

## **AUDIT AND GOVERNANCE COMMITTEE**

Date: Wednesday 14 March 2018  
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 N (Chair), Wood (Deputy Chair), Harvey, Mrs Henson, Keen, Lamb, Musgrave, Sheldon, Thompson 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 6 December 2017.

3 **Declaration of Interests**

Councillors are reminded of the need to declare any discloseable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion on the item.

Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

4 **Local Government (Access to Information ) Act - Exclusion of Press and Public**

**RESOLVED** that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of item 12 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 **Technical Update and External Audit Progress Report**

- |           |                                                                                      |                 |
|-----------|--------------------------------------------------------------------------------------|-----------------|
|           | To consider the report of the Council's External Auditor KPMG.                       | (Pages 3 - 20)  |
| <b>6</b>  | <b>Audit &amp; Governance Committee Update</b>                                       |                 |
|           | To consider the report of the Council's External Auditor KPMG.                       | (Pages 21 - 28) |
| <b>7</b>  | <b>External Auditors Certification Work</b>                                          |                 |
|           | To consider the report of the Council's External Auditor KPMG.                       | (Pages 29 - 52) |
| <b>8</b>  | <b>Procedure for Minutes</b>                                                         |                 |
|           | To consider the verbal report of the Corporate Manager Democratic and Civic Support. |                 |
| <b>9</b>  | <b>Annual Internal Audit Plan 2018/19</b>                                            |                 |
|           | To consider the report of the Audit Managers.                                        | (Pages 53 - 60) |
| <b>10</b> | <b>Internal Audit Progress Report</b>                                                |                 |
|           | To consider the report of the Audit Managers.                                        | (Pages 61 - 74) |
| <b>11</b> | <b>Code of Corporate Governance</b>                                                  |                 |
|           | To consider the report of the Chief Finance Officer.                                 | (Pages 75 - 80) |

**Part II: Items suggested for discussion with the press and public excluded**

- |           |                                                                         |                  |
|-----------|-------------------------------------------------------------------------|------------------|
| <b>12</b> | <b>Corporate Governance Risk Register (Quarterly Review)</b>            |                  |
|           | To consider the report of the Corporate Manager Executive Support Unit. | (Pages 81 - 104) |

**Date of Next Meeting**

The next **Audit and Governance Committee** will be held on Wednesday 25 July 2018 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 2018

# Contents

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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](http://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](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 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 17/18 audit, considering key issues at the Council and any relevant requirements as per the Code. This has informed our audit plan, which has been presented at this committee.</p> <p>We will complete our interim fieldwork during March 2018, to test the control environment at the Council. The final audit will be completed during June 2018, as part of the 'faster close' earlier deadlines.</p>
Value for Money	<p>Our approach for the 17/18 conclusion has been considered as part of our audit planning. See audit plan for key risks raised.</p>
Certification of claims and returns	<p>The Housing Benefit grant certification was completed before the November deadline. We issued a qualified certificate on this grant claim. Planning will commence for the 17/18 certification from April 2018.</p> <p>We have completed our work on the return for Pooling of Housing Capital Receipts with no issues noted. This was reported to DCLG on 3 November 2017.</p> <p>Our Annual report on grants and returns will be presented to this Audit &amp; Governance Committee meeting</p>
Other work	<p>There is no other work ongoing currently.</p>



# KPMG Resources

# How to build a business case

A sound business case is a foundation to effective investment decisions. It is crucial for making the right investment decisions. As the pressure on local authority finances continues the role of major investment and transformation decisions will become more critical to delivering a sustainable future. Robust business cases are vital to ensuring that investment choices have the best chance of delivering success.

Through KPMG's work with over 100 public sector bodies we have produced a practical guide to preparing robust and proportionate business cases to support both routine and strategic investment decisions.

The report covers:

- The role of the business case
- How to achieve consistent quality
- Getting the balance right in the content of the business case
- Achieving objectivity
- The business case framework
- A guide to local government business cases, including the requirements for good business cases, split into 11 elements.

The full report can be accessed here: <https://home.kpmg.com/uk/en/home/insights/2017/12/local-government-how-to-build-a-business-case.html?hootPostID=ad392ed3a21657cc96c79dbd6eb73134>



# Technical developments

# Auditor Guidance Note 1 (AGN 01) – General Guidance

Level of impact: ● (for action)

KPMG Perspective

The Comptroller and Auditor General (C&AG) has issued a revised version of Auditor Guidance Note 1 (AGN 01).

AGN 01 provides general guidance to auditors of local bodies, and sets out the overall framework for issuing guidance and for providing other support to local auditors. It includes relevant ethical requirements which those charged with governance may wish to be aware of.

A copy of AGN 01 can be accessed from the NAO website, guidance and information for auditors page, at the following link: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-01-General-Guidance-Supporting-Local-Audit.pdf>

Those charged with governance will wish to be aware of the requirements of the FRC’s ethical standard and the supplementary and explanatory guidance set out in AGN 01.

# Auditor Guidance Note 7 (AGN 07) – Auditor Reporting

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&amp;AG) has issued an update version of Auditor Guidance Note 7 (AGN 07).</p> <p>AGN 07 is relevant to all bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code).</p> <p>The changes include revisions to clarify the guidance relating to:</p> <ul style="list-style-type: none"> <li>• Reporting to those charged with governance, which needs to cover the range of audit responsibilities under the Code including auditor judgements on significant risks in respect of arrangement to secure value for money</li> <li>• In specified circumstances, enhanced reporting requirements under ISA (UK) 700, including the reporting of key audit matters under ISA (UK) 701</li> <li>• Reporting considerations in relation to material uncertainty in respect of going concern</li> <li>• Considering when to issue the annual audit letter, including in situations where work remains outstanding, for example, on Whole of Government Accounts returns; and</li> <li>• Part-year reporting requirements.</li> </ul> <p>A copy of AGN 07 can be accessed from the NAO website, guidance and information for auditors page, at the following link: <a href="https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-07-Auditor-Reporting-1.pdf">https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-07-Auditor-Reporting-1.pdf</a></p>	<p>Those charged with governance will wish to be aware of the reporting requirements of the Local Audit and Accountability Act 2014.</p>

