement required	5	6	0
ICT – Shared service	10	4.4	Ongoing					
Business Continuity	13	0	Transferred to 16/17 plan					
Risk Management	10	6.1	Ongoing	No report due				
Contract management - Corporate Property Assets	10	19.0	Final	No previous report	Significant improvement required	1	11	1
Contract Management – Other services	10	34.4	Final	No previous report	Significant improvement required	1	4	3
Counter Fraud/Anti-Fraud	10	5.8	Final	No previous report	Good	0	4	5
Corporate governance	10	6.4	Ongoing	No report due				
Information Governance	10	12.8	Draft report					
Equalities & Diversity	10	11.7	Final report	No previous report	Good	0	4	5
Partnerships	5	3.0	Ongoing	No report due				
Hospitality & gift disclosures	1	0.6	Final report	No issues				

				to report				
External Audit	2	1.1	No report due					

Customer Access

'Help me with my financial problem'

'Make it easy for me to pay you'

'Provide suitable housing'

Housing Benefit Subsidy	40	43.1	Final report	↑	Some improvement required	4	2	0
Council Tax	25	21.3	Draft report					
NDR	10	14.2	Draft report					
One View of Debt (OVD)	25	8.4	In progress					
Housing – Tenants (PSL)	10	12.5	Final	No previous report	Some improvement required	1	9	1

Housing Revenue Account

'Provide suitable housing'

'Be a good landlord'

Housing - Property	10	1.0	In progress					
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Health & Place

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	7.9	Draft report					
Trade recycling	12	21.4	Final report	No previous report	Good	1	3	2
Trade waste	5	10	Final report	No previous report	Some improvement required	0	6	4

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

None	-							
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City Development

'Deliver good development'

None	-							
------	---	--	--	--	--	--	--	--

Public Realm

'Keep place looking good'

Car Parks	5	7.8	Draft report					
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Other

RIPA Administration	2	1.5						
Contingency (special/frauds) including unplanned work	30	27.9						

Follow-ups	10	10.7
Audit planning and control	40	42
Total	470	481.6

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Summary of Work Completed January 2016 to March 2016

Please note that this is a summary of recommendations only, as to include all recommendations made from each audit report in detail would result in a lengthy document. Members may request a full copy of any report once finalised or alternatively meet with the Audit Manager to discuss specific audits further.

Audit Area	Summary
<p>Income Management</p> <p>Assurance rating: Some improvement required ★★★</p>	<p>The Council collects income from Council Tax, National Domestic Rates, Car Parking and Housing and Commercial Rents. The Council also generates income through providing a wide range of services for example the bulky waste collection service.</p> <p>Customers are able to make payment by all methods, for example direct debit, BACS, internet and telephone payments by credit/debit cards, cheques and cash although the automated payments i.e. internet transactions are preferred as they avoid any manual intervention and enable customers to make an immediate payment at any time of day.</p> <p>The scope of the audit included a review of system access, till floats, in-house banking, automated payments, refunds, reconciliations and security of data.</p> <p>A total of 13 recommendations were made 2 high risk, 3 medium risk and 8 low risk. The high risk findings were:</p> <ul style="list-style-type: none"> • the Council is not PCI DSS compliant This has been reported in the previous two audit reports yet still remains an issue despite recommendations being agreed • that information appears to be being held unnecessarily which is non-compliant with the Data Protection Act <p>All the high and medium recommendations were agreed by management.</p>
<p>Insurance</p> <p>Assurance rating: Good ★★★★</p>	<p>The Council previously had insurance cover purely with Zurich Municipal. The Insurance contract was renewed in April 2015 resulting in Insurance cover for motor now being provided by RMP and computer equipment by RSA – the rest of the insurance cover, i.e. property, Public and Employer liability being retained by Zurich Municipal.</p> <p>The scope of the audit included a review of assets, risks and liabilities, third parties, claims and contract tendering.</p> <p>A total of 5 recommendations were made 2 high risk, 2 medium risk and 1 low risk. The high risk findings were:</p> <ul style="list-style-type: none"> • the 'all risks' schedule was not confirmed by managers as accurate at the time of the renewal of the contract • managers are not contacted annually to confirm their insurance requirements <p>All the recommendations were agreed by management.</p>

