

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 15 March 2017
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 Mark Devin, Democratic Services Officer on 01392 265477.

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 7 December 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 11 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 - 20)

6 **Audit and Governance Committee Update 2016/17**

To consider the report of the Council's External Auditor KPMG. (Pages 21 - 38)

7 **Annual Report on grants and returns 2015/16**

To consider the report of the Council's External Auditor KPMG. (Pages 39 - 46)

8 **Annual Internal Audit Plan 2017/18**

To consider the report of the Audit Managers. (Pages 47 - 52)

9 **Internal Audit Progress Report**

To consider the report of the Audit Managers. (Pages 53 - 66)

10 **Approval of the Internal Audit Charter**

To consider the report of the Audit Managers. (Pages 67 - 78)

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

11 **Review of Corporate Governance Risk Register**

To consider the report of the Corporate Manager Policy, Communications and Community Engagement. (Pages 79 - 90)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 21 June 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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Technical update

Exeter City Council

February 2017

Contents

The contacts at KPMG in connection with this report are:

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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

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.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, by email to 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.



External audit progress report

External audit progress report

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

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

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Area of responsibility	Commentary
Financial statements	<p>We have completed our planning work for the 16/17 audit, considering key issues at the Council and any relevant requirements as per the code. These discussions have formed our audit plan, which has been presented at this committee.</p> <p>We completed our interim fieldwork during January 2017, to test the control environment at the Council. The findings are currently going through review and will be reported at the next committee.</p>
Value for Money	<p>Our approach for the 16/17 conclusion has considered as part of our audit planning. See audit plan for key risks raised.</p>
Certification of claims and returns	<p>The grant certification was completed before the November deadline. We certified the Housing Benefits claim unqualified. Planning will commence for the 16/17 certification from April 2017.</p>
Other work	<p>There is no other work ongoing currently. We have noted in our audit plan that we have committed to follow up procedures for the s106 objector review.</p>



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

NAO report: Children in need of help or protection

Level of impact: ● (For Information)

The NAO has recently published a report entitled *Children in need of help or protection*.

The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children's social work, including on child protection, varies widely across England and is not related to quality.

Neither the Department for Education nor authorities understand why spending varies.

The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.

The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted's view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ending 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.

The report is available from the NAO website at www.nao.org.uk/report/children-in-need-of-help-or-protection

Consultation on 2017/18 work programme and scales of fees

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2017/18 work programme and scales of fees.

The consultation sets out the work that auditors will undertake at principal local government and police bodies for 2017/18, with the associated scales of fees. The consultation document, and the lists of individual scale fees, are available on the 2017/18 work programme and scales of fees consultation page of the PSAA website: www.psa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees

There are no planned changes to the overall work programme for 2017/18. It is therefore proposed that scale fees are set at the same level as the scale fees applicable for 2016/17.

The work that auditors will carry out on the 2017/18 accounts will be completed based on the requirements set out in the *Local Audit and Accountability Act 2014* and under the *Code of Audit Practice*.

The consultation closed on Thursday 12 January 2017. PSAA will publish the final work programme and scales of fees for 2017/18 in March 2017.

This is the final year for which PSAA will set fees under the current transitional arrangements. The Secretary of State for Communities and Local Government has specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the *Local Audit and Accountability Act 2014* and the requirements of the *Local Audit (Appointing Person) Regulations 2015*.

This means that PSAA will make auditor appointments under new audit contracts to bodies that choose to opt into the national scheme the company is developing, for audits of the accounts from 2018/19.

Further information is available on the appointing person page of the PSAA website: www.psa.co.uk/supporting-the-transition/appointing-person

Overview of Local Government

Level of impact: ● (For Information)

The NAO has recently published an Overview of Local Government

The overview looks at the local government landscape and summarises both matters of likely interest to Parliament and the National Audit Office's (NAO's) work with local authorities. These include Local Government Responsibilities, Funding and Service Spending and the findings from the NAOs work on Local Government.

The overview is available from the NAO website at www.nao.org.uk/report/overview-local-government



Appendix

Appendix 1

2016/17 audit deliverables

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Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	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.	June 2017	TBC
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 2017	TBC

Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	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 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	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 2017	TBC



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External Audit Plan 2016/2017

Exeter City Council

February 2017

The Local Government Landscape



Financial Statement Audit



The main change to the Code of Practice on Local Authority Accounting in 2016/17 relates to the format of the Comprehensive Income & Expenditure Statement (see page 6) and introduction of a new primary statement (the Expenditure and Funding Analysis) which will result in a significant change to the presentation of the accounts. There are no significant changes to the underlying accounting framework that the Authority needs to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£1.9million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£95k**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation;
- Valuation of Property plant and equipment - As valuations occur on a rolling basis with only 20% of assets being valued each year. The time delay may result in material differences between the carrying value and fair value; and
- Management override of controls – This risk is present in all entities as management is in a unique position to manipulate accounting records. The audit approach will test the appropriateness of journal entries recorded in the general ledger, review the appropriateness of accounting estimates, and assess the reasonableness of provisions.

See pages 3 to 7 for more details.

Value for Money Arrangements work



Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Non-Compliance with procurement process;
- New development of the leisure centre and bus station;
- Impact of the performance of Strata Service Solutions on the Authority; and
- Medium Term Financial Planning.

Our risk assessment is ongoing and we will report VFM significant risks during our audit

See pages 8 to 12 for more details.