# DCLG FAQ on MRP and Investment Code guidance

Level of impact: ● (For Action)	KPMG Perspective
<p>The Department for Communities and Local Government (DCLG) has issued its FAW on the Minimum Revenue Provision (MRP) and Investment Code guidance consultations. The consultation on the proposed changes closed on 22<sup>nd</sup> December 2017, and changes will be made after the analysis of consultation responses.</p> <p>The FAQ includes common queries from local authorities, and covers the following:</p> <ul style="list-style-type: none"><li>• Clarification what the section on borrowing in advance of need means</li><li>• Whether the proposals on MRP mean that local authorities no longer have the flexibility to decide what is prudent provision for debt</li><li>• Whether local authorities should apply the current or the proposed Codes whilst making decisions during the consultation period</li><li>• If the changes to the MRP guidance will be applied prospectively or retrospectively.</li></ul> <p>The full FAQ can be found at the following link: <a href="https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-qa">https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-qa</a></p>	<p>Members may wish to discuss with officers what, if any, is the potential impact of the consultations.</p>

# CIPFA/LASAAC statement on the adoption of IFRS 9 Financial Instruments

**Level of impact:** ● (For Information)

Members may wish to be aware that the Chartered Institute of Public Finance and Accountancy Local Authority Code Board (CIPFA LASAAC) has published a statement on the adoption of IFRS 9 Financial Instruments.

IFRS 9 will be adopted in the 2018/19 local government accounting code.

Members may wish to consider the effect of the adoption of IFRS 9 on the financial statements for 2018/19.

# PSAA's consultation on 2018-19 scale of fees for opted-in bodies

### Level of impact: ● (For Information)

Public Sector Audit Appointments (PSAA) has published its consultation on the 2018-19 scale of fees for principal local government and police bodies that have opted into the appointing person arrangements.

The consultation is available on the PSAA website at: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/>

The consultation proposes that scale audit fees for 2018-19 should reduce by 23 per cent, compared to the fees applicable for 2017-18. More details on the proposals are set out in the consultation document.

Proposed 2018-19 scale fees for individual opted-in bodies, based on the 23 per cent reduction, are listed on the website and are accessible through the following links:

- Local government: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-local-government-bodies/>
- Local police bodies: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-police-bodies/>
- Pension fund audits: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-pension-funds/>

## Technical developments

# Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

### Level of impact: ● (For Information)

The NAO has conducted an investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership. The investigation was prompted by concerns raised about the Partnership.

The role of Local Enterprise Partnerships (LEPs) continues to grow, and it may be noted that government has given LEPs a key role in the recently published Industrial Strategy to lead the development of Local Industrial Strategies.

Information on the UK's Industrial Strategy can be found at the following link: <https://www.gov.uk/government/topical-events/the-uks-industrial-strategy>

The Department for Communities and Local Government (DCLG) carried out a national review of LEP governance and transparency. The review made a number of recommendations for improvement.

The review, published on 26 October 2017, with the aim of providing sufficient assurance to the Accounting Officer's and ministers that LEPs fully implement existing requirements for appropriate governance and transparency.

A full copy of the report can be found at the following link: <https://www.gov.uk/government/publications/review-of-local-enterprise-partnership-governance-and-transparency>

# PSAA's report on the results of auditors' work 2016-17

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) published its Report on the results of auditors' work 2016/17: Local government bodies on Tuesday 19<sup>th</sup> December.

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016-17. The report covers the timeliness and quality of financial reporting, auditors' local value for money arrangements work, and the extent to which auditors used their statutory reporting powers.

The timeliness and quality of financial reporting for 2016-17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies.

Compared with 2015-16, the number of principal bodies receiving an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on the accounts by the end of July compared with 49 (10 per cent) for 2015-16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017-18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015-16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new timetable. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

For the fourth year in a row there have been no qualified opinions on the accounts issued to date to principal bodies. The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015-16.

The complete report is available publically on the PSAA website: <https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



# Appendix

## Appendix 1

# 2016/17 audit deliverables

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Deliverable	Purpose	Timing	Status
<b>Planning</b>			
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
<b>Interim</b>			
Interim Letter	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.	May 2017	Complete
<b>Substantive procedures</b>			
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	Complete

## Appendix 1

# 2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
<b>Completion</b>			
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	Complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	Complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	Complete
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	February 2018	Complete - see attached



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# Annual Report on grants and returns 2016/17

**Exeter City Council**

February 2018



**Agenda Item 6**

# Contents

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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.psa.co.uk](http://www.psa.co.uk)).

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### Introduction and background

This report summarises the results of work we have carried out on the Council's 2016/17 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 2016/17 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2016/17 Housing Benefit Subsidy claim. This had a value of £38.1 million;
- Under separate assurance engagements we certified the Pooling of Housing Capital Receipts 2016/17 return with a value of £3.2 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.

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.

No adjustments were necessary to the Council's grants and returns as a result of our certification work this year, although it is possible that the DWP may decide to make adjustments to the subsidy payable to the Council as a result of the qualification issues.

### 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 2016/17 Housing Benefit Subsidy grant was £15,270, 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;
- 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 2016/17 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
<b>Public Sector Audit Appointments regime</b>					
— Housing Benefit Subsidy	1	●			
<b>Other assurance engagements</b>					
— Pooling of Housing Capital Receipts.					●
		1	-	-	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.

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Ref	Summary observations	Amendment
1	<p><b>Housing Benefit Subsidy</b></p> <p><b>Rent Allowances</b></p> <p>Testing of the initial sample identified one case (total value £81.81) where the Authority incorrectly recorded the claimant’s income, which resulted in an underpayment of £15.81 in benefits.</p> <p>As there is no eligibility of subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.</p> <p>However, because errors in recording income values could also result in overpayment, an additional random sample of 40 cases was tested. The additional 40 cases tested identified three further cases (total value £11,742) where income had been incorrectly recorded. All three cases resulted in a total underpayment of £13.38, and hence have no impact on amount of subsidy claimed because the necessary adjustments are made in the following financial year and therefore the subsidy implications are dealt with through next year’s Housing Benefit grant claim</p> <p>Similar findings have been included in our qualification letter in the previous year.</p> <p><b>Rent Rebates</b></p> <p>There were no errors identified in the initial sample testing for the 2016/17 year. However, we have performed additional testing as a result of errors identified last year.</p> <p>Testing of an additional random sample of 40 cases in the 2016/17 year in respect of claimant’s income identified three cases where claimant’s income had been incorrectly stated. Of these, two cases (total value £2,366) resulted in total underpayments of £0.52, and one case (total value £3,984) had no impact on payment.</p> <p>As there is no eligibility of subsidy for benefit which has not been paid, the underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes. As the remaining case had no impact on payment, there is no effect on subsidy and this case has not, therefore, been classified as an error for subsidy purposes.</p> <p>Similar findings have been included in our qualification letter in the previous year.</p>	-

