

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 11 March 2020
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

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

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer on 01392 265115.

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

Membership -

Councillors Wardle (Chair), Atkinson (Deputy Chair), Foggin, Hannaford, Henson, D, Mrs Henson, Lamb, Mitchell, M, Pattison, Sheldon and Warwick

Agenda

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

1 **Apologies**

To receive apologies for absence from Committee Members.

2 **Minutes**

To approve and sign the minutes of the meeting held on 28 January 2020.

(Pages 3 -
6)

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**

It is considered that the Committee would be unlikely to exclude the press and public during the consideration of the items on the agenda, but if it should wish to so, then the following resolution should be passed:-

RESOLVED that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the particular items of

business on the grounds that they involve the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part 1 of Schedule 12A of the Act.

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|----|--|----------------------|
| 5 | External Audit Plan 2019/20
To receive a report from the Council's External Auditor Grant Thornton. | (Pages 7 -
26) |
| 6 | Annual Audit Letter 2019/20
To receive a report from the Council's External Auditors Grant Thornton. | (Pages 27
- 44) |
| 7 | Audit Progress Report and Sector Update
To consider the report of the Council's External Auditor Grant Thornton.
(Fee Letter 2019/20 also attached) | (Pages 45
- 70) |
| 8 | Annual Internal Audit Plan 2020/21
To consider the report of the Audit Managers. | (Pages 71
- 90) |
| 9 | Internal Audit Progress Report- 3rd Quarter- 1 October to 31 December 2019
To consider the report of the Audit Managers. | (Pages 91
- 102) |
| 10 | Code of Corporate Governance 2020/21
To consider the report of the Chief Finance Officer. | (Pages
103 - 110) |
| 11 | Review and Update of Whistleblowing Policy
To consider the report of the Audit Managers. | (Pages
111 - 122) |
| 12 | Corporate Risk Register
To consider the report of the Chief Executive & Growth Director. | (Pages
123 - 134) |

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 22 July 2020 at 5.30 pm

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AUDIT AND GOVERNANCE COMMITTEE

Tuesday 28 January 2020

Present:-

Councillor Wardle (Chair)
Councillors Atkinson, Foggin, Henson, D, Mrs Henson, Mitchell, M, Pattison, Sheldon and Warwick

Also Present

Chief Finance Officer, Deputy Chief Finance Officer and Democratic Services Officer (SLS)

1

APOLOGIES

Apologies were received from Councillor Hannaford.

2

MINUTES

The minutes of the meeting held on 4 December 2019 were taken as read, approved and signed by the Chair as correct.

3

DECLARATION OF INTERESTS

No declarations of disclosable pecuniary interests were made.

4

AUDIT FINDINGS REPORT (ISA 260)

Peter Barber, Engagement Lead and David Bray, Engagement Manager, Grant Thornton presented the ISA 260 2018/19 findings reports. The Engagement Lead confirmed that following a change in personnel, he had been appointed to complete the audit at Exeter City Council. The interim findings report had been presented to Members at the September meeting of the Committee. The summary of the work now completed by Grant Thornton, included the audit of the financial statements and the value for money conclusion. The Engagement Lead thanked the Chief Finance Officer and his team for their support during the audit, which had taken longer than planned due to resourcing issues within their audit team.

It was confirmed that the audit of the Council's financial statements for the year ending 31 March 2019, had been completed with an unqualified opinion. There were three material differences to the accounts which related to short term investments, the operating lease disclosure and the comparatives for short and long term borrowing in the draft financial statements, which were agreed with management and corrected in the financial statements.

The Engagement Lead also confirmed that Exeter City Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued an unqualified opinion. Some additional work had been undertaken under the Local Audit and Actuality Act (2014) as a member of the public had indicated their concern about the governance arrangements in relation to grant monies paid to a community organisation in 2018/19. This would not materially impact on the financial statement or the value for money conclusion,

although it was not possible to conclude the audit and issue an audit certificate until consideration of the objection had been completed. The Engagement Lead confirmed that he would continue to work on this matter with the objector and officers of the City Council and it was clearly desirable to reach a resolution as quickly as possible. He also responded to a Member who had suggested that this may conflict with the Local Government Ombudsman (LGO) remit, and confirmed that they did not direct them, and he reminded the Member of the Council's own complaints process. The Chief Finance Officer reminded Members that the Council had made changes to the grant provision in February 2019, when some grants were changed into contracts, and this had enhanced the governance process. The request for funding, together with a Business Plan for an award to a community organisation was taken to Committee and Council as part of the New Homes Bonus (NHB) arrangements as opposed to the traditional grants award process.

In response to questions from Members, the Engagement Lead and the Chief Finance Officer responded in the following terms:-

- a reference in the narrative of the key findings citing scope and flexibility for the funding of the Leisure Complex was included as part of the normal cyclical capital planning. The Chief Finance Officer added that the Council had expected £18 million from the New Homes Bonus, but Central Government have indicated that this would end, and there may be a shortfall of the sum identified for this project.
- the arm's length development company Exeter City Group Limited, were audited separately by Chartered Accountants Francis Clark. The Council prepares Group financial statements that consolidates the financial information of the company with the City Council's accounts.
- Executive had agreed a loan to Exeter Science Park to be repaid by 2023/24 and it was anticipated that this would be repaid. The City Council had also acted as a guarantor for the Park, in respect of a new lease arrangement.
- the Engagement Lead also wished to draw Members' attention to a number of audit adjustments and in particular, that Disclosure Note 16 originally understated the value of assets revalued in 2018/19 as it did not reflect the additional revaluations undertaken outside of the five year rolling programme. The Note was amended to increase the value of assets revalued from £25m to £49.5m.

The Engagement Lead, in presenting the fees for the audit confirmed that it had been a very challenging year for Grant Thornton, particularly in relation to the recruitment of the appropriate staff with the right skills set. He explained that a number of issues had caused a delay in the timetable work plan, and included an increase in the level of asset valuation and pension work, along with the Group and Leisure Complex accounts. A report by the Public Sector Accounts (PSA) had indicated that over 240 Councils had not completed their audits within the original timeframe. Although they were already behind in their planning for the 2019/20 audit, every effort would be made to ensure good progress. He would discuss this matter with his successor so that assurances could be given that this work would be done within required timeframes. He also highlighted a request for additional fees that they intended to charge, which would be subject to PSA approval.

The Audit and Governance Committee noted the report on Audit Findings from the Exeter City Council (External Auditor), Grant Thornton.

STATEMENT OF ACCOUNTS 2018/19

The Chief Finance Officer presented the report on the Council's Statement of Accounts for 2018/19 for approval and adoption. This was a statutory requirement to publish the Statement of Accounts to offer a 'true and fair view' of the financial position and transactions of the Council as at 31 March 2019. He reported that due to a peak period of work in June and July, and additional work which was now required, Grant Thornton, as the Council's external auditors, had been unable to conclude the update by 31 July. It was however, anticipated that Grant Thornton, would be able to issue an unqualified audit opinion on the Authority's financial statements. A notice had been placed on the Council's web site, which confirmed that Grant Thornton had taken full responsibility for the delay in the audit of the Council's accounts.

The Chief Finance Officer discussed the key audit findings, highlighting material mis-statements, audit adjustments and presentational issues, which would not impact the General Fund balance or the Housing Revenue Account balance, which remained as reported to Council on 23 July 2019. He also responded to a Member's comment on the level of pay of senior officers. Apart from the annual pay, pension benefits and redundancy pay as appropriate were also included in the Disclosure Note and this sometimes made the anonymous table look unusual in terms of changes in the number of people included in each band.

The Chair expressed his thanks to the finance team for their support towards the Auditors in the production of the Final Accounts, whilst also producing the Council's draft budget for 2020/21.

RESOLVED that the Audit and Governance Committee approve the audited Statement of Accounts for 2018/19 and requested that it be signed by the Chief Finance Officer and the Chair of the Audit and Governance Committee for forwarding to the External Auditor, Grant Thornton.

MANAGEMENT REPRESENTATION LETTER

The Chief Finance Officer submitted the letter to the External Auditor, Grant Thornton in respect of the 2018/19 Statement of Accounts as required by audit.

RESOLVED that the Audit and Governance Committee approve the letter, and request that it be signed by the Chief Finance Officer and the Chair of the Audit and Governance Committee for forwarding to the External Auditor, Grant Thornton.

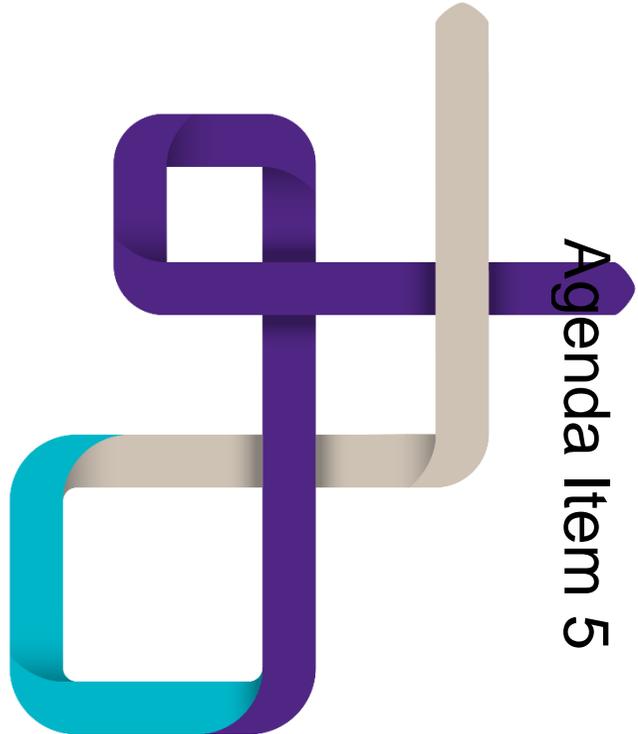
(The meeting commenced at 5.20 pm and closed at 7.05 pm)

Chair

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External Audit Plan

Year ending 31 March 2020



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Exeter City Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Exeter City Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Exeter City Group Limited (including Exeter City Living Limited).
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none">• Valuation of land and buildings;• Valuation of net pension fund liability; and• Management override of controls (assumed risk at all entities under ISA 240). <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality	We have determined planning materiality to be £2.171m (PY £1.95m) for the group and £2.169m (PY £1.8m) for the Authority, which equates to approximately 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.108m (PY £0.097m).
Value for Money arrangements	<p>Our initial risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:</p> <ul style="list-style-type: none">• Financial sustainability
Audit logistics	<p>Our interim visit will take place in March 2020 and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £54,523 (PY: £52,523) for the Authority, subject to the Authority meeting our requirements set out on page 14.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

Exeter City Council's Medium Term Financial Plan (MTFP) currently indicates that significant cost reductions are required in 2020/21. The reductions required total £2.27m in 2020/21 and a further £3.7m in the following three years.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the CCG until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Other issues

Implementation of IFRS 16 – Leases

The Council are required to report in the 2019/20 accounts, the potential impact of implementing IFRS 16 (Accounting for leases) on their accounts for 2020/21. This will likely be complex and challenging and requires some judgement.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

We will consider how the Council is assessing the impact of Brexit of services, contracts and people.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been discussed with the Chief finance Officer and is subject to PSAA agreement.

We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually significant?	Audit scope	Risks identified	Planned audit approach
Exeter City Council	Yes	Audit of the financial information of the component using component materiality	The risks identified for Exeter City Council are set out on pages 6 to 9 of this report.	Full scope UK statutory audit performed by Grant Thornton UK LLP
Exeter City Group limited (Including Exeter City Living Limited)	No	Review of component's financial information	<p>Due to the anticipated value of transactions operating through the company, we do not anticipate any material risks relating to financial transactions impacting the consolidated financial position. Therefore no specific risk has been identified in relation to the group.</p> <p>The majority of the transactions of the company are with the Council and will be reviewed as part of the intra-group consolidation adjustments.</p> <p>From our initial discussions with officers, work in progress is likely to be material.</p> <p>Exeter City Group Limited is not subject to external audit.</p>	<p>As Exeter City Group Limited is not subject to external audit we are not able to rely upon the work of another auditor. We will therefore perform the following procedures to gain our assurance:</p> <ul style="list-style-type: none"> • agree the overall consolidation including alignment of accounting policies; • agree consolidation adjustments; and • audit classes of transactions that remain material after consolidation adjustments. From planning discussion this is likely to be work in progress balances only. <p>We will review this strategy on receipt of the draft financial statements for the subsidiary.</p>

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4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Exeter City Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£419m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>The Authority is also required to value its Investment Property annually at 31 March and undertakes the valuation of its housing stock using the Beacon Approach.</p> <p>We therefore identified valuation of land and buildings as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • discuss with the valuer the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified (continued)

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of the pension fund net liability</p>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£112 million in the Authority's balance sheet at 31 March 2019 and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

5. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements; and • assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Council's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £2.171m (PY £1.95m) for the group and £2.169m (PY £1.95m) for the Authority, which equates to 2% of our prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be 2% of the amount disclosed for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

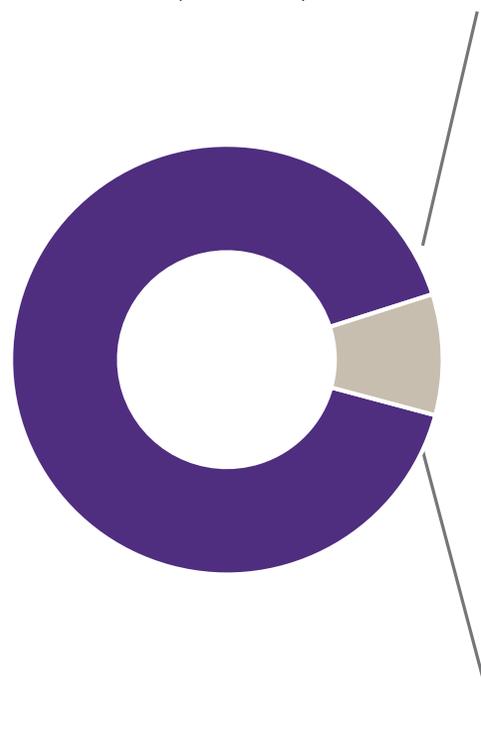
Matters we will report to the Audit and Governance Committee

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 and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) '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) 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 group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.108m (PY £0.095m).