<p>Creditors (April 2015 – September 2015)</p> <p>Assurance rating: Good ★★★★</p>	<p>Creditors are paid either through the purchase ledger system or using one of the Councils' corporate credit cards which are held by designated card holders. Financial Regulations list the responsibilities of staff for processing orders and invoices</p> <p>The scope of the audit included a review of the following areas:</p> <p>Invoice Checks – reviewing invoices to ensure that they quote all of the relevant information, are arithmetically correct, that VAT has been correctly accounted for and that the invoice has not been paid twice (duplicate payments)</p> <p>Payments – checking that the amount paid agrees to the value of the invoice. The scheduled testing for payments this half year was to include identifying those payments made outside of 30 days and to ascertain the reasons why they were paid late. However, the percentage has dropped substantially over the last two quarters and Finance are undertaking a separate investigation to identify why this is the case. To avoid a duplication of effort, Internal Audit have deferred their testing of these transactions until the next audit.</p> <p>A total of 7 recommendations were made 4 medium risk and 3 low risk. All recommendations were agreed by management.</p>
<p>Housing Benefit Subsidy</p> <p>Assurance rating: Some improvement required ★★★</p>	<p>The DWP pays authorities subsidy equal to their 'qualifying expenditure' on housing benefit (HB). Correctly paid HB qualifies for 100% subsidy, however, to encourage authorities to monitor and control costs, certain areas of benefit expenditure are penalised. These include certain overpayments and certain high eligible rents. Authorities can also fail to receive subsidy if they cannot provide the necessary information and evidence to support their claims.</p> <p>The objectives of the audit were to review a sample of cases assessed by Benefits to provide assurance that:</p> <ul style="list-style-type: none"> • HB regulations were being complied with • the amount of benefit paid was accurately calculated • DWP supporting evidence requirements were being met <p>There has been a reduction since the last audit in the percentage of cases found where entitlement to benefit was incorrectly calculated and as a result, the claimants over or underpaid i.e. entitlement error rate 2014/15 audit = 32%, 2015/16 audit = 10%. One of the reasons for this may be the increased number of assessments being checked by senior assessors. In addition, most of the assessors who previously worked at home are now required to spend a greater proportion of their week working in the Civic Centre. This was to encourage assessors to refer to the senior assessors if they had any queries with a claim.</p> <p>A total of 6 recommendations were made, 4 high risk and 2 medium risk. The high risk findings related to the fact that benefits entitlement had been incorrectly calculated.</p> <p>All recommendations were agreed by management.</p>

Summary of investigations 2015/16

Internal Audit received 31 reports during 2015/16, of which:

- 25 were received via the “Report It” facility on the website (19 were reported anonymously)
- 6 concerns were raised with Internal Audit direct and the subsequent investigations were undertaken by Internal Audit

Of the 25 website ‘Report It’ instances:

- 15 were in relation to possible fraudulent claims of housing benefit and single occupier discount for council tax purposes. HB cases were referred on to the DWP for investigation as with effect from 01 April 2015 all HB fraud investigation is now undertaken by them. All single occupier discount cases were referred to the Council Tax service for further investigation.
- 3 cases were in respect of Trading Standards matters so were referred on to them.
- 4 were allegations of possible tenancy fraud however following investigation by the housing service were not proven.
- 2 were issues not dealt with by the Council so were referred to the appropriate external agency
- 1 concern was referred onto the relevant service to investigate

Internal Audit Investigations

- 1 case involved a joint management and Internal Audit investigation which led to an employee being dismissed.
- 1 case has been referred to the police and is still ongoing
- 3 cases are still the subject of an ongoing investigation
- 1 case was not proven

Fraud identified within other services 1 April 2015 to 31 March 2016

Date Notified	Type of Fraud	Number of cases	Total value of fraud	How detected
21.07.15	Council Tax – Single Occupier Discount	1	£137.27	Report received via website
04.08.15	Council Tax – Single Person Discount	1	£210.84	Report received via website

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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.

This performance management and quality assurance framework must include, but is not limited to:

- A comprehensive set of targets to measure performance. The Audit Manager should measure, monitor and report appropriately on the progress against these targets;
- Seeking user feedback for each individual audit and periodically for the whole service;
- Periodic self-assessments to evaluate conformance with the Code of Ethics and the Standards
- An external assessment every 5 years with the scope agreed by an appropriate sponsor; and
- An action plan to implement improvements.

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 Audit plan completed	95%	102%
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%	100%
Final reports produced within 10 days	90%	100%

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 11 issued, 7 were returned.

