

**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**Internal Audit Summary of Work Completed 01 July to 30 September 2018**

Please note that this is a summary of recommendations only, as to include all recommendations made from each audit report in detail would result in a lengthy document. Members may request a full copy of any report once finalised or alternatively meet with the Audit Manager to discuss specific audits further.

Audit Area	Summary
<p><b>Creditors – duplicate payments</b></p> <p>Assurance rating: Good ★★★★</p>	<p>The Council uses a purchase ledger system (EFINS) to make payments. (Note: purchases may also be made using one of the Council's corporate credit cards, however, these transactions were not within the scope of the audit).</p> <p>The scope of the audit included:</p> <ul style="list-style-type: none"> <li>• reviewing all potential duplicates/overpayments for the period 1 June 2017 to 14 June 2018 (note: for this period Accounts Payable processed 30,565 invoices through the EFINS system)</li> <li>• checking that recovery action was taken when invoices were paid twice</li> </ul> <p>Two 'medium' risk issues were reported and remedial action was agreed by management.</p>
<p><b>Treasury Management</b></p> <p>Assurance rating: Good ★★★★</p>	<p>The Treasury Management (TM) function has responsibility for the management of the Council's cash flow and investments, its banking, money market and capital market transactions, the effective control of the risk associated with those activities and the pursuit of optimum performance consistent with those risks.</p> <p>The Council is required to have a Treasury Management Strategy based on the requirements of the DCLG's guidance on local authority investments. According to the government guidance the core principles that local authorities should follow when investing money are:</p> <ul style="list-style-type: none"> <li>• to make the deposits secure</li> <li>• to ensure they have sufficient liquidity for their daily demands</li> <li>• to produce the highest available yield, once the first two considerations have been met</li> </ul> <p>The Council has also adopted the CIPFA Treasury Management in the Public Services: Code of Practice. The code makes three recommendations for the adoption of policies and practices to secure local authorities' best practice treasury management:</p> <ul style="list-style-type: none"> <li>• to put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements to ensure the effective management and control of TM activities</li> <li>• to demonstrate through policies and practices that effective management and control of risk are prime objectives of TM activities</li> </ul>

	<ul style="list-style-type: none"> <li>to acknowledge that the pursuit of best value in TM and the use of suitable performance measures are important in order to secure business and service objectives and that within the context of effective risk management, TM policies and practices should reflect this.</li> </ul> <p>The scope of the audit included a review of the following areas:</p> <ul style="list-style-type: none"> <li>- Treasury Management Strategy</li> <li>- Risk management</li> <li>- Cash flow</li> <li>- Lending</li> <li>- Borrowing</li> <li>- Capital investment</li> <li>- External service providers</li> <li>- Records and reconciliations</li> <li>- Reports to Members</li> </ul> <p>One 'high' risk and 4 'medium' risk issues were identified. The 'high' risk issue related to the level of investment in a lower tier authority which exceeded the maximum set within the Council's Treasury Management Strategy. Remedial action was agreed with management for all issues identified.</p>
<b>VAT</b>  Assurance rating: Some Improvement Required ★★★	<p>The Council is registered for Value Added Tax (VAT) and as such has to account to HMRC for the VAT;</p> <ul style="list-style-type: none"> <li>charged on the goods/services supplied by the council (known as output tax)</li> <li>paid on the goods/services purchased by the council (known as input tax)</li> </ul> <p>All VAT transactions are recorded in the councils';</p> <ul style="list-style-type: none"> <li>debtor system ASH (invoices raised where monies are due to the council)</li> <li>purchase ledger systems POPS and Non-POPS (orders raised/invoices paid where monies are due from the council)</li> <li>general ledger system (recording VAT associated with payments made directly into/from the councils' bank account that have by-passed either the debtor or purchase ledger systems)</li> </ul> <p>The scope of this audit was to review and test the following areas;</p> <ul style="list-style-type: none"> <li>Policies and procedures</li> <li>Input tax and Output tax</li> <li>Accounting for VAT</li> <li>VAT changes</li> </ul> <p>A total of 1 'high' risk and 9 'medium' risks were identified. The 'high' risk related to management of the VAT suspense account and remedial action has been agreed with management for all issues identified.</p>