## 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 2016/17 was £18,270.

### 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 2016/17 of £16,100. Our actual fee was the same as the indicative fee, and this compares to the 2015/16 fee for this claim of £16,100. The decrease in the fee compared to prior year is a result of additional work required in 2015/16 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	
	2016/17 (£)
Housing Benefit Subsidy claim	15,270
Pooling of Housing Capital Receipts	3,000
<b>Total fee</b>	<b>18,270</b>



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# External Audit Plan 2017/2018

**Exeter City  
Council**

January 2018

# Summary for Audit Committee

## Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting (“the Code”) in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. This represents a significant change for the Authority and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter. In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

## Materiality

Materiality for planning purposes has been set at **£1.9 million**.

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 **£0.095 million**.

## Significant risks

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

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued;
- **Pension Liabilities** – The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure completeness and accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; 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 9 for more details**

# Summary for Audit Committee (cont.)

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## Value for Money Arrangements work

We have not yet carried out our detail risk assessment regarding your arrangements to secure value for money, however our initial VFM audit planning has identified the following VFM significant risk to date:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and also pursue income generation strategies. We will consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year. As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that 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.
- **Procurement** - In the previous two years 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.

**See pages 10 to 14 for more details**

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## Logistics

Our team is:

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

More details are in **Appendix Two**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 17**.

Our fee for the 2017/18 audit is £57,887 (£57,887 2016/17) see **page 16**. These fees are in line with the scale fees published by PSAA.

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## Acknowledgements

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

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# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, 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, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

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

**01 | Financial statements:**  
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

**02 | 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. Any change to our identified risks will be reporting to the Audit Committee.

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix One 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 10 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18



# Financial statements audit planning

## Financial Statements Audit Planning

Our planning work takes place during December 2017 to March 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

Auditing 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.

# 01

## 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.

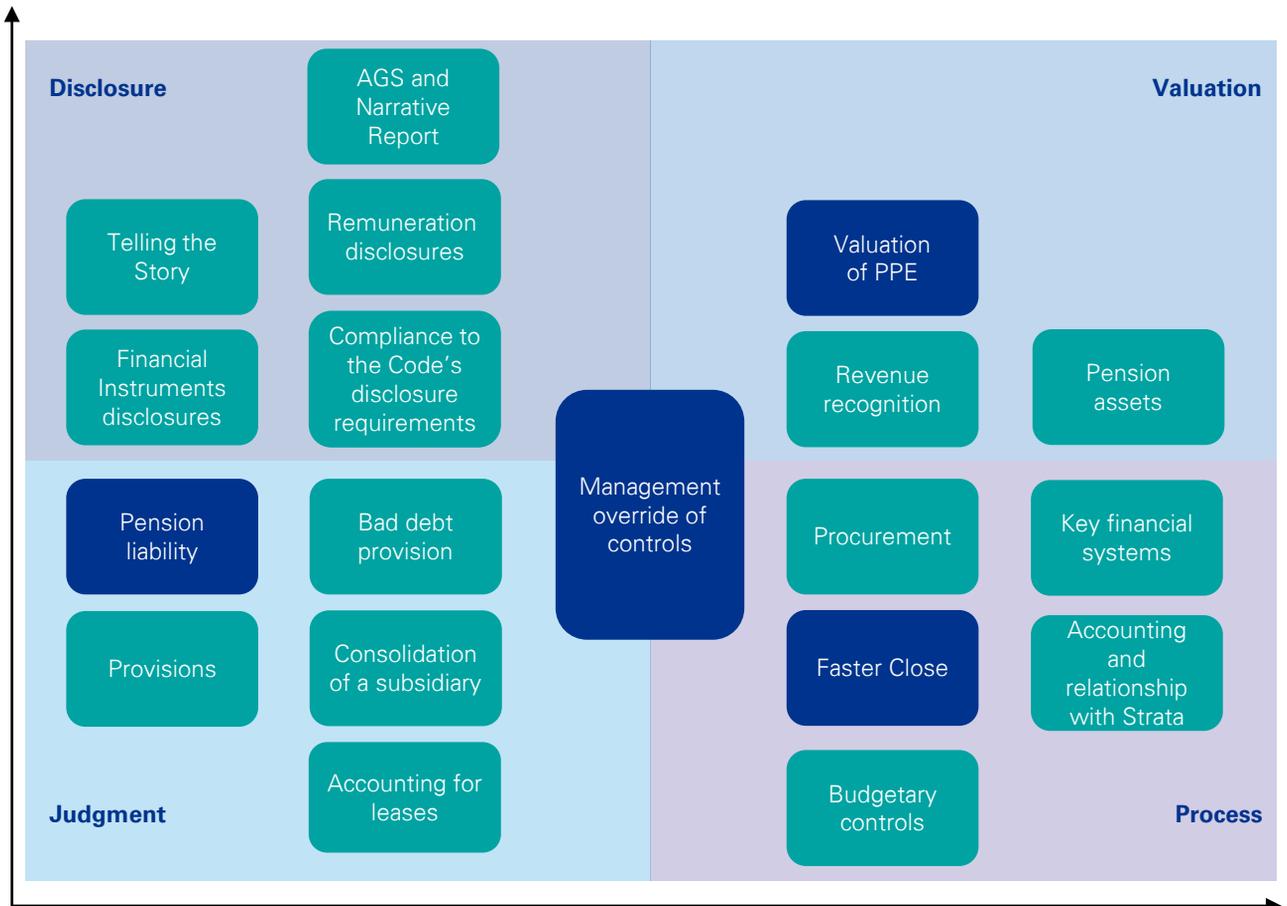
# 02

## 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.

# Financial statements audit planning (cont.)

The diagram below 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    ■ Example other areas considered by our approach

# Financial statements audit planning (cont.)

## Significant Audit Risks

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

<b>Risk:</b>	<b>Valuation of PPE</b> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
<b>Approach:</b>	<p>We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).</p>

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<p><b>Pension Liabilities</b></p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body to the Devon Pension Fund, administered by Devon County Council, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<b>Approach:</b>	<p>As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Barnett Waddingham.</p> <p>We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by Barnett Waddingham.</p> <p>In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.</p>

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<b>Faster Close</b> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to, although it is noted that the council provided draft accounts on the 25 May 2017 as part of a Faster Close test run last year. However the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;</li><li>— Revising the closedown and accounts production timetable to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<b>Approach:</b>	<p>We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>

# 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.

For the Authority, materiality for planning purposes has been set at £1.9 million for the Authority's standalone accounts which equates to 2% percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

**Prior Year Gross Expenditure: £96.9 m** (2015/16: £99.4m)

### Materiality

**£1.9m**

**2% of Expenditure**

(2016/17: £1.9m, 2%)



**£95k** Misstatements reported to the audit committee (2016/17: £96k)

**£1.4m** Procedures designed to detect individual errors (2016/17: £1.4m)

**£1.9m** Materiality for the financial statements as a whole (2016/17: £1.9m)

## 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 £0.095 million.

If management has 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.