Logistics



Our team is:

- Darren Gilbert – Director
- Rob Andrews – Manager
- Chantelle Chimhini – Assistant manager

More details are on **page 15**.

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 14**.

Our fee for the audit is £57,887 see **page 13**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.





Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

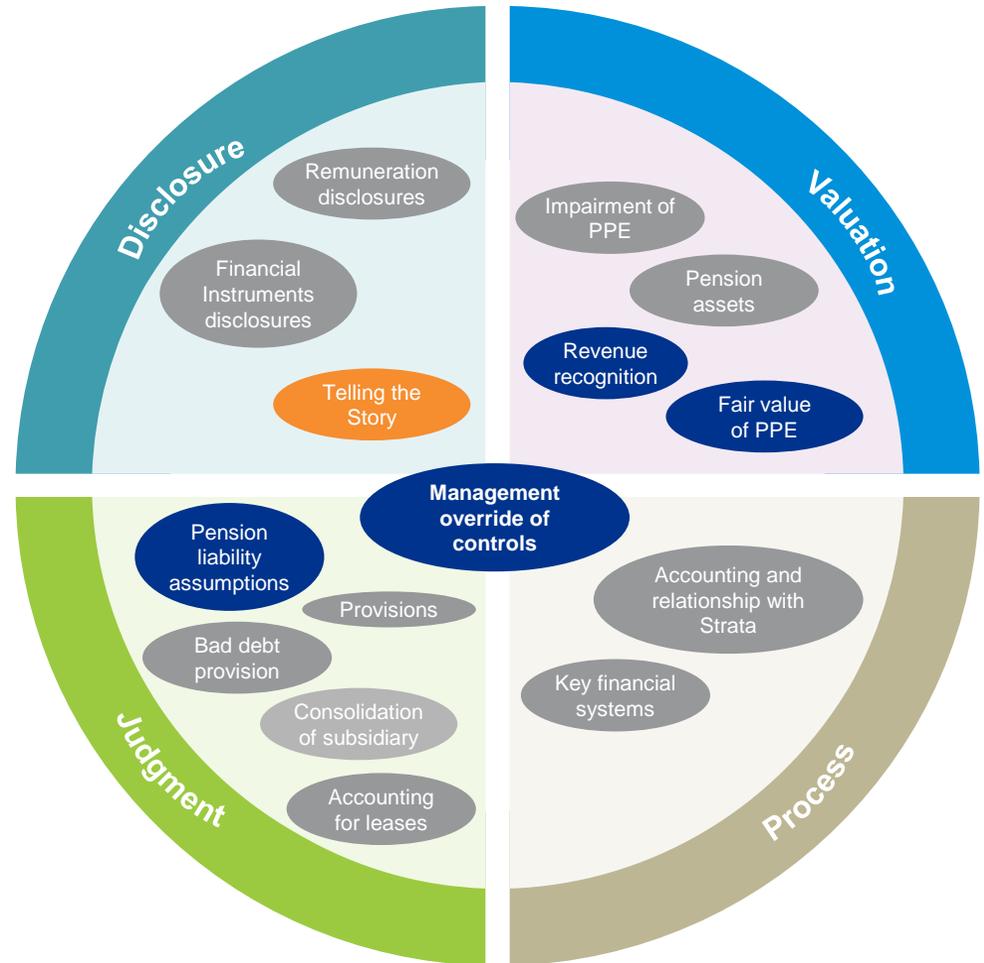
Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

Fraudulent revenue recognition – Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk: Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for Devon County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Devon County Council, which administers the Pension Fund.

Approach: As part of our audit, we will agree any data provided by the Authority to the actuary back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Grant Thornton, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.

Risk: Valuation of Property, Plant & Equipment (PPE)

Authorities are responsible for ensuring the valuation of their PPE is materially correct, and for conducting impairment reviews that confirm the condition of these assets. Local authorities typically achieve this by performing an annual review for impairment, a periodic desk top valuation (every three years) and a full valuation in not more than five yearly intervals. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

The net book value of the Authority's PPE as at 31 March 2016 was £347 million of this balance £330 million relates to land and buildings. These balances were estimated by your internal valuer. The last full valuation of the Authority's dwelling took place on 1 April 2014 and a desk top review will be performed at 31 March 2017. All other assets included within other land and buildings are revalued on a rolling basis each year.

As revaluations occur up to every five years, the time delay could result in a material difference between the carrying value and fair value.

Approach: We will review the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.

We will obtain the instructions provided to the valuer. We will consider the source of the information and undertake appropriate testing to ensure both its completeness and accuracy.

We will confirm the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements.

We will undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We will test the associated assumptions and determine if there have been any significant variances in fair value between valuations.

We will also consider the recognition of any assets under construction recognised in the year.



Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Telling the Story - Disclosure associated with retrospective restatement of CIES, EFA and MiRS

Risk: CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

Approach: We will liaise with the Authority's finance team regarding the new requirements and agree the new disclosures, including the restatement of the prior year comparators.

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Financial statements audit planning (cont.)



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.9 million for the Authority's accounts, which equates to 2% percent of gross expenditure. This will be revised if necessary on receipt of the draft financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision, which has been set at £1.3 million.