Some of the feedback comments received include:

- The recommendations were sensible and will contribute to improving our service
- Plenty of opportunity to discuss at draft stage
- The ability to tailor the audit to align with our restructure added value rather than conflicting with it, the audit outcomes have targeted key areas of issue which will form the foundation in developing new working methods
- The 1-2-1 approach to reviewing the draft report is extremely beneficial- it helps with focusing on the matter at hand and provides immediate opportunity for discussion/resolution of items
- Whilst some of the processes are obviously going to be unfamiliar to the auditor it was great to see their willingness to understand these processes no matter how complex they were. The result is an accurate and informative report that enables improvement rather than criticising failure.
- The opportunity to discuss the audit plan ahead of time and feed service priorities into the process helps to make it more valid and increases the relevance and usefulness of the work.

Public Sector Internal Audit Standards (PSIAS)

Independent Assessment

The PSIAS requires that an independent assessment of compliance with the standard is undertaken once every 5 years. The results of the last external assessment which was undertaken in July 2014 were reported to this committee in December 2014. The next assessment is due to be undertaken by July 2019.

Self Assessment

The standard also requires that the Audit Manager undertakes a periodic self - assessment of compliance. This last self-assessment was undertaken in May 2014 when it was found that the service was 84.4% compliant. A further self-assessment has been recently undertaken with the results as follows:

Overall summary of compliance as at 01 April 2016 as per the CIPFA Local Government Checklist

There are a total of 326 questions in the checklist

286 are answered yes

5 are partially met (2 partial controls are considered justified because of the small size of the audit team)

3 questions are answered no

32 questions are not applicable as Exeter City Council does not engage in consulting activities

This means there is an overall compliance of 97.5%

The 3 controls answered no are as detailed below with 1 action being progressed

1110	Organisational Independence	
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	Note: all growth and development reviews at the Council are undertaken by the relevant line manager
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?	
1200	Proficiency and Due Professional Care	Action to be taken
	Does the CAE hold a professional qualification, such as CMIIA / CCAB or equivalent?	Audit Manager (HP) currently undertaking IIA qualification

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REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 22 June 2016

Report of: Assistant Director Finance

Title: ANNUAL GOVERNANCE STATEMENT – 2015/16

Is this a Key Decision?

No

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

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 The report sets out the Annual Governance Statement that will accompany the Council's Statement of Accounts for 2015/16.

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 2015/16; and

2.2 Council notes and approves the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2015/16.

3. Reasons for the recommendation:

3.1 The Council is required to prepare and publish an Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. It reports on the Council's performance against the Code of Corporate Governance. The Code of Corporate Governance was last approved by the Audit and Governance Committee on 9 March 2016.

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 This report raises no issues to concern 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

2015/16

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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

<https://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 2016 and up to the date of approval of the annual statement of accounts.

The Governance Framework

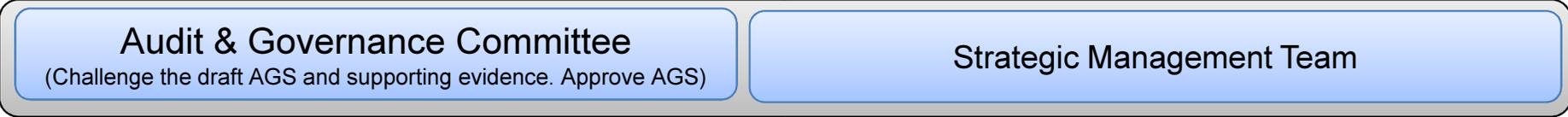
The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our 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 9 March 2016 and will be reviewed on 15 March 2017. 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.

