



Tuesday, 19 June 2012

## **AUDIT COMMITTEE**

A meeting of **Audit Committee** will be held on

**Wednesday, 27 June 2012**

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus,  
Torquay, TQ1 3DR

### **Members of the Committee**

Councillor Addis  
Councillor Bent  
Councillor Brooksbank

Councillor Hill  
Councillor Pountney  
Councillor Stocks

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**Our vision is for a cleaner, safer, prosperous Bay**

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# AUDIT COMMITTEE AGENDA

1. **Election of Chairman/Woman**  
To elect a Chairman/woman for the 2012/13 Municipal Year.
2. **Apologies**  
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
3. **Election of Vice Chairman/Woman**  
To elect a Vice-Chairman/woman for the 2012/13 Municipal Year.
4. **Minutes** (Pages 1 - 4)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 28 March 2012.
5. **Declarations of interests**
  - (a) To receive declarations of personal interests in respect of items on this agenda  
**For reference:** Having declared their personal interest members and officers may remain in the meeting and speak (and, in the case of Members, vote on the matter in question). If the Member's interest only arises because they have been appointed to an outside body by the Council (or if the interest is as a member of another public body) then the interest need only be declared if the Member wishes to speak and/or vote on the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
  - (b) To receive declarations of personal prejudicial interests in respect of items on this agenda  
**(Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Democratic Services or Legal Services prior to the meeting. Definitions and procedures in relation to interests are set out at the start of the agenda.)
6. **Urgent Items**  
To consider any other items that the Chairman decides are urgent.
7. **Audit Committee Terms of Reference** (Pages 5 - 6)  
To note the Audit Committee's Terms of Reference as set out in the Council's Constitution.
8. **Audit Committee Update** (Pages 7 - 18)  
To note the progress that the Audit Commission have made in delivering on their responsibilities as the Council's external auditors.
9. **Interim Audit Report** (Pages 19 - 38)  
To consider a report which sets out the findings from the interim audit.

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|------------|--|--------------------|
| <b>10.</b> | <b>Torbay Council Annual IA Report</b><br>To note the Annual Internal Audit Report.                                | (Pages 39 -<br>62) |
| <b>11.</b> | <b>Treasury Management Outturn 2011/12</b><br>To endorse the Treasury Management decisions made during 2011/12.    | (Pages 63 -<br>80) |
| <b>12.</b> | <b>Annual Governance Statement 2011/12</b><br>To consider a report on the Annual Governance Statement for 2011/12. | (Pages 81 -<br>98) |



## Minutes of the Audit Committee

28 March 2012

-: Present :-

Councillors Addis, Stringer, Brooksbank, Pentney and Hill

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### 621. Minutes

The Minutes of the meeting of the Audit Committee held on 18 January and 25 January 2012 were confirmed as a correct record and signed by the Chairman.

### 622. Audit Committee Update

Members noted the Audit Committee update from Sue Hicks of the Audit Commission. The purpose of this update was to provide the Audit Committee with a report on progress in delivering their responsibilities as the council's external auditors. The report also highlighted key emerging national issues and developments which may be of interest to Members of the Audit Committee.

Members were informed that the Audit Commission had introduced a new approach to value for money work in 2010/11. The VFM conclusion would now be based on two nationally specified criteria:-

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

A review of the Council's arrangements is currently being undertaken and the interim audit is currently on-going and there will be a report of findings back to the Audit Committee on 27 June 2012.

Members requested that the Executive Head, Finance, bring a short report to the next meeting outlining the key considerations listed in the update report.

### 623. Audit Plan

Members noted the Audit Plan presented by Sue Hicks from the Audit Commission. The plan sets out the work for the 2011/12 audit and was based on the Audit Commission's risk-based approach to audit planning.

**624. Certification Claims**

Members noted the Certification of claims and returns annual report. The report summarised the outcomes of the certification work on the 2010/11 claims and returns.

Sue Hicks from the Audit Commission informed members that local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and were required to complete returns providing financial information to government departments. The certification work provides assurance to grant-paying bodies that claims for grants and subsidies were made properly and that information in financial returns was reliable.

**625. Good Governance Review Autumn 2011**

Members considered a report on the Good Governance Review. The Governance Support Manager informed the Committee that the Council had reviewed its governance arrangements following the first five months following the election in May 2011.

A survey was undertaken of all members and senior officers to gather feedback on the following areas:

- 1) Roles and functions;
- 2) Good governance through constructive relationships;
- 3) Taking informed and transparent decisions; and
- 4) Serving Torbay

Members were advised that the results had been presented at a governance workshop held in October 2011 attended by members and senior officers. The workshop used the results of the survey to identify what needed to be changed or improved.

Members requested that the Governance Support Manager circulate the Good Governance information Pack to the Committee.

**Resolved:**

That the Good Governance Review Autumn 2011 Action Plan be adopted and its progress monitored by Group Leaders via the Leadership Group.

**626. Internal Audit Plan 2012/13**

Members considered a report on the internal Audit Plan 2012/13. Officers advised Members that the Audit Plans were prepared for each of the client authorities using

a risk based approach and priority assessment including consultation at both strategic and operational levels

Rob Hutchins, Devon Audit Partnership, informed Members that the plan was based on the current organisational structure for the Authority and it was possible there would be new risks and changes as the year progressed, therefore plan needed to remain flexible.

**Resolved:**

That the Committee agreed in principle the proposed Audit Plan for 2012/2013.

**627. Future of Public Audit Report to Audit Committee**

Members noted the proposed appointment of Grant Thornton LLP as External Auditors of Torbay Council from 2012/13 and the DCLG proposals for the Future of Public Audit.

Members were informed that the Secretary of State had proposed local authorities would be able to appoint their own external auditors and in March 2011 launched a consultation document on the Future of Public Audit. However it was recognised that such a framework could not be introduced immediately so the Audit Commission were asked to run a procurement exercise to appoint new external auditors with effect from 2012/13. Following an EU Procurement Exercise a number of private sector providers and the previous in-house Audit Practice were invited to tender for 10 contracts spread over four geographical regions.