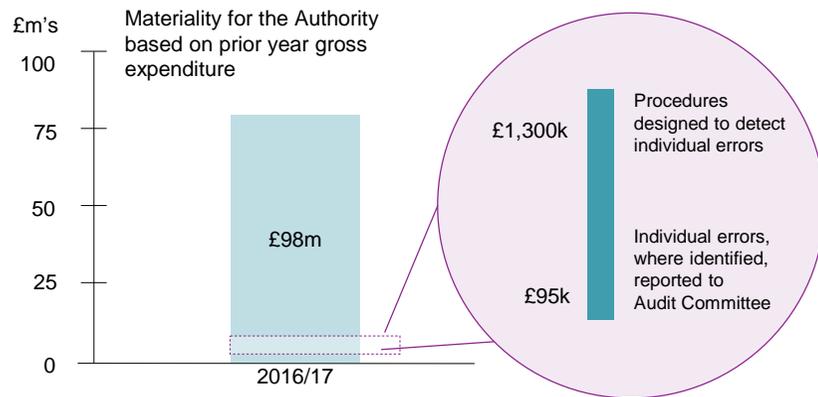
Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £95k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.





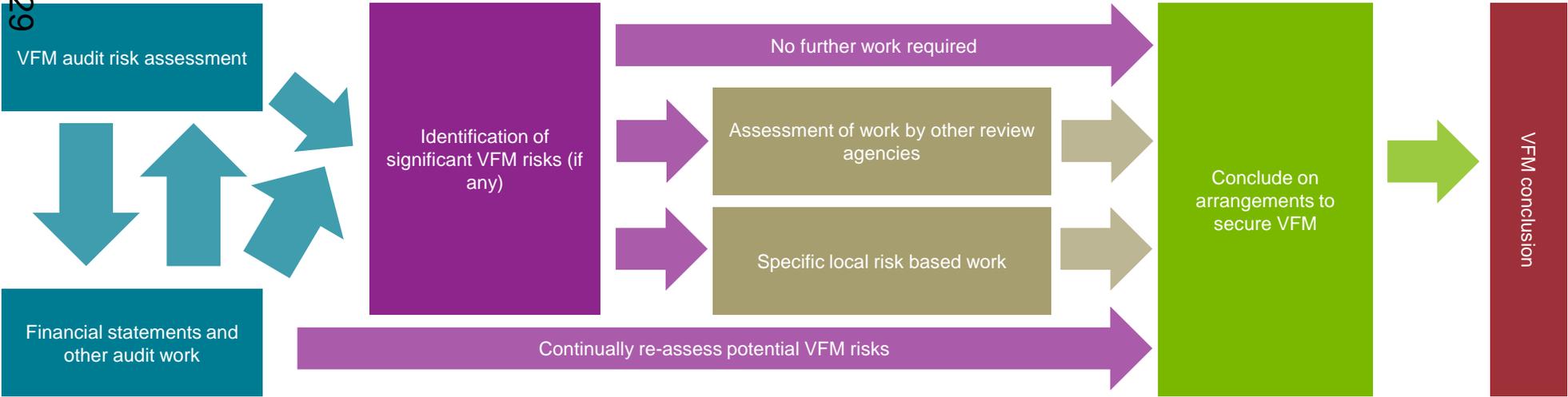
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.

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Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
<p>Linkages with financial statements and other audit work</p> <p>Page 31</p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p> <p>Page 32</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Non-Compliance with procurement process

■ Risk

In the previous year we undertook significant work to consider the Council's procurement arrangements and the Council itself recognised the need for these to be strengthened in its Annual Governance Statement. We qualified our VFM conclusion on an 'except for' basis as a result of weaknesses identified in these arrangements. The Council developed an action plan to address these issues and has been working on delivering improvements in its procurement arrangements.

■ Approach

We will review the latest progress against the action plan. We will interview key staff to understand how the progress has been delivered and sample test contracts to ensure compliance with Council policy.

New development of the leisure centre and bus station

■ Risk

The Authority has proposed a redevelopment of the existing bus station in Exeter to provide for a leisure complex and a new bus station. This a considerable project for the Council and is relevant to the sustainable resource deployment and working with partners and third parties sub-criteria of the VFM conclusion.

■ Approach

We will review the latest progress on the development, including expenditure in the year. We will reviewed contracts and cash flow projections to consider the arrangements the Council has to deliver the project.

Impact of the performance of Strata Service Solutions on the Authority

■ Risk

The ongoing savings have been lower than initially expected, and there have been delays on the services provided. This is relevant to the sustainable resource deployment and working with partners and third parties sub-criteria of the VFM conclusion.

■ Approach

We will review the latest progress on the Strata project, including cost monitoring plans, implementation of services and savings achieved.

Medium Term Financial Planning

■ Risk

It was noted through our prior year work that the Council will have its central government grant funding reduced in 2016/17 by circa 20%. Although this is somewhat offset by council tax rises, it has created the need for additional savings over the coming four years to fill the funding gap.

