

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 28 September 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 Sarah Selway, Democratic Services Manager (Committees) on 01392 265275.

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 22 June 2016.

3 Declarations of Interest

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 **Audit and Governance Committee Technical Update and Progress Report (External Auditors)**

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

(Pages 5 - 26)

6 **Report to those Charged with Governance (ISA 260) 2015/16 - Audit Findings for Exeter City Council (External Auditor)**

To consider the report of the Council's External Auditor KPMG. – *to follow*.

7 **Final Statement of Accounts 2015/16**

To consider the report of the Assistant Director Finance. *to follow*

8 **Management Representation Letter to the External Auditor in respect of the 2015/16 Statement of Accounts (External Auditors)**

To consider the letter of Management Representation Letter to the External Auditor.

(Pages 27 - 32)

9 **Internal Audit Progress Report**

To consider the report of the Audit Managers.

(Pages 33 - 44)

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 45 - 58)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 7 December 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

Exeter City Council

14 September 2016

Contents

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in connection with this
report are:**

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KPMG resources

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1. 2015/16 audit deliverables

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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



KPMG resources

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

Appointment of external auditor

Level of impact: ● (Medium)	KPMG perspective
<p>Following the Audit Commission’s closure local authority external audits are currently governed by transitional arrangements under the <i>Local Audit and Accountability Act 2014</i>, with audit contracts overseen by Public Sector Audit Appointments Ltd (PSAA). These transitional arrangements end with the audit of 2017/18 financial years, so auditors must be appointed under the new arrangements from 2018/19. In practice this decision must be made by 31 December 2017. There are three main options for local authorities to consider:</p> <ol style="list-style-type: none"> 1. Undertake an individual auditor procurement and appointment exercise; 2. Undertake a joint audit procurement and appointing exercise with other bodies, for example those in the same locality; or 3. Join a ‘sector led body’ arrangement where an approved third party procures audit on behalf of multiple bodies. <p>As the relevant supervisory body, the Institute of Chartered Accountants in England and Wales (ICAEW) maintains a register of audit firms and ‘key audit partners’ who have been recognised as meeting the eligibility criteria for local audit. Whatever the approach taken, local authorities can only appoint audit firms from the ICAEW register. KPMG has been registered by ICAEW for local audit work and has 21 Partners and Directors recognised as meeting the eligibility criteria, providing comprehensive national coverage through an experienced senior team.</p> <p>For options 1 and 2, the Act requires an Auditor Panel to be established. Guidance on auditor panels at local authorities has been issued by the CIPFA – see www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf</p> <p>One option, subject to complying with EU procurement rules, might be to continue with your current auditor for an initial period. Although this would delay testing the market, fees could be benchmarked for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and avoid the ‘rush to market’ as other local authorities undertake procurement exercises within a short time period, allowing tendering later in a more settled market.</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>

Appointment of external auditor (cont.)

Level of impact: ● (Medium)	KPMG perspective
<p>The Audit Commission produced a report and slide pack summarising the lessons learnt from its 2012 and 2014 procurements of audit services, providing the reader with a list of factors that contributed to the delivery of successful outcomes for both procurements. A copy of this document can be found on the PSAA website at www.psa.co.uk/wp-content/uploads/2016/01/Learning-the-lessons-from-the-2012-and-2014-Audit-Commission-procurements-of-audit-services.pdf</p> <p>The lessons learnt may be helpful in generally informing procurements of audit services undertaken by individual local public bodies or collective procurement bodies under the new arrangements. However, it should be noted that the procurements undertaken by the Audit Commission were unique to the Commission's regime and the approaches taken may not be relevant in their entirety to other procurements.</p> <p>For option 3, in July 2016 the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the <i>Local Audit (Appointing Person) Regulations 2015</i>. This means that PSAA can make auditor appointments from 2018/19 to relevant principal authorities that choose to opt into its national collective scheme. For further information, see PSAA's website - www.psa.co.uk/supporting-the-transition/appointing-person/</p>	

Business Rates Retention

Level of impact: ● (Medium)	KPMG perspective
<p>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.</p> <p>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.</p> <p>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.</p> <p>The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.</p> <p>Committee members may wish to be aware that, as a result of these proposals, DCLG has launched two consultations on its proposals for 100% retention of business rates by the local government sector.</p> <p>The first consultation seeks to identify issues that should be kept in mind when designing the reforms; the second is a call for evidence to inform the government's fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. Both consultations close on 26 September 2016.</p> <p>The consultation documents and information about how to respond are available for both at www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)	KPMG perspective
<p>Committee members may wish to be aware that the National Audit Office has published its report <i>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</i>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.</p> <p>The report can be accessed via the NAO website at www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