### We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure (Corrected and uncorrected)

# Value for money arrangements work

## VFM audit approach

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.'

## 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.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



# Value for money arrangements work (cont.)

## Value for Money sub-criterion

### 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.

# Value for money arrangements work (cont.)

## VFM audit stage



### VFM audit risk assessment

#### Audit approach

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 *Code of Audit Practice*.

In doing so we consider:

- 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.



### Linkages with financial statements and other audit work

#### Audit approach

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.

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.



### Identification of significant risks

#### Audit approach

The Code identifies a matter as significant '*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.*'

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:

- 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



### Assessment of work by other review agencies, and Delivery of local risk based work

#### Audit approach

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.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will 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:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



### Concluding on VFM arrangements

#### Audit approach

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.

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.



### Reporting

#### Audit approach

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.

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.

# Value for money arrangements work (cont.)

## Significant VFM Risks

We have not yet carried out our detailed risk assessment regarding your arrangements to secure value for money, however our initial VFM audit planning has identified the following VFM significant risk to date. Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

<b>Risk:</b>	<b>Delivery of budgets</b> <p>The Authority identified the need to make savings of £1.407 million in 2017/18. The current forecast as at September 2017 shows that the Authority is on track to deliver its budgeted outturn, however this includes further savings identified in order to meet the approved balanced budget.</p> <p>The Authority's budget for 2018/19 was presented to Executive on 13 February and set out a balanced budget for 2018/19 with no additional savings required. However, savings of £1.314m will be required in 2019/20 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.</p>
<b>Approach:</b>	As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that 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.
<b>VFM Sub-criterion:</b>	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties</li></ul>

<b>Risk:</b>	<b>Procurement</b> <p>In the previous two years 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.</p>
<b>Approach:</b>	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.
<b>VFM Sub-criterion:</b>	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties</li></ul>

# Other matters

## 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 2017/18 have not yet been confirmed.

## Electoral 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.



# Other matters

## 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 One.

## Independence and Objectivity

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

## Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £57,887, compared to 2016/2017 of £57,887.

## Appendix One:

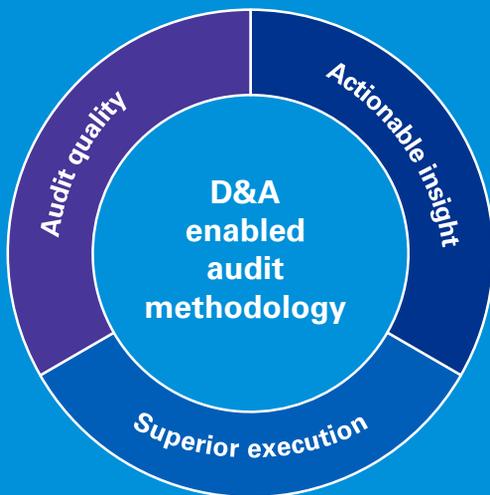
# Key elements of our financial statements audit approach

### 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. 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 journals.



### Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team.



## Appendix One:

# Key elements of our financial statements audit approach (cont.)

### Audit workflow

#### Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

#### Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

#### Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

#### Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting



## Appendix Two:

# Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit Director and Manager were all part of the Exeter City Council audit last year.



**Darren Gilbert**  
Director

T: +44 (0)29 2046 8205  
E: darren.gilbert@kpmg.co.uk

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'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive & Growth Director.'



**Rob Andrews**  
Manager

T: +44 (0) 117 905 4773  
E: rob.andrews@kpmg.co.uk

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'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Darren to ensure we add value. I will liaise with Dave Hodgson and other Executive Directors.'



**Chantelle Chimhini**  
Assistant Manager

T: : +44 (0) 117 905 4494  
E: chantelle.chimhini@kpmg.co.uk

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'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

## Appendix Three:

# Independence and objectivity requirements

### ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF EXETER CITY COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

#### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity are in place.

#### Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Darren Gilbert and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**



## Appendix Three:

# Independence and objectivity requirements (cont.)

*Analysis of Non-audit services for the year ended 31 March 2018*

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018	Value of Services Committed but not yet delivered
Certification of housing benefit grant claim	None identified		Fixed Fee	£16,100	£16,100
Pooling of Capital receipts	None identified		Fixed Fee	£3,000	£3,000

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

### Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**



[kpmg.com/uk](https://kpmg.com/uk)



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](http://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.

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## REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 14<sup>th</sup> March 2018

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PLAN 2018/19

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 2018/19 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.

No additional resources implications

### 5. Section 151 Officer comments:

The progress is noted. The reports this quarter have identified a number of issues, which management must seek to address in a timely manner

### 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 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 normally audited on an annual basis, medium risk areas every other year and low risk areas once during the four-year rolling plan cycle. However, the plan is under continual review throughout the year to ensure that any emerging risks are considered for review and should a revision to the plan be required a recommendation would be presented to this committee. The risk assessment is reviewed at least annually to ensure that changes that could affect the risk rating are considered which could consequently alter the frequency of audits.
- 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 obtained feedback from Strategic Directors and Corporate Managers about their priorities, their responsibilities under the corporate risk register and to identify any specific concerns they may have. They have also obtained feedback from the Chair and Deputy Chair of the Audit and Governance Committee. The outcomes of the feedback have been fed into the formation of the 2018/19 Internal Audit plan.
- 8.8 The areas with the highest audit coverage are Creditors, Housing and Contract Management. Creditors has the potential for fraud and costly error to the Council, it also requires significant amount of time to audit due to the number of transactions processed. Housing is considered high risk because of current fraud trends towards tenancy fraud and right to buy fraud. Contract Management has the potential to save the Council money if done well and this is an area which has been identified as an area for improvement by Internal Audit based on previous year's work.