■ Approach

As part of our additional risk based work, we will review the controls the Authority has in place to identify the need for financial savings and to deliver these. This will include considering whether the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Darren Gilbert, a Director in KPMG's Public Sector Audit department. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

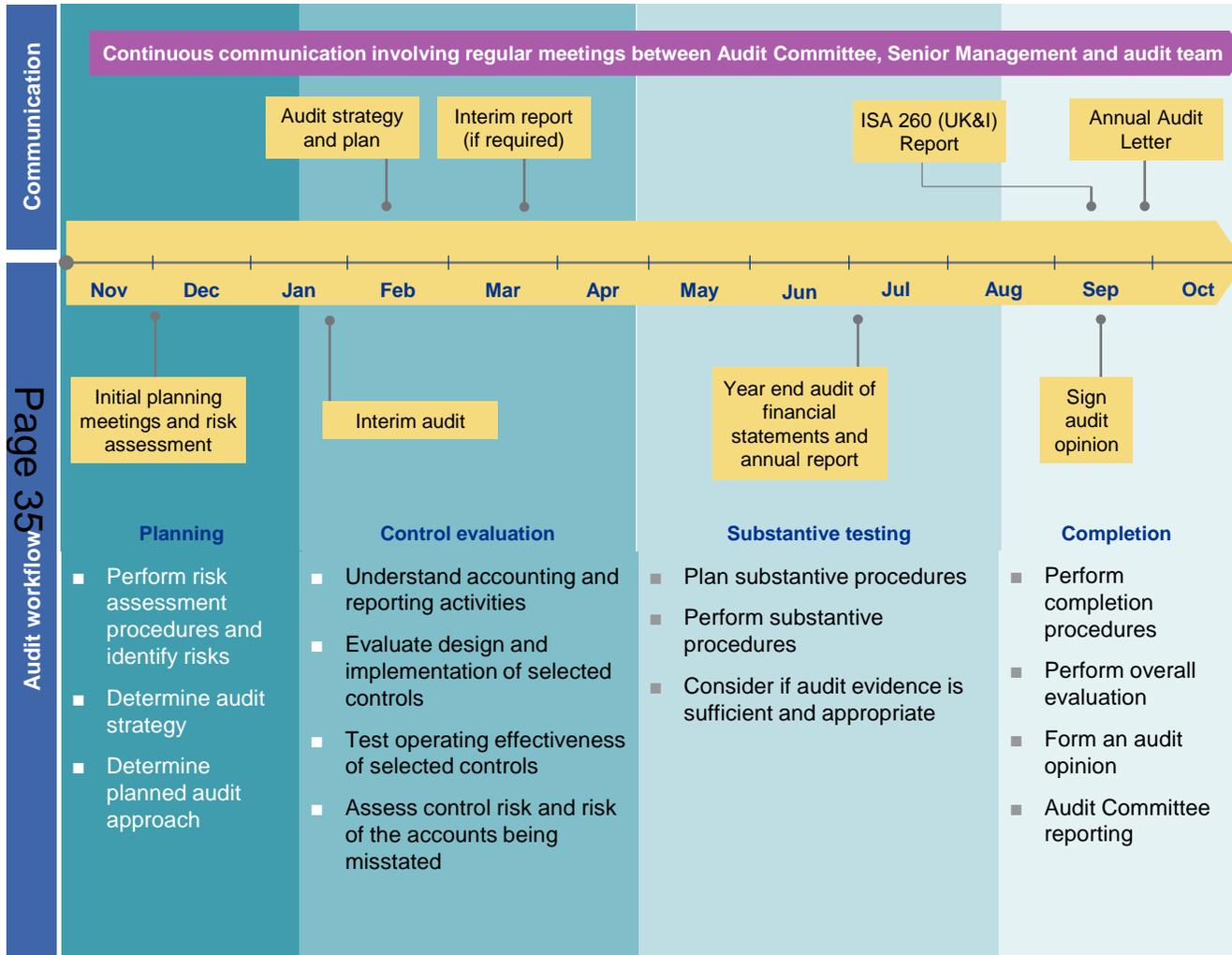
Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £57,887. The scale fee has been maintained at the same amount as the prior year, however we are expecting an additional fee subject to PSAA determination. We also note that given the number of a VFM risks identified and the requirement to follow up to the procurement issue which drove the additional charges in 2015/16 there may be scope for additional fees from the VFM work. However this is subject to the work required and will be discussed with the authority if required.

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosures associated with retrospective restatement of the CIES, EFA and MIRS.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Appendix 1: Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable, payroll and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department.



Name	Darren Gilbert
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Chief Executive & Growth director of the Council.'</p>

Darren Gilbert

Director

+44 2920 468205

darren.gilbert@kpmg.co.uk



Name	Rob Andrews
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Darren to ensure we add value.</p> <p>I will liaise with the Director of Finance and the Technical Accounting Manager other Executive Directors.'</p>

Rob Andrews

Manager

+44 7468 369447

Rob.andrews@kpmg.co.uk



Name	Chantelle Chimhini
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

Chantelle Chimhini

Assistant Manager

+44 7769 954001

chantelle.chimhini@kpmg.co.uk



Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

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

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

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

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

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

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 9 February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psa.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, by email to 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.



Annual Report on grants and returns 2015/16



Exeter City Council

February 2017

Agenda Item 7

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The contacts at KPMG in connection with this report are:

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Summary of certification work outcomes

3

Fees

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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).

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Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £39.3 million;
- Under separate assurance engagements we certified the Pooling of Housing Capital Receipts 2015/16 return with a value of £2.5 million.

Certification and assurance results (Pages 3-4)

Our certification work on Housing Benefit Subsidy claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter as a result of errors identified in relation to the recording of claimant income, benefit start dates and tenancy end dates.

Our work on the other grant assurance engagement resulted in a reasonable assurance report in relation to the Pooling of Housing Capital Receipts returns with no issues being reported.

Adjustments were necessary to both of the Council's grants and returns as a result of our certification work this year with:

- The overall value of the Housing Benefit Subsidy claim being increased by £234; and
- No impact on the overall value of the Pooling of Housing Capital Receipts return.