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

Prior year gross expenditure

£108m group
(PY: £108m)
£108m Authority
(PY: £108m)



Materiality

£2.171m (PY: £1.95m)

Group financial statements materiality

£2.169m PY: £1.95m)

Authority financial statements materiality

£0.108m (PY: £0.095m)

Misstatements reported to the Audit and Governance Committee

8. Value for Money arrangements

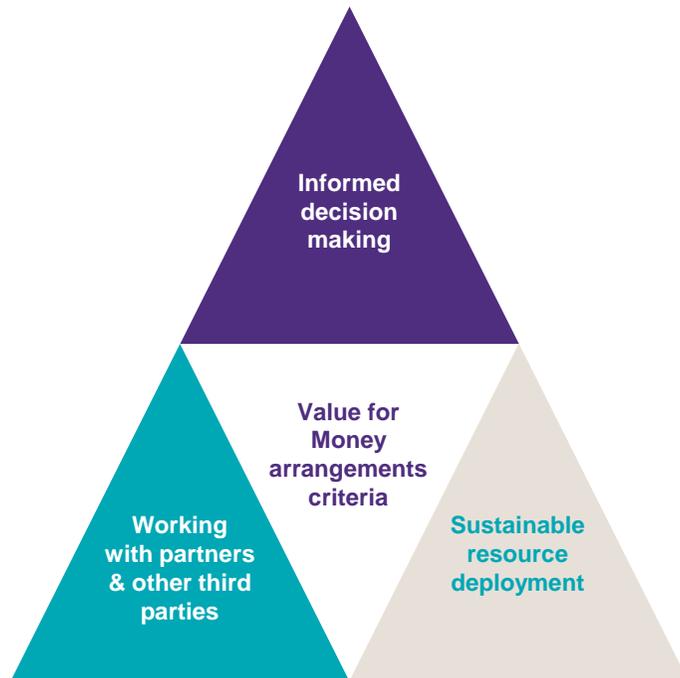
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



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Significant VFM risks

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

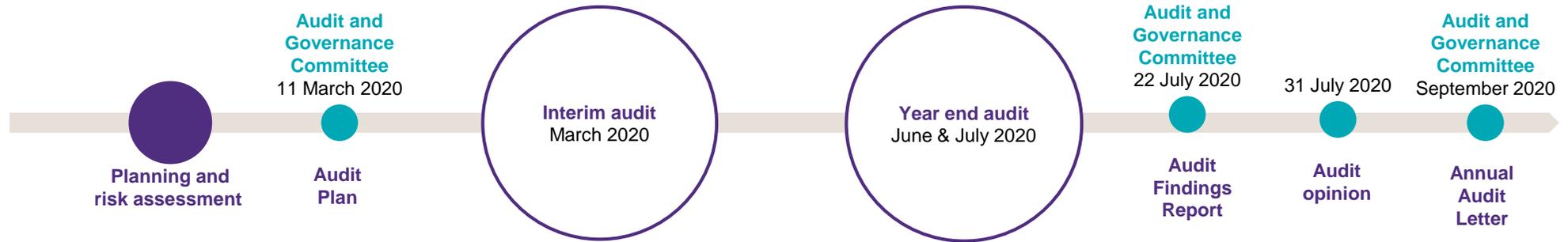


Financial sustainability:

The Authority's 2020/21 financial plan includes identified savings of £2.27m. There remains a requirement to find additional savings of £3.7m over the following three financial years. All non-statutory services are under pressure to deliver savings and there is a risk that the Authority could fail to set balanced budgets in the future.

We will consider the Authority's medium-term financial plan, including the assumptions that underpin it, and assess them for reasonableness. We will also consider the identified savings plans and assess their deliverability.

9. Audit logistics & team



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Jackson Murray, Key Audit Partner

Jackson's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.



Steve Johnson, Audit Manager

Steve's role will be to be a key contact with the Chief Finance Officer and the Audit and Governance Committee. He will take responsibility for the team's completion of the audit work, and ensure effective communication with the Key Audit Partner.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been discussed with the Chief finance Officer and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Authority and group audit	£57,887	£52,523	£54,423

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Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
PSAA scale fee	44,573	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Harbour accounts	950	The audit of the Authority's harbour accounts requires a separate Letter of Engagement and audit procedures over and above the Authority's statutory audit.
Group accounts	1,500	Since the original scale fee was determined by Public Sector Audit Appointments, the Authority produces group accounts and this requires additional audit work.
New Accounting Standards	1,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will be responding to the introduction of IFRS16. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	54,423	

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related: Agreed upon procedures in respect of the Authority's Housing Benefit subsidy return	17,298	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,298 in comparison to the total fee for the audit and in particular is not significant relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon procedures in respect of the Authority's pooling of housing capital receipts return	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant in comparison to the total fee for the audit and in particular is not significant relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

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Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- Improve the extent and rigour of challenge of management in areas of judgement
- Improve the consistency of audit teams' application of professional scepticism
- Strengthen the effectiveness of the audit of revenue
- Improve the audit of going concern
- Improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the Audit and Governance Committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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The Annual Audit Letter for Exeter City Council

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Year ended 31 March 2019
March 2020



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Exeter City Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 28 January 2020.

Our work

Materiality

We determined materiality for the audit of the group's financial statements to be £1.95m, which is 1.8% of the group's gross revenue expenditure. The materiality we applied to the Council's financial statements was £1.8m.

Financial Statements opinion

We gave an unqualified opinion on the group's financial statements on 31 January 2020.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

Use of statutory powers

We are required under the Act to give electors the opportunity to raise questions about the group's financial statements and we consider and decide upon objections received in relation to the financial statements.

We have been in communication with a member of the public who has asked us, as the appointed auditor, to look into grant monies paid to a community organisation in 2018/19.

We are currently considering this request. Given the sums involved and the small number of similar grant approvals we do not believe that this issue materially impacts on either our opinion on your financial statements or the VFM conclusion. We will, however, hold open our certificate confirming completion of the 2018/19 audit until we have concluded on this matter.

To date, we have not exercised any of our additional statutory powers or duties.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our Audit Findings Report which we presented on 28 January 2020.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions (DWP) and of the Council's Pooling of Housing Capital Receipts return. These were both certified without amendment or qualification by the respective deadlines of 30 November 2019 and 7 February 2020.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Exeter City Council until we resolve the matter raised by a member of the public relating to monies paid to a community organisation in 2018/19.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £1.95m, which is 1.8% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £1.8m, which is 1.8% of the Council's gross revenue expenditure in the previous financial year. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £5,000.

We set a lower threshold of £97,500 for the group and £90,000 for the Council, above which we reported errors to the Council's Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, when producing our audit plan we determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable. <p>We reviewed this assessment during the course of our audit and no new information has come to light to change our original assessment.</p>	<p>We did not consider this to be a significant risk for Exeter City Council.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • completed our understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of the management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Group Accounts</p> <p>At the time our audit plan was produced, the Council considered it likely that it would need to prepare group financial statements that consolidate the financial information of Exeter City Living Limited (ECL) as it considered the company was material to the City Council. This would be the first time that group accounts needed to be prepared by Exeter City Council.</p> <p>The Council subsequently confirmed its view that Group accounts would be required.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> the key agreements to gain an understanding of the arrangements put in place on the establishment of the company the level and nature of transactions of Exeter City Living Limited (ECL) in 2018/19 management's assessment regarding the requirement for group accounts 	<p>We agreed that group accounts were required in 2018/19.</p> <p>We determined the scope of the work required in 2018/19 taking into account the opinion issued by ECL's External Auditor and the findings from their work.</p> <p>We did not identify any issues in respect of management's consideration of the need for group accounts and we obtained sufficient assurance over the key figures in the Company's financial statements</p>
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c. £390 million at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date..</p>	<p>We :</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert and wrote to the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been correctly reflected in the Council's asset register and financial statements met with the valuer and reviewed a sample of revaluations in detail. 	<p>We did not identify any issues in relation to the valuation of land and buildings although we made recommendations regarding the revaluation of assets outside the formal rolling programme of revaluations to ensure that the balance is materially correct.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of the pension fund net liability</p> <p>The Authority's pension fund net liability presents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£114 million in the Authority's balance sheet at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report obtained assurance from the auditors of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling (see page 15 for an explanation of this). The actuary's estimate was of a possible increase in pension liabilities of £1.629m, and an increase in service costs for the 2019/20 year of £132k. The Council did not adjust its financial statements to reflect this additional liability.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We did not identify any other issues regarding the valuation of the pension fund net liability.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Operating expenses</p> <p>Our interim audit work identified that 80% of all service expenditure is procured without the use of purchase orders. It is possible that orders (and the committal of the Council to the expenditure) are therefore not authorised until the point that invoices are received for payment.</p> <p>We are working with Council officers to fully understand the deficiencies in purchasing authorisations. This is likely to have a significant impact on our testing strategy.</p>	<p>We:</p> <ul style="list-style-type: none"> asked management to review the procurement process and identify any compensating controls that may be in place assessed the design and operational effectiveness of the Council's operating expenses system <p>As all expenditure is approved before any payment is actually made, we concluded that there was no risk regarding the occurrence of expenditure in the year. However, there was a risk regarding the completeness of expenditure within the financial statements.</p> <p>We therefore designed our audit programme to reflect this additional risk and undertook extended testing of the controls in place and extended our cut-off sample to test to include the payments made in April, May and June 2019 to ensure they were accounted for in the correct financial year.</p>	<p>Our testing did not identify any issues regarding the completeness of expenditure.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 31 January 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 28 January 2020.

In addition to the significant audit risks reported above, we recommended that the Council should review the critical judgements disclosed in the 2019/20 financial statements to ensure that they are appropriate and do not have a material impact on the Council's accounts.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website within the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

To date, we have not exercised any of our additional statutory powers or duties although, as reported on page 3, we have yet to resolve a matter raised by a member of the public.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Exeter City Council until we resolve the matter raised by a member of the public relating to monies paid to a community organisation in 2018/19.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in January 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Delivering a sustainable medium term financial plan</p> <p>The medium term financial plan showed that significant savings were required to achieve financial balance with the Council planning a use of its reserves in 2018/19 in order to achieve its budget.</p>	<p>We reviewed the Council's reserves and the plans in place to ensure an appropriate level of reserves is maintained.</p> <p>We assessed the arrangements in place to deliver financial savings in order to ensure they are realistic and deliverable.</p>	<p>The outturn for 2018/19 per the Council's financial statements showed that the General Fund balance reduced in the year by £296k (6% of the opening balance) to £4.691m, although this is still comfortably above the minimum level set by the Council of £3m. During 2018/19, the Council's earmarked reserves increased from £7.8m to £9.5m meaning that the Council's overall financial position strengthened in the year.</p> <p>Looking ahead, the Council approved its most recent medium term financial plan in February 2019 which covers the 2019/20 financial year and looks ahead to 2022/23.</p> <p>Whilst the funding available in the latter years is uncertain across the whole of Local Government, the Council's medium term financial plan shows that savings totalling approximately £2.5m will be required across that period, with a peak of almost £2m in 2019/20. The Council has developed plans to deliver the required savings in that year and it has the safety net of available reserves to cover any shortfall, although it recognises this is not sustainable into the long term and ultimately it needs to balance the books year on year.</p> <p>The Council has a good track record of delivering its savings targets and we concluded that whilst the Council faces a challenging financial position, there remain appropriate arrangements in place for managing the budget.</p>

Value for Money conclusion

Value for Money Risks (cont'd)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Governance of Exeter City Group Limited</p> <p>The Council established a significant subsidiary company in the year which is likely to have material transactions outside the Council's direct control.</p>	<p>We assessed the governance arrangements in place for the new company, including a review of the original business case.</p>	<p>The main purpose of the group is to build homes to help tackle housing need in Exeter, to help reduce the pressures on the Council's housing waiting list and to improve the lives of those residents currently living in poor quality homes. The Council provided a 25 year loan of £2.2m on 11 January 2019 in order to implement the Year 1 business plan to Exeter City Living Ltd and a further £2.15m loan was advanced in April 2019.</p> <p>Before the companies were formed there was considerable engagement with Members, with discussions at scrutiny, Executive and Full Council levels.</p> <p>The City Council also obtained independent legal advice regarding the establishment of the companies and has appointed its own external auditors.</p> <p>Based on our review of this area, the governance arrangements in place for the new company appear to be adequate.</p>

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Value for Money conclusion

Value for Money Risks (cont'd)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The re-development of the bus station and surrounding area</p> <p>This is a significant project over two years and the capital programme will need to be managed effectively if it is to deliver the expected benefits on time and within budget.</p>	<p>We assessed the arrangements and information provided to enable the Council to make an informed decision and the capital monitoring arrangements to ensure the project is delivered on time and to budget.</p>	<p>The Council has established a Sub-Committee of the Executive (the Leisure Complex and Bus Station Programme Board) to monitor progress on this significant project for the Council, which has a budget of over £50m. The Board includes seven Members of the City Council to ensure it is politically balanced.</p> <p>The Board has been meeting since July 2015 and meets every three to four months and its terms of reference were agreed at the first meeting.</p> <p>We noted the regular engagement by the Council's Chief Executive & Growth Director and the fact that key decisions go through the Programme Board, Executive and then to Full Council.</p> <p>The latest monitoring report we reviewed (as at 19 August 2019) stated that progress was currently as planned and that the budget was on track.</p> <p>Based on our review of this area, the decision making arrangements in place for the new development appear to be adequate.</p>

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Value for Money conclusion

Value for Money Risks (cont'd)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Procurement: follow-up work</p> <p>The Council's previous auditors reviewed the progress made by the Authority against its procurement action plan and concluded that although there had been some progress, the timing of these improvements and the need still for additional progress to be made meant that they were unable to conclude that sufficient improvement has been achieved in strengthening the Authority's procurement arrangements. They therefore issued an 'except for' qualification in 2017/18 for a third year.</p>	<p>We followed up on the progress made by on the issues raised by the Council's previous auditors regarding the Council's procurement processes.</p>	<p>The Council was unable to provide us with an action plan setting out the way in which it had responded to the previous recommendations.</p> <p>We therefore undertook an overview of the procurement arrangements in place at the Council and found that:</p> <ul style="list-style-type: none"> • The Council has updated its procurement and contract procedures and now has appropriate procedures in place. • Training has been rolled out to all those officers involved in procurement to ensure they are aware of the new procedures and why they should be adhered to; • The Council has reviewed and retendered its large contracts as appropriate, so that the majority are now compliant with its procurement and contract procedures. <p>The Council's Internal Auditors have completed a recent review of the procurement arrangements and they concluded that they provided 'satisfactory assurance'. Internal Audit made a number of recommendations, but none were assessed by them as being 'high risk'.</p> <p>We have concluded that sufficient progress has been made to conclude that adequate arrangements are in place. However, the Council should continue to embed effective procurement arrangements and should develop an action plan against which progress and remedial action can be taken as required. Progress against Internal Audit's recommendations should be monitored.</p>

A. Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services in 2018/19. Fee variations are subject to PSAA approval.

Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	September 2019 (interim) January 2020 (final)
Annual Audit Letter	February 2020

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table opposite summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

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Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	44,573	51,523	57,887
Housing Benefit Grant Certification	17,298	17,298	15,270
Non audit services			
Pooled Capital Receipts Return Certification	3,000	3,000	3,000
Total fees	£64,871	£71,821	£76,157

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £44,573 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table overleaf.

A. Reports issued and fees

Audit fee variation

The following fee variations are subject to PSAA approval

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal in December 2018. The Supreme Court refused the Government's application to appeal this ruling. We have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. We have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
Group Accounts	Since the original fee was determined by Public Sector Audit Appointments, the Council has needed to produce group accounts for the first time and this required additional audit work.	1,500
Harbour Accounts	We have agreed a separate Letter of Engagement and are required to issue a separate opinion on the Council's Harbour Accounts.	950
Total		6,950

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Audit Progress Report and Sector Update

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Exeter City Council
Year ending 31 March 2020
11 March 2020



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Introduction



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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at February 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in January, and we began our interim audit in February 2020. Our interim fieldwork includes:

- updated review of the Council's control environment;
- updated understanding of financial systems;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues; and
- early substantive testing.

We issued a detailed audit plan, setting out our proposed approach to the audit of the group and Council's 2019/20 financial statements, and this is included as a separate agenda item at the Committee.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 July 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "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 three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 July 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 12 for more details.

Progress at February 2020 (cont.)

Other areas

Certification of claims and returns

The review of your Housing Benefits subsidy return is no longer covered by Public Sector Audit Appointments Ltd and Councils appoint their own reporting accountants. The Council appointed Grant Thornton UK LLP for this work in 2018/19 and 2019/20 and has notified the Department for Work and Pensions (DWP).

The Council is also required to submit an audited return for the Pooling of Capital Receipts annually. We have undertaken this work for 2018/19 and will discuss the audit of the 2019/20 claim with management.

Meetings

We met with Finance Officers in January as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Chief Finance Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Governance.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Certification of claims and returns

We completed Agreed Upon procedures on the 2018/19 Housing Benefit subsidy claim for Exeter City Council on 26 November 2019. Our findings are set out below:

The following results were reported to the DWP:

Cell 011 - Non HRA Rent Rebates – No claims were found to be in error

Cell 055 – HRA Rent Rebates – No claims were found to be in error

Cell 094 - Rent Allowances - No claims were found to be in error

Follow up of prior year error

In line with the requirements of HBAP guidance we undertook testing on the 207/18 Qualification report. The Council completed further testing on the sub-populations for;:

Non-HRA Rent rebates (Cell 11) – Earned income

HRA Rent Rebates (Cell 55) – Earned income

Rent Allowance (Cell 94) – Earned income

We re-performed a sample of the Council's testing and concurred with the Council's findings. However, further errors were identified:

Cell 11 – Of the 40 cases tested, five failures were recorded, 2 resulted in underpayment (no action needed) and 3 resulted had no impact on subsidy.

Cell 55 - Of the 44 cases tested, four failures were recorded, 2 resulted in underpayment (no action needed) and 2 resulted in overpayment. The reported extrapolated error was £10

Cell 94 – Of the 46 cases tested, four failures were recorded, 2 resulted in underpayment (no action needed) and 2 resulted in overpayment. The reported extrapolated error was £170

Due to the errors identified, the Council will need to undertake further testing on these areas again in 2019/20.

The work on the Council's Pooling of Housing Capital Receipts return was completed in January 2020.

The claim was unqualified, and there were no findings to report.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2019/20. We have appended the updated fee letter seeking additional fees as a result of the increased regulatory focus facing all audit suppliers.</p>	April 2019	Complete
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	On the agenda for this meeting
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit and Governance Committee.</p>	July 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	September 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 52 Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Governance Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
 - Introduction of suspicion into the qualities of auditing
 - Extension of the concept of auditing to areas beyond financial statements
 - Mechanisms to encourage greater engagement of shareholders with audit and auditors
 - Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the Audit and Governance Committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

Page 54 “A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

.”

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

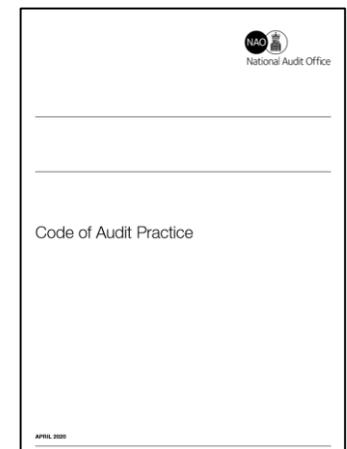
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit and Governance Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

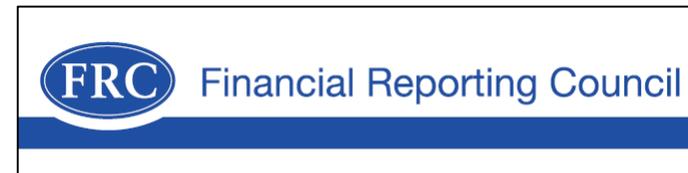
The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages **XX** for more information on this topic.



Financial Reporting Council – aid to Audit and Governance Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist Audit and Governance Committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the Audit and Governance Committee. It also takes account of commentary from Audit and Governance Committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in Audit and Governance Committee reporting.

As well as illustrating a framework for the Audit and Governance Committee’s evaluation, the Practice Aid sets out practical suggestions on how Audit and Governance Committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the Audit and Governance Committee to consider in relation to key areas of audit judgment, and illustrative Audit and Governance Committee considerations in evaluating the auditor’s competencies.

The FRC encourages Audit and Governance Committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit and Governance Committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Implementation of International Financial Reporting Standard 16 Leases

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.



Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>



CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

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Grant Thornton UK LLP
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5 February 2020

Dear David

Audit scope and additional work 2019/20

In recent conversations, including at Exeter City Council's Audit and Governance Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also recently received a letter via email from Tony Crawley of PSAA explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: *"significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations."*

I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do so in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Council's audit.

Increased challenge and depth of work – raising the quality bar

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

Score	Description
1 or 2a	Acceptable with Limited Improvements Required
2b	Improvements required
3	Significant Improvements Required

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.

Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority.
- checking the value of the Pension Fund Assets at 31 March per the Council's financial statements against the share of assets in the Pension Fund statements

- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers.
- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process).

Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.

We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

Local issues

We have also discussed the requirement for the Council to produce Group accounts and Harbour Accounts. The cost for these pieces of work are not included in the main Council's scale fee and so we are proposing to charge the same level of additional fee as last year for the further work required.

Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

Area	Cost £		
	2019/20	2018/19	2017/18
Scale Fee	£44,573	£44,573	£57,887
Increased challenge and depth of work	£2,500	£0	£0
PPE	£1,750	£1,500	£0
Pensions	£1,750	£3,000*	£0
New standards/ developments	£1,500	£0	£0
Group accounts	£1,500	£1,500	£0
Harbour accounts	£950	£950	£0
Total	£54,523	£52,523	£57,887

*Includes costs of assessing the impact of the McCloud ruling of £1,500

This would give a scale fee for the statutory accounts audit for 2019/20 of £44,573 plus VAT plus a variation of £9,950 plus VAT, giving a total fee of £54,523 plus VAT.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 31 July 2020. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit, which at this stage is planned to be delivered by 31 July 2020.

Future changes to audit scope

As I have previously mentioned in meetings and at the audit and risk committee, the National Audit Office is currently consulting on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

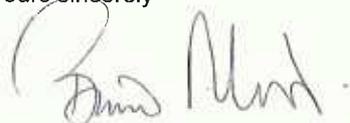
- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

Until the consultation is finalised and more details emerge of what is expected of auditors, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year,

Yours sincerely



Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2020

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT ANNUAL PLAN 2020/21

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 Audit and Governance Committee has responsibility for approving the annual Internal Audit plan and ensuring that appropriate risk assessments have been carried out when formulating the plan. This report details the proposed areas of work for the 2020/21 year.

2. Recommendations:

2.1 That the 2020/21 Internal Audit Plan be approved.

3. Reasons for the recommendation:

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

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

4.1 No additional resources implications

5. Section 151 Officer comments:

5.1 The audit plan is based on a logical methodology. The proposed plan raises no concerns for the section 151 Officer.

6. What are the legal aspects?

6.1 None identified.

7. Monitoring Officer's comments:

7.1 The Monitoring Officer is very supportive of the content of this report because effective governance enables an organisation to create value through innovation and development at the same time as providing accountability and control systems commensurate with the risk involved.

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 final Audit Plan has been compiled using risk analysis along with information from the Council's Corporate Risk register, feedback from Strategic Management Board about their priorities and any specific concerns they may have, and also feedback from the Chair and Deputy Chair of the Audit and Governance Committee.

8.3 The detailed plan is at Appendix A

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

9.1 An effective internal audit is part of good governance that enables the Council to operate an effective control environment and therefore contributes to the Corporate Objectives of 'A well run council' and 'Providing money for value services'.

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

10.1 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.

10.2 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. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

- 11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.
- 11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.
- 11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because
- 11.4.1 The report is for information only

12. Carbon Footprint (Environmental) Implications:

- 12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

N/A

Director David Hodgson (Chief Finance Officer)

Author: Helen Putt and 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 4.36 01392 265275

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Internal Audit Service

Annual Audit Plan 2020-21

Helen Putt/Helen Kelvey
Audit Manager

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Introduction

The role of internal audit is that of an:

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

(Public Sector Internal Audit Standards 2016 (PSIAS))

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

Internal Audit's main objectives are to:

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

The internal audit plan provides the mechanism through which we can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders, to ensure it continues to reflect the needs of the Council. We will continue to report progress against the plan to Audit and Governance Committee quarterly.

We make every effort to work with other assurance providers to minimise duplication.

Your Internal Audit Team

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



Helen Kelvey, Audit Manager



Helen Putt, Audit Manager



Davina Blanchard, Auditor



Sandra Please, Auditor

Conformance with internal auditing Standards

We operate in accordance with the Public Sector Internal Audit standards 2016 (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. Internal Audit has just undergone an external assessment (January 2020). The external assessor concluded that:

"It is our overall opinion that the Exeter City Council Internal Audit Team **generally conforms** to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*." **Generally Conforms** is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

Council Vision



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TACKLING CONGESTION & ACCESSIBILITY

We will work with our partners to make Exeter a city where active travel is promoted and where transport is not a barrier to accessing education, jobs, services or social activities and where sustainable means of travel are safer, cheaper, quicker and more convenient than private car ownership.



BUILDING GREAT NEIGHBOURHOODS

We will strive to ensure that every resident has a home that is secure, affordable and healthy in a neighbourhood where local services support wellbeing and promote community cohesion.



PROVIDING VALUE-FOR-MONEY SERVICES

We will continue to improve the way we deliver services to meet residents' day-to-day needs recognising that financial constraints are placing a premium on efficient and customer-focused services.

LEADING A WELL-RUN COUNCIL

To run the council well and deliver our strategy we will ensure effective governance, accountable decision making and good management of our business, assets and people. We will continue to seek opportunities to add value by working in partnership with others.

PROMOTING ACTIVE & HEALTHY LIFESTYLES

We will strive to make Exeter the most active city in England with a high-quality and accessible built environment and green spaces that encourage active and healthy lifestyles in communities that support wellbeing and reduce social isolation.

Council Risk

The Council has a clear framework and approach to risk management. The strategic risks contained in the Corporate Risk Register and assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation’s assurance needs and contributes to the achievement of their objectives. We will monitor the corporate risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

To ensure the effectiveness of an organisation’s risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. The Institute of Internal Auditors endorses the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

The Three Lines of Defence Model



Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

First line of defence

Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

Second line of defence

The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

Third line of defence

Internal audit forms the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the Council's Audit and Governance Committee and senior management. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk related information).