Members were advised that the Audit Commission had recently announced the results of the process of outsourcing all the audit work of its in-house practice. The outsource contracts that the Commission will put in place would start from 2012-13 and will run for five years giving local councils and other public bodies the time to plan for appointing their own auditors. As a result of the outsourcing, a single provider will be responsible for undertaking the external audit of all public bodies in the south west. Once the audits had been outsourced the Commission would be radically reduced in size to become a small residuary body responsible for overseeing the contracts and making any necessary changes to the individual audit appointments during the life of the contracts.

**628. Exclusion of the Press and Public**

The Chairman was questioned as to why the next item required the press and public to be excluded from the meeting.

The report author, Robert Hutchins, Devon Audit Partnership was asked for the reason for the exclusion.

He explained that the Scale of Fraud and Corruption affecting Torbay Council if made public constituted a reputational risk and was written for the Audit Committee for the protection of Torbay Council from fraud and contained information that should not be publicised.

The Chairman requested members take a vote to exclude the press and public from the next part of the meeting which was carried.

(Note: in accordance with Standing Order A19.5 Councillors Stringer and Pentney requested that their vote against this decision be recorded).

**629. Scale of Fraud & Corruption affecting Torbay Council**

Members noted the exempt report which was compiled using existing resources.

The Executive Head, Finance was asked to look in to the issues raised.

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Chairman

# Agenda Item 7

## Terms of Reference for Audit Committee

<p><b>Audit Committee:</b></p> <p><b>Terms of Reference:</b></p> <ol style="list-style-type: none"> <li>1. To consider the Head of Internal Audit's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.</li> <li>2. To consider summaries of specific Internal Audit reports as requested.</li> <li>3. To consider reports dealing with the management and performance of the providers of Internal Audit Services.</li> <li>4. To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.</li> <li>5. To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance.</li> <li>6. To consider specific reports as agreed with the External Auditor.</li> <li>7. To comment on the scope and depth of external audit work and to ensure it gives value for money.</li> <li>8. To liaise with the Audit Commission over the appointment of the Council's external auditor.</li> <li>9. To commission work from Internal and External Audit within approved resources.</li> </ol> <p><b>Regulatory Framework</b></p> <ol style="list-style-type: none"> <li>10. To maintain a strategic overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour (the primary responsibility for considering and</li> </ol>	<p>6 members of the Council excluding members of the Executive, in accordance with the political balance requirements</p> <p>Conservative (4)</p> <p>Liberal Democratic (2)</p>	<p>Councillors Addis, Bent, Brooksbank and Hill</p> <p>Councillors Pountney and Stocks</p>
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<p>ensuring that the constitution is fit for purpose lies with the Monitoring Officer and the Standards Committee in relation to the codes of conduct).</p>	
<p>11. To review any issue referred to it by the Chief Executive, a Commissioner, the Monitoring officer, Section 151 Officer (Chief Finance Officer) or any Council body.</p> <p>12. To monitor the effective development and operation of risk management and corporate governance in the Council.</p> <p>13. To monitor council policies on 'Raising Concerns at Work' and the 'Anti-fraud and corruption strategy' and the Council's complaints process.</p> <p>14. To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.</p> <p>15. To oversee the Council's arrangements for corporate governance and consider necessary actions to ensure compliance with best practice.</p> <p>16. To review the Code of Corporate Governance.</p> <p>17. To monitor the Council's compliance with its own and other published standards and controls.</p> <p><b>Accounts</b></p> <p>18. On behalf of the Council, to approve the annual statement of accounts.</p> <p>19. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.</p>	

# Audit Committee update

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Torbay Unitary Council

Audit 2011/12

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

**1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

**2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

**3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

**4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Alun Williams

District Auditor

27 June 2012

# Progress report

## Opinion on the financial statements

5 Our audit of the Council's financial statements will commence in July and our findings will be reported back to this Committee on the 19<sup>th</sup> September.

## Interim Audit

6 Auditing standards require us to make an assessment of the key financial and other information systems which underpin your financial statements. This is in order to assess their reliability as a basis for preparing the accounts.

7 We undertake an interim audit to test these systems and also undertake as much early substantive work as possible to reduce the impact of the audit on the Council's staff later in the year. In addition to this we also undertake a separate IT risk assessment.

8 Our interim audit report is included as an agenda item for this meeting.

## VFM conclusion

9 The Audit Commission introduced a new approach to value for money work in 2010/11. The VFM conclusion is now based on two nationally specified criteria:-

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

10 Our review of the Council's arrangements is currently being undertaken.

# Other matters of interest

## 2012/13 audit fees

**11** Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April.

**12** As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five year period, irrespective of the rate of inflation.

**13** The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

**14** The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

**15** In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

## 2010/11 National Fraud Initiative (NFI)

**16** In May 2012 the Audit Commission published the results of the National Fraud Initiative (NFI) for 2010/11.

**17** The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

**18** When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.

Data Match	Possible fraud or error
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

**19** The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same time period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

**20** The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

**21** The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to Officers.

**22** Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

## Public Sector Internal Audit Standards

**23** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

**24** This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

**25** The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

## Payment by results

**26** On 5 April the Audit Commission published *Local payment by results*, a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

**27** PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service.



**28** These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

**29** What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

**30** National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

**31** The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

**32** The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

**33** The Audit Commission has sent the briefing to chief executives of all councils and other key stakeholders.

## **The rights of local electors**

**34** The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

**35** The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

**36** Members of the Audit Committee may find it helpful to familiarise themselves with this publication which can be found on the Audit Commission's website.

## **NAO Role in local VFM studies**

**37** The National Audit Office (NAO) is preparing to become involved in Value for Money (VFM) studies and recently announced its first subject to a new consultation group.

**38** The new Local Government Reference Panel includes people from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

**39** The panel – which will meet twice a year – is intended to give councils an input to a new programme of NAO value for money studies of the local government sector.

**40** The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector. The NAO's first topic for a value for money report is to be communication between central and local government. There will be two other studies in 2012/13, rising to four in 2013/14 and six in 2014/15.

**41** Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

## **CIPFA's brief guide to Local Government Finance reforms**

**42** As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

**43** CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and councillors may have surrounding the localisation of support for council tax and business rate retention.

**44** The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all of the legislation and guidance has yet to be published so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

# Key considerations

**45** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Is the Audit Committee satisfied with the Council's responses to the questions in the NFI briefing for elected members?
- Has the Council reviewed the Audit Commission's briefing paper on local payment by results agreements?

