

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 7 December 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), Ashwood, Baldwin, Gottschalk, Harvey, Mrs Henson, Lamb, Packham, Sheldon 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 28 September 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 9 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 **External Audit Progress Report and Technical Update**

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

(Pages 5 -
12)

6 **Annual Audit Letter 2015/16**

To consider the Annual Audit Letter from the Council's External Auditor KPMG.

(Pages 13
- 22)

7 **Code of Corporate Governance - 2016/17 Update**

To consider the report of the Assistant Director Finance.

(Pages 23
- 28)

8 **Internal Audit Progress Report 2nd Quarter 1 July to 30 September 2016**

To consider the report of the Audit Managers.

(Pages 29
- 40)

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

9 **Review of Corporate Governance Risk Register**

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

(Pages 41
- 52)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 15 March 2017 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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Progress Report

Exeter City Council

7 December 2016

Contents

**The contacts at KPMG
in connection with this
report are:**

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Progress report

Appendices

1. 2015/16 audit deliverables

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

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

Progress Update

Change of Audit Manager

Tara Westcott has moved on from KPMG, following a detailed handover Rob Andrews will be your new audit manager. Continuity has been assured through Darren's involvement and the retention of Tom Adams from the previous periods audit team. A brief CV for Rob is included below for information.



Rob Andrews

Rob is an Audit Manager specialising in public sector audit. He is an ACA qualified accountant having joined KPMG four years ago.

Rob's current external audit clients include East Devon District Council, Great Western Hospitals NHS FT, Royal Devon and Exeter NHS FT and Yeovil District Hospital NHS FT. He has previously worked on the audits of a number of local government clients in the South West including Wiltshire County Council, Gloucester City Council and Stroud District Council.

Rob is experienced at leading an on-site team in the delivery of a high quality and efficient audit ensuring all deliverables are met within the agreed timetable. He has extensive experience of completing work in relation to the financial statements, Value for Money opinion, Whole of Government Accounts and grants certification.

Progress update

- There is no technical update for this committee to note.
- The Annual Audit Letter has been completed, this is attached separately.
- The Grants Certification work is progressing smoothly.



Appendix

Appendix 1

2015/16 audit deliverables

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Deliverable	Purpose	Timing of Audit and Governance Committee	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	June 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 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	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	Complete

Appendix 1

2015/16 audit deliverables (cont.)

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Deliverable	Purpose	Timing of Audit and Governance 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	Complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	December 2016	Provided to the Committee at this meeting.
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.	March 2017	Will be presented at the next Committee



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Annual Audit Letter 2015/16

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Exeter City Council

October 2016



Agenda Item 6

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3. Audit fees 8

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

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 Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew 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.

This Annual Audit Letter summarises the outcome from our audit work at Exeter City Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<p>VFM conclusion</p>	<p>We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. Our opinion included an "except for" paragraph stating that we are satisfied with the Authority's overall arrangements except for significant weaknesses in the procurement process which had been identified by the Authority and through our own audit work.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<p>VFM risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements the Council has put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — <i>Impact of the performance of Strata Service Solutions:</i> The objective of the company was for cost saving to be made through the sharing of ICT across the Authority, East Devon District Council and Teignbridge District Council. We assessed the governance structure in place, reviewed minutes of the joint executive committee; we understood the cost monitoring process in place; reviewed the business plan; reviewed the most recent financial statements to determine if cost saving had been achieved in line with budget. Our testing confirmed that the Authority had appropriate arrangements in place. — <i>New development of the leisure centre and bus station:</i> The Authority has proposed a redevelopment of the existing bus station in Exeter to provide for a new leisure complex and new bus station. We held discussions with management on the development; inspected contracts and reviewed cash flow projections. The development is in the advance planning stage and our testing confirmed that the Authority had appropriate arrangements in place. — <i>Procurement process:</i> Recent internal audit reports identified issues relating to procurement and contracting arrangements. The Authority also identified procurement as a significant governance issue within the Annual Governance Statement within its 2015/16 accounts. We reviewed the findings identified by internal audit; held discussions with management in relation to the action plan being implemented by the Authority; performed sample testing on the procurement listing produced by the Authority and agreed these back to supporting documentation and the Authority's own procurement policy where information was available. The outcome of our work identified a number of instances where the Authority had not followed the correct quotation and tendering process, the procurement process was poorly evidenced, supplier payments had no supporting contracts in place or where contracts had been in place but had expired and continued to be used without evidence of formal agreement of their extension. We discussed these issues with management and understand that steps are being put in place to address these with the implementation of an action plan as well as a more centralised procurement overview. As a result, we concluded that it was appropriate to qualify our VFM conclusion on an 'except for' basis. It is important that the Authority delivers planned improvements to its procurement and contracting arrangements through its agreed action plan, and our audit work next year will revisit this issue to consider progress.
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>

We have issued our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year.