## **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 - 2018/19			
Audit Universe / Description	Risk Priority	Days	Risk Ref

**CX & GD**

'Deliver good development'  
 'Help me run a successful business'  
 'Make Exeter a stronger city'

Planning	H	10	13/012 13/063 13/007 13/063
Building Control	M	0	
New Homes Bonus	H	5	
CIL/Section 106	H	5	
Land Charges	L	0	
Economic Development	L	0	

**DCX**

'Make Exeter a stronger city'  
 'Make Exeter an Analytical City'  
 'Make Exeter energy independent'  
 'Make Exeter congestion free'

**Support Services & Corporate**

'A well run Council'

Main Accounting	H	12	
Income Management	H	13	
Procurement	H	15	13/053
Creditors	H	25	
Treasury Management	M	5	
VAT	M	7	
BACS/CHAPS	M	5	
Insurance	L	0	
Corporate Governance	H	8	
Equalities and diversity	L	5	13/023
Risk Management	H	15	
Business Continuity Management	H	10	13/027
Information Governance	H	10	13/024
Counter Fraud	M	9	
Partnerships	M	0	
Contract Management	H	24	13/054
Community Grants awarded	M	0	
External Funding Received	M	0	
Safeguarding	M	5	13/029
Performance Management	M	10	

Due Diligence/Governance – District Heating Schemes	M	5	13/071 13/070
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#### Director – Bindu Arjoon

'Help me with my housing and financial problems'  
'Fix and maintain our Housing Assets'

Customer Service Centre	L	0	
Housing Benefit	H	15	13/073
Council Tax	M	13	
Payments and Collection	M	9	
Sundry Debt	M	8	
NDR	H	10	13/066
Housing – Housing Development, Asset Management & Housing Customers – HRA	H	5	
Housing Needs	H	10	13/074
Housing (Private Rented Procurement) Temp accommodation	H	15	13/050 13/074
Elections and electoral registration	L	0	
Twinning	L	0	
Mayoralty	L	0	
Civic Ceremonials/Civic Functions	L	0	
Members Expenses	L	0	

#### Director – David Bartram

'Keep Exeter looking good'  
'Fix and maintain our Assets'

Trade Waste	L	0	
Recycling	M	0	
Refuse Collection	L	0	
Fleet Management	L	0	
Car Parks	M	0	
Public & Green Spaces	L	0	
CCTV	L	5	
Homecall	L	5	
Waterways	L	0	
Bereavement Services	L	0	
Allotments	L	0	
Anti-social Behaviour	L	0	
City Centre (BID)	L	10	
Corporate Property Assets	M	0	

#### Director – Jo Yelland

'Help me live well'  
'Help me be active'

Information Technology (STRATA)	M	6	13/065
People Management (inc Payroll)	H	15	
Environmental Health	L	0	
Licensing	L	6	

Health and Safety	H	10	13/067 13/059 13/028 13/06 13/064
Private Sector Landlord Services	M	0	
Leisure Contract	M	0	

#### Director – Jon-Paul Hedge

'Provide great things for me to see and do'  
'Keep me informed'

Tourism & Visit Exeter	L	0	
Markets and Halls	M	0	
Museums service	L	6	
Communications – social media	M	0	
Events, Arts & Culture (specific events)	L	0	

#### Other

Audit Development & new techniques (CAATS)	-	15	
Audit Planning & Control	-	46	
External Audit co-ordination	-	2	
National Fraud Initiative	-	2	
RIPA	-	2	
Review of Hospitality/Disclosures	-	2	
Follow-ups	-	8	
Disabled Facilities Grant	-	8	
Biennial Stakeholder Survey	-	4	
PSIAS Peer Review	-	0	
Contingency (special/frauds etc.)	-	30	
<b>Total</b>		470	

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## REPORT TO AUDIT & GOVERNANCE

**Date of Meeting: 14th MARCH 2018**

**Report of: AUDIT MANAGERS**

**Title: INTERNAL AUDIT PROGRESS REPORT 3RD QUARTER 1<sup>ST</sup> OCTOBER TO 31<sup>ST</sup> DECEMBER 2017**

**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 1<sup>st</sup> October to 31st December 2017, 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 2017/18 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:

The progress is noted. The reports this quarter have identified a number of issues, which management must seek to address in a timely manner

### 6. What are the legal aspects?

None identified.

### 7. Monitoring Officer's comments:

The report and appendices identify issues requiring attention.

### 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 2017/18 Audit Plan was approved at this Committee on 15h March 2017.

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 strategic purposes.

Progress against the annual audit plan is good, however, there has been some slippage due to a member of staff being on sick leave and Finance being unable to release the Finance Apprentice to work in Internal Audit. This was identified in the last quarterly audit report and since January 2018, as agreed, the remaining staff have been working additional hours to ensure that the plan is completed by the end of the last quarter.

There has been a significant overspend of time against contract management this is due to the number of issues identified from the work of Internal Audit.

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 actions to improve governance arrangement identified in the Audit Manager's Annual report. The AGS states that the aim is to monitor implementation of these actions and the outstanding significant governance issues from 2016/17 during 2017/18 financial year, by way of an action plan for improving the governance framework and system of internal control. Updates to this action plan have been included in Appendix C.

## 8.4 **Emerging issues/risks**

This section is used to highlight any emerging issues or risks that the Audit Manager feels members of this committee should be aware of and will provide an opportunity for members to ask questions as to what action is being taken both corporately and by Internal Audit in order to ensure that the Council complies with legislation/good practise and that exposure to risk in these areas is minimised.

### a) **Cyber Security**

Cyber security is defined as the defence of any physical or information asset, which could be compromised using information technology.

The Government has rated 'cyber attacks' as one of the top four risks to UK national security. Local Government is not immune. The 'Cyber Security: Threats and Opportunities across Local Government' report dated June 2017 which surveyed IT professional across local government in the UK found that:

- 76% had experienced a malware/virus/Trojan attack;
- 50% had experienced ransomware/crypto-malware;
- 87% had experienced phishing/spear-phishing;
- 54% had experienced socially engineered attacks targeting specific individuals;
- 45% had experienced distributed denial of service attacks;
- 6% had experienced compromised internet of things devices; and
- 27% had experienced botnet attacks.