## Contact details

**46** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**47** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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June 2012

# Interim audit report

Torbay Council  
Audit 2011/12

Agenda Item 9



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# Introduction

- 1 This report sets out the findings from our interim audit in preparation for our work on the Council's 2011/12 financial statements. The report covers the following areas:

  - the audit approach to ensure compliance with the International Standards on Auditing;
  - identification of any issues found during our review of the control environment and IT risk assessment; and
  - an assessment of the key controls in the material information systems that we use to inform our financial statements planning.
- 2 We have a statutory duty to comply with the Commission's Code of Audit Practice when planning and performing our work. We must also meet the requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I).
- 3 The Code of Audit Practice requires review and reporting on the Council's financial statements and annual governance statement. We will meet this requirement by undertaking the opinion audit later this year.
- 4 The work we carry out at the interim stage of the audit informs the opinion audit. We gain an understanding of the Council and its systems. This enables us to identify risks of material misstatement in the financial statements.

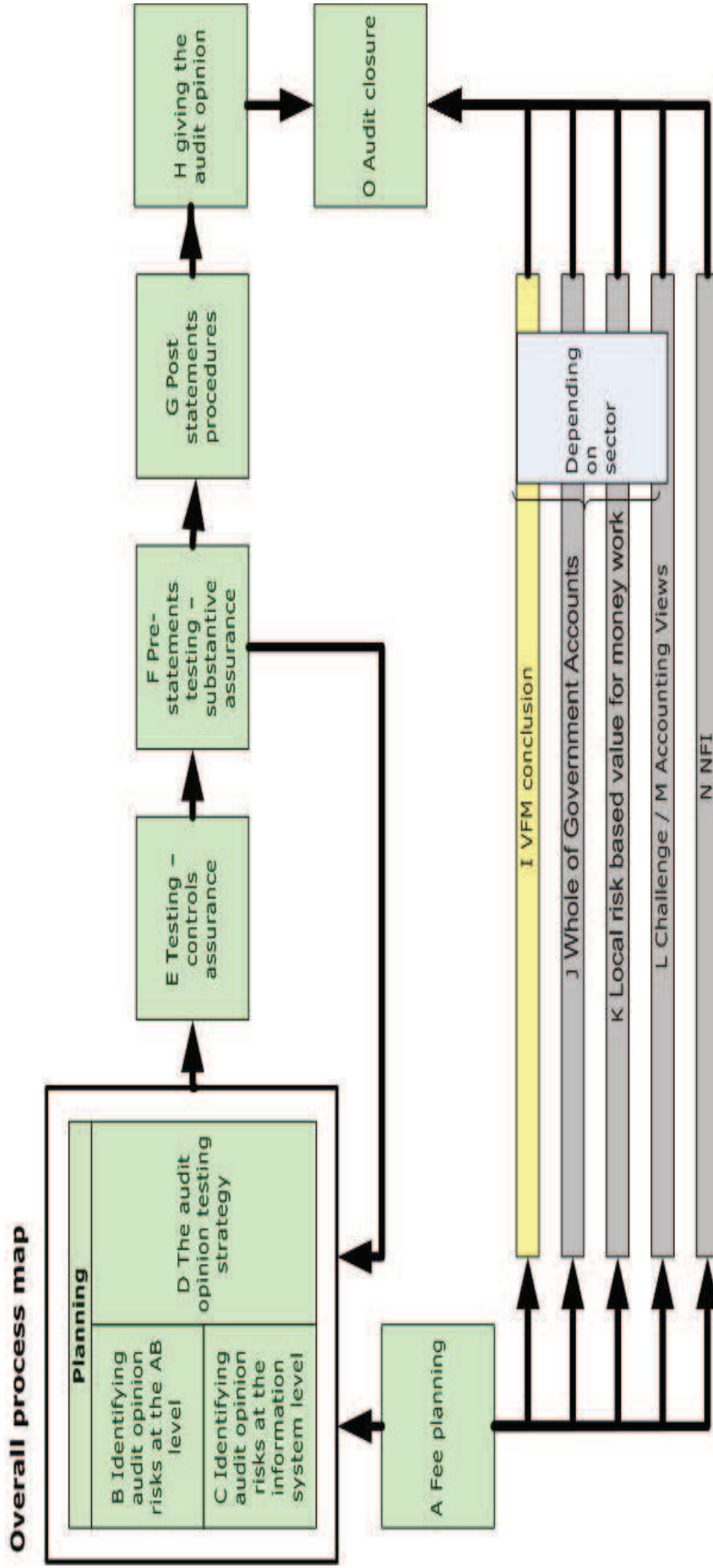


# Audit approach

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- 5 Our overall audit approach is summarised by the process map in table 1 (page 5). The interim audit covers stages A to F of the process map. The remaining stages of the audit (where applicable) will be completed later in the year.
- 6 The ‘identifying audit opinion risks at the information system level’ (C in the table) stage requires us to document the systems through which material transactions flow and identify controls that would prevent or detect material misstatement in the financial statements. The purpose of the documentation is to identify the controls that we may seek to place reliance on.
- 7 As part of this review we carry out and record walkthrough tests to confirm our understanding of the systems and to confirm that the system controls are operating as designed.
- 8 After identifying controls within the material systems we evaluate the design of those controls to assess whether they are capable of effectively preventing, or detecting and correcting, material misstatements. The design and implementation of these controls also provides us with information to decide on the most appropriate testing strategy (‘D’ in the table).

Table 1: Overall audit process map



# Main conclusions

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## Control environment

- 9 We have completed our review of the Council's control environment. We have not identified any issues with the control environment that could lead to a material misstatement of the financial statements. However, we would like to bring the following issues to your attention.
  - The Council has identified that from 2011/12 their interests in subsidiaries, associates and joint ventures have reached a material value and as such will prepare Group Accounts in addition to their single entity financial statements. The introduction of group accounts creates an additional complexity to both the account preparation and audit process. We have reviewed and agreed that the Finance team have put in place adequate arrangements to collect and prepare the information required for this year's statements. We will substantively review the disclosure as part of our post statements audit.
  - We reported in 2010/11 that the Council provided £43 million of funding to the adult social care pooled budget operated in partnership with Torbay Care Trust. We noted that the Council did not obtain adequate assurance that the expenditure had been correctly classified within the pooled budget. This assurance would allow the Council to conclude that it is not funding non-council expenditure, and that the host partner is neither manipulating expenditure to achieve financial targets, nor misstating expenditure, through error. The Council is currently in the process of addressing this issue and will obtain adequate assurances from the Care Trust; we will review these as part of our post statement audit.
  - We reported in 2010/11 that the information supporting the related parties note was incomplete, as some member interests had not been declared, and subsequently not disclosed within the note. In 2011/12 there has been an update to IAS24: Related Party Disclosures and to the 2011/12 Code amending the related party disclosures required and providing more guidance on the definition of a related party. As part of our post statements audit we will be reviewing the 2011/12 disclosure to ensure it is compliant with the revised guidance and complete. As part of the completeness test we will review the members and officers registers to ensure that they have been updated and that users are aware of items they should be disclosing.