Financial statements audit	<p>This was our first year auditing the Authority and we noted that the financial reporting process at the Authority was good. The quality of the working papers provided to us for audit purposes were to a good standard.</p> <p>Our audit did not identify any significant adjusted or unadjusted audit differences.</p> <p>We identified the following financial statement audit risk as part of our 2015/16 External audit plan:</p> <ul style="list-style-type: none"> – <i>Valuation of Property, Plant & Equipment:</i> The Authority is responsible for ensuring the valuation of its PPE is materially correct and for conducting impairment reviews that confirm the condition of these assets. The Authority achieves this by performing revaluations (which is performed by the Authority's in-house expert) not more than five year intervals. We obtained and reviewed the terms of engagement with your valuer and the instructions provided to the valuer for the year end to ensure that the appropriate testing of assets was performed. We challenge management to the appropriateness of the information received from the valuer; understood from management the basis of any impairments booked, tested the assumptions used by the valuer; we performed sample testing on the revaluations booked to ensure they had been booked correctly into the accounts. We did not identify any issues from our work.
Other information accompanying the financial statements	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
Whole of Government Accounts	<p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.</p>
High priority recommendations	<p>We raised three high priority recommendations as a result of our 2015/16 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. They relate to:</p> <ul style="list-style-type: none"> – authorisation of Journals; – super user access and segregation of duties over the payroll function; and – weaknesses identified in the procurement process. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p>
Certificate	<p>We issued our certificate on 28 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p>
Audit fee	<p>Our fee for 2015/16 was £57,887, excluding VAT. Further detail is contained in Appendix 3.</p>

Appendix 1: Key issues and recommendations

<p>The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.</p> <p>We will formally follow up these recommendations next year.</p>	No.	Management response / responsible officer / due date
	<p>1</p> <p>Authorisation of journal entries</p> <p>Issue</p> <p>At present the Authority has a list of authorised users who are able to post and authorise journals. There is no segregation of duties and the same individual can post and authorise their own journals.</p> <p>There is no sample checking or reports that are used to spot check authorised journals to ensure that they are legitimate.</p> <p>In addition, your Assistant Director Finance is able to post journals to the general ledger which raises the risk of management override of controls. During our sample testing we did not identify any instance where your Assistant Director Finance posted journals.</p> <p>Recommendation</p> <p>The finance system should be updated with software to enable the functionality to allow separate posting and authorisation of journals. If this is not possible due to system limitations, spot checks should be performed by someone independent to the person posting, on a monthly basis to ensure journals are supported and legitimate.</p>	<p>Management response</p> <p>Agreed. The Technical Accounting Manager has been working with Internal Audit in order to introduce a new system for journal authorisation. A new system has been trialled since 1st July 2016 whereby separate officers post and authorise journals, however the financial system does not have the functionality to enforce the separation of posting and authorisation of journals, it is therefore reliant on officers to adhere to. A review of the trial period is due to be undertaken in conjunction with Internal Audit as part of the Main Accounting Audit in order to determine the optimum long term solution, so that it may also be agreed with our external auditors.</p> <p>In addition, the system access rights of the Assistant Director Finance have been updated which have removed his ability to post and authorise journals.</p> <p>Responsible officer Assistant Director Finance</p> <p>Due date 1 December 2016</p>
<p>2</p> <p>Super user access and segregation of duties over the payroll function</p> <p>Issue</p> <p>Members of the Payroll department are able to add/delete employees, process and review the payroll and BACS payments. All staff within this department have super user access to the HR and payroll systems. As a result there is a lack of segregation of duties.</p> <p>Recommendation</p> <p>Appropriate segregation of duties should be in place and there should be an additional layer who reviews the payroll report and particularly the exception report prior to payroll being sent for processing.</p>	<p>Management response</p> <p>Agreed. On a short-term basis the Transactional Services Manager will review the exception report prior to payroll being finalised. However, in the absence of the Transactional Services Manager, the Transactional Services Team Leader will need to undertake this duty.</p> <p>In order to ensure effective segregation of duties are maintained, the Corporate Manager Legal & HR will review the Payroll function and assess whether additional resources are required.</p> <p>Responsible officer Corporate Manager Legal & HR</p> <p>Due date 31 March 2017</p>	