This highlights the potential risks to our own systems and data.

#### *Action taken to date:*

The National Audit Office has issued a cyber and information security good practice guide. Internal Audit are currently working with Strata to check

compliance with the good practice guide. The results of this exercise will be reported in the next progress report to this committee.

**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

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

**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**PROGRESS OF 2017/18 AUDIT PLAN AS AT 31/12/17**

Audit Area	Budget Days	Actual Days	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
						High	Med	Low

**CX & GD**

'Deliver good development'  
'Help me run a successful business'  
'Make Exeter a stronger city'

Planning	10	0.1	To start Q4					
Building Control	6	0	To start Q4					
New Homes Bonus	10	0	To start Q4					
CIL/Section 106	10	16.5	Final Report	No previous report	Some improvement required	0	7	2
Land Charges	6	6.8	Final Report	No previous report	Good	0	3	3

**DCX**

'Make Exeter a stronger city'  
'Make Exeter an Analytical City'  
'Make Exeter energy independent'  
'Make Exeter congestion free'

**Support Services**

'A well run Council'

Main Accounting	5	2.3	To start Q4					
Income Management	12	1.4	In progress					
Procurement	15	8.3	In progress					
"Creditors First Half Year Second Half Year"	28	17.9	Final Report	↔	Some Improvement Required	0	4	1
VAT	10	15.7	Final report	No previous report <i>(previously part of creditors audit)</i>	Some Improvement Required	3	3	5
People Management	20	9.9	Interim report issued					
ICT - Strata	12	4.7	In progress					
Business Continuity	10	0	To start Q4					
Risk management	10	9	Draft report					
Contract Management	25	47.8	In progress					

National Fraud Initiative	5	6.1	No report due					
Counter Fraud	10	2.4	On-going					
Information Governance	5	3.0	In progress					
Equalities and Diversity	5	0.3	To start Q4					
Partnerships	5	0.2	To start Q4					
Hospitality and gift disclosures	2	0.1	To start Q4					
External Audit	2	0.1	On-going					
External Funding and Grants	15	19.8	In progress					

**Director – Bindu Arjoon**

'Help me with my housing and financial problems'  
'Fix and maintain our Housing Assets'

Housing Benefit Subsidy	20	2.7	In progress					
Council Tax	15	2.1	In progress					
NDR	8	0	To start Q4					
Payment & collection	13	11.9	In progress					
Housing – Development, Asset Management & Customer	30	24.8	Final Report	No previous report	Significant Improvement Required	5	5	0
– Disabled Adaptations			Final Report	No previous report	Some Improvement Required	2	8	1

**Director – David Bartram**

'Keep Exeter looking good'  
'Fix and maintain our Assets'

Trade Waste	8	9.2	Final Report	No previous report	Good	0	6	1
Fleet management	6	0.7	In progress					
Car Parks	8	8.8	Final Report	↔	Good	0	1	5
Bereavement Services	6	6.1	Final Report	↔	Good	0	1	2
Allotments	6	6.6	Final Report	↔	Good	0	0	3

**Director – Jo Yelland**

'Help me live well'  
'Help me be active'

Disabled Facilities Grants	8	9.0	Final Report	↔	Good	0	1	4
Health & Safety	12	0.6	To start Q4					

**Director – Jon-Paul Hedge**

'Provide great things for me to see and do'

'Keep me informed'

Markets and Halls	8	1.4	In progress					
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**Other**

RIPA Administration	2	0.5
Contingency (special/frauds) including unplanned work	30	28.1
Follow-ups	8	2.5
Audit Development – Data Analysis/CAAT development	20	4.2
Audit planning and control	40	29.6
<b>Total</b>	<b>486</b>	<b>321.2</b>

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**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**Internal Audit Summary of Work Completed 01 October to 31 December 2017**

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><b>Creditors – duplicate payments</b></p> <p>Assurance rating: Some improvement required ★★★</p>	<p>In the main, the Councils' creditors are paid via EFINS, (the purchase ledger system). For the period 1 January 2017 to 31 July 2017, which is the period covered by this audit, Accounts Payable processed 14,874 invoices through the EFINS system.</p> <p>The objectives were to ensure that;</p> <ul style="list-style-type: none"> <li>• suitable controls are in place to intercept duplicated invoices being received by the Council</li> <li>• recovery action is taken where invoices are paid twice</li> </ul> <p>The scope of this audit was to check that;</p> <ul style="list-style-type: none"> <li>• invoices have not been paid twice (duplicate payments)</li> <li>• credit notes on supplier accounts are being offset against future invoices</li> </ul> <p>A total of 4 medium risk and 1 low risk issues were reported and remedial action has been agreed with management for all of the issues identified.</p>
<p><b>VAT</b></p> <p>Assurance rating: Some improvement required ★★★</p>	<p>The Council is registered for Value Added Tax (VAT) and as such has to account to HMRC for the VAT;</p> <ul style="list-style-type: none"> <li>• charged on the goods/services supplied by the council (known as output tax)</li> <li>• paid on the goods/services purchased by the council (known as input tax)</li> </ul> <p>The overall objective of this audit was to review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to recording of VAT.</p> <p>The scope of this audit included a review of:</p> <ul style="list-style-type: none"> <li>• Policies and procedures – check that they up-to-date and readily available to staff</li> <li>• Records – by enquiry check that supporting documents are held for the required period of time</li> <li>• Non-business activities – ensure that VAT on these transactions are not included in the VAT return</li> <li>• Option to Tax – check that a current record of such transactions is held</li> <li>• Input and Output tax – review a sample of debtor and creditor invoices and check that the VAT element has been recorded correctly</li> <li>• Accounting for VAT – examine the VAT suspense accounts, the VAT reconciliation and the latest VAT return to ensure</li> </ul>