- 10 We have updated our IT risk assessment to assess whether we could rely upon the IT control environment and to consider any issues arising and the impact they have on our 'opinion' testing plan. We concluded that the Council has an effective IT control environment, which we plan to rely upon for our 'opinion' audit.

## Material information systems - Key controls

- 11 The Council has appropriate systems and controls in place to ensure that materially correct financial statements are produced. However, we have identified some control issues which should be addressed and further testing will be required on some controls during our post statement audit.

- 12** We have summarised our findings for each material system in table 2, have made eight recommendations below the table and agreed these in the action plan at appendix 1.
- 13** We note that four of these issues were also reported to you in our 2010/11 audit report. Management accepted two of these four issues at that time. An updated copy of the 2010/11 agreed action plan has been included at appendix 2.

Table 2: **Review of material information systems**

Information system	Conclusion
<b>General ledger</b>	<p>The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements. However, as per 2010/11 we have identified that journals can be input by anyone in the finance teams without a limit on their value. We have assurance that this weakness has not led to material misstatement as Internal Audit have tested 20 journals in the year and agreed that all had been appropriately raised and authorised. We will gain further assurance by reviewing all material year end journals as part of our post statements audit.</p> <p>As in previous years we will carry out further substantive testing during our post statement audit on the following:</p> <ul style="list-style-type: none"> <li>■ Year- end bank reconciliation; and</li> <li>■ Year- end trial balance.</li> </ul>
<b>Cash receipting</b>	<p>The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.</p>
<b>Council tax</b>	<p>The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.</p> <p>To further strengthen the controls:</p> <ul style="list-style-type: none"> <li>■ suppressed Council tax accounts should be subject to a systematic review; and</li> <li>■ single occupier discounts should be subject to annual review to ensure that discounts have been appropriately given.</li> </ul>
<b>Creditors</b>	<p>The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.</p>

**Debtors**

In 2010/11 and in previous years we reported to you that numerous officers can raise debtor invoices within the Council, and these are not subject to review or authorisation. The lack of adequate review could result in inaccurate or inappropriate invoices being raised. The Council accepted this risk and cited a mitigating control, being a report sent to budget holders for all debts raised over £5k. We reviewed this control but, could not rely upon it as there was no evidence that budget holders actually review and acknowledge these reports. Therefore, we have not been able to fully rely in the controls in place within this system.

To address this risk Internal Audit has substantively tested a sample of income recorded through the sundry debtors system. We have reviewed and re-performed a sample of this work and will undertake further testing to supplement this as part of our post statements audit.

**Fixed asset register**

As the processes take place at the year end we will undertake substantive testing of property, plant and equipment and the related transactions during our audit of the financial statements.

**National non-domestic rates**

The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.

To further strengthen the controls, suppressed NNDR accounts should be subject to a systematic review.

**Payroll**

At this stage we would expect to be able to conclude that the system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements. However, we have identified the following issues.

- In 2010/11 we recommended that payroll reports, detailing employees and salaries paid be sent to department heads for review and agreement on a regular basis. Although the Council agreed to complete this exercise quarterly it has not been fully completed in 2011/12. This exercise will provide the Council and us with a significant level of assurance over the accuracy and completeness of their payroll; this is particularly relevant as the Council continues to undergo a period of rapid transformation, with many staff leaving the Council or being transferred to newly formed companies. It is also worth noting that the 2010/11 exercise identified a couple of cases where staff had the left the Council but still continued to receive payments. The Council's S151 officer has agreed that this will be completed fully at the year end. We will review this exercise as part of our post statements audit.

## Information system

## Conclusion

- In 2010/11 we recommended that the Council develop an authorised payroll signatory list. We are satisfied that the Council have now established this with a listing being introduced for both schools and core council staff. However, the core council staff listing was not introduced until March 2012. We have discussed this control with Internal Audit. They have revisited the 30 changes to core council payroll tested earlier in the year to ensure that all had been authorised by an officer appearing on this updated list. They concluded that 29 of the 30 changes had been appropriately approved. However, one sickness form should not have been processed on payroll as it had not been authorised. Internal Audit have undertaken a further review of this form and confirmed that although it had not been authorised, it was appropriately raised and had adequate supporting documentation.

## Supporting People

We have walked through this system and confirmed that the key controls are operating as designed. We have undertaken early substantive testing of Supporting People expenditure and have identified no issues and will undertake further testing to supplement this as part of our post statements audit.

## Treasury management

We have confirmed our understanding of the system. No new loan agreements have been entered into in the financial year. However, the Council have made investments in line with its Treasury Management Strategy. We will undertake substantive testing of year end balances as part of our audit of the financial statements.

## Schools Finance

We reported in 2010/11 and in previous year's audits that the schools finance team did not perform regular reconciliations between local payment schools bank balances and the general ledger. However, they had managed to fully reconcile the local payment schools bank balances and the general ledger at the 2010/11 year end.

We recommended that the schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

We have identified that this reconciliation has not been performed in 2011/12. We continue to recommend that this be completed regularly as this will enable the schools finance team to identify and address imbalances promptly.

As per previous years we will review the year end reconciliation as part of our post statements audit.

## Children Services

We have walked through this system and confirmed that the key controls are operating as designed. We have undertaken early substantive testing of Children Services expenditure and have identified no issues and will undertake further testing to supplement this as part of our post statements audit.

## Housing Benefits

The system has suitable key controls in place which should prevent or detect risks of material misstatement within the financial statements.