Appendix 1: Key issues and recommendations (Cont)

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

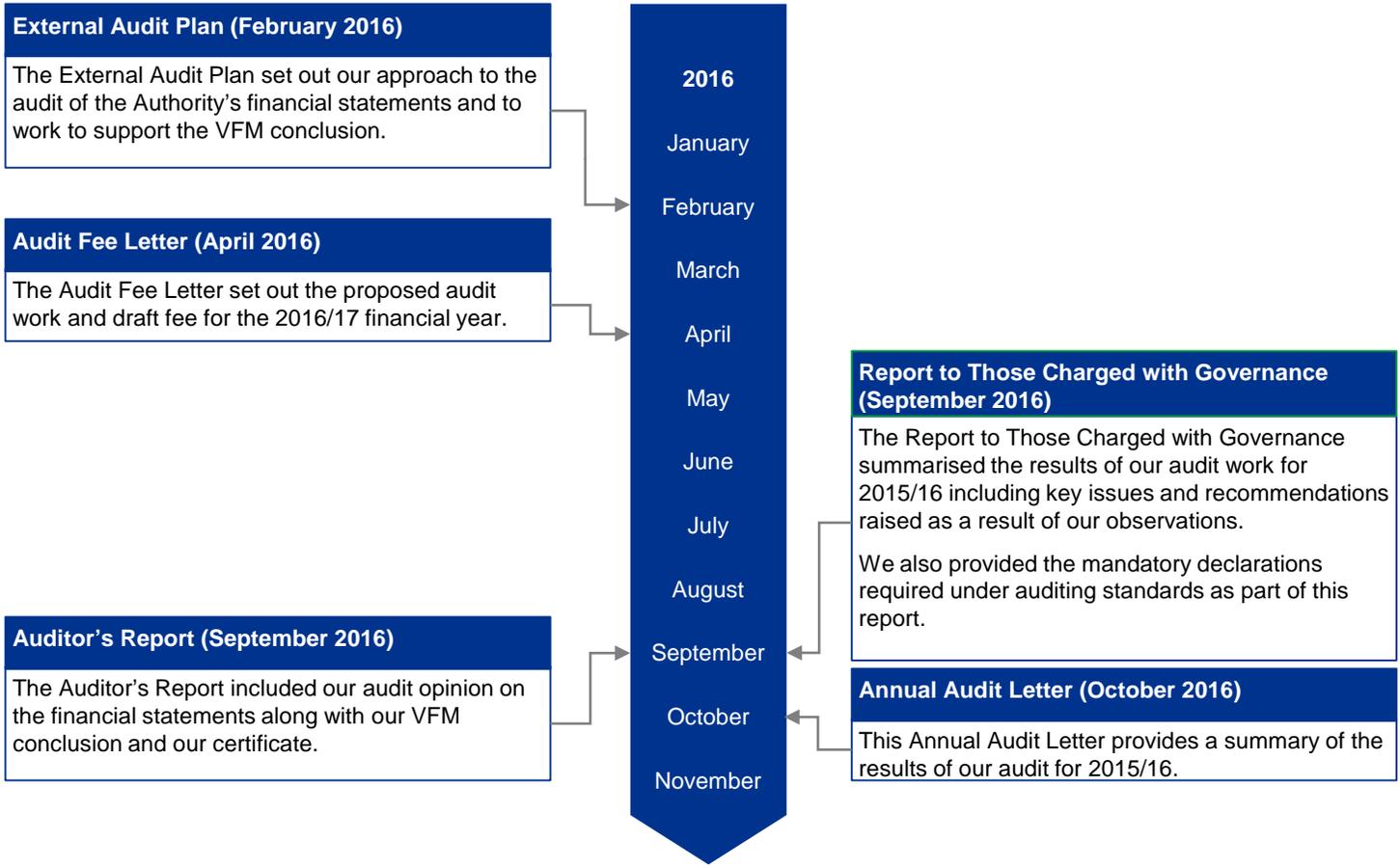
We will formally follow up these recommendations next year.