The role of the three lines of defence

Internal audit is uniquely positioned within the organisation to provide global assurance to the audit committee and senior management on the effectiveness of internal governance and risk processes. It is also well-placed to fulfil an advisory role on the coordination of assurance, effective ways of improving existing processes, and assisting management in implementing recommended improvements. In such a framework, internal audit is a cornerstone of an organisation's corporate governance.

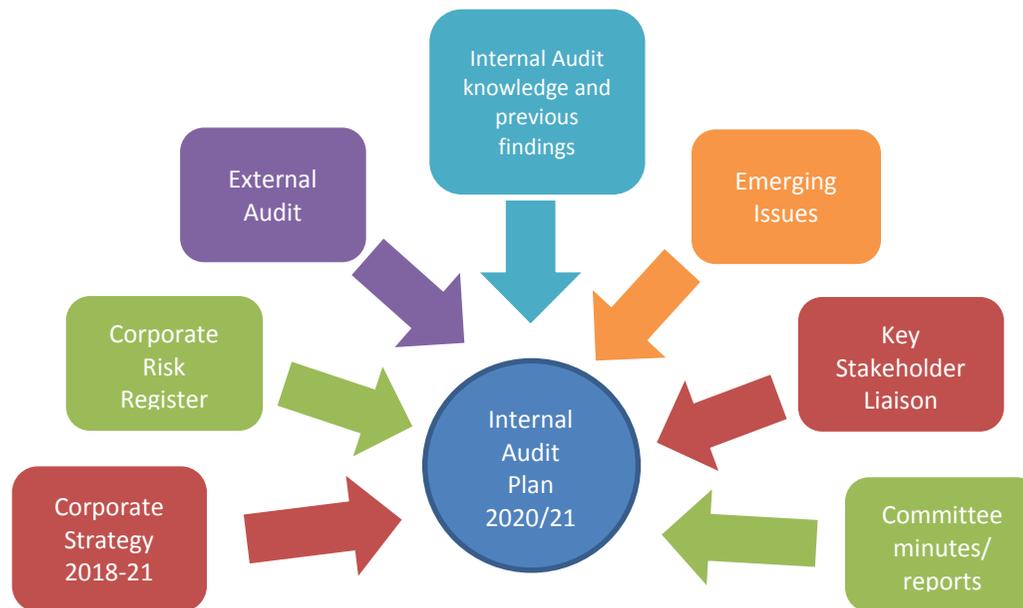
The use of the three lines of defence to understand the system of internal control and risk management should not be regarded as an automatic guarantee of success. All three lines need to work effectively with each other and with the audit committee in order to create the right conditions.

Developing the internal audit plan 2020/21

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation. The Council obtains assurance from a number of other sources as detailed in the Annual Governance Statement.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.

We have used various sources of information and discussed priorities for internal audit with the following groups:



Internal Audit Plan 2020/21

The Internal audit service has 472 days within the plan. Of those days, 144 are fixed days for audit planning and control, process mapping, general administration, follow-ups and other activities conducted by Internal Audit, such as National Fraud Initiative co-ordination, administration of RIPA, review of hospitality and disclosures and Disabled Facilities Grant audit (terms of grant conditions). A small amount of time is set aside as a contingency to allow for unplanned work such as frauds. The remaining 328 days will be used for the planned work as detailed below.

The audit risk ratings are calculated using a score against nine different criteria; Audit assurance/perception, reputation/sensitivity, complexity of system, finance, operational impact, inherent fraud risk, staff morale/turnover/change, volume of transactions and other assurance sources. This helps us to determine the frequency of audit and level of coverage required.

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
Chief Executive			
Information Technology	The Council's IT service is provided by Strata Service Solutions Ltd. Risk – information management, financial, reputational	Medium	General assurance around IT security
Corporate and Support Services			
Corporate Governance	This refers to the rules, practices and processes used to direct and control the organisation. Risk – legislative risk. Damage to reputation of Council.	Medium	Follow-up of issues identified in audit undertaken 19/20. Input to the Annual Governance Statement and to undertake an Assurance Mapping model review.
Equalities and Diversity	Under the Equality Act 2010, public sector organisations have an equality duty. The Equality Duty ensures that public bodies consider the needs of all individuals in their day to day work –	Medium	General assurance work against the Equalities Framework.

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
	<p>in shaping policy, in delivering services, and in relation to their own employees.</p> <p>Risk – legislative risk. Damage to reputation of Council.</p>		
Risk Management	<p>Systems and processes to manage the Council’s risks that could prevent it from meeting its objectives</p> <p>Risk – financial risks. Failure to meet objectives and purpose</p>	High	General assurance work and continue to assist in establishing operational risk registers throughout the organisation to help embed risk management across the Council.
Business Continuity Management	<p>Management of the Council’s business continuity arrangements in the event of business disruption.</p> <p>Risk – Council fails to operate effectively due to business disruption. Damage to reputation.</p>	High	Review of the new business continuity arrangements and general assurance work.
Information Governance	<p>The way in which the Council manages its information, including GDPR.</p> <p>Risk – legislative risk, information is not held securely or is misused.</p>	High	<p>Work with executive support to complete Information Commissioners Office self-assessment to provide a level of assurance in the following areas:</p> <ul style="list-style-type: none"> - Data Protection - Information security - Records management - Data sharing and subject access - CCTV
Contract Management	<p>The way in which the Council manages its contracts.</p> <p>Risk – Contractors fail to deliver their obligations leading to poor value for money.</p>	High	We will be reviewing the contract management processes for a sample of existing contracts. This will include the Council’s Kitchen Replacement Program.

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
Performance Management	<p>With the Council moving to an Agile and Flexible way of working for staff, the right performance measures are essential to help ensure that expected outcomes are attained.</p> <p>Risk – the Council fails to meet its corporate objectives</p>	High	We will be reviewing performance management across the Council. We have received specific requests from some services to review their proposed performance measures.
Commercialisation and Project Management	<p>The Council is embarking on a number of new commercial projects aimed at improving service delivery in a cost neutral way and in the long term looking at projects that could return a profit for the Council.</p> <p>Risk - Financial risks. Failure to meet objectives and purpose. Reputational risks.</p>	High	We will review a sample of projects to ensure compliance with the Council’s Commercialisation Strategy
Chief Finance Officer			
Main Accounting	<p>The accounting function of the Council</p> <p>Risk - Financial risk, non-compliance with regulations</p>	High	Cyclical coverage of the core financial systems to meet regulatory requirements. We will work with external audit to co-ordinate work as far as possible and avoid duplication.
Income Management	<p>The management of income to the Council</p> <p>Risk – financial risk</p>	High	As above. We anticipate that a new Income management system will be introduced in 2020/21 and therefore assurance around the new system will be required.
Procurement	<p>Procurement of goods and services for the Council.</p> <p>Risk – value for money risk, financial risk</p>	High	We will review a sample of procurements undertaken during 19/20 to ensure that they adhere to Public Contract Regulations and Council policies and procedures.

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
Creditors	<p>Payment of the Councils suppliers of goods and services</p> <p>Risk – financial risk, risk of fraudulent transactions</p>	High	Cyclical coverage of the core financial systems to meet regulatory requirements. Reviews of the use and management of the Corporate Credit cards.
Treasury Management	<p>Management of the Council’s cash flow and investments, its banking, money market and capital market transactions.</p> <p>Risk – financial risk</p>	Medium	Compliance with the Council’s Treasury Management Strategy.
VAT	<p>Management of the Value Added Tax process</p> <p>Risk – non-compliance with regulations, risk of financial penalties</p>	Medium	<p>This had been due at the end of 19/20, however, due to staff changes this audit needed to be postponed.</p> <p>Review to provide assurance on the compliance with VAT regulations.</p>
Insurance	<p>Management of the Council’s Insurance</p> <p>Risk – fraudulent insurance claims, inappropriate or insufficient insurance cover, financial risk</p>	Low	<p>This had been due at the end of 19/20, however, due to staff changes this audit needed to be postponed.</p> <p>General assurance work</p>
City Solicitor			
People Management (including Payroll)	<p>The management of the Council’s human resource, including Payroll.</p> <p>Risk – financial risk, risk of fraud</p>	High	General assurance work and a review of the new self-service system.
Members Expenses	<p>Members receive expenses related to conducting their official duties and reimbursement of out of pocket expenses.</p> <p>Risk - financial and reputational risk.</p>	Low	Internal Audit have recently received a number of complaints from members of the public about member’s expenses, which has prompted this review. Whilst we do not anticipate finding any issues we need

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
			to be able to satisfy ourselves that everything is in order.
Director – Jo Yelland			
Health and Safety	<p>Health and Safety is a legislative requirement.</p> <p>Risk – legislative risk, risk of significant financial penalties</p>	High	General assurance on compliance taking into account current priorities and concerns raised by the Health and Safety Committee.
Private Sector Landlord Services	<p>Services relating to private sector landlords. This includes finding tenants to support with grant applications for energy saving measures and necessary home improvements to assist people to be able to stay in their homes e.g. Disabled Facilities Grants.</p> <p>Risk - financial, fraudulent grant claims</p>	Medium	To undertake a review of the administration of Houses in Multiple Occupation Licenses.
Better Care Fund	<p>The Better Care Fund (BCF) provides financial support for councils and NHS organisations to jointly plan and deliver local services.</p> <p>Risk - financial and reputational risk</p>	Medium	To provide assurance that any schemes being operated with Exeter City Council are in accordance with regulations.
Sport England Project	<p>This project aims that Exeter and Cranbrook will be a pioneering place for leading an active lifestyle. Exeter will become the most active city in England and Cranbrook will be a model of best practice in encouraging families to be active together.</p> <p>The pilot will encourage 10,000 of Exeter & Cranbrook's least active residents to lead regular active lifestyles by:</p>	Medium	To provide assurance that the project is meeting its objectives and that measures are being taken to reduce or control financial and reputational risks.

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
	<ul style="list-style-type: none"> • Narrowing stubborn health inequality by encouraging those least likely to take part in activity to lead active lifestyles. • Improved inclusivity and sense of community connectivity and belonging. • A reduction in congestion and improved air quality influenced by more people walking and cycling. • An embedded analytical approach, using integrated data to inform decisions and share learning. <p>Risk - financial and reputational risk</p>		
Director – David Bartram			
Home Call Alarms	<p>Home Call provides community alarms to rent to people at risk, including the elderly and those with mobility problems or medical conditions. This enables people to continue to live in their own homes.</p> <p>Risk - financial and reputational risk</p>	Low	Although low risk the manager of the service has requested a review due to changes in staffing and some changes in procedures and would like assurance that the amendments are operating as expected.
Corporate Property Assets	<p>The Council has a number of property assets across the City.</p> <p>Risk - financial risk</p>	Medium	General assurance work
Director – Jon Paul Hedge			

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
Communications – social media	<p>The Council uses Social Media as a tool to provide information to the public. A number of officers across the Council are able to publish information via Social Media.</p> <p>Risk - reputational risk.</p>	Medium	To provide assurance that the Council’s Social Media Policy is effective and being followed.
Events, Arts and Culture	<p>The Council provides a number of arts and culture events across the City throughout the year.</p> <p>Risk - reputational and financial risk</p>	Medium	A review of the service for general assurance following the Exeter Festival re-launch.
Director – Bindu Arjoon			
Housing Benefits	<p>Processing and payment of Housing Benefit.</p> <p>Risk – financial risk, subsidy penalties</p>	High	General assurance. This is an area covered in depth by our External auditors, therefore the level of coverage by Internal Audit will be reduced.
Council Tax	<p>Council tax is the main source of locally-raised income for local authorities. Council tax is made up of several elements. Exeter City Council, as a ‘collecting authority’ is responsible for collecting the council tax for Devon County Council, Devon & Somerset Fire and Rescue service and Devon & Cornwall Police Authority</p> <p>Risk - financial risk</p>	Medium	General assurance that controls are working effectively.
Sundry Debtors	<p>Exeter City Council generates income from a wide range of services for example Planning application fees, collecting trade waste and hiring out conference facilities. Where income is not</p>	Medium	General assurance that the internal control system is working effectively.

Audit Heading	Description and organisational risk	Audit Risk rating	Scope
	<p>collected at the point of sale it is collected via a sundry debtors invoice.</p> <p>Risk - financial risk</p>		
NDR	<p>Collection of rates from business properties.</p> <p>Risk - financial risk, loss of income</p>	High	General assurance with emphasis on procedures that maximise income.
Housing	<p>Provision of social housing, assessment of housing need, support for homelessness and the provision of good quality accommodation across the city.</p> <p>Risk - financial, legislative and reputational risk</p>	High	Housing Needs – to undertake a review of the Housing Access service (maximising access to the private rented sector to increase the supply of good quality accommodation).

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2020

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 3rd QUARTER 1 OCTOBER TO 31 DECEMBER 2019

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 To report on internal audit work carried out during the period 1st October to 31st December 2019, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

2.1 That the Internal Audit Progress Report for the third quarter of the year 2019/20 be noted.

3. Reasons for the recommendation:

3.1 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 comments:

5.1 The outcome of the audits completed is generally positive. Where issues have been identified it is pleasing to note that management continue to address them. Members should note the outcome of the Public Sector Internal Audit standards 2016 (PSIAS) independent external review. This demonstrates that although the team is very small, it is proving effective. The Section 151 Officer congratulates the team on a continually strong performance.

6. What are the legal aspects?

None identified

7. Monitoring Officer's comments:

This report raises no issues of concern to the Monitoring Officer.

8. Report details:

- 8.1 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 where remedial action has not been agreed or implemented within a reasonable timescale. The 2019/20 Audit Plan was approved at this Committee on 13th March 2019.