## Recommendations

- R1** General Ledger –The Council should review their journal controls to ensure that hierarchical limits are set on the values users can raise.
- R2** Council Tax and NNDR - suppressed NNDR and Council tax accounts should be subject to a regular review to ensure that suppression remains appropriate.
- R3** Council Tax - Single Occupier Discounts should be subject to annual review to ensure that discounts have been appropriately given.
- R4** Debtors - Invoices raised by departmental users should be reviewed and authorised.
- R5** Debtors - The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.
- R6** Payroll - Payroll reports, detailing employees and salaries paid, should be sent and agreed with department heads on a regular basis.
- R7** Payroll – Stronger procedures are required to ensure that inputs to payroll are not processed unless signed as authorised.
- R8** Schools Finance - The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

# Appendix 1 – Action plan

## Recommendations

### Recommendation 1

General Ledger –The Council should review their journal controls to ensure that hierarchical limits are set on the values users can raise.

<b>Responsibility</b>	Paul Looby
<b>Priority</b>	Medium
<b>Date</b>	Ongoing
<b>Comments</b>	Journal input and authorisation is currently limited to Financial Services staff only. Management are currently happy to accept this risk but will keep the issue under review. (Testing of journals is part of Internal Audit annual audit review of 'key systems').

### Recommendation 2

Council Tax and NNDR - suppressed NNDR and Council tax accounts should be subject to a regular review to ensure that suppression remains appropriate.

<b>Responsibility</b>	Paul Looby
<b>Priority</b>	High
<b>Date</b>	June 12
<b>Comments</b>	A monthly report will be 'run' across Council Tax and NDR to review these and reviewed by an appropriate officer.



### Recommendation 3

Council Tax - Single Occupier Discounts should be subject to annual review to ensure that discounts have been appropriately given.

**Responsibility** Paul Looby

**Priority** High

**Date** Ongoing

**Comments** This will be carried out through the NFI report and then a subsequent follow up of all discount and exemption reviews during 2012. Resources within the department will dictate the feasibility of being able to undertake an annual review.

### Recommendation 4

Debtors - Invoices raised by departmental users should be reviewed and authorised.

**Responsibility** Paul Looby

**Priority** Medium

**Date** Ongoing

**Comments** As reported previously, while credit notes and write offs have additional authorisation, management are happy to accept this risk but will keep the issue under review. (Testing of the debtors system is part of Internal Audit annual audit review of 'key systems').

### Recommendation 5

Debtors - The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.

**Responsibility** Paul Looby

**Priority** Medium

**Date** Ongoing

**Comments** Automated reports are sent on monthly basis covering all debts above £5,000. Managers are asked to review and this requirement is included in 'best practice e-mail' which is circulated to officers.

To insist that all reports are evidenced by each manager each month is time intensive, therefore management are happy to accept this risk but will keep the issue under review.

**Recommendation 6**

Payroll - Payroll reports, detailing employees and salaries paid, should be sent and agreed with department heads on a regular basis.

**Responsibility** Mark Bennett

**Priority** High

**Date** July 12

**Comments** Reports have been sent to Executive Heads throughout the year and the final quarter's reports were authorised by Executive Heads. Due to the significant structural changes that have taken place within the Council, the current process is under review to identify where improvements can be made.

**Recommendation 7**

Payroll – Stronger procedures are required to ensure that inputs to payroll are not processed unless signed as authorised.

**Responsibility** Mark Bennett

**Priority** High

**Date** Completed

**Comments** The signatory list has been developed and is being used on a daily basis to check paperwork before payment. All Executive Heads have been advised that pay related employee changes will not be processed without the correct authorisation.

### Recommendation 8

Schools Finance - The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

<b>Responsibility</b>	Paul Looby
<b>Priority</b>	Medium
<b>Date</b>	Ongoing
<b>Comments</b>	<p>The bank reconciliations for Local Payment Schools are undertaken by the schools themselves on a monthly basis reconciling their bank accounts with the schools finance system (SIMS).</p> <p>Schools that use the Council's bank account are part of the Council's bank reconciliation process that is completed on a monthly basis.</p> <p>The 'control' account in the Council's finance system that mirrors the cash balances in the Local Payment Schools is balanced to the school's bank reconciliation at each financial year end.</p>

# Appendix 2 – 2010/11 Interim action plan progress

## Recommendations

### Recommendation 1 - Payroll

Payroll reports, detailing employees and salaries paid, should be sent to department heads for review and agreement on a regular basis.

<b>Responsibility</b>	Mark Bennett
<b>Priority</b>	H
<b>Date</b>	September 2011
<b>Comments</b>	Accepted: Exercise planned to be done on a quarterly basis.
<b>2011/12 Update</b>	Although the Council agreed to complete this exercise quarterly, it has not been fully completed in 2011/12. However, the Council's S151 officer has agreed that this will be completed fully at the year end. We will review this exercise as part of our post statements audit. Recommendation made again in 2011/12 - See recommendation 6 of this report.

### Recommendation 2 - Payroll

The Council should ensure that an authorised signatory list is established and used in the payroll department when inputting changes to payroll

<b>Responsibility</b>	Mark Bennett
<b>Priority</b>	H
<b>Date</b>	October 2011
<b>Comments</b>	Accepted: Review being undertaken.

**2011/12 Update** An authorised signatory listing has now been established for both schools and core council staff.

### Recommendation 3 - Schools' finances

The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

<b>Responsibility</b>	Lisa Finn
<b>Priority</b>	M
<b>Date</b>	Ongoing

**Comments** Accepted. Frequency of reconciliation depends on resources available.

**2011/12 Update** This has not been performed in 11/12. We have been informed that this will be completed at the year end. We will review this as part of our post statements audit and report if unreconciled amounts exist.

Recommendation made again in 2011/12 - See recommendation 8 of this report.

### Recommendation 4 - Debtors

Invoices raised by departmental users should be reviewed and authorised.

<b>Responsibility</b>	Lorraine Woolcock
<b>Priority</b>	M
<b>Date</b>	March 2012

**Comments** Management accept the low risk for not having a separate authoriser when raising debtor accounts. Credit notes do have a separate authoriser.