PSAA's Value For Money Tool

Level of impact: ● (Low)	KPMG perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 1 July 2016.</p> <p>The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years. The children and young people section has also been updated with 2014/15 data.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"> — Adult Social Care Financial Return (new data collection) (2014/15) — Referrals, assessments and packages of care for adults (RAP) (2014/15) — Pupil numbers (2015) — Provision for Children Under Five Years of Age in England (2015) — Children in Care and Adoption Performance Tables (2014/15) — Key Stage 2 Attainment (2014/15) — GCSE and Equivalent Attainment by Pupil Characteristics in England (2014/15) — Section 251 outturn data - Table A1 Children and young people services (2014/15) — Section 251 outturn data - Table A Education budget (2014/15) — Special Educational Needs in England (2014/15) — Attainment by Age 19 (2014/15) — Participation in Education, Training and Employment by 16-18 Year Olds in England (2015) — Pupil Absence in Schools (2014/15) — National road maintenance condition survey (2014/15) 	<p><i>The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.</i></p>

Technical developments

PSAA's Value For Money Tool (cont.)

Level of impact: ● (Low)	KPMG perspective
<ul style="list-style-type: none">— Proportion of bus services running on time (2014/15)— Annual Population Survey (2015)— Finance and General Statistics (2014/15)— Revenue Collection (2014/15)— Claimant count (2016)— Affordable housing supply (2014-15)— Active people survey (2014/15)— Public Health Outcomes Framework (2014/15)— Conception Statistics, England and Wales (2014)— First time entrants into the Youth Justice system (2014/15) <p>The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</p>	

Whole of Government Accounts

Level of impact: ● (Low)	KPMG perspective
<p>Committee members may wish to be aware that HM Treasury has published the local government data collection tool (DCT) and guidance. Authorities who have problems with their DCT should contact HM Treasury directly.</p> <p>HM Treasury has confirmed in its guidance that the deadlines for local government WGA submissions are as follows:</p> <ul style="list-style-type: none">— 12 August: the DCT to be submitted by the authority for auditor review.— 21 October: auditor’s work to be completed. <p>Committee members are reminded that auditors will not issue their Audit Certificate, which formally closes the 2015/16 audit, until they have completed their work on WGA.</p>	<p><i>The Committee may wish to understand how their Authority is progressing with the WGA submission process and seek assurances that an appropriate timescale is in place.</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>

Government contracting

Level of impact: ● (For Information)

The NAO has recently published an overview of its work on the government's management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government's commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice

The overview is available from the NAO website at www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/

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 www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees

Level of impact: ● (For Information)

In spring 2016, the NAO published its report *English devolution deals*. 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 www.nao.org.uk/report/english-devolution-deals/

In addition, CIPFA's Yorkshire and Humber regional executive and KPMG are hosting a free event on devolution in local government in our Leeds office on the evening of the 29 September.

Full details of the event (and where you can sign up) can be found here: www.cipfa.org/training/c/cipfa-regions-yorkshire-and-humber-events--devolution--can-it-deliver-20160929



Appendix

Appendix 1

2015/16 audit deliverables

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Deliverable	Purpose	Timing of Audit Committee	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	Complete
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	Part of our ISA 260 Report - Complete
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	Provided to the Audit Committee at this meeting.

Appendix 1

2015/16 audit deliverables (cont.)

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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	Provided to the Audit Committee at this meeting.
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Provided to the Audit Committee at this meeting.
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: DH20160928
Your ref:
Date: 28 September 2016

Dear Sirs

**Exeter City Council
Financial Statements for the year ended 31 March 2016**

This representation letter is provided in connection with your audit of the financial statements of Exeter City Council ("the Authority"), for the year ended 31 March 2016 for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and

Office of Assistant Director Finance

- ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

10. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 28 September 2016.

Yours faithfully

Signed.....

Position.....

Date.....

Signed.....

Position.....

Date.....

Signed on behalf of the Council

Appendix to the Authority Representation Letter of Exeter City Council:

Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity;
and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 28th SEPTEMBER 2016

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 1ST QUARTER 1ST APRIL TO 30TH JUNE 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?

To report on internal audit work carried out during the period 1st April to 30th June 2016, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

That the Internal Audit Progress Report for the first quarter of the year 2016/17 be noted.

3. Reasons for the recommendation:

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

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

None.

5. Section 151 Officer comments:

6. What are the legal aspects?

None identified

7. Monitoring Officer's comments:

Appendix C to this report sets out some significant issues that require urgent resolution. Progress on these issues is being reported quarterly to this committee.

8. Report details:

This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management regarding audit recommendations that have not been accepted or those not

implemented within a reasonable timescale. The 2016/17 Audit Plan was approved at this Committee on 9th March 2016.