<p><b>Licensing</b></p> <p>Assurance rating: Good ★★★★</p>	<p>The Licensing Section is responsible for the issuing and enforcement of a wide range of different licences for example alcohol and entertainment licenses, taxi and private hire vehicle licenses, street trading licences, gambling licenses and animal licenses.</p> <p>The audit concentrated on animal licensing - the Council has statutory responsibilities for the licensing of a number of activities relating to the welfare of animals under a number of different Acts of Parliament. A new regulation came into force on 1 October 2018, which is 'The Animal Welfare (Licensing of Activities involving animals) (England) Regulations 2018' and is part of the Animal Welfare Act 2006.</p> <p>The new regulation primarily covers;</p> <ul style="list-style-type: none"> <li>• Selling animals as pets</li> <li>• Cat/dog boarding</li> <li>• Hiring out horses</li> <li>• Dog breeding</li> <li>• Keeping/training animals for exhibitions</li> </ul> <p>It is aimed at protecting animals making it an offence for any person to possess, own or keep animals in order to carry out certain businesses, or have possession of certain animals within Exeter, without first being licensed by the Council.</p> <p>The scope of the audit included reviewing;</p> <ul style="list-style-type: none"> <li>• Policies and procedures</li> <li>• The publication of the licensing requirements around animal welfare</li> <li>• Licence issue and renewal</li> <li>• The reconciliation of the licences issued to the fees collected</li> <li>• Procedures for identifying non-licensed operators</li> </ul> <p>One 'medium' issue was identified and remedial action was agreed by management.</p>
<p><b>CCTV</b></p> <p>Assurance rating: Good ★★★★</p>	<p>The City Centre is monitored by CCTV cameras operated in partnership between the City Council (ECC), Devon County Council (DCC) and the Devon &amp; Cornwall Police (D&amp;CP), together with the support of the Community Safety Partnership. The system is registered with the Information Commissioner's Office and regulated under General Data Protection Regulation 2018 and the Regulation of Investigatory Powers Act 2000.</p> <p>The objectives of the scheme are:</p> <ul style="list-style-type: none"> <li>• To help deter and detect crime and provide evidence material for court proceedings</li> <li>• To help reduce the fear of crime</li> <li>• To assist in the overall management of Exeter city centre</li> <li>• To enhance community safety, assist in developing the economic wellbeing of the Exeter area and encourage greater use of the city centre</li> <li>• To assist the Local Authorities in their enforcement and regulatory functions within the Exeter area</li> <li>• To assist in traffic management and encourage safer and more sustainable use of all modes of transport and provide travel information to the media and public</li> </ul>

	<ul style="list-style-type: none"> <li>• To assist in supporting civil proceedings</li> <li>• To monitor all modes of travel to enable improvement and better management of the public highway</li> </ul> <p>The agreed scope of the audit included a review of the following:</p> <ul style="list-style-type: none"> <li>• Policies, procedures &amp; training</li> <li>• Effective administration (notifications to the ICO office, justification for using CCTV)</li> <li>• Selection and siting of cameras, notices</li> <li>• Use &amp; maintenance of CCTV equipment</li> <li>• Storage, retention and disclosure of images</li> <li>• Management review of the use of CCTV</li> </ul> <p>Remedial action was agreed with management for all issues raised.</p>
<b>Homecall</b>  Assurance rating: Some Improvement Required ★★★	<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>As at 3rd May 2018, there were 1,554 Home Call clients of which 177 were also Key Safe clients though it should be noted that of the 1,554 clients, 527 of them are 'scheme housing' clients who have the service provided free of charge.</p> <p>Since November 2016 however, any new clients moving into the 'scheme housing' properties are being asked to pay for this service – the Home Call system is removed if they are unwilling to do so.</p> <p>The scope of the audit included a review of the following areas;</p> <ul style="list-style-type: none"> <li>• Issue of Home call alarms</li> <li>• Invoicing (covering the period January 2018 to May 2018)</li> <li>• Debt recovery (as at May 2018)</li> <li>• Cancellation of the service</li> <li>• Maintenance and testing of the equipment</li> <li>• Client, staff and data protection</li> </ul> <p>The audit identified a number of "medium" risk issues and remedial action was agreed with management for all issues identified.</p>
<b>Due Diligence – District Heating Scheme</b>  No audit opinion given. Consultation review as opposed to assurance review.	<p>As the Council embarks upon a number of new initiatives in new areas of business the due diligence around these projects has been identified as an area of higher risk because they are new. The audit was conducted to gain an understanding of any effects on the Council rather than an assurance audit of the companies.</p> <p>The district heating schemes are new projects for the Council and are also included within the Council's corporate risk register, therefore, they have been selected for review during 2018/19.</p>