<b>2011/12</b>	<p>The lack of specific controls over the review and authorisation of invoices raised by departmental users continues to be an issue. To address this risk Internal Audit has substantively tested a sample of income recorded through the sundry debtors system. We reviewed and reformed a sample of this work and will undertake further testing to top this up as part of our post statements audit.</p> <p>Recommendation made again in 2011/12 - See recommendation 4 of this report.</p>
<b>Recommendation 5 - Debtors</b>	
	The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.
<b>Responsibility</b>	Lorraine Woolcock
<b>Priority</b>	H
<b>Date</b>	Ongoing
<b>Comments</b>	Noted: Report sent to budget holders on a weekly basis.
<b>2011/12 Update</b>	<p>Although the report continues to be sent, there is no evidence to suggest that budget holders use this and follow up on anomalies.</p> <p>Recommendation made again in 2011/12 - See recommendation 5 of this report.</p>
<b>Recommendation 6 - Creditors</b>	
	The BACS and cheque proposed payment listing should be independently reviewed by a second person prior to payment.
<b>Responsibility</b>	Lorraine Woolcock
<b>Priority</b>	H
<b>Date</b>	Ongoing
<b>Comments</b>	Council will review this audit point with external auditor to discuss appropriate controls.
<b>2011/12 Update</b>	<p>Although this proposed payment listing continues to not to be subject to review prior to payment the Council have demonstrated that a series of acceptable mitigating controls exist. These mitigating controls provide enough assurance to reduce the risk of material error to an acceptable level.</p>

### Recommendation 7 - Creditors

The authorised signatory list held within the Creditors section should be updated and all manual payments should be checked against this to ensure that they have been appropriately authorised.

**Responsibility** Lorraine Woolcock

**Priority** H

**Date** Sept 2010

**Comments** Accepted: The manual authorised signatory list has been replaced by an automated POP authorisation list which is 'live' on the system.

**2011/12 Update** An authorised signatory listing has now been established for both schools and core council staff.

### Recommendation 8 - Main accounting

The Council should review their journal controls to ensure that all journals are correctly and appropriately raised.

**Responsibility** Martin Phillips

**Priority** M

**Date** May 2011

**Comments** Journals are now authorised by the relevant finance team, instead of the Systems team.

**2011/12 Update** We have agreed that journals are now authorised by the relevant finance team, instead of the Systems team. However, we have further recommended that the Council ensure that hierarchical limits are set on the values users can raise.

See Recommendation 1 of this report.

### Recommendation 9 - Adult social care

The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.

**Responsibility** Martin Phillips

**Priority** H

**Date** December 2012

**Comments** Accepted: Agreement on Council access to Care Trust Records to be agreed with Care Trust.

<b>2011/12 Update</b>	See paragraph 9 of this report - The Council is currently in the process of obtaining adequate assurances from the Care Trust, we will review these as part of our post statement audit.
<b>Recommendation 10 - NNDR</b>	
	NNDR properties granted charitable relief should be subject to cyclical review.
<b>Responsibility</b>	Ian Westwood
<b>Priority</b>	M
<b>Date</b>	September 2011
<b>Comments</b>	Accepted: Review carried out September 2011 will be reviewed on a bi-annual basis.
<b>2011/12 Update</b>	The Council have undertaken a review of discretionary charitable reliefs in 2011/12. This has led to a several properties losing their relief as other income streams were identified. In 2008 a total of 169 properties were in receipt of discretionary relief, after completion of the review the number in receipt of discretionary relief fell to 110.
<b>Recommendation 11 – NNDR</b>	
	There should be a formalised review of the continuing eligibility of NNDR ratepayers granted empty properties relief.
<b>Responsibility</b>	Ian Westwood
<b>Priority</b>	M
<b>Date</b>	December 2011
<b>Comments</b>	Accepted. There is joint working with Torbay Town Centre Co which reviews 1/3 of the total relief given. A review of the remainder will be actioned when resources are available.
<b>2011/12 Update</b>	The joint working with Torbay Town Centre Co is ongoing. However, this is focused only on the town centre and not other properties in the Bay. To address this, an IT solution is currently developed with an estimated release date of July 2012. This will identify the empty commercial premises and notify the Revenue Section visiting officers. We will review this as part of our review of the Council's NDR grant allocation and if required report our findings to both the grant paying body (DCLG) and the Council.



**Recommendation 13 – IT**

The Council should develop an end user computing policy.

<b>Responsibility</b>	Paul Looby
<b>Priority</b>	M
<b>Date</b>	Ongoing
<b>Comments</b>	Process for identifying and reviewing key spreadsheets/databases etc to be established.
<b>2011/12 Update</b>	The Council are currently in the process of developing this policy and plan to roll it out in 2011/12.

# Agenda Item 10

## TORBAY COUNCIL

### ANNUAL INTERNAL AUDIT REPORT 2011/12

#### 1 INTRODUCTION

1.1 The following report and appendices set out the background to audit service provision, reviews work undertaken in 2011/12, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 The Accounts and Audit (Amendment) (England) Regulations 2011 sets out the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

#### 2 BACKGROUND

##### 2.1 *Service Provision*

2.1.1 The Internal Audit (IA) Service for Torbay Council is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000.

##### 2.2 *Regulatory Role*

2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:

- **Section 6 of the Accounts and Audit Regulations (England) Regulations 2011** which states that ".....a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control ....."
- ".....a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit ....."
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including CIPFA's Code of Practice for Internal Audit in Local Government and the Institute of Internal Auditors' Standards and Guidelines.

2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

2.2.4 The Internal Audit Strategy sets out how the service will be provided and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the Section.

### **3 OBJECTIVES AND SCOPE**

3.1 This report compares the work carried out with the work that was planned; presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements; and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

3.3. The Chief Internal Auditor is required to provide the Council with an assurance on the system of internal control of the Council. The opinions provided for each commissioning area and units within those commissioning areas have contributed to this overall assurance. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2011/12, including those audits carried forward from 2010/11;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