	<p>that any anomalies have been investigated and corrected</p> <ul style="list-style-type: none"> <li>• VAT changes – by enquiry check that where changes to the VAT treatment of goods occurs that has resulted in a penalty being charged, that controls have been put in place to avoid this happening in the future</li> </ul> <p>A total of 3 high risk, 3 medium risk and 5 low risk issues were identified and remedial action was agreed with management.</p> <p>The high risk findings related to non-valid VAT invoices, invoices not authorised before payment and incorrect processing.</p>
<p><b>Housing - Housing Repairs</b></p> <p>Assurance rating: Significant improvement required ★ ★</p>	<p>The Housing Asset Management team provides a responsive repairs service to tenants of the Council's 5,000+ rented properties to the requirements of Section 11 of the Landlord and Tenant Act 1985 which details the landlord's responsibility for keeping their properties in good repair. This involves a reactive repairs team acting in response to calls from tenants reporting problems and a programmed repairs team who are engaged in a programme of stock investment and improvement that will ensure all the Council's rented properties reach the national Decent Homes Standard</p> <p>The majority of reactive repairs are undertaken by Mears who currently hold the contract to provide this work. There are also some reactive repairs works that fall outside the Mears contract e.g. specialist work which are usually identified as a result of a visit by a works surveyor</p> <p>When a property becomes void, Mears visit the property to complete a void property inspection report, a property check list and a property hazard check list as well as identifying any repairs that may need to be carried out. Mears are responsible for undertaking this work once agreed by the Council. As at 03/1017 there were 47 void properties</p> <p>The objective of this audit was to process map the repairs ordering and invoicing process in order to identify any gaps and weaknesses in controls</p> <p>A total of 5 high risk and 5 medium risk issues were reported and remedial actions for all have been agreed with management, many of which had been implemented by the time the final report was issued.</p> <p>The high risk issues related to poor controls over the authorisation of works orders raised or varied and void turnaround times.</p>
<p><b>Housing - Disabled Adaptations</b></p> <p>Assurance rating: Some improvement required ★ ★ ★</p>	<p>The Housing Service has made a commitment to provide tenants that need them with disabled adaptations to their home to help them with their independent living, privacy and dignity.</p> <p>The following applicants are considered eligible for a disabled adaptation:</p> <ul style="list-style-type: none"> <li>• for minor adaptations, all Council tenants are eligible</li> <li>• for major adaptations, if they are a Council secure tenant</li> <li>• have a physical disability which has a serious and long-term effect on their ability to carry out normal day-to-day activities</li> </ul> <p>Minor adaptations are fully paid for by Exeter City Council with no contributions from the applicant.</p>

For major adaptations over £1,000, the applicant is means tested in accordance with the Disabled Facilities Grant model to work how much they will be required to contribute. The tenant has to directly contact Care Direct who will arrange for a visit from an occupational therapist. They will look at the tenant's personal circumstances to find out what they need to help them live as safely and independently as possible in their own home. The Occupational Therapist will complete a statement of needs which the tenant is required to sign and which is then sent to the Works Surveyor responsible for disabled adaptations to action.

The 2017/18 budget for disabled adaptations is £450,000 of which £210,347.61 had been spent as at 14/09/17

The scope of the audit included a review of payments and the efficiency of the service.

- policy and procedures
- applications for adaptations
- prioritisation of disabled works
- funding for disabled adaptations
- pre-works property visits
- procurement of contractor & best value
- costing of works
- input and authorisation of orders
- process for authorising variations
- post works visits
- performance monitoring & customer satisfaction surveys

The audit identified 2 high risk, 8 medium risk and 1 low risk issues and remedial action was agreed with management.

The high risk findings related to the procurement of contractors for the disabled adaptation works and poor controls over the authorisation of works orders raised or varied.

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**SIGNIFICANT GOVERNANCE ISSUES PROGRESS REPORT - FROM ANNUAL GOVERNANCE STATEMENT 2016-17**
**Issues to address in 2017/18**

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update Sept 2017	Update December 2017	Update March 2018	Notes
<b>No significant governance issues were identified for 2016/17, however, measures to improve Governance arrangements have been proposed and implementation of these measures should be monitored.</b>							
1	Implementation of a performance management framework.	B Luxton	A new performance management framework is currently being developed. The new framework will be presented to SMB once the new appointments to SMB have joined the Council but is hoped that the system will be implemented by October 2017 at the latest.	No further update	The Director with responsibility for Performance Management will be working with the Executive Support team to undertake further work to clarify strategic priorities and set SMART outcomes, indicators and measures that connect frontline performance with strategic outcomes.	Executive members and SMB met on 29 January 2018 to consider a new city vision and priorities for the council. These will be captured in a new corporate plan and comprehensive performance framework, which will be submitted to members in July 2018.	
2	Medium term financial plan is not clearly linked to the Council's corporate priorities and work program.	CFO	Medium Term Financial Plan to be reviewed and updated to link to both corporate priorities and the corporate work programme and to include the Council's Value for Money Strategy	No update	During an away day new capital bids have been identified and linked to priorities. Revenue bids - a way forward has been identified which involves directors reviewing services to identify savings over the next 12 months	As timetable is being drawn up to address the issues and savings required for 2019-20 onwards. It will be necessary to demonstrate links to the Council's Corporate priorities.	
3	Services are currently struggling to deliver the capital programme predominantly due to either a lack of resources in some service areas or a skills gap in respect of procurement processes and procedures in other areas.	CFO	Lack of resources issues – Members need to make a decision whether to modify the capital programme to fit with resources available or to increase resources in order to meet expectations. Procurement training issues - once the new Procurement Team is in place, a series of training programmes will be embarked upon to support those staff with procurement responsibilities. The BID process in respect of the capital programme will be updated for 2017/18.	No update	The Council's 3 largest projects are on hold and the rest of spend for quarter 1 was low.	No further update.	
4	The Council needs to continue its work to implement processes and procedures to ensure proper governance and management of its information assets.	Information Governance Forum	To date, work has been undertaken to draft the Information Governance Framework and a report is due to be considered by SMB which will give approval for the Council to compile an Information Asset Register to enable improved management of risks and security of the Council's information assets.	Information Governance Forum has now been set up and is meeting monthly in the first instance to oversee the implementation of the Information Governance Framework and supporting policies to meet the requirements of General Data Protection Regulation (GDPR). The Council must be compliance by 28 May 2018.  Executive Support Unit to work with Housing service to trial the process to identify and record information assets in order to compile and information asset register.	Executive support unit working with Housing service to trial the process, once the process had been proven this will be rolled out to all services.	The Information Governance Framework and all related policies are currently being reviewed and collated into one document, which will be completed by mid March 2018. All services submitted entries to a new Information Asset Register in January 2018. This is being reviewed as part of the GDPR action plan, which includes a range of measures to ensure compliance by 25 May 2018.	