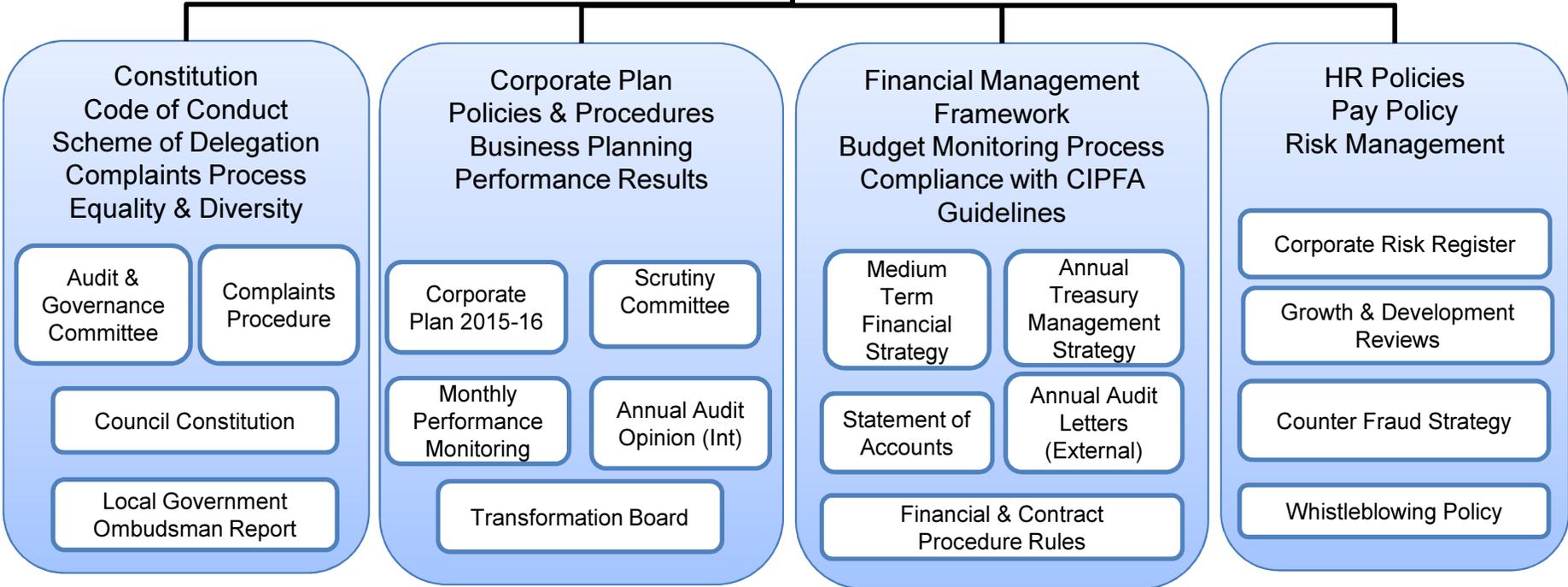
The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

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 2015/16.

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 2015-16. The Constitution is approved by Full Council.

In 2015/16 the Council responded to 119 (2014/15 – 213) 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 2015/16 and a total of 19 audit reports have been provided to management and the Audit & Governance Committee.

In September 2015 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 2015/16 Annual Governance Statement, six areas of concern were identified, which are set out along with the action taken.

- Risk of Fraud – completed.
- Housing benefit Data Quality – significant improvement after management intervention - completed.
- Separation of duties risk – ongoing review.
- Business Continuity – progressing and no longer an area of concern.
- Partnership Working Protocol – close to completion.
- STRATA – assurance provided by Devon Audit Partnership.

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 2016/17 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	STRATA – there are currently no performance measures in place which results in a lack of accountability.	Strata are working to provide a set of service standards that the Councils can expect.
2	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.	Ongoing review.
3	Reduction in resources – general reductions in staffing numbers increase the impact of staff absences and other service interruptions. Absences may also increase owing to greater pressure of work and loss of motivation. As reported above, Internal Audit are aware of instances where long term sickness is impacting on service delivery.	Ongoing review.
4	Contract Regulations – current contract regulations conflict with the legislative requirements of the Public Contract Regulations 2015, therefore the Council is at risk of breaching legislation.	A major review is planned to report shortly with a recommended way forward regarding procurement.

Significant Governance Issues

Issue No.	Issue Identified	Summary of Action Proposed
5	<p>Procurement – the Council currently does not have a procurement function in place that is fit for purpose. A recent audit of procurement identified a number of shortcuts in the procurement process e.g. extending contracts rather than retendering, a lack of effective contract management. The Interim Procurement Officer left the authority at the end of March and has not been replaced. However, the Council has engaged a consultant to review the current procurement process to help meet the requirements of the Public Contract Regulations 2015 but this review has yet to be finalised</p>	<p>A major review is planned to report shortly with a recommended way forward regarding procurement.</p>
6	<p>Increase in commercial activities - as the Council increases the number of new companies that it sets up e.g. Strata, ESCO (District Heating Scheme), there is a requirement for existing staff to act as directors of these new companies, sometimes without training or being fully aware of their responsibilities or liabilities under the role. Staff that take on a Directorship of a Council company have a conflict of interest i.e. they have a legal obligation to work in the interest of the company as a director, but that could mean they then don't work in the best interests of the Council. In addition, with the requirement to increase the Council's commerciality as a response to the current economic climate, staff must not forget the principles of public life and their obligations.</p>	<p>Training will be provided for Officers and Members who act as Directors.</p>

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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of the Local Government Act 1972.

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