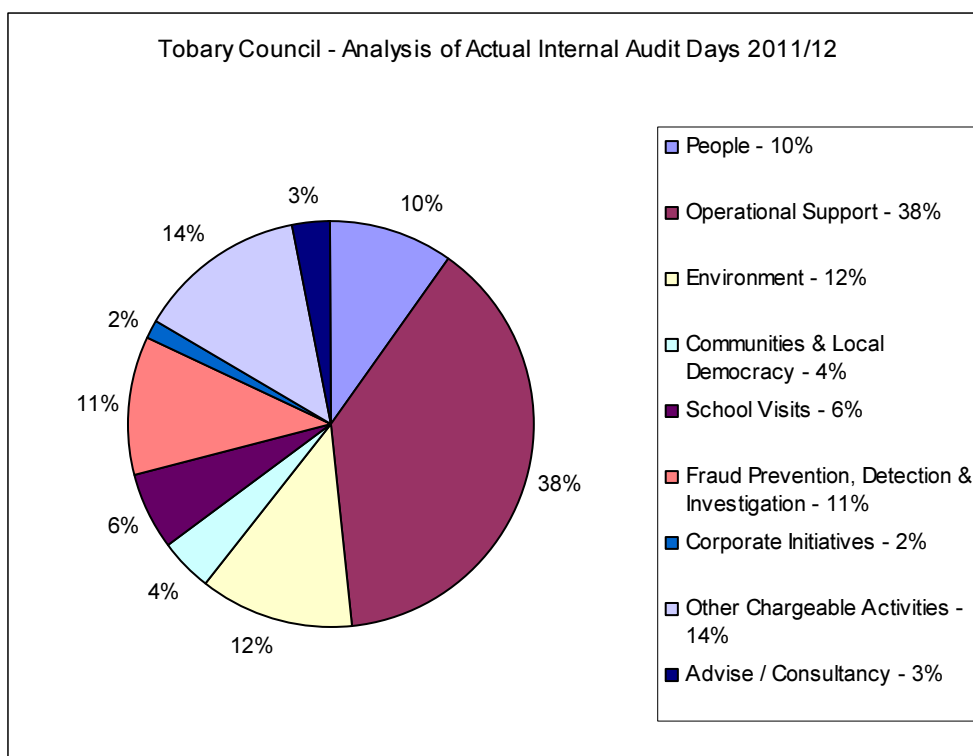
### **4 INTERNAL AUDIT COVERAGE 2011/12**

#### ***4.1 Delivery Against Plan***

4.1.1 The pie chart below and Appendix 1 shows total actual number of direct audit days in the year ended 31 March 2012, compared with the total number of days planned. The headings used reflect the structure that was operational for most of 2011-12; the structural changes that have recently taken place will be fully reflected in our 2012-13 work and report. There has been some variation between planned and actual days within individual audit assignments as we have adjusted the plan to meet operational needs. Some audits that were originally planned

were not completed as the timing was inappropriate for the area under review; a number of projects have therefore been planned for review in 2012/13.

4.1.2 Appendix 1 shows the actual days of audit delivery in 2012/13 against the audit plan. It will be noticed that there was a small shortfall in the total number of audit days provided during the year; we provided 1396 days against a plan of 1533 days. When we prepare our plans we make an educated assessment of the number of days that an audit is likely to take. When the fieldwork is actually completed there is inevitably a variance from the planned days. In addition we provide an allowance for work on areas such as fraud and corruption; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review. In such instances we expect that a more senior officer will be able to complete the review in less time than a junior and also the need for managerial review of working papers will be less.



4.1.3 Appendix 2 to this report provides a summary of the audits undertaken during 2011/12, along with our assurance opinion. Where a “high” or “good” standard of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of “improvement required” has been provided then issues were identified during the audit process that required attention. We have provided a summary of some of the key issues reported that are being addressed by management. It should be pointed out that we are content that management are appropriately addressing these issues.

## 4.2 Operational Support

4.2.1 In our opinion, and based upon our audit work completed so far in this year and in previous years, we consider that adequate controls are in place to control operations in this area. Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks.

4.2.2 In summary, we are able to report that Material Systems controls have been maintained and that improvements have been made to address previously identified weaknesses. Progress has been made in addressing areas identified as needing improvement in last year's IT Audit Plan, and whilst a number of weaknesses still exist, ICT are aware of these issues and are taking action to address them.

4.2.3 In addition to these key areas, audits were undertaken of specific functions / elements and also a 'watching brief' was maintained or direct advice provided for a number of ongoing projects.

#### National Fraud Initiative (NFI)

4.2.4 Data matching investigation work associated with the 2010/11 National Fraud Initiative (NFI) exercise has continued throughout 2011/12. Additionally, the Council Tax and Electoral Roll data has been submitted for matching purposes and the matching reports for these now received back for subsequent enquiries. The exercise, which is run every two years by the Audit Commission, requires all councils to provide data for cross-matching with information supplied by other organisations, such as the Department for Works and Pensions and the NHS, to identify potential cases of fraud and error.

4.2.5 The Council has now received a total of 6,624 data matches as a result of the above exercise. Of these matches, the Audit Commission categorised 1,164 as the highest priority. Since that time, Devon Audit Partnership has engaged with the departments affected and agreed action plans to deal with the matches received. All of the high priority matches have now been investigated, and of these 73 errors and on fraud were identified. This resulted in savings of £29,507.99 being calculated.

4.2.6 It should be noted that in most instances the savings identified have resulted from "errors" being identified. This is usually in the information provided by individuals that has been used to determine payments. If we consider that the provision of this incorrect data was made in a fraudulent way, then the issue will be classified and treated as a fraud.

### **4.3 Communities and Local Democracy**

4.3.1 In our opinion, and based upon our audit work completed so far in this year and in previous years, we consider that adequate controls are in place to control operations in this area. Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks.

4.3.2 We have continued to maintain an oversight of certain critical transformation programmes of the Council and undertaken the more operational audits planned for 2011/12. In addition to these key planned areas, direct advice was provided when required.

4.3.3 We are pleased to report that there have been no significant irregularities brought to our attention for the 2011/12 year.

### **4.4 Children, Schools & Families**

4.4.1 In our opinion, and based upon our audit work completed during the year and in previous years, we consider that adequate controls are in place to control operations within Children, Schools & Families. Where reports have been finalised management have agreed with findings and recommendations made.

4.4.2 Unless cancelled at the request of the customer, all the audits in the 2011/12 plan were either complete or in progress at the year end; those audits in progress will be completed in early 2012/13.

4.4.3 Two audits undertaken included an element of cross authority collaboration:-

- The audit review of Section 17 expenditure included contacting Plymouth City Council and Devon County Council to compare spends upon Section 17 across the three authorities.
- Whilst the audit of Youth Offending compared five distinct areas of interest to senior management at both Torbay Council and Devon County Council; a joint review was therefore undertaken at both authorities and a single report produced.