**SIGNIFICANT GOVERNANCE ISSUES PROGRESS REPORT - FROM ANNUAL GOVERNANCE STATEMENT 2015-16**

**Issues outstanding to continue to be reviewed by Audit & Governance**

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update September 2017	Update December 2017	Update March 2018	Notes
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.		A breakdown in separation of duties has been identified within one service as part of the Internal Audit work undertaken. Audit are in the process of agreeing remedial action with management to rectify this weakness.		
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		No further update. Management and Internal Audit continue to monitor the situation.		
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.	CFO	A major review is planned to report shortly with a recommended way forward regarding procurement.	New contract regulations have been drafted.	No further update.		
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.	CFO	A major review is planned to report shortly with a recommended way forward regarding procurement.	No update	Still attempting to identify suitable candidates to fill posts. Housing have an interim in place to deal with important Housing contracts.	A number of options to address the problems with recruitment are ongoing. It is intended to readvertise the posts shortly.	

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

**Date of Meeting: 14 March 2018**

**Report of: Chief Finance Officer**

**Title: CODE OF CORPORATE GOVERNANCE – 2018/19**

**Is this a Key Decision?**

No

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

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

Council

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

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

### **2. Recommendations:**

It is recommended that:

2.1 Audit and Governance Committee supports and Council approves the Code of Corporate Governance for 2018/19;

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

3.1 The Council is required to prepare and publish an Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. It reports on the Council's performance against the Code of Corporate Governance. It is best practice to review and update the Code annually..

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

4.1 There are no resource implications contained within the report.

### **5. Section 151 Officer comments:**

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

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

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

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

The code of corporate governance sets out how Exeter City Council maintains probity, accountability and high standards of conduct in its dealings.

**8. Report details:**

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

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

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

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

- 10.1 There are no direct risks associated with this report

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

- 11.1 Not applicable

**12. Are there any other options?**

- 12.1 Not applicable

**Chief Finance Officer**

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

Background papers used in compiling this report:-

None

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



**Exeter City Council**

# Code of Corporate Governance

2018-19

## Scope of Responsibility

Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

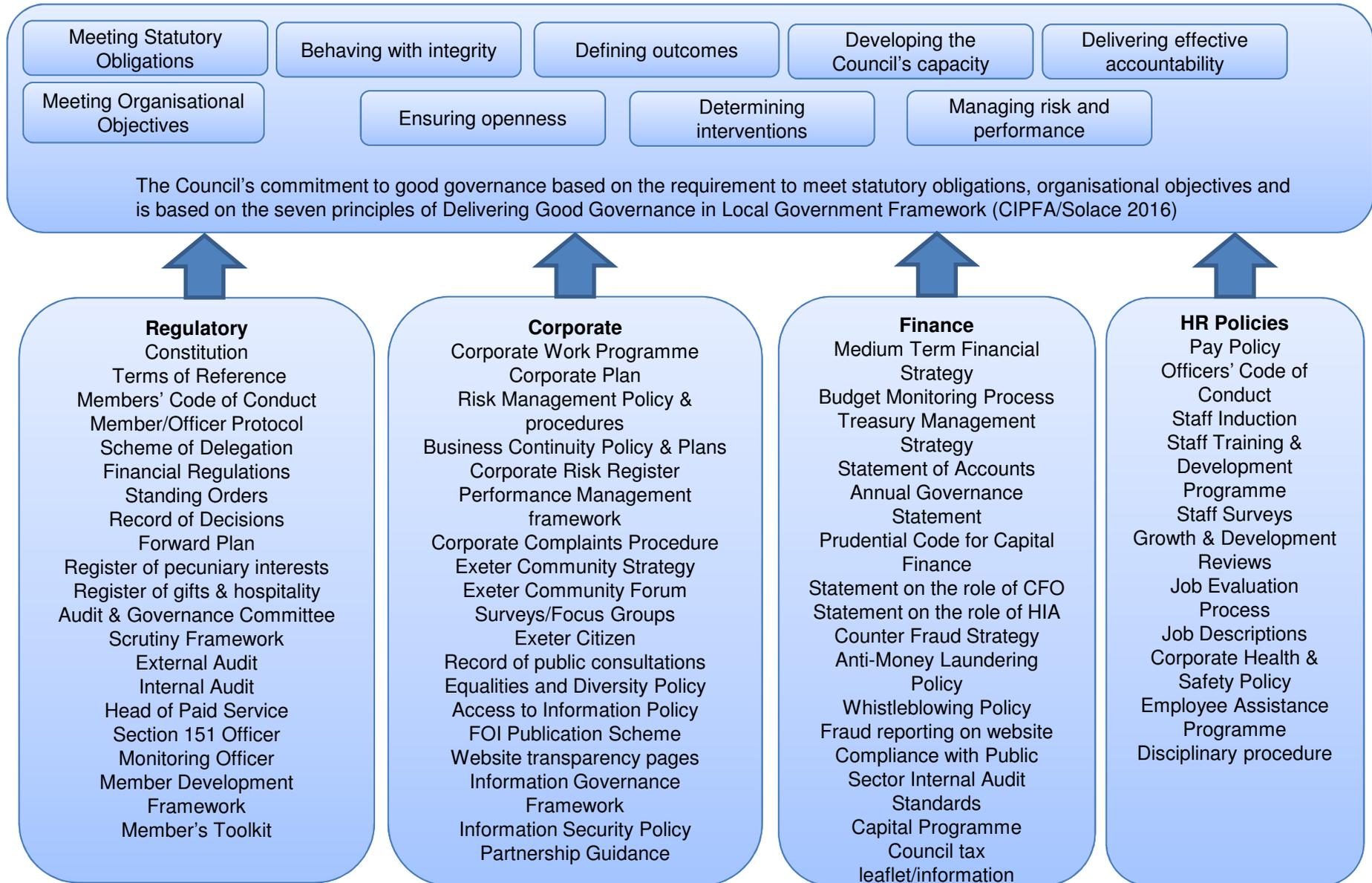
In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk. The Council has approved and adopted this Code of Corporate Governance, which is consistent with the principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016) and which identifies the systems, processes and documents that contribute to the Council's governance arrangements

## The Purpose of the Governance Framework

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

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

# Corporate Governance Framework



## Review of effectiveness

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

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

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

## Date of next review

The Code of Corporate Governance will be reviewed annually by the Section 151 Officer in consultation with the Executive Support Unit and presented to the meeting of the Audit & Governance Committee in March 2019.

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

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