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:

Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met
Satisfactory Assurance	Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk
Limited Assurance	Weaknesses in the system of internal controls are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No assurance	Control is generally weak leaving the system open to error or abuse or significant non-compliance with basic control processes leaves the processes/systems open to error or abuse

8.1 Progress against the plan and work undertaken

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

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

Progress against the annual audit plan is currently being actively managed by the Audit Manager. Due to a number of workshops supporting the implementation of agile and flexible working during quarters two and three, the number of productive available audit days have been reduced and this has had a small impact on our ability to deliver the full plan. In order to manage this and to accommodate issues within service areas some small changes have been necessary to the plan. We have deferred Business Continuity Management and Insurance to 20/21 and the Waterways audit has been brought forward to this audit year due to the recent purchase of business with responsibility for management of moorings on the Exe Estuary. As always, this will continue to be monitored by the Audit Managers and the plan reassessed as needed. Any significant amendments will be reported to this committee.

I am pleased to report that agreed actions from previous audit reports are being progressed satisfactorily and that there are no instances where remedial action was not agreed by management during this quarter.

8.2 Public Sector Internal Audit Standards (PSIAS) External Review

As reported in our Annual Plan report during the last quarter we have been working with the Devon Audit Partnership for our Public Sector Internal Audit standards 2016 (PSIAS) independent external review, which is a requirement every five years. We are very pleased to be able to report that the external assessor concluded that:

“It is our overall opinion that the Exeter City Council Internal Audit Team **generally conforms** to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.” **Generally Conforms** is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

8.3. Governance Issues

The Council’s annual governance statement (AGS) reported that as a result of the audit work that has been undertaken throughout the year no significant issues have been identified. However, the Council continues to make enhancements and improvements to its governance arrangements and an action plan has been compiled which will be subject to regular monitoring by the Audit and Governance Committee.

An action plan of the issues identified has been included in Appendix B.

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

9.1 Good governance contributes to the Council’s purposes of a “Well Run Council” and “Value-for-money services”.

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

N/A

11. Equality Act 2010 (The Act)

11.1 Under the Act’s Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

11.4.1 The report is for information only.

12. Carbon Footprint (Environmental) Implications:

12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

N/A

Director: Dave Hodgson, Chief Finance Officer

Author: Helen Putt and 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 4.36 01392 265275

**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2019/20 AUDIT PLAN TO DATE

Please note that this is a summary of remedial action agreed, as to include all actions agreed 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 Review	Report Status	Overall Opinion	Direction of travel since last audit	No. of Findings & Remedial Action Agreed (High Risk only)	Summary (where completed within this quarter)
Planning, Building Control, New Homes Bonus and CIL/Section 106 (Follow-up)	Final	For information only, no opinion issued	N/A	N/A	Reported 2 nd Quarter
Main Accounting	In progress				
Income Management	In progress				
Procurement	In progress				
Creditors – duplicate payments	Final	Substantial Assurance		High - 0 Medium – 4 Low - 0	Reported 1 st Quarter
Creditors – corporate credit card	Final	Substantial Assurance	Previous audits have been combined with creditor payments	High - 0 Medium – 2 Low - 3	In addition to paying Creditors via EFINs (which is the Council's purchase ledger system) there is also the facility for staff to purchase items using one of the Council's credit cards which are held by nominated officers. As at October 2019, corporate credit cards had been issued to 51 members of staff. The scope of the audit included checks that; a separation of duties exist between the person placing the order and the person authorising the order; the order is authorised prior to it being placed and where applicable, a valid VAT receipt is held.

					Remedial action has been agreed for all findings. The medium risk findings related to incorrect VAT codings and lack of evidence to support prior approval of some transactions.
VAT	In progress				
Insurance					Note: Audit deferred to 2020/21 due to restructure and significant staff changes as reported in Dec 19
People Management	Final	Limited Assurance	↓	High – 0 Medium – 15 Low – 2	<p>The Transactional Services Team provide HR, payroll, Learning & Development and recruitment administration for the Council. Furthermore, the team also provide the payroll function for three Citizen Advice Bureau's in Devon, the Exeter Business Centre and Exeter City Living.</p> <p>There are currently 700 full/part time salaried employees and 688 casual employees, this includes 452 casually employed for election work.</p> <p>The scope of the audit included checks on; starters and leavers details; variable monthly payments to and from employee salaries; the procedures in place for identifying IR35 contractors; the process undertaken when services are procured by/from Human Resource</p> <p>At the time of final report there was one risk relating to the lack of guidance to Managers about the correct administration of IR35 contractors, where remedial action wasn't agreed, however, we have since been advised that the Manager has now agreed to issue guidance.</p> <p>With the exception of the above remedial action was agreed for all findings.</p> <p>Medium risk findings related to:</p> <ul style="list-style-type: none"> • Lack of evidence to support qualifications and references for some starters; variations to pay and amendments to final pay. • The administration of IR35 contractors • Failure to comply with contract regulations

Environmental Health – Warm-up grants	Final	Satisfactory Assurance	No previous report	High – 0 Medium – 7 Low - 1	Reported 1 st Quarter
Health & Safety	In progress				
Car Parks	Final	Satisfactory Assurance	No comparable previous audit	High – 0 Medium – 6 Low - 0	Reported 2 nd Quarter
Housing Benefits – Transfer to Universal Credit	Final	Report for information only – no audit opinion issued	N/A	No issues arising	Reported 2 nd Quarter
NDR	Final	Substantial Assurance	↔	High – 0 Medium – 0 Low - 0	<p>Business Rates (or Non-domestic Rates) are a tax on business properties such as shops, offices, factories, pubs, masts and advertising hoardings and is the businesses contribution towards the cost of local services. The tax is set by the government and is based on the 'rateable value' of the property.</p> <p>Exeter City Council is in the Devon Business Rates Pool for which Plymouth is the lead authority. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally.</p> <p>The scope of the audit included; identification of new properties; notifications to the Valuation Office; VO reconciliations; reliefs and exemptions (including retail relief); billing system parameters and income and refund reconciliations</p> <p>We were pleased to note that no high or medium risks were identified</p>
Housing Development Company	Q3				
Housing – Mutual Exchanges	Final	Substantial Assurance	No previous report	High – 0	A mutual exchange is a home swap between two social housing tenants. It can happen for many reasons, such

				Medium – 5 Low - 2	<p>as needing more (or less) space, moving for work or to be closer to family. It is a good option for social housing tenants who cannot access or do not want to wait for the normal allocation process. It gives tenants more control and enables them to choose a home that suits their needs better in a place that they want to live.</p> <p>ECC Tenants can transfer with other ECC tenants or they can also swap with tenants of other Registered Social Landlords, in the area and outside. They can use a website (HomeSwapper) to help search for possible swaps and to get in touch with other tenants.</p> <p>The scope of the audit included; policies and procedures processing of application; checks on applicant – including rent arrears, over/under occupation etc. property inspections; confirmation of non-standard items left in properties; completion of assignment deeds; refusals and appeals</p> <p>Remedial action was agreed for all findings.</p> <p>The medium risk findings related to lack of evidence to support: tenant ID; electrical safety test certificates and energy performance certificates.</p>
Civic Ceremonials	Final	Satisfactory Assurance	No previous report	High – 2 Medium – 2 Low - 0	Reported 2 nd Quarter
Corporate Governance	Draft report				
Risk Management	On going				Internal Audit are supporting Executive Support and Zurich with a series of Risk Management workshops for Service Leads from November into March.
Business Continuity Management	Q4				Deferred to 2020/21
Information Governance	In progress				

Counter Fraud	In progress				
Partnerships	In progress				
Contract Management	In progress				
Community Grants Awarded	Q4				
External Funding Received	Final	Substantial Assurance	No previous report	High – 0 Medium – 0 Low - 0	<p>External grant funding is generally the provision of monies from an external source in order to fund specific capital and revenue projects. The source of such funding is generally from Central Government i.e. New Homes Bonus payments and DWP grants but external funding can also come from private organisations such developers in the form of s106 monies.</p> <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 the receipt and monitoring of External Funding.</p> <p>We were pleased to note that no high or medium risks were identified</p>
Safeguarding	Q4				
Project Management	In progress				
Disabled Facilities Grant	Final	Substantial Assurance	↕	High – 0 Medium – 3 Low - 2	Reported 1 st Quarter

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SIGNIFICANT GOVERNANCE ISSUES PROGRESS REPORT - FROM ANNUAL GOVERNANCE STATEMENT 2018-19

Issue No.	Issue identified	Responsible Officer	Summary of action proposed	Update Sept 2019	Update December 2019	Update March 2020	Notes
<p>No significant governance issues were identified for 2018/19, however, measures to improve Governance arrangements have been proposed and implementation of these measures should be monitored.</p>							
1	The Council continues to make changes to its organisational structures and ways of working as it transforms the way in which services are delivered within the financial constraints of the current economic climate. This has kept the overall risk to the internal control environment high with changes in staff responsibilities and the reduction of available resources.	Audit Manager	This will continue to be monitored as part of the internal audit plan and any issues arising will be reported to the Audit and Governance Committee.	Internal Audit continue to deliver the audit plan and any issues arising relating to this risk will be reported to the A&G Committee.	No further update.	No further update.	
2	The Council now has a fully functioning Procurement Team in place which is effectively managing Council procurements. The next phase is to ensure that contract management is an integral part of the procurement cycle to ensure that it is undertaken effectively and consistently across the Council's contracts.	Service Lead - Commercial and Procurement	A contract management training plan to be implemented along with contract management guidance to assist contract managers to properly manage contracts by addressing transition management, performance monitoring and by helping to ensure that both parties fulfil their commercial and contractual commitments.	A contract management toolkit had been developed and its use and training will be rolled out in Autumn 2019.	Lack of resource has forced a delay in the delivery of the CM training and official roll out. This will now be January - March 2020. However we have commenced use of the toolkit on some contracts as they have been awarded with one on one training being provided to the Officers involved in Managing those contracts.		

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REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2020

Report of: Chief Finance Officer

Title: CODE OF CORPORATE GOVERNANCE – 2020/21

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 2020/21;

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:

This report raises no issues for the Monitoring Officer.

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. There are no significant changes to the code this year.

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

EQUALITY ACT 2010 (THE ACT)

- 11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:
- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
 - advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
 - foster good relations between people by tackling prejudice and promoting understanding.
- 11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.
- 11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

- 11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act.

CARBON FOOTPRINT (ENVIRONMENTAL) IMPLICATIONS:

- 12.1 Important to complete this section in light of the Council declaring a Climate Emergency. Consider whether the recommendations you are making in the report will help, hinder or have no direct impact on delivering our carbon reduction target (carbon neutral by 2030).
- 12.2 You should think about things like:-
- Travel (and, if travel is unavoidable, whether lower carbon options will be pursued e.g. walking, public transport, electric car);
 - Infrastructure (e.g. LED lighting, energy efficient heating/hot water, solar panels, electric car charging points);
 - Waste (e.g. recycling, composting, reducing non-recyclable waste); and
 - Any other specific carbon reduction initiatives.
- 12.3 If there are no direct carbon/environmental implications for the decision please state: No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

- 13.1 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

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Exeter City Council

Code of Corporate Governance

2020-21

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

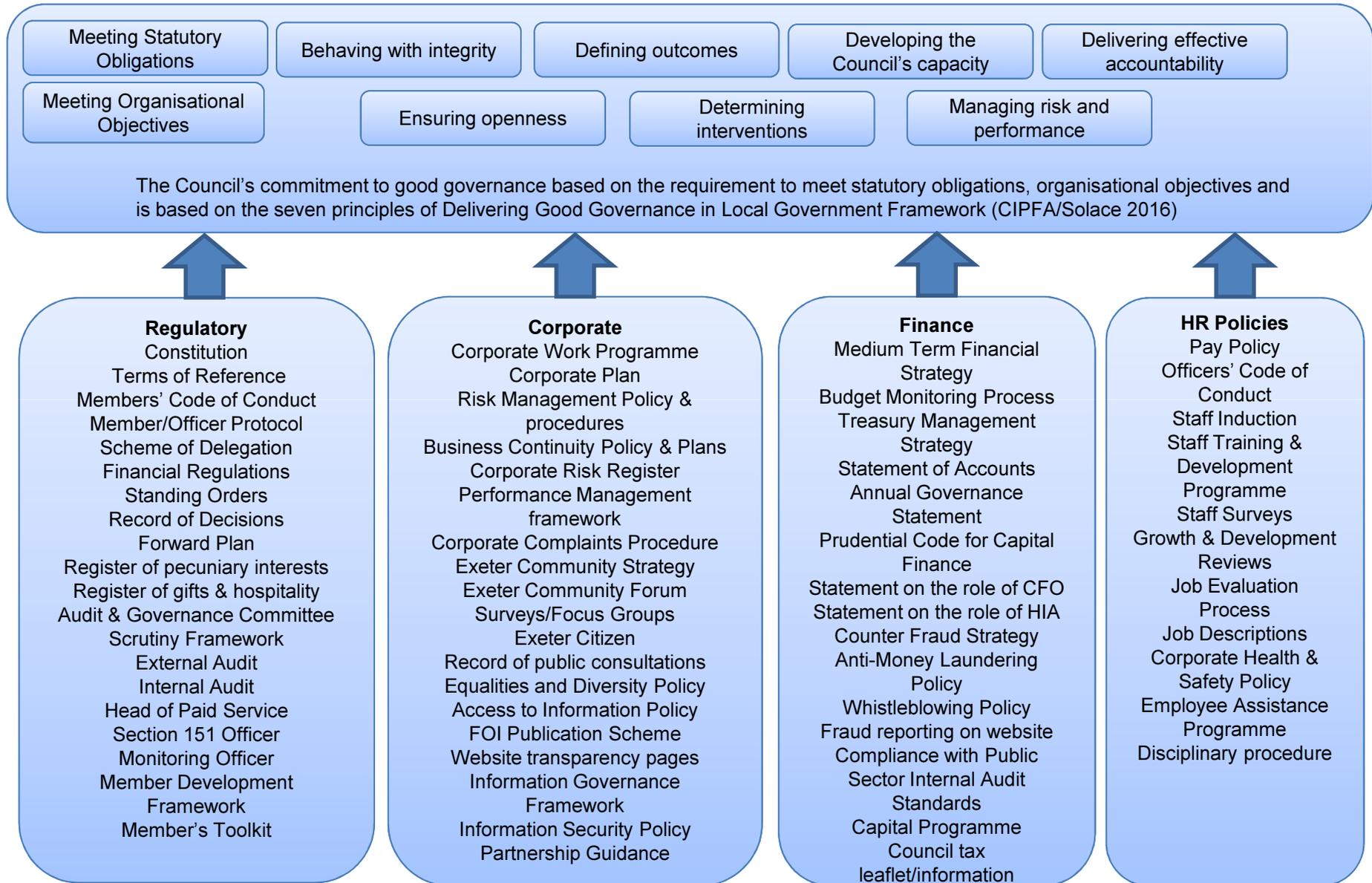
In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk. The Council has approved and adopted this Code of 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 2021.