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

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

8.1 Work Undertaken

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

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

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

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

Progress against the annual audit plan is on target.

8.2. Issues for consideration

There are no instances to report where recommendations were not accepted by management during this quarter and no instances of management accepting a recommendation which was not subsequently implemented within a reasonable timescale.

8.3 Governance Issues

The Council's annual governance statement (AGS) included a number of significant issues identified in the Audit Manager's Annual report. The AGS states that the aim is to address these weaknesses during 2016/17 financial year, by way of an action plan for improving the governance framework and system of internal control and this will be monitored by the Audit and Governance Committee. An action plan of the issues identified has been included in Appendix C.

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 2016/17 AUDIT PLAN AS AT 30/06/16

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'

None								
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Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting	20	4.3	To start Q3					
Income Management	10	1.7	To start Q4					
Procurement	20	2.6	Tbc					
"Creditors First Half Year Second Half Year"	40	14.4	In progress					
Treasury Management	5	0	To start Q3					
People Management	20	3.4	In progress					
STRATA - post project review	10	1.9	To start Q3					
Business Continuity	10	0.2	To start Q4					
Risk management	10	0.7	On-going					
Corporate property assets - commercial rents	8	0	To start Q4					
Contract Management	10	1.0	Tbc					
Counter Fraud/Anti-Fraud/NFI	10	4.9	On-going					
Corporate governance (AGS, etc)	10	0.8	To start Q2					
Information Governance	10	1.6	On going					
Partnerships	5	0.3	To start Q4					
Safeguarding	5	0	To start Q3					
Hospitality and gift disclosures	1	0.1	To start Q4					

External Audit	2	0	On-going					
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Customer Access

'Help me with my financial problem'

'Make it easy for me to pay you'

'Provide suitable housing'

Housing Benefit Subsidy	45	11.1	In progress					
Council Tax	20	2.7	To start Q3					
Sundry Debt	20	0.6	To start Q2					
Payment & collection	20	25.4	In progress					
NDR	10	4.2	To start Q3					
Housing – Advice, Allocations & Home	10	0	To start Q2					

Housing Revenue Account

'Provide suitable housing'

'Be a good landlord'

Private Sector Housing	10	4.7	In progress					
Disabled Facilities Grants	5	11.7	Draft report issued					
Housing - recharges	10	1.4	To start Q2					

Health & Place

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	2.0	To start Q3					
Recycling	10	0	To start Q3					
Refuse Collection – garden waste, bulky waste	10	0	To start Q3					

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

Museums Services – alarm callout service	7	0	To start Q4					
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City Development

'Deliver good development'

None	-							
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Public Realm

'Keep place looking good'

Parks & Open Spaces	7	0	To start Q3					
Waterways	7	0	To start Q4					

Other

RIPA Administration	2	0.3						
Contingency (special/frauds) including unplanned work	30	1.9						
Follow-ups	10	6.7						

Biennial Stakeholder Review	2	0.6
Audit Development – Data Analysis/CAAT development	14	1.5
Audit planning and control	40	8.2
Total	505	120.9

Results of reports finalised during 2016/17 relating to 2015/16 – see Appendix B for summary of reports

Audit Area			Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
						H	M	L
Council Tax 15/16			Final	↑	Good	0	6	2
Non Domestic Rates (NDR) 15/16			Final	↔	Some Improvement Required	0	4	9
Information Governance 15/16			Final	No previous score	Some Improvement Required	1	8	7
Health & Safety 15/16			Final	No previous score	Some Improvement Required	0	6	3

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Summary of Work Completed 01 April to 30 Jun 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>Council Tax 2015/16</p> <p>Assurance rating: Good ★★★★</p>	<p>Council tax is the system of local taxation used to part fund the services provided by local government. It was introduced in 1993 by the Local Government Finance Act 1992. Each residential property is allocated one of eight bands (A-H) on the basis of its assumed capital value. Each local authority sets a tax rate expressed as the annual levy on a band D property inhabited by two liable adults. This decision automatically sets the amounts levied on all types of households and dwellings.</p> <p>The objectives of the audit were to test that adequate controls are in place and working effectively within the council tax system. Only tests rated as 'high' or 'medium' risk were tested in this audit as tests rated as 'low' are only tested every 4 years in accordance with the audit rolling plan.</p> <p>Recommendations were made in respect of 6 medium risk and 2 low risk findings, all of which were agreed by management.</p>
<p>National Non-domestic Rates 2015/16</p> <p>Assurance rating: Some Improvement required ★★★</p>	<p>National Non-domestic Rates are collected by the council on behalf of the government. Under the business rates retention arrangements introduced from 1 April 2013, authorities now retain a proportion on the business rates paid locally, whereas in previous year's business rates collected were paid to the government and then re-distributed by them. It is therefore important that the Council:</p> <ul style="list-style-type: none"> • identifies and bills as many new hereditaments (unit of property which is or may become liable to a rate) as soon as possible • issues the correct amount of reliefs <p>collects a high percentage of NDR</p> <p>The objectives of the audit was to ensure that adequate controls are in place and working effectively within the NDR system and that financial regulations are being complied with.</p> <p>Recommendations were made in respect of 4 medium risk and 9 low risk findings, all of which were agreed by management</p>
<p>Information Governance 2015/16</p> <p>Assurance rating: Some Improvement required ★★★</p>	<p>The Council collects and uses a wide range of information for many different purposes. As such, information is a vital asset that the Council is reliant on for the provision and efficient management of services and resources. It is essential that there is a robust information governance management framework in place, together with supporting policies and procedures, to ensure that information is effectively managed and that the risks of loss of information confidentiality, integrity and availability are reduced. Effective information governance can help the Council to make the best use of the information held and, as a consequence, assist in the delivery of corporate objectives and the improvement of business processes. The objectives of</p>