No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>Procurement process</p> <p>Issue</p> <p>The procurement process appears to be weak and has led to non-compliance with regulations and internal policy. This was highlighted to you by your internal auditors in November 2015.</p> <p>Since the internal audit review, the Authority has been working on obtaining a complete and accurate listing of supplier payments to ensure that contracts are in place and that terms and conditions are being adhered to. The Authority is also investigating to ensure that the correct procurement process had been performed. At the time of this report, this work was still ongoing.</p> <p>This exposes the Authority to a risk of failing to achieve value for money for tax payers and a risk of challenge from unsuccessful contractors.</p> <p>As a result, the Authority recruited a procurement consultant to perform a review of the process which raised a number of issues, and is currently in the process of implementing an action plan.</p> <p>Given the critical importance of procurement it is vital that the Authority delivers the changes required to strengthen its arrangements and ensure compliance with these enhanced policies and procedures. The action plan therefore represents a vital process and it is important that it is sufficiently resourced, closely monitored and delivered on a timely basis.</p> <p>Recommendation</p> <p>Ensure progress in delivering the procurement action plan is closely monitored and that sufficient resource is available to implement the required improvements to the Council's procurement arrangements.</p>	<p>Management response</p> <p>Agreed. A report is being prepared for the 11 October Executive to begin the process of delivering the new Procurement function. It is anticipated that the team will be in place by April 2017.</p> <p>Responsible officer</p> <p>Assistant Director Finance</p> <p>Due date</p> <p>April 2017</p>

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued during the year.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.exeter.gov.uk.



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our planned fee for the 2015/16 audit of the Authority was £57,887. We are seeking an additional fee for the work we have performed on procurement leading to the VFM qualification. The amount is currently being agreed with management and the PSAA.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We have performed audit-related services for the certification of the Pooling of Housing Capital receipts return, which is outside of Public Sector Audit Appointment's certification regime. The fee to be charged is £3,000.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 7 December 2016

Report of: Assistant Director Finance

Title: CODE OF CORPORATE GOVERNANCE – 2016-18 UPDATE

Is this a Key Decision?

No

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

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 The report sets out the proposed updated Code of Corporate Governance to reflect the updated principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016).

2. Recommendations:

It is recommended that:

- 2.1 Audit and Governance Committee supports and Council approves the updated Code of Corporate Governance for 2016-18;

3. Reasons for the recommendation:

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

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

- 4.1 There are no resource implications contained within the report.

5. Section 151 Officer comments:

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

6. What are the legal aspects?

- 6.1 The Annual Governance Statement, which reports on performance against the Code of Corporate Governance complies with Regulation 4 of the Accounts and Audit (England) Regulations 2015.

7. Monitoring Officer's comments:

8. Report details:

- 8.1 The Code of Corporate Governance is required to be updated annually. The updated Code is attached at Appendix A.
- 8.2 The code has been updated to reflect the new principles set by CIPFA/SOLACE and the opportunity has been taken to present it more in line with the Annual Governance Statement that reports on the Council's performance.

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

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

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

- 10.1 There are no direct risks associated with this report

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

- 11.1 Not applicable

12. Are there any other options?

- 12.1 Not applicable

Assistant Director Finance

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

Background papers used in compiling this report:-

None

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



Exeter City Council

Code of Corporate Governance

2016-18

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 addition to meeting statutory obligations and organisational objectives, the Council's governance framework is required to meet the following seven principles of good governance:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social and environmental benefits
4. Determining interventions necessary to optimise the achievement of the intended outcomes
5. Developing the Council's capacity. Including the capability of its leadership and individuals within it
6. Managing risk and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability

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 this Code of Corporate Governance, which is consistent with the principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016) and which identifies the systems, processes and documents that contribute to the Council's governance arrangements

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The Purpose of the Governance Framework

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

The Council's system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. There is an ongoing process designed to identify and prioritise risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

Corporate Governance Framework

Meeting Statutory Obligations

Behaving with integrity

Defining outcomes

Developing the Council's capacity

Delivering effective accountability

Meeting Organisational Objectives

Ensuring openness

Determining interventions

Managing risk and performance

The Council's commitment to good governance based on the requirement to meet statutory obligations, organisational objectives and is based on the seven principles of Delivering Good Governance in Local Government Framework (CIPFA/Solace 2016)