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2020

Report of: AUDIT MANAGER

Title: Review and Update of Whistleblowing Policy

Is this a Key Decision?

No

Is this an Executive or Council Function? Council

1. What is the report about?

This committee has responsibility for approval of the Council's Whistleblowing Policy which is reviewed bi-annually.

2. Recommendations:

To approve the updated Whistleblowing Policy at Appendix A dated October 2019.

3. Reasons for the recommendation:

The Council's Whistleblowing Policy needs to be reviewed every two years to ensure that it is up to date and remains fit for purpose.

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

None.

5. Section 151 Officer comments:

This is an important document to provide support and protection for whistleblowers. There are no areas of concern for the section 151 Officer.

6. What are the legal aspects?

See below

7. Monitoring Officer's comments:

Exeter City Council is committed to maintaining high standards of conduct and good practice and therefore the Monitoring officer is very supporting of this important policy. It is important for members to note that in accordance with the Employment Rights Act 1996, an employee who makes a protected disclosure, in good faith and in the public interest, will receive protection from being dismissed or victimised.

8. Report details:

The Council's Whistleblowing Policy was due for review in October 2019 and, following a conversation with the Council's Monitoring Officer it was agreed to review

the policy with a view to making it more user friendly in order to further encourage staff to raise any concerns that they may have.

Once approved, the updated policy will be communicated to all staff and councillors via the Council's policy management software.

A copy of the updated policy is included at Appendix A.

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?

None.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act.

12. Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

No

Director

Dave Hodgson

Chief Finance Officer

Author: Helen Kelvey/Helen Putt

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 4.36, 01392 265275

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Whistle Blowing Policy and Procedure

1. Aim of the Policy

- 1.1 Exeter City Council is committed to high standards of conduct and good practice and wants all malpractice to be identified and dealt with. All employees and others, who work to deliver its services, are expected to help with this.
- 1.2 Many of us at some time or another will have had concerns about something not seeming right at work. Normally these concerns should be raised with your manager to be dealt with in the first instance. However, there are occasions when you may be worried about raising such issues, perhaps feeling it is none of your business that it is only a suspicion or you may also feel that raising such matters would be disloyal to your colleagues or manager and in doing so your job could be put at risk. You may even have raised the matter previously but the person you spoke to did nothing about it, and you are not sure what to do next.
- 1.3 The Council has established this policy to enable you to raise your concerns and provide you with protection from detriment such as victimisation or disciplinary action
- 1.4 This policy encourages you to raise genuine, serious concerns as “whistleblowers” to the Council or ‘regulators’ (the Local Government Ombudsman, National Audit Office, Standards Board for England, or Police), and provides a procedure for doing so. Exeter City Council will take any action necessary in proportion to the nature of the concern.
- 1.5 The Policy explains how to raise a concern, otherwise known as making a public interest disclosure or qualifying disclosure (see App A for definition). Concerns raised under this policy must be made in good faith and you should reasonably believe that it is in the public interest.

2. Who does the policy apply to and who is protected by the policy?

- 2.1 This policy applies to you, and you are protected under it, if you work for the Council as:
 - An employee
 - A Councillor
 - An agency employee
 - A trainee
 - A worker who provides services to or on behalf of Exeter City Council, e.g. contractors, consultants etc
 - Volunteers, work experience placements etc
- 2.2 If you are a Councillor, you may refer whistle-blowing concerns in accordance with this policy on behalf of yourself or one of your constituents. However, you may not rely on the use of this policy as an alternative to raising any questions or concerns you may have that should otherwise be managed through the proper democratic processes of the Council. In addition, if you raise whistle-blowing concerns as a result of matters that have come to your attention in your capacity as a Councillor, you may not rely on this policy to remain anonymous in any investigation that may then follow.

- 2.3 Please note that you should not raise your concerns outside of the Council before you have raised them internally, because by doing so you may weaken the protection given to you by the Public Interest Disclosure Act 1998.
- 2.4 Anonymous concerns/complaints will always be considered as far as it is reasonable and practicable to do so but it is often difficult to attach equal weight to anonymous allegations due to the investigator's difficulty in confirming or following up evidence.

3 What kinds of concerns/disclosures are covered by this policy?

- 3.1 The Council has a number of policies and procedures in place for you to raise concerns about a variety of issues including:
- Grievance Procedure – for issues relating to your own employment if you are an employee
 - Dignity at Work Policy and Procedures – for reporting behaviour that constitutes bullying or harassment
 - Complaints Procedure – for reporting issues relating to standards of service delivery
 - Safeguarding Policy – for raising concerns regarding the safeguarding of children or vulnerable adults
- 3.2 The Council encourages you to raise **any** concern that you may have with either your manager, Internal Audit or the Council's Monitoring Officer (see 6.1 below). They will help you identify which policy should be used to report your concern if you are unsure.
- 3.3 You can use this policy to report concerns that relate to **any** unethical or unprofessional behaviour within the Council or by any of the Council's contractors and suppliers. This Whistleblowing Policy is intended to be an umbrella policy to ensure serious concerns that may potentially fall outside the scope of other policies are covered. These may include:
- Unlawful or improper conduct
 - Financial malpractice
 - Dangers to the public, colleagues, or the environment
 - Breaches of confidentiality and/or security
 - A colleague's professional conduct and/or performance
 - Something that is against the Council's Constitution, policies and procedures
 - Other unethical conduct

Examples of where the policy may be used include:

- An employee becomes aware that the Council's policies and procedures or other regulations governing the work of the Authority have been ignored.
- An employee becomes aware of another employee submitting false travel or time sheets
- Employee becomes aware that an officer is contravening legislation on Health and Safety Issues

4. What is expected of you?

- 4.1 If you make a disclosure to someone within the Council, you are expected to:
- Make the disclosure in good faith and reasonably believe that it is made in the public interest
 - Have a reasonable grounds for suspicion about the malpractice; and
 - Not make the complaint for personal gain or make malicious or vindictive complaints as this could result in disciplinary action

5 How are you protected?

- 5.1 If you act in good faith and in the public interest and comply with the expectations above, you will be protected from discrimination as a result of raising a concern. In particular, you will be protected from harassment or victimisation (this does not mean that no action will be taken against you if you were involved in a fraudulent activity). This may include agreement to alternative working arrangements during any consequential investigation into the allegations.
- 5.2 The Council will not tolerate the harassment or victimisation of anyone who raises a concern. The Council recognises, however, that there may be occasions when you want to raise a concern in confidence rather than approach your manager direct. Where this is the case, your identity will be protected and not disclosed without your consent. Should a situation arise where the matter concerned cannot be resolved without revealing your identity (for example, because your evidence is needed in court), then the person investigating the matter will discuss with you how to proceed.

6 How to raise your concerns

- 6.1 Please raise your concern with your manager or director/corporate manager first, either orally or in writing.
- 6.2 If, for whatever reason, you do not wish to raise the concern with your manager or director/corporate manager please contact either:

The Council's statutory monitoring officer, Baan Al-Khafaji,
City Solicitor and Head of HR
Civic Centre, Paris Street, Exeter, EX1 1JN
Telephone: (01392) 265874 or

Internal Audit
Civic Centre, Paris Street, Exeter, EX1 1JN
Telephone: (01392) 265631

- 6.3 You can also contact a trade union representative for advice and assistance on how best to proceed.
- 6.4 If you:
- consider the matter is so serious that you do not wish to discuss it with any of the above, or
 - still have concerns after raising your concern with any of those listed at 6.2 above, then please contact the Chief Executive, & Growth Director Civic Centre, Paris Street, Exeter, EX1 1JN. Telephone: (01329) 265188

- 6.5 To be protected by whistleblowing legislation, you should usually make a disclosure to your employer first, but if you feel unable to use this procedure the disclosure can be made to a 'prescribed person'. Disclosures relating to local authorities can be made to the external auditor of the relevant authority or the Comptroller and Auditor General. To make a disclosure to the authority's external auditor, please contact:

Grant Thornton UK LLP
2 Glass Wharf
Bristol BS2 0EL

T +44 (0)117 305 7600
www.grant-thornton.co.uk

To make a disclosure to the Comptroller and Auditor General, please contact the National Audit Office below:

The Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
London SW1W 9SP
Tel: 020 7798 7999
www.nao.org.uk/contact-us/

6.6 The procedure for dealing with disclosures is detailed at Appendix A.

7 Independent advice

7.1 If you are unsure about using this policy or want independent advice, you can contact the independent charity, Public Concern at Work (telephone 020 7404 6609). Their advisers will give you free confidential advice at any stage about how to raise a concern at work, and will support and advise you on the law and how best to proceed.

8 If you are dissatisfied with the way your concern is dealt with

8.1 If you are unhappy with the response or feedback you get from the investigating person, then you can always raise your concern with the Chief Executive & Growth Director or seek advice from Public Concern at Work.

9 Review

9.1 This policy will be reviewed biennially and was last reviewed October 2019. Updates to the policy may be made between reviews as necessary.

PROCEDURE FOR DEALING WITH A DISCLOSURE

Definition of Qualifying Disclosure

The Public Interest Disclosure Act 1998 specifies 'Qualifying Disclosures' as follows:

- a criminal offence;
- a breach of a legal obligation;
- a miscarriage of justice;
- a danger to the health and safety of any individual;
- damage to the environment; or
- deliberate covering up of information tending to show any of the above five matters

Concerns of financial impropriety:

Where the concern involves financial irregularity, the matter must be referred to Internal Audit for investigation in accordance with the Council's Counter Fraud Strategy. Once the investigation is concluded, Internal Audit must report the outcome of the investigation (including any recommendations for improving areas of weakness) to the Council's Monitoring Officer and the relevant director/corporate manager.

Making a disclosure

Concerns raised/disclosures will be dealt with under the following stages. Not all disclosures will follow the full sequence of Stages. The action taken by the Council will be reasonable and proportionate, depending on the nature of the concern.

Stage 1 – Informal resolution

The person receiving the disclosure should decide with the person raising the concern, on the basis of the information provided, how the matter can best be resolved. This may include informal resolution or formal consideration

If possible, all concerns should be resolved by the relevant manager informally. The person raising the concern may do this orally or in writing and they should give as much information as possible about:

- The nature of the problem
- The background (with dates if possible)
- Who is involved
- The reasons for the concern

If you are raising a concern and are unable to raise the matter with your Line Manager you are advised to speak to another manager, Internal Audit or a member of the Human Resources Team who should consider whether the matter can be resolved informally as set out above or referred for formal consideration as detailed below.

Stage 2 – Formal procedure

Where the matter cannot be resolved informally because this is not appropriate or informal resolution has not been satisfactory a formal disclosure should be made to the Monitoring Officer – Corporate Manager Legal, Internal Audit or the Chief Executive and Growth Director.

The person who has received the disclosure will take or instigate any necessary urgent action to protect the individual, public interest, evidence etc.

At this stage, the person raising the concern (the 'Whistle-blower'), will be asked whether he or she wishes their identity to be disclosed and will be reassured with regard to protection from possible reprisals or victimisation

Stage 3 – Initial response to a formal disclosure

The person receiving the disclosure should acknowledge the concern in writing within 5 working days giving details of:

- The name of the person who is handling the investigation, this could be management or it could be someone external, for example the Council's external auditors, depending on the nature of the concern
- How he/she can be contacted
- Details of assistance that may be required

The person named as the investigating officer above must:

- investigate the matter personally or appoint an appropriate officer to do so
- advise the monitoring officer of the details of the allegation

The Whistle-blower will be notified of the intended response to the disclosure and the reasons for it.

Stage 4 – Management investigation

Where the decision has been made to carry out a management investigation, a senior manager or other person will be appointed as an investigating officer. This should be someone with expertise in the area in which the concern has been raised.

The investigation will be carried out under the strictest confidentiality. The investigation is essentially a 'fact finding' exercise, to establish what further action may be necessary and make recommendations accordingly.

The Investigating Officer, or their appointed representative, must:

- conduct the investigation
- follow the Council's Management Guide to Disciplinary Procedures, which includes the requirement to follow the principles of natural justice.
- comply with the requirements of the Human Rights Act 1998
- where anonymity is requested, ensure that every effort is made to honour confidentiality
- propose an action plan for necessary improvements
- report the outcome of the investigation to the Council's Monitoring Officer and relevant Director/Corporate manager
- update the whistle-blower of progress to date

The investigation may serve as the information gathering part of Exeter City Council's disciplinary procedure. In such cases this will be made clear to any people who may be subject to such investigation.

Stage 5 – Responding to management investigation

If the result of the investigation is that there is a case to be answered by any individual, the recognised procedure will be followed.

The amount of contact between the officers considering the issues and the employee/councillor raising the concern will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information may be sought from the whistle-blower.

Where there is no case to answer, but the whistle-blower held a genuine concern and acted in accordance with the expectations as detailed in this policy, Exeter City Council will ensure that they

suffer no reprisals or victimisation, as far as is reasonably practicable. Considerations will include Exeter City Council's duty to provide a healthy and safe working environment for all.