Recommendations

We have made no recommendations to the Council from our work this year. This reflects the fact that those issues identified through our audit are not uncommon across the sector and arise from the large volume of claims being processed by the Council's benefits team throughout the year. We note that the level of errors identified is reduced from the prior year.

Fees (Page 5)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £16,100, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagement was subject to agreement directly with the Council and was £3,000 for the certification of the Pooling of Housing Capital Receipts Return.

Summary of reporting outcomes

Overall, we carried out work on two grants and returns:

- one was unqualified with a minor amendment;
- one required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council’s 2015/16 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1				
Other assurance engagements					
— Pooling of Housing Capital Receipts.	2				
		1	-	2	1

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>Housing Benefit Subsidy</p> <p>As a result of our sample testing of claims we identified:</p> <ul style="list-style-type: none"> — Five errors (from a sample of 180 claims) in relation to the recording of tenancy end dates. These resulted in both under and overpayments of benefits; — One instance (from a sample of 180 claims) where the benefit start date had been incorrectly recorded resulting in an overpayment of benefit; and — 26 inaccuracies (from a sample of 180 claims) in relation to the recording of income values resulting in both under and overpayments. <p>Whilst the number of errors identified may appear relatively high, representing 18% of the overall sample, the average value of the errors was only £75 per claim compared to average claim values of £6,129. No adjustments were made to the claim in relation to these errors; rather the Department for Work & Pensions will consider the results of this work and decide if any adjustment is required.</p> <p>In addition to the above we identified the following errors where the whole population could be tested and therefore an adjustment could be made:</p> <ul style="list-style-type: none"> — Five instances where overpayments arising on the same day as underpayments had not been netted off; and — Seven instances where benefit caps applicable to specific cells in the claim form had not been applied properly as a result of overpayments being netted off. 	£234
2	<p>Pooling of Housing Capital Receipts</p> <p>An amendment was required as a result of Right to Buy sales occurring in November 2012 being recorded in the pre-April 2012 part of the return. There was no overall impact upon the value of the return.</p>	Nil Impact

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £19,100.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £16,100. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £20,360. The decrease in the fee compared to prior year is a result of additional work required in 2014/15 and the calculation by PSAA of the scale fee.

Grants subject to other assurance engagements

The fees for our assurance work on the Pooling of Housing Capital Receipts return is agreed directly with the Council.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return	
	2015/16 (£)
Housing Benefit Subsidy claim	16,100
Pooling of Housing Capital Receipts	3,000
Total fee	19,100



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REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 15th March 2017

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PLAN 2017/18

Is this a Key Decision? No

Is this an Executive or Council Function? Council

1. What is the report about?

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

2. Recommendations:

2.1 That the 2017/18 Internal Audit Plan be approved.

3. Reasons for the recommendation:

3.1 To meet the terms of reference of the Audit and Governance committee.

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

4.1 No additional resources implications

5. Section 151 Officer comments:

5.1 There are no financial implications contained within this report. The audit plan is produced on a risk management basis and is independent of all functions of the Council. It does however reflect discussions with management to identify new areas of risk and references the Corporate risk register where appropriate..

6. What are the legal aspects?

None identified

7. Monitoring Officer's comments:

This report raises no issued of concern to the Monitoring officer.

8. Report details:

- 8.1 The Internal Audit Strategy including the audit rolling plan was established in line with internal control and risk management best practice, and is used to establish the basis of the Audit Plan.
- 8.2 The Council's Internal Auditors use the 'Enterprise Risk Management Approach' (ERMA) they devised to check that there are adequate internal controls and separation of duties and that risk is adequately considered throughout the Council. This approach ensures that non-financial systems (such as corporate governance, health & safety and risk management) are afforded the same 'fundamental systems' status as the traditionally important financial systems (such as creditors, housing benefits, payroll and council tax).
- 8.3 All systems are assessed using an audit risk assessment matrix and High risk areas are audited on an annual basis using the Council's 'Enhanced Systems Based Auditing control matrices' testing papers, medium risk systems will be audited every other year and low risk areas once during the four-year rolling plan cycle. The risk assessment is reviewed annually to ensure that changes within services are considered.
- 8.6 The Audit Plan has also been linked to the Corporate Risk Register and the appropriate risk reference is shown against the relevant audit in Appendix A.
- 8.7 In addition to the risk analysis, the Audit Managers have also discussed with Assistant Directors and Corporate Managers their strategic priorities, their responsibilities under the corporate risk register and to identify any specific concerns they may have. The outcomes of these meetings have also fed into the formation of the 2017/18 Internal Audit plan.
- 8.8 The areas with the highest audit coverage are Creditors, Housing and Contract Management. Creditors is a high risk system as it has the potential for fraud and costly error to the Council. A significant amount of time is required to audit creditors due to the significant number of transactions processed. Housing is considered high risk because of current fraud trends towards tenancy fraud and right to buy fraud. Contract Management is an area identified as high risk and is currently undergoing a significant amount of system change.

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

An effective internal audit is part of good governance that enables the Council to operate an effective control environment and therefore contributes to the purpose 'A well run council'.

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

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

Risks are further reduced by producing an annual audit plan linked to the Council's corporate risk register and prioritising the plan based on risk. Progress against the plan is reported to this Committee on a quarterly basis.