Regulatory

Constitution
 Terms of Reference
 Members' Code of Conduct
 Member/Officer Protocol
 Scheme of Delegation
 Financial Regulations
 Standing Orders
 Record of Decisions
 Forward Plan
 Register of pecuniary interests
 Register of gifts & hospitality
 Audit & Governance Committee
 Scrutiny Framework
 External Audit
 Internal Audit
 Head of Paid Service
 Section 151 Officer
 Monitoring Officer
 Member Development Framework
 Member's Toolkit

Corporate

Corporate Work Plan
 Corporate Plan
 Risk Management Policy & procedures
 Business Continuity Policy & Plans
 Corporate Risk Register
 Performance Management framework
 Corporate Complaints Procedure
 Exeter Community Strategy
 Officers Community Engagement Group
 Surveys/Focus Groups
 Exeter Citizen
 Record of public consultations
 Equalities and Diversity Policy
 Access to Information Policy
 FOI Publication Scheme
 Website transparency pages
 Information Governance Framework
 Information Security Policy

Finance

Medium Term Financial Strategy
 Budget Monitoring Process
 Treasury Management Strategy
 Statement of Accounts
 Annual Governance Statement
 Prudential Code for Capital Finance
 Statement on the role of CFO
 Statement on the role of HIA
 Counter Fraud Strategy
 Anti-Money Laundering Policy
 Whistleblowing Policy
 Fraud reporting on website
 Compliance with Public Sector Internal Audit Standards
 Capital Programme
 Council tax leaflet/information

HR Policies

Pay Policy
 Officers' Code of Conduct
 Staff Induction
 Staff Training & Development Programme
 Staff Surveys
 Growth & Development Reviews
 Job Evaluation Process
 Job Descriptions
 Corporate Health & Safety Policy
 Employee Assistance Programme
 Disciplinary procedure

Review of effectiveness

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

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

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

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Date of next review

The Code of Corporate Governance will be reviewed annually by the Section 151 Officer in consultation with the Policy Unit and presented to the meeting of the Audit & Governance Committee in March 2018.

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 7th DECEMBER 2016

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 2ND QUARTER 1ST JULY TO 30TH SEPTEMBER 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 July to 30th September 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 second 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:

There are no financial implications arising from the report. The three completed audits demonstrate a reasonable level of assurance for the Council to rely on.

6. What are the legal aspects?

None identified.

7. Monitoring Officer's comments:

This report raises no further issues for the Monitoring Officer although it is her view that members should carefully scrutinise progress of the governance issues set out in Appendix C.

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 Update on outstanding issues

In March of this year the following issue was reported to this committee:

'There are a number of reports with outstanding recommendations that have been outstanding for a significant length of time and although in different reports all relate to the updating of Financial Regulations. Recommendations have been made in various reports to update Financial Regulations, however, these updates have yet to be actioned.'

At the meeting the Assistant Director Finance confirmed that a draft set of financial regulations would be put before Members prior to the Council meeting in July, and would put into context, the contract regulations. However, at the SMT meeting held in July, it was agreed to postpone this and this work will now be undertaken as part of the review of the Council's constitution due to be undertaken in January.

8.4 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 and progress against that action plan 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:
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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2016/17 AUDIT PLAN AS AT 30/09/16

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	5.0	To start Q3					
Income Management	10	1.7	To start Q4					
Procurement	20	3.3	Tbc					
"Creditors First Half Year Second Half Year"	40	14.4 0	Draft Report To start Q3					
Treasury Management	5	0.2	In progress					
People Management	20	9.6	In progress					
STRATA - post project review	10	5.5	In progress					
Business Continuity	10	0.2	To start Q4					
Risk management	10	2.0	On-going					
Corporate property assets - commercial rents	8	0	To start Q4					
Contract Management	10	1.9	Tbc					
Counter Fraud/Anti- Fraud/NFI	10	18.2	No report due					
Corporate governance (AGS, etc)	10	5.7	In progress					
Information Governance	10	3.9	No report due					
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	33.6	Final Report	↑	Good	1	3	3
Council Tax	20	2.7	To start Q3					
Sundry Debt	20	24.1	In progress					
Payment & collection	20	28.7	Final Report	↑	Some improvement required	2	4	6
NDR	10	6.3	In progress					
Housing – Advice, Allocations & Home	10	0	To start Q2					