Stage 6 – Confirmation of the outcome

So far as legally possible and subject to rights of confidentiality, the whistleblower will be informed of the outcome of the investigation and how the matter has been resolved.

If the whistle-blower is unhappy with the response or feedback from the investigating person, then the concern can be raised with the Chief Executive & Growth Director or advice sought from Public Concern at Work.

Employees who take a concern outside the Council should ensure that they do not disclose confidential information, except in accordance with this procedure.

Recording and reporting

The Monitoring Officer will keep a central register of all whistle-blowing complaints received and submit an annual report to the Audit and Governance Committee setting out the number of complaints received and the outcome of each investigation conducted, together with any action plan for improvements put forward by the Investigating Officer.

Responsibility for implementing this Policy

The responsibility for ensuring that Exeter City Council adheres to this Policy rests with all Managers.

Legislation

Legislation relevant to this policy includes:

- Public Interest Disclosure Act 1998
- The Enterprise and Regulatory Reform Act 2013

Other related policies and procedures

Counter Fraud Strategy
Anti-Money Laundering Policy
Grievance Policy
Disciplinary Policy

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REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 11 March 2020

Report of: Chief Executive and Growth Director

Title: Corporate Risk Register

Is this a Key Decision?

No

Is this an Executive or council function?

Risk management is a council function.

Risk Management is an important element of the council's Code of Corporate Governance. Regular monitoring of the council's corporate risks helps to ensure that the council's business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

1. What is the report about?

The report advises the committee of the council's risk management progress and presents the updated Corporate Risk Register (Appendix A).

2. Recommendations:

That the committee reviews:

- the updated Corporate Risk Register
- the Risk Management Policy

3. Reasons for the recommendation:

To comply with the council's Risk Management Policy which states that this committee is responsible for monitoring and reviewing the Council's risks and reporting all new and updated risks to the Chief Executive and Growth Director.

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

Directors and Senior Managers, as appropriate, are asked to update the Corporate Risk Register on a quarterly basis. The register is reviewed regularly by the Chief Executive and Growth Director, the Strategic Management Board and the Health and Safety Board. This process is facilitated by Executive Support.

5. Section 151 Officer comments:

The significant financial risks to the council have been consolidated under the risk 'Maintaining the Financial Sustainability of the Council'. I am comfortable at the moment that the mitigations in place and proposed, will reduce the risk to the council. However, continued uncertainty and the high level of savings that remain to be identified require a firm action plan in readiness for the 2021-22 budget.

6. What are the legal aspects?

None identified

7. Monitoring Officer's comments:

The council has a robust system of internal control 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.

8. Report details:

The council has recently undertaken a full review of its Corporate Risk Register. There were two important reasons for doing this:

- The register contained a mixture of strategic and operational risks and Strategic Management and Audit and Governance were discussing risks which could be managed at a service level. This was not a good use of resources.
- The register had, historically, been designated a Part 2 item. Members of the Audit and Governance Committee asked for this to be reviewed and for the register to be reported and discussed under Part 1 to ensure openness and transparency.

The Strategic Management Board have worked with the council's insurers, Zurich, to review the Corporate Risk Register

As a result of the review, the Strategic Management Board have identified those risks which, if they materialise, could have a significant impact on the city or the council. Each of these risks have been assigned ownership to a member of the Strategic Management Board to ensure strategic accountability and oversight.

The updated Corporate Risk Register can be viewed at Appendix A.

In response to a question raised at the last Audit and Governance Committee the council's updated Risk Management Policy is also included with this report. The policy has been updated to explain the difference between the Corporate Risk Register maintained by the Strategic Management Board and the Operational Risk Registers maintained by Corporate Managers and Service Leads. The policy also explains how potential corporate risks are identified and considered for inclusion on the Corporate Risk Register.

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

This decision helps to ensure the delivery of the council's purpose 'Well Run Council'.

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

Any risks should be captured in either this document or the operational risk register.

11. Equality Act 2010 (The Act)

- 11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:
eliminate discrimination, harassment, victimisation and any other prohibited conduct; advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and foster good relations between people by tackling prejudice and promoting understanding.
- 11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.
- 11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.
- 11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because
The decision to regularly review the Corporate Risk Register will ensure that any risks or issues identified under the above headings will be identified and managed at a senior level. Most of the risks contained within the Corporate Risk Register would have an impact on one or more of the headings identified above.
12. Carbon Footprint (Environmental) Implications:
The decision to regularly review the Corporate Risk Register will ensure that any risks or issues identified under the above headings will be identified and managed at a senior level.
13. Are there any other options?
N/A

Chief Executive and Growth Director

Local Government (Access to Information) Act 1972 (as amended)
Background papers used in compiling this report:-
None

Contact for enquires: Democratic Services (Committees) Room 4.36 01392 265275

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Corporate Risk Register

Review Month:											March 2020		
Ref	Risk Title and Description	Date Risk Identified	Risk Owner	Inherent Risk			Existing Mitigations & Controls (What has been done to control the risk?)	Residual Risk			Further Mitigations & Controls to be put into place	Target Implementation Date	Notes
				L'hood	Impact	Risk Score		L'hood	Impact	Risk Score			
1	<p>Failure to deliver anticipated benefits of major projects (St Sidwell's Point and Bus & Coach Station)</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Failure to procure appropriate operator for leisure centre - Adverse weather / other delays typical of such projects <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Increased costs to Council from project overspends or overruns - Not realising financial and cultural benefits anticipated from project delivery - Damage to Council's reputation and reduced credibility to deliver major projects in future 	October 2017	Jo Yelland - Director	3	3	9	<ul style="list-style-type: none"> - Recruited experienced Project Manager, Quantity Surveyor and delivery team - Established high level Programme Board to oversee progress and delivery - Contractor appointed to build the facility, following a 2 stage collaborative approach in procurement. - Fixed price Design & Build Contract, with a limited amount of Provisional Sums. 	2	3	6	<ul style="list-style-type: none"> - Ongoing reporting of progress and potential issues to Client lead. - Technical Assurance & Audit team being procured to monitor compliance with the Contract, review ongoing performance and positively challenge the build team to help promote the identification and resolution of potential issues / problems. 	Ongoing October 2020	
2	<p>Counter Terrorism and Community Cohesion & Safety</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Brexit and the continued political uncertainty and growing divides in the country has increased likelihood of radicalisation and violent extremism across the UK. Whilst the risk level in Devon and Exeter in traditionally low, like all other areas in the country our own local risk level has heightened particularly in relation of extreme right –wing activism. <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Community unrest and extreme anti-social behaviour incidents commence and escalate leading to public unrest 	June 2019	Jo Yelland - Director	3	4	12	<ul style="list-style-type: none"> - Active leadership within the Exeter Community Safety Partnership at Executive and Senior Manager level - Director participation in Counter Terrorism Briefings - SMB informal relationships with key Community Leaders 	2	4	8	Adoption of Safer Devon Prevent Toolkit and associated of staff training	Jun-20	
3	<p>Delivery of Sport England Local Delivery Pilot Outcomes</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Not demonstrating year 1 outcomes (such as improving street scenes, increasing number of residents using cycling and walking routes, active school clubs etc.) - Not having appropriate programme management and focus on delivery - Council or main strategic partners restricted by existing policies (H&S etc.) or lack of appetite for certain outcomes - Not achieving alignment with key partners (Devon CC, Exeter City Future, CCG etc.) - Program delivery dependent upon key individuals (Jo, James, Karime) - Relative inexperience of Council of delivering such programs <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Significant reputational damage due to due to national and regional interest in success of program which could damage Exeter CC's status and credibility and undermine future grant / funding opportunities - Gap in health inequalities doesn't get addressed - leading to increased demands on council, and wider public sector, services. 	June 2019	Jo Yelland - Director	3	4	12	<ul style="list-style-type: none"> - A Commissioning Model has been adopted for programme delivery with local partners such as Active Devon leading on the implementation of key programmes which integrates into the local system and also promotes sustainability. - Annual outcomes clearly articulated within the programme plan. - Preparations made for 6 monthly assessments with Sport England including external evaluation partner secured to undertake bi-annual process evaluations. - Regular governance reviews to be undertaken to ensure continued engagement and buy-in from critical partners. - Communication strategy covering all stakeholders (especially local communities) being commissioned. 	3	3	9	<ul style="list-style-type: none"> - Pro-active 6 monthly assessments with Sport England - Review of governance and in particular strengthening the role of the Executive Group - Communication strategy covering all stakeholders (especially local communities) being developed 	Oct 2019 Oct 2019 Dec 2019	
4	<p>Lack of proactive and preventative investment and maintenance of assets</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Historic budget savings led to under inspection of assets, increased inspections now identifying issues - Asset Maintenance resources removed as budget savings to prevent front line service cuts - Not following asset management best practice by cutting back on routine preventative maintenance and only dealing with the most urgent maintenance cases. <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Deterioration of assets to unsafe levels leading to closure - Under utilisation (lost income) of both car parks and sports centres - Increased costs in long run (potential need to demolish certain assets) rather than refurbish / redevelop - Current approach is not efficient value for money in long term - Reducing attractiveness of city centre to commerce and tourism 	June 2019	Dave Bartram - Director	4	3	12	<ul style="list-style-type: none"> - All urgent H&S related repairs prioritised and completed as soon as possible - Fire risk assessments undertaken with additional resource in place - Asset Condition Surveys underway to identify maintenance requirements to ensure compliance and to devise work programmes to inform decision making - SMB and Members (incl. new leader) engaged on challenges - Digitised asset registers allowing improved analysis 	3	3	9	<ul style="list-style-type: none"> - Business case being drawn up to articulate challenges. - Development of Asset Management Strategy including funded asset program of inspection and divesting assets that aren't needed. 	Ongoing	Feb 2020: This is work in progress. Reports are due by the end of February to enable some financial planning but inspections are ongoing.

Corporate Risk Register

											Review Month:			March 2020	
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				L'hood	Impact	Risk Score		L'hood	Impact	Risk Score					
5	<p>Information Governance failure (including Council experiencing a cyber attack)</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Lack of appropriate policies and processes - Staff awareness and understanding of requirements and best practice for managing data effectively - Inadequate cyber defences <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Disruption to IT systems could result in inability to deliver key services - Sensitive personal, corporate or financial information could be accessed/released unlawfully - Council may not be permitted to access the PSN secure connection - Non-compliance with the General Data Protection Act (GDPR) potentially leading to significant fines 	April 2017	Karime Hassan - Chief Executive	3	4	12	<ul style="list-style-type: none"> - Information Security Policy and Information Security Forum in place - Training for existing staff complete and schedule for new staff in place - Disaster recovery and business continuity policies in place - Regular staff reminders on this issue - Comprehensive IT service from STRATA (company owned by three local authorities) including range of mitigations (firewalls, penetration testing, email and web filtering, anti virus software etc.) - Regular, timely software updating to mitigate new vulnerabilities. 	2	3	6	<ul style="list-style-type: none"> - Consider lessons learnt from Council incidents - Review compliance with automated updates - Review use of third party data storage and security arrangements. - Consider optimal frequency and method for providing assurance to SMB (potential inclusion of monthly STRATA report) 	Ongoing Ongoing Ongoing February 2020			
6	<p>Insufficient business continuity arrangements to recover critical services effectively</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Critical services not identified - Insufficient plans in place to recover critical services - Lack of testing of plans to ensure arrangements suitable <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Essential services not recovered in timely fashion - Adverse media and public criticism leading to lack of trust in council - Non compliance with Civil Contingency Plan 	April 2013	Karime Hassan - Chief Executive	3	4	12	<ul style="list-style-type: none"> - List of critical services agreed with SMB - Corporate Business Continuity Plan approved by SMB which sets out roles and responses to certain events (loss of building, loss of ICT etc.) - IT Disaster Recovery plan in place 	2	3	6	<ul style="list-style-type: none"> - Business Continuity plans to be developed for Critical Services - Business Continuity Test Exercise to be carried out - Internal Audit to undertake review of Business Continuity Management 	April 2020 June 2020 Sept 2020	All services have been tasked with preparing a Service Business Continuity Plan by 10th March. Zurich will be assisting services with the development of these plans. These plans will support the Corporate Business Continuity Plan and plan for threats such as the loss of a building, loss of staff, loss of ICT and loss of major contractor.		
7	<p>Lack of leadership capacity to effectively deliver additional Council objectives and priorities</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Significant draw on management resources following unanticipated new commitments or changes in political expectations - Medium Term Financial Plan will be under strain because of national decisions on New Homes Bonus and re-setting business rates <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Higher likelihood of potential governance and performance failures due to stretched resources - Limited capacity for leading and delivering change activity impacting upon achievement of councils strategic priorities - Staff morale and burnout if over prolonged period 	June 2019	Karime Hassan - Chief Executive	4	4	16	<ul style="list-style-type: none"> - Experienced and resilient senior management team - Sufficient resourcing in place to deliver existing commitments and corporate plan. - Organisational culture with values set up to deliver - Succession planning / effective deputies - Strong record of bringing in funding to support new initiatives / agenda and additional agenda. - Director appointed for Liveable Exeter housing programme - Place Board give visibility to broader programme and access to national funding routes 	3	4	12	<ul style="list-style-type: none"> - Support development of political discipline regarding understanding of challenges when embarking on new initiatives and recognition of resourcing levels within the Council. - Encourage more robust peer challenge amongst Members - Review method of celebrating achievements of council - Consider leadership development of tier 3/4 managers to develop strategic capability 	TBC			
8	<p>Inability to deliver carbon neutral aspirations for Exeter by 2030</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Financial pressure and economics of carbon reduction - Behavioural challenges over influencing businesses and public - Technical capability to deliver - Lack of control over all stakeholders (businesses, visitors etc.) - Political environment and acceptance of policy changes required - Misalignment with Devon Climate Plan - Failure to engage with resident and business of Exeter to ensure solutions proposed meet real need <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Reputational - Failure to deliver inclusive growth and retain vibrancy of Exeter as a great place to live - Conflict within Region - Short term changes may not be sustainable 	08.11.19	Karime Hassan - Chief Executive	4	3	12	<ul style="list-style-type: none"> - Strategic partnerships - Appointment of programme director for Exeter City Futures to form collaborative city governance focussed on carbon neutral - 12 Goals defined for the city to provide framework for carbon neutral. Goals reflect priorities of business and residents - Plans in place to develop roadmap for carbon neutral 2030 - Other major public sector organisations have already committed to becoming carbon neutral (e.g. University of Exeter, Devon County Council) 	3	3	9	<ul style="list-style-type: none"> - Continue to invest in supporting ECF as a partner organisation to ensure that the ambition to be net-zero is continually communicated and residents and businesses are engaged; ensuring all voices are heard and the solution being developed are benefitting the residents and business. - Improve national communication positioning Exeter as a leading sustainable City highlighting what we are doing - through ECF and Livable Exeter activities - Ensure clear alignment with DERG and national climate action plans to ensure Exeter's plan is incorporated 	Apr-20	The net-zero Exeter roadmap is due to be delivered in April 2020 setting out the target outcomes for the City.		