	<p>Exeter City Council holds shares within two district heating companies, Dextco and the Monkerton District Heating Company. Both companies are in the infancy and the schemes are still at their development stages.</p> <p>The Council has recognised some potential risks with these schemes and is monitoring these risks through their risk management process. The audit has not identified any further significant risks but some observations were made for which appropriate responses were received from management.</p>
<p><b>Disabled Facilities Grant</b></p> <p>Assurance rating: Good ★★★★</p>	<p>If a house owner or someone living in their property is disabled they may qualify for a disabled facilities grant towards the cost of providing adaptations and facilities to enable the disabled person to continue living there.</p> <p>The awarding of these grants by local councils is governed by part one of the Housing Grants, Construction and Regeneration Act 1996. Devon County Council has been allocated funds by Central Government to support disabled adaptations. A share of this money is then allocated to each local authority within Devon to administer on behalf of DCC.</p> <p>For the 2017/18 year, ECC was awarded £733,476 from the Better Care Fund, although 10% of this amount (£73,347) was paid back to DCC to form a central funding pot so that all local authorities can access and use these additional funds where greatest demand for DFGs arise.</p> <p>The DFGs are issued subject to certain conditions and these are set out by the Department of Community and Local Government on an annual basis.</p> <p>The Chief Executive and Head of Audit of Devon County Council are required to sign a statement by the end of September each year and return this to the relevant government department confirming that “to the best of their knowledge and belief, and having carried out appropriate investigations and checks, in their opinion, in all significant respects, the conditions attached to Disabled Facilities Capital Grant Determination have been complied with.</p> <p>In order for them to do this, each authority is required to confirm that the grants they have awarded have been administered in accordance with the conditions set out by the Department of Community and Local Government. The authority statement must then be signed by the Chief Finance Officer and the Audit Manager.</p> <p>The Scope of the audit included a review of the following areas:</p> <ul style="list-style-type: none"> <li>• Policies and procedures</li> <li>• Eligibility</li> <li>• Approval of applications</li> <li>• Works</li> <li>• Conditions</li> <li>• Payments</li> <li>• Monitoring of grant income</li> </ul> <p>Samples of transactions were selected over the period 1 April 2017 to 31 March 2018 for examination and members of staff were interviewed in order to check the effectiveness of the internal controls and procedures in operation.</p>

	The work undertaken enabled the Chief Finance Officer and the Audit Manager to sign off the statement by the due date.
<b>Section 106 Agreements</b>  Assurance rating: Some Improvement Required ★ ★ ★	<p>Planning obligations are agreements entered into between the Council and developers, usually in conjunction with the granting of planning permission. Planning obligations apply to land, binding it and whoever owns it. They are made using powers under section 106 of the Town and Country Planning Act 1990, which is why they are also called "section 106 agreements".</p> <p>Planning obligations are generally used:</p> <ul style="list-style-type: none"> <li>• for controlling the use of land</li> <li>• to ensure the developer provides sufficient infrastructure improvements to deal with the development</li> </ul> <p>Unless it is agreed otherwise, planning obligations run with the land in perpetuity and may be enforced against the original covenantor, and anyone else that acquires an interest in the land, until such time as they are discharged or otherwise modified.</p> <p>A Community Structure levy (CIL) was introduced by the Planning Act 2008 to help local authorities deliver infrastructure to support the development of an area. Since this levy was introduced the number of s106 conditions has decreased, however, they are still used for certain areas which the CIL does not cover. If the strategic infrastructure is on the Council's "Regulation 123 list" of infrastructure for CIL funding, then it can no longer be funded through section 106 agreements.</p> <p>The current balances of s106 payments are as follows:</p> <ul style="list-style-type: none"> <li>- S106 Capital contributions unapplied – £974,049.37</li> <li>- S106 Deferred credits – £9,574,726.04</li> <li>- S106 Income in advance - £605,346.61</li> </ul> <p>The Member Champion for S106 at the time of the audit was Cllr Harvey and he had raised concerns that S106 monies were not being spent on projects. He was worried that monies may not be spent by the expiry dates and would have to be repaid to the developer. It was agreed with Cllr Harvey and the Principal Project Manager Strategic Infrastructure that Audit should undertake a 'walk through' of the current system, produce a complete system description and identify areas where there were inadequate controls or processes.</p> <p>Interviews were held with people within the relevant sections involved in the process.</p> <p>There were numerous issues identified during the audit that once addressed, will improve controls over the Council's S106 objectives. However, many of the agreed actions relate to additional resources being found. If these additional resources are not available other methods of addressing the identified risks will need to be sought.</p>