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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AUDIT PLAN - 2017/18			
Description	Risk Priority	Days	Risk Ref

Leader

'A stronger City'

External Funding & Grants	H	15	
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Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting	H	5	
Income Management	H	12	
Procurement	H	15	13/053
Creditors	H	28	
VAT	H	10	
People Management	H	20	
ICT (inc shared service)	H	12	13/030
Business Continuity		10	13/027
Risk management		10	
Contract Management	H	25	13/054
National Fraud Initiative (NFI)		5	
Counter Fraud/Anti-Fraud/NFI		10	
Information Governance		5	13/024
Equalities & Diversity		5	13/023
Partnerships		5	
Hospitality and gift disclosures		2	
External Audit		2	

Customer Access

'Help me with my housing and financial problem'

Housing Benefits (inc HB Subsidy)	H	20	13/005 13/006 13/040
Council Tax	H	15	
NDR	H	8	13/034
Payments and Collection	H	13	

Housing

'Provide suitable housing'

'Be a good landlord'

Disabled Facilities Grant		8	
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Housing - Development, Asset Management & Customers	H	30	13/007 13/058
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Environment, Health and Wellbeing

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & safety	H	12	13/028
Trade waste	L	8	
Fleet Management	L	6	

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

Markets and halls	L	8	
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City Development

'Deliver good development'

Planning	H	10	
Building Control	M	6	
New homes bonus	H	10	
CIL/Section 106	H	10	
Land Charges	L	6	

Public Realm

'Keep place looking good'

Car Parks	H	8	
Bereavement Services	L	6	
Allotments	L	6	

Other

RIPA Administration		2	
Audit Development - CAATS		20	
Contingency (special/frauds, etc)		30	
Follow-ups		8	
Audit Planning & Control		40	
Total		486	

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 15th MARCH 2017

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 3RD QUARTER 1ST OCTOBER TO 31ST DECEMBER 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 October to 31st December 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 third 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.

4.1 None.

5. Section 151 Officer's comments:

5.1 It is positive to note the improvements that have been made in a number of the key financial control areas particularly in income and sundry debt. There is still further improvement to make but it is important to acknowledge the progress made.

6. What are the legal aspects?

None identified.

7. Monitoring Officer's comments:

Monitoring officer has no comment

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 enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. This is done by examining the Council's financial and non-financial internal control systems which have been put in place to prevent loss due to frauds, errors and inefficiency, and that 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.

Progress against the annual audit plan was on target as at 31st December. Details of the outcomes of audits completed can be found at Appendix B.

8.2. Issues for consideration

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

There are 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 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?**

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

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2016/17 AUDIT PLAN AS AT 31/12/16

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	17.7	In progress					
Income Management	10	1.7	To start Q4					
Procurement	20	5.2	On going					
"Creditors First Half Year Second Half Year"	40	40.5	Final report	↔	Good	0	5	5
Treasury Management	5	7.3	Draft report					
People Management	20	29.3	Draft report					
STRATA - post project review	10	8	In progress					
Business Continuity	10	0.2	To start Q4					
Risk management	10	2.8	On-going					
Corporate property assets - commercial rents	8	0	To start Q4					
Contract Management	10	2.1	To start Q4					
Counter Fraud/Anti-Fraud/NFI	10	17.3	In progress					
Corporate governance (AGS, etc)	10	11.1	Draft report					
Information Governance	10	7.3	On going					
Partnerships	5	0.3	To start Q4					
Safeguarding	5	0	To start Q4					
Hospitality and gift disclosures	1	0.1	To start Q4					

External Audit	2	0.4	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	3.4	In progress					
Sundry Debt	20	25.9	Final report	↑	Good	0	5	3
Payment & collection	20	28.7	Final report	↑	Some improvement required	2	4	6
NDR	10	24.7	Draft report					
Housing – Advice, Allocations & Home	10	0	To start Q4					

Housing Revenue Account

'Provide suitable housing'

'Be a good landlord'

Private Sector Housing – HMO's Wessex Home Loans	10	9.5	No report due					
Disabled Facilities Grants	5	11.3	Final report	No previous report	Good	1	2	1
Housing – Right to Buy	10	15.4	Final report	↔	Some improvement required	1	5	9

Health & Place

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	4.2	In progress					
Recycling	10	4.0	In progress					
Refuse Collection – garden waste, bulky waste	10	0.2	In progress					

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					
--	---	---	-------------	--	--	--	--	--

City Development

'Deliver good development'

None	-							
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Public Realm

'Keep place looking good'

Parks & Open Spaces	7	1.7	In progress					
Waterways	7	0	To start Q4					

Other

RIPA Administration	2	0.5
Contingency (special/frauds) including unplanned work	30	18.2
Follow-ups	10	8.5
Biennial Stakeholder Review	2	0.7
Audit Development – Data Analysis/CAAT development	14	4.1
Audit planning and control	40	27.3
Total	505	373.2

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EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE

Internal Audit Summary of Work Completed October to December 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>Creditors</p> <p>Assurance rating: Good ★★★★</p>	<p>Creditors (suppliers) are paid either via EFINS, which is the purchase ledger system or using one of the Councils' corporate credit cards – these are held by designated card holders. Financial Regulations list the responsibilities of staff for processing orders and invoices.</p> <p>The objective of this audit was to review:</p> <p>Invoice Checks</p> <ul style="list-style-type: none"> • they quote all of the relevant information • are arithmetically correct • VAT has been correctly accounted for and • the invoice has not been paid twice (duplicate payments) <p>Credit card transactions</p> <ul style="list-style-type: none"> • new supplier checks have been undertaken • transactions have been approved <p>Payments</p> <ul style="list-style-type: none"> • checking that the amount paid agrees to the value of the invoice • investigate those payments made outside of 30 days (i.e. 'late') and ascertain the reasons why identify why payments are being made by cheque rather than by BACS <p>The scope of the audit was limited to transactions for the period October 2015 to March 2016</p> <p>The audit findings related to duplicate payments, credit notes, lack of evidence to support authorisation of credit card expenditure (note: all transactions reviewed were found to be legitimate), use of cheques as payment method when BACS could have been used.</p> <p>Recommendations were made in respect of 5 medium risk findings and 5 low risk findings. All recommendations were accepted by management.</p>

<p>Sundry Debt</p> <p>Assurance rating: Good ★★★★</p>	<p>Sundry debt, otherwise known as accounts receivable, is the system for collecting money owed to the Council by customers of, for example:</p> <ul style="list-style-type: none"> • Renting out commercial properties • Collecting trade waste from the City's businesses • Providing a home call alarm system for the elderly and vulnerable • Providing mooring sites for boat owners on the canal <p>The Council accepts payments by all methods and the payments are allocated via the Payment and Revenue Information System ('PARIS') directly into the (ASH) Debtor System.</p> <p>In the event that invoices remain outstanding, debt recovery is undertaken either by the Income Collection officer or by the individual service area. Should these recovery methods be unsuccessful then other options such as instructing Collection Agents or external Solicitors or even taking possession of the property or repossessing the goods would be considered. When all of the above fails and the only option is to write-off the debt, authorisation of the write-off must be obtained prior to the amounts being written off, the level of which is specified in Financial Regulations.</p> <p>The objective of this audit was to gain assurance that:</p> <ul style="list-style-type: none"> • Monies due to the Council are requested promptly • Adequate recovery actions are taken • Where all avenues of recovery have been exhausted that amounts are written off in accordance with Financial Regulations <p>The scope of the audit included; system access; raising invoices; refunds; debt recovery; invoice cancellations and write-offs</p> <p>The audit findings relate to; ending system access of agency staff and contractors when they leave; debt recovery action not being taken by the Housing department; inappropriate debt recovery suppression codes being used on 25% of the sample of cases reviewed and a small number of cases where debt recovery action appeared insufficient before the debt was written-off.</p> <p>Recommendations were made in respect of 5 medium and 3 low risk findings. All recommendations were accepted by management.</p>
<p>Housing – Right to buy</p> <p>Assurance rating: Some improvement required ★★★</p>	<p>'Right to Buy' gives eligible people who live in council properties in England the right to buy their home at a discount (subject to all conditions being met). The scheme is open to people who are secure tenants of a local council and who have spent at least 3 years as a public sector tenant.</p> <p>Right to Buy is covered by the provisions of:</p> <ul style="list-style-type: none"> • Housing Act (amended) 1985 (Part V, Schedule 4 & 5) • Housing Act 2004 (Part VI) • Housing (Right to Buy) (Limit on Discount) (England) Order 2014 • Deregulation act 2015 <p>Measures were introduced in the Deregulation Act 2015 to reduce the qualifying period for the right to buy from 5 years to 3</p>

years. The Housing (Right to Buy) (Limit on Discount) (England) Order 2014 (SI 2014/1378) increased the maximum discount (outside London) from £75,000 to £77,000 and provided for annual increases by CPI (Consumer Price Index) from April 2015 (currently the limit is £77,900).

The objective of this audit was to:

- review the effectiveness of the internal controls in place and the procedures within the 'right to buy' process
- to obtain assurance that the RTB process complies with legislation
- to obtain assurance that those tenants purchasing through RTB are eligible and legitimate

The audit findings relate to; supporting evidence; delays in notifying other departments of RTB applications; lack of evidence of credit checks; major repair costs not always checked; residency checks not made against Council Tax and of the sample selected 30% had errors in the calculation of discounts.

Recommendations were made in respect of 1 high and 5 medium and 9 low risk findings. All recommendations were accepted by management. The high risk finding related to the calculation of discount.

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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 March 2017	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	The service standards were included as part of the updated business plan, which was approved by Strata JEC on 16/1/17 and full Council 21/2/17.	
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	Separation 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.	No further update.	
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.	No further update.	
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.	Review of contract regulations currently being undertaken.	
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. 	<p>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.</p> <p>Procurement Steering Group now in place and meeting monthly.</p>	Final business case was approved by Executive 14.02.17.	

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update Sept 2016	Update December 2016	Update March 2017	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>	<p>Issue now resolved.</p>	<p>Action plan completed.</p>

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 15th MARCH 2017

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT CHARTER

Is this a Key Decision?

No

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

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

The Internal Audit Charter defines what Internal Audit is and explains its purpose, authority and responsibility. The Public Sector Internal Audit Standards (PSIAS) require that the Charter is reviewed and updated every two years or following a change to the service.

2. Recommendations:

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

3. Reasons for the recommendation:

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

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

4.1 None.

5. Section 151 Officer comments:

5.1 The Charter is an important part of the framework under which Internal Audit operates.

6. What are the legal aspects?

None identified

7. Monitoring Officer's comments:

This report raises no issues for the Monitoring officer.