Corporate Risk Register

Review Month:											March 2020		
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9	<p>Failure to meet Exeter's Housing supply needs as a planning authority and meet strategic 5 years ambitions</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Inadequate Land supply - Not granted enough planning permissions - Student development cannot be included in housing supply figures - House builders drip feeding - Political / community buy in to developments - GESP and/or Exeter Development Delivery DPD not progressing as quickly as possible. Political changes at neighboring boroughs leaving an unclear position <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Financial risks with increased appeals, and potentially lost income - Social outcomes - inequality, rising social service costs - significant waiting list - Reputational impact if development on not appropriate location - Risk of losing planning appeals on sites where there are objections in principle. - Vulnerable to developers - not able to protect areas that are identified as residents priorities 	June 2013	Bindu Arjoon - Director	4	3	12	<ul style="list-style-type: none"> - Brownfield opportunities identified and developed into the Liveable Exeter strategy. - Higher density developments being encouraged within the city centre. - Social Housing being developed following the lifting of borrowing cap- ambition for 500 homes over 10 years' - Appropriately briefing members to ensure robust decision making processes 	3	2	6	<ul style="list-style-type: none"> - Greater Exeter Strategic Plan being developed - Local plan for Exeter CC also being developed as plan B. Scoping underway. - Selling positive image of high quality high density brownfield developments - continuing consultations. Future Place commission has developed an urban design toolkit to support higher density developments. 	2023	
Page 129	<p>Failure to adapt council workforce to ensure appropriate skills and experience</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Ageing workforce (half of staff over 50, considerable enough) - Difficulty to recruit into key areas - professional areas (planners, lawyers) - Empowerment, skills and engagement of managers to enable this change <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Loss of experience - Increased spending on agency workers - Not having cost effective council services delivering the right outcomes - Service disruption - Cost of appeals / challenges across the council services - Increased stress / pressure on workforce 	June 2019	Baan Al-Khafaji	3	3	9	<ul style="list-style-type: none"> - Market supplement scheme in place - Apprenticeship opportunities for new and existing staff - Employing part qualified staff and training them (internal and external) - procurement, planning etc. - Improvements in metric tracking (age, gender, skills profiles) - Business Partnering model allowing for greater collaboration between service areas and HR. 	2	3	6	<ul style="list-style-type: none"> - Effective use of metrics utilising new system (within 12 months) - Ensure robust implementation of new workforce planning process (local mgmt team led) - Utilising agile program to compliment modernisation of work environment - Review of progress against GDR. 	April -21	
11	<p>Maintaining the Financial Sustainability of the Council</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Fair funding review from central government involving rebaselining of business rates (income loss of £1.8m per annum) and determination of a new formula which could have funding implications. - Inability to deliver £2.4m savings target over two year period - Move to 75% business rate retention rather than government grant increases volatility of income and dependence upon growing local economy and business rates. - Inability to grow Exeter city centre and associated business rates etc. - Policy, regulatory or legislative changes which are not fully funded from central govt. - Failure to realise commercial ambitions of council <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - unable to balance budget - reduced income for council services - larger than anticipated cuts (in year or over longer term) - reduction in reserves - impacts on council services and therefore resident outcomes 	January 2018	Dave Hodgson - Chief Finance Officer	4	4	16	<ul style="list-style-type: none"> - Detailed MTFP assessed and agreed with Members - 5 point savings plan agreed and being implemented with suitable governance arrangements in place. - Budget report in new year and recommendations to members briefing in December 2019. - Significant investment in city centre regeneration (st sidwell's point & bus station) including developing a new vision for the rest of the site which includes mixed use - New Business Development manager appointed to identify and grow commercial opportunities - Strong level of unringfenced general fund reserves to protect against shocks 	3	3	9	<ul style="list-style-type: none"> - Continue to respond to consultations making case for council - Lobby government for relaxation of council tax increase restrictions - Further development of role and scope of business development manager position 	May-20	

Corporate Risk Register

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				L'hood	Impact	Risk Score		L'hood	Impact	Risk Score			
12	<p>Inability to deliver carbon neutral operations for Exeter City Council by 2022</p> <p>The Council have committed to make their own operations carbon neutral ahead of 2030 in order to lead the City by example. There is a risk that this is not achieved.</p> <p><u>Potential Causes:</u></p> <ul style="list-style-type: none"> - Failure to establish a clear target and trajectory to reduce carbon impact from Council operations - Failure to communicate and engage with staff at all levels to understand the changes required and to identify solutions - Inability to establish baseline and indicators that can measure progress - Unclear ownership of cross-directorship activity and failure to identify/deliver efficient action - Conflicts between carbon reduction and other strategic priorities e.g. cost savings - Failure to balance need for immediate practical action with need for analysis of baseline - Failure to understand the scale of resources (human and financial) required to deliver change - Financial pressures mean resources are not available <p><u>Potential Impacts:</u></p> <ul style="list-style-type: none"> - Reputational - Carbon reduction targets will become harder as we approach 2030 which mean the financial investment will increase - Central government may mandate changes that are costly to implement and dont meet local needs 	08.11.19	Karime Hassan - Chief Executive	4	3	12	<p>Full Council have agreed to make operations of Exeter City Council carbon neutral</p> <p>Corporate Energy team has already delivered impactful projects linked to energy reduction and renewal energy generation.</p> <p>Passive Haus projects demonstrating commitment to energy efficient council housing stock.</p>	2	3	6	<ul style="list-style-type: none"> - Develop cross-directorship sustainability plan that incudes: 1.energy (reduction and generation); 2. mobility (Council fleet and staff travel); 3.Sustianability (air quality, biodiversity, resource management); 4. capability (skills, data, operational processes) - Appointment of Director/Senior Officer to assess cross-directorship sustainability performance and identify areas for improvement as well as tracking and reporting progress on carbon performance - Undertake full review of internal policies and processes that are in conflict with carbon neutral aspirations and highlight opportunities for change - Improve communications of Council activities to make own operations carbon neutral and showcase as exemplar to other organisations 	Apr-20	

EXETER CITY COUNCIL

Risk Management Policy

1 Introduction

- 1.1 Exeter City Council is committed to the effective management of risk at every level within the Council and to providing:
- a safe environment for its employees and customers
 - safe working arrangements for employees
 - training to enable its employees to undertake their work effectively, efficiently and safely.
- 1.2 The purpose of this Risk Management Policy is to state the Council's risk management objectives, approach, responsibilities and procedures.

2 Objectives

- 2.1 The purpose of risk management is to:
- preserve and protect the Council's assets, reputation and staff
 - promote Corporate Governance by integrating risk management and internal control
 - promote a risk aware culture in order to avoid unnecessary liabilities and costs, but to encourage the taking of calculated risks in pursuit of opportunities that benefit the Council
 - enhance and protect the local environment
 - improve business performance.

3 Risk management approach

- 3.1 Aim
- To ensure it is effective, risk management needs to be aligned with corporate aims, objectives and priorities. The Council's approach to embedding risk management is to create a culture that spreads best practice, identifies and communicates lessons learnt from both internal and external experiences, and using appropriate expertise.

Risk management has to be proactive to ensure that corporate and operational risks are:

- identified
- assessed by considering the impacts and likelihoods of their occurrence
- effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed.

Effective risk management anticipates and avoid risks rather than dealing with the consequences of events happening. However, not all risks can be managed, particularly those that are caused by external factors over which the Council has no control (e.g. severe weather). Key services and Mission Critical Activities are therefore required to develop Business Continuity Plans in order to reduce the impact should a major event occur.

- 3.2 Risk appetite and tolerance
- Calculated controlled risks, such as accepting new opportunities or using innovative approaches for the benefit of the Council, may be taken providing the risk exposure is within the Council's 'risk tolerance' levels, these are defined as:
- 3.2.1 acceptable risks – the risks associated with any proposed actions and decisions need to be clearly identified, evaluated and managed to ensure that risk exposure is acceptable. Particular care is needed in considering actions that could:
- have an adverse effect on the Council's reputation and/or performance
 - undermine the independent and objective review of activities
 - result in censure or fines being imposed by regulatory bodies
 - result in financial loss

Any threat or opportunity that could have a significant impact on the Council or its services

EXETER CITY COUNCIL Risk Management Policy

must be closely examined, and all risks clearly evaluated and referred to the appropriate Director. Where there is both a significant potential impact and a high likelihood of occurrence, then the Director must report the risk to the Strategic Management Board (SMB) and Audit and Governance Committee.

3.2.2 prohibited risks – where risks could result in physical harm; non-compliance with legislation or Government regulations; or non-compliance with the Council’s policies, rules and procedures, etc., then these risks are not acceptable. Therefore, any opportunity or innovative approach that could result in such outcomes must not be pursued, and must be reported to the appropriate Director accordingly.

3.3 Risk treatment

There are four basic ways of responding to risk:

a) *avoidance* – deciding not to continue or proceed with the activity in view of the level of risks involved, wherever possible. (Note: statutory requirements cannot be avoided)

b) *transfer* – which involves another party bearing or sharing the risk, a typical example is the use of insurance. (Note: ultimate responsibility to undertake statutory requirements remains with the Council even if third party provision is engaged)

c) *control* – by ensuring existing controls are effective by periodic review and testing, and implementing additional controls where considered necessary

d) *acceptance* – certain risks cannot be adequately treated by either avoidance, transfer or control. In such cases, there is no alternative but for the Council to accept the residual (‘remaining’) risks concerned. Details of how these risks and their possible effects are to be managed must be recorded in the service’s (and where appropriate Corporate) Risk Register, and subject to regular review.

3.4 Framework

The Council maintains a Corporate Risk Register (CRR). Service Leads maintain Service Risk Registers and in some cases, Directorate Risk Registers that details the:

- Risk and Impact that could happen if the hazard or event should occur
- Actions which have been taken to mitigate the risk
- Current risk score – a score to show the likelihood of the hazard/event occurring after actions have been taken to mitigate the risk
- Further actions planned to reduce the risks
- Post mitigated risk score (i.e. after treatment) – a score to show the risk level when further actions have been taken to mitigate the risk
- All risks will be assigned risk owners
- All actions will be assigned target dates for completion and action owners

4 Responsibilities and procedures

General – to achieve effective Risk Management, risk management must be embedded from the very top of the Council right down to each individual unit, service, employee and Councillor.

4.1 All Council employees and Councillors are responsible for ensuring there are robust and fit-for-purpose systems of internal control and risk management in place; and they are aware of the risks:

- they are empowered to take
- that must be avoided
- that must be reported upwards

EXETER CITY COUNCIL Risk Management Policy

- 4.2 The Executive - is responsible for considering and approving the Risk Management Policy.
- 4.3 The Leader of the Council - is responsible for acting as the Lead Councillor for risk management
- 4.4 The Audit and Governance Committee is responsible for:
- monitoring the effectiveness of risk management throughout the Council
 - regularly reviewing the CRR and recommending its approval to the Executive
- 4.5 SMB - is responsible for:
- approving the risk management approach
 - affirming and supporting the work of risk management throughout the Council which is an important part of the Council's Corporate Governance arrangements
 - monitoring corporate risks on a quarterly basis at the Strategic Management Board meeting
 - reporting all new and amended risks to the Policy Officer, Executive Support for inclusion on the Corporate Risk Register
- 4.6 Service Leads and Corporate Managers – are responsible for:
- ensuring that all employees within their service understand and comply with the risk management policy and procedures
 - identifying, evaluating and managing operational risks and reporting any possible corporate risks to their Director
 - working with the Policy Officer, Executive Support to ensure that operational risk registers are established for their services and regularly reviewed so that risks are adequately monitored and managed
- 4.7 Health and Safety (H&S) Committee - is an internal group responsible for:
- preparing an annual H&S action plan detailing specific areas for review in liaison with the SMB
 - receiving and monitoring reports from Units regarding progress in their H&S and insurance claims, particularly in respect of high risk H&S topics (e.g. required annual work, risk assessments, etc.)
 - reviewing H&S and relevant insurance matters
 - reporting to the Policy Officer, Executive Support any H&S issues that are considered possible Corporate Risk Register entries
- 4.8 Internal Audit - is responsible for:
- undertaking audits of the Council's Risk Management system and procedures in order to assess their effectiveness and compliance with the Council's requirements as part of Corporate Governance process
 - making recommendations to improve the effectiveness of RM within the Council

APPROVAL:

The policy was last reviewed in January 2020
Next review date: January 2021

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