Housing Revenue Account

'Provide suitable housing'

'Be a good landlord'

Private Sector Housing – HMO's Wessex Home Loans	10	9.2	Draft Report Draft Report					
Disabled Facilities Grants	5	11.3	Final report	No previous report	Good	1	2	1
Housing – Right to Buy	10	10.5	In progress					

Health & Place

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	2.5	To start Q3					
Recycling	10	0.1	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	0.8	In progress					
Waterways	7	0	To start Q4					

Other

RIPA Administration	2	0.4
Contingency (special/frauds) including unplanned work	30	5.4
Follow-ups	10	7.9
Biennial Stakeholder Review	2	0.7
Audit Development – Data Analysis/CAAT development	14	2.7
Audit planning and control	40	17.7
Total	505	236.6

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Summary of Work Completed 01 July to 30 September 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>Housing Benefit Subsidy</p> <p>Assurance rating: Good ★★★★</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 • DWP supporting evidence requirements were being met • the amount of benefit paid was accurately calculated <p>It was found that the error rate had reduced from last year i.e. entitlement error rate 2015/16 audit = 10%, 2016/17 audit = 7.5%. This is likely to be as a result of the continued checking of assessments by senior assessors and the additional training/advice provided where issues are identified.</p> <p>There was 1 'high' recommendation and three 'medium' recommendations made all of which were agreed by management. The 'high' risk recommendation related to the incorrect input of earnings.</p>
<p>Payments and Collection</p> <p>Assurance rating: Some Improvement required ★★★</p>	<p>The Payments and Collections Team, formerly the One View of Debt team, oversees the collection of the council tax, housing rent, housing benefit overpayments, former tenant arrears and rechargeable repair debts.</p> <p>The objectives of the audit were to then check that debt recovery is being undertaken in a prompt manner and that a cohesive working arrangement is in place and working well between the various debt areas.</p> <p>There was 2 'high' and 4 'medium' recommendations made all of which were agreed by management. The 'high' risk recommendations related to the poor collection rate of historical and 'gone away' council tax debts.</p>
<p>Disabled Facilities Grants</p> <p>Assurance rating: Good ★★★★</p>	<p>If a house owner or someone living in their property is disabled they may qualify for a disabled facilities grant towards the cost of providing adaptations and facilities to enable the disabled person to continue living there.</p> <p>The awarding of these grants by local councils is governed by part one of the Housing Grants, Construction and Regeneration Act 1996. Devon County Council was allocated an overall amount of £3,391,701 from the government for 2015/16. Of this, £379,076 was paid to Exeter City Council to manage on their behalf and to process and award the grant applications.</p>

Devon County Council require a letter of assurance from each local authority at year end to confirm that the grant has been used by each relevant Council as expected. The main objective of the audit was to carry out appropriate compliance testing to ensure controls are in place and operating effectively and thereby enabling the required assurance statement to be provided.

A total of 1 'high' and 2 'medium' recommendations were made, all which were agreed by management. The 'high' risk recommendation related to non-compliance with OJEU and PCR regulations in the procurement of disabled facilities work as a result of which the Council has now signed up to a framework with Teignbridge District Council for the procurement of disabled facilities equipment.

The assurance statement was signed off by the Audit Manager and AD Finance and submitted by the required deadline.

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	Service Standards are due to go to Strata Joint Executive 14.12.16		
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	Seperation of duties continues to be an issue with some services due to the reduction in the resources. Management and Internal Audit continue to monitor the situation.		
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.	Temporary compensating controls have now ceased with one service as staff have now returned to work. Internal Audit continue to monitor the situation with other services affected.		
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.	AD Finance	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. 	Contract Regulations to be reviewed and updated as part of the review of the procurement process.		
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.	AD Finance	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. 	New structure to deal with procurement was approved by Executive 11.10.16. AD Finance authorised to proceed to consultation stage in accordance with the Council's organisational change policy. Procurement Steering Group now in place and meeting monthly.		

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. 	<p>Training has now been delivered to all relevant staff and Councillors. The Council has now fulfilled its responsibilities regarding this issue.</p>		

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of the Local Government Act 1972.

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