8. Report details:

8.1 The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. It establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Audit and Governance Committee.

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

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

As a result of changes to the senior management structure with effect from April 2017 and changes to audit processes since the last review, the Internal Audit Charter has now been updated to reflect these changes and to meet the requirements of the PSIAS and a draft is attached to this report. This was reviewed and approved by the Strategic Management Team on 21 February 2017.

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

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Internal Audit Charter

Author:	Helen Kelvey / Helen Putt
Source Location:	S:/Audit/Audit Documents
Related Documents:	Audit Manual Quality Assurance and improvement programme Counter Fraud Strategy Whistleblowing Policy
Date Created:	March 2017
Document Status:	Live

Document Control

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

Change History

Version	Date	Changes
2.0	March 2015	Reviewed and updated to reflect changes in service provision
3.0	March 2017	Reviewed and updated to reflect changes in senior management structure, inclusion of mission statement and core principles, changes to reporting and follow up processes



Exeter City Council

Internal Audit Charter

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

1. Introduction

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

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

‘board’ – the Audit and Governance Committee

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

2. Purpose, Scope and Authority

2.1 Purpose

The Public Sector Internal Audit Standards 2016 (PSIAS) defines Internal Audit as:

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

2.2 Scope

Financial Regulations 6(a) states:

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

2.3 Authority

The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which required that authorities shall *‘make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs’*.

The Accounts and Audit (England) Regulations 2015 requires that *‘A local government body must ensure that it has a sound system of internal control which:*

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk’*

Exeter City Council has delegated these responsibilities to the Chief Finance Officer.

3. Mission Statement of Internal Audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

4. Core Principles

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)

- Aligns with the strategies, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive and future focused
- Promotes organisational improvements

5. Objectives

5.1 Internal Audit's main objectives are to:

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

6. Roles and responsibilities

6.1 Role of Internal Audit

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

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

6.2 Provision of the Internal Audit Function

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

6.3 Management Structure

Internal Audit is part of the Finance service. However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and Growth Director and/or the Leader of the Council and/or the Chair of the Audit and Governance Committee should circumstances warrant such. In addition, there is a right of access to Councillors as a matter of last resort. In exceptional circumstances, Internal Audit may be required to undertake non-audit duties. Where this situation occurs, the Audit Manager will ensure that separation of

duties takes place i.e. the auditor undertaking the non-audit task will not be responsible for auditing that area for at least 12 months.

6.4 The Audit Manager is responsible:

- in managerial terms (administratively) to the Chief Finance Officer
- for the performance of the Internal Audit Service (functionally) to the Audit and Governance Committee

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

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

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

7. Code of Ethics

7.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit standards 2016 (PSIAS) by:

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

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

8. Service Standards

8.1 What you can expect from us:

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

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

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

8.2 Audit Strategy

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

8.3 Annual Audit plan & resourcing

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

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

8.5 What we expect from you:

Requests for information/documents are dealt with in a timely manner

Managers and staff should co-operate with the Auditors, at all times.

Following the issue of a draft report managers should agree to attend a meeting discuss remedial action within 15 working days of issue of the report.

9. Reporting

9.1 Audit reports

Audit reports:

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

9.2 Audit report circulation/Reporting structure:

- Line managers receive a draft report for discussion followed by the final report

- Directors/Corporate Managers receive a copy of all final reports within their service
- Deputy Chief Executive receives a copy of all final reports
- Chief Finance Officer receives a copy of all reports for information
- CX and Growth Director is advised of any 'high' or 'medium' findings where remedial action is not agreed by both management and internal audit and of any remedial action agreed by management but not subsequently implemented

9.3 Reporting standards

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

Audit follow-ups are conducted within 12 months of the final report being issued, except for significant issues which will be followed up sooner and monitored more closely, as appropriate,

Where an Audit is conducted annually the follow-up will form part of the Pre Audit Questionnaire. An opportunity to immediately rectify any outstanding issues will be given but where this is not done the outstanding issues will be reported to the Audit and Governance Committee. The relevant Director will be notified in advance that the matter is being reported to Audit and Governance Committee.

Low risk findings will only be followed up at the next audit, regardless of whether the system is audited annually or not.

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

Internal Audit works to the reporting quality standards of:

- draft audit reports to be issued within 10 working days of the completion of the results table
- final audit reports to be issued within 10 working days of the discussion of the draft audit report
- final reports to be followed-up within 12 months of the date of issue of the final audit report, to ensure that the agreed remedial action due for implementation has been completed

10. Quality assurance

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

- performs its work in accordance with this Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics;
- operates in an effective and efficient manner; and is perceived by stakeholders as adding value and improving Internal Audit's operations. To that end, Internal Audit's QAIP will cover all aspects of the Internal Audit activity including:
 - ✓ Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner

- ✓ Ensuring compliance with the *Standards*, Definition of Internal Auditing and Code of Ethics
- ✓ Helping the Internal Audit activity add value and improve organizational operations
- ✓ Both periodic and ongoing internal assessments
- ✓ An external assessment at least once every five years, the results of which are communicated to SMT and the Audit & Governance Committee

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

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

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

11. Relationships

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

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

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

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

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

12. Fraud and irregularities

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

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

- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing policy.

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

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

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

13. Review

13.1 The Internal Audit Charter will be reviewed biennially by the Audit Manager and presented to senior management and the Audit and Governance Committee for approval.

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