	<p>Information Governance are specifically:</p> <ul style="list-style-type: none"> • legal compliance - to achieve the necessary balance between openness and security by complying with the relevant legislative requirements. • information security - to apply security measures that are appropriate to the contents of the information. • records management - to ensure that the creation, storage, movement, archiving and disposal of information and records is properly managed. • data quality -to support the provision of quality service delivery by the availability of quality information. • information sharing - to ensure that information can be effectively shared internally and between partner organisations while complying with the law and best practice standards. • awareness training and guidance - to develop support arrangements which provide employees with awareness training and access to information governance guidance <p>The objectives of the audit were to check the Council's position against Information Governance objectives.</p> <p>Recommendations were made in respect of 1 high risk, 8 medium risk and 7 low risk findings, all of which were agreed by management.</p> <p>The main area of concern relating to the high risk finding is that the Council has not identified the risks to its key information assets and therefore is not actively managing these risks.</p>
<p>Health & Safety 2015/16</p> <p>Assurance rating: Some Improvement required ★★★</p>	<p>Regulation 3 of the Management of Health and Safety at Work Regulations 1999 state that every employer has to make an assessment of the health and safety risks arising out of their work – this is known as a Risk Assessment.</p> <p>The purpose of the audit was to check that the Council complies with the legal requirement to undertake, record and review the risk assessments by checking that:</p> <ul style="list-style-type: none"> • risk assessments have either been archived on the old risk assessment system or have been migrated to the new system AssessNet (the Council's Health and Safety management system) • all risk assessments on AssessNet have been fully recorded • there are no duplicated risk assessments on AssessNet • risk assessments are being reviewed as their review date arises <p>where risk assessments are not being reviewed, that the escalation process is working</p> <p>Recommendations were made in respect of 6 medium and 3 low risk findings, all of which were agreed by management</p>

SIGNIFICANT GOVERNANCE ISSUES PROGRESS REPORT - FROM ANNUAL GOVERNANCE STATEMENT 2015-16
Issues to address in 2016/17

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update Sept 2016	Update December 2016	Update June 20167	Notes
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.	The Corporate Manager PCCE now has a role as client for ECC and receives performance reports that are reviewed regularly by him and AD Customer Access. In addition Service Standards are now in draft and are due to go to Strata Joint Executive in Oct/Nov 2016			
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. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud.	Managers	Managers will continue to review the arrangements for separation of duties as a matter of course. No fundamental weaknesses have yet been identified.	Ongoing monitoring continuing			
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	Internal Audit continue to work with services where issues have been identified to agree temporary compensating controls to minimise the risk to the Council.			
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.	<ul style="list-style-type: none"> Review of the council's procurement arrangements will also consider contract management An audit of the council's contract management arrangements has been undertaken and actions identified The proposed new structure for procurement will also enhance contract management skills in the council. 			
5	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.		A major review is planned to report shortly with a recommended way forward regarding procurement.	<ul style="list-style-type: none"> Review of the council's procurement arrangements has taken place An audit of the council's procurement arrangements has been undertaken and actions identified Report proposing a new structure has been reported to SMT Report going to October Executive seeking approval for a new structure to deal with procurement. 			

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update Sept 2016	Update December 2016	Update June 20167	Notes
6	<p>Increase in commercial activities - as the Council but this review has yet to be finalised 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 will act as Directors</p>	<ul style="list-style-type: none"> • Training to staff and councillors who are board members to ensure they have all the relevant information necessary regarding their associated status and responsibilities, to be delivered by Corporate Manager Legal 22nd September 2016. 			

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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