4.4.4 During the 2011/2012 financial year referrals were received in connection with a theft of money from an establishment and a query regarding address history in connection with previously submitted CRB application by an individual; both incidents have been fully investigated and reports issued.

4.4.5 A whistleblowing referral was received in connection with records held in connection with the 'Operation Mansfield' investigation; two other referrals were received regarding the Torbay Adoption Panel meeting of 1<sup>st</sup> August 2011 and the processes, actions and decisions relating; these incidents have been fully investigated and reports issued.

## **4.5 Place & Environment**

4.5.1 In our opinion, and based upon our audit work completed during the year and in previous years, we consider that adequate controls are in place to control operations within this area. Where reports have been finalised management have agreed with findings and recommendations made.

4.5.2 Review of the monitoring arrangements in place for the TOR2 JVC contract in its second year of operations was completed. We are able to report significant improvements in performance monitoring, accuracy of payments and the integration of data sharing. However, at the time of our audit, there were concerns regarding the effective strategic oversight of TOR2 maintained by the Council.

4.5.3 We continued to support the South West Devon Waste Partnership Waste PFI project as it worked towards obtaining planning approval, which was granted just before Christmas. We provided advice on governance and risk issues, in particular the Partnership's approach to Section 106 negotiations that would minimise the risk of impact on a timely planning decision, whilst at the same time ensuring that the Partnership are not seen to be acting inappropriately.

4.5.4 Four significant irregularities referrals were received in the 2011/12 financial. Brief details relating to the scenarios investigated are shown at Appendix 2.

## **4.6 Schools**

4.6.1 Our opinion - based on the work to date is that the systems and controls in schools are of a "Good to High Standard" and generally mitigate the risks identified.

4.6.2 The two key matters arising from the audits are the:

- demonstrable financing of school improvement plans and;
- absence of controls in school security.

4.6.3 Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.

4.6.4 We completed 23 school audits in 2011-12. During the year, the former School Financial Management Standard (FMSiS) was replaced with the School Financial Value Standard (SFVS). We were required to assess schools against the standard in operation at the time of the audit; our results are summarised at Appendix 3. The requirements for schools in meeting either standard are significant; however we are able to report that the majority of schools have met the standard.

4.6.5 Instances of fraud and irregularity have been limited, however each and every case is investigated by Internal Audit and disciplinary action will be taken if required.

## 5. INTERNAL AUDIT PERFORMANCE

5.1. There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI's:

<b>Local Performance Indicator (LPI)</b>	<b>2011/12</b>	<b>2011/12</b>
	<b>Target</b>	<b>Actual</b>
Percentage of Audit plan Completed (Inc Schools)	90%	92%
Actual Audit Days as percentage of planned (Inc Schools)	90%	91%
Percentage of fundamental / material systems reviewed annually	100%	100%
Percentage of chargeable time	70%	68%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	91%
Final reports produced within target number of days (currently 10 days)	90%	98%
Average level of sickness absence	2%	5.2%
Percentage of staff turnover	5%	8.5% (3 people)
Out-turn within budget	Yes	Yes

5.2 Overall, performance against the indicators has been very good, even against the backdrop of high, but unavoidable, instances of staff absence. It is particularly pleasing to see that customer satisfaction remains very high, which is much to the credit of the audit staff involved.

5.3 In addition, we have undergone a restructure exercise with the aim of reducing our costs by 10% in 2012/13 and a further 10% in 2013/14. As a result we have reduced our management team by three and restructured our operations to ensure that we can continue to deliver the high standard of work expected by our customers.

## **6 INTERNAL AUDIT OPINION**

8.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

8.2 All final audit reports also include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

8.3 Commissioners have been provided with details of Internal Audit's opinion on each audit review carried out in 2011/12 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be included with its published Statement of Accounts for 2011/12.

8.4 Overall, and based on work performed during 2011/12, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

Martin Gould

Head of Devon Audit Partnership



**Internal Audit Plan 2011/12 Progress Against Plan**

(Please note – plan adjusted during the year to take account of changes in requirements for the Council).

**Comparison of Planned Assignments & Days to Actual Use of Resources**

Area	Planned			Audit		
	Assignments	Planned Days	%	fieldwork completed	Actual Days	%
People	12	180	12%	11	140	10%
Operational Support	46	540	35%	46	533	38%
Place & Environment	12	190	12%	11	169	12%
Communities & Local Democracy	7	115	8%	3	58	4%
School Visits	23	85	6%	23	89	6%
Fraud Prevention & Investigation	19	140	9%	19	153	11%
Contract Audit ( <b>note</b> – contract audit work completed as part of work for Place & environment).		30	2%		0	0%
Corporate initiatives	1	40	3%	1	21	2%
Grant Claims	0	0	0%	0	0	0%
Other Chargeable activities	0	168	11%	0	191	14%
Advice/Consultancy	5	45	3%	5	42	3%
Carry forward	0	0	0%	0	0	0%
<b>TOTAL</b>	<b>125</b>	<b>1533</b>	<b>100%</b>	<b>119</b>	<b>1396</b>	<b>100%</b>
Contingency		85				

**Table of Audit Reviews Undertaken 2010/11 and Assurance Opinion.**

<b>Audit Area</b>	<b>Year</b>	<b>Status</b>	<b>Assurance opinion</b>	<b>Executive summary</b>
<b>Adults and Operations</b>				
Main Accounting System	2010/11	Final	Good Standard	
Payroll	2010/11	Final	Improvements Required	Although the individual and overall assurance opinions remain as 'Improvements Required', this is due to the breadth of the audit scope and it should be noted that Internal Audit found that the progress continues to be made in addressing audit recommendations and improving the payroll control environment.
				No new control issues were identified during the audit and recommendations have been made to assist in progressing points previously raised that remain outstanding or require embedding / enhancing to make fully effective.
Debtors	2010/11	Final	Improvements Required	Since the establishment of the dedicated Debtors Administration role, there has been ongoing improvement in the operation of the Debtors function and progress made against previous recommendations. The system is well managed centrally and users are effectively supported by comprehensive procedural and training provision. The lack of adequate segregation of duty continues with the associated risks accepted by management as acceptable given operational / business need.
				Recommendations have been made to assist with improving the effectiveness of liaison between Debtors Admin, the Corporate Debt Team and Legal Services in order to prevent debts becoming aged and irrecoverable due to inactivity. The need for increased reporting and monitoring at senior management / member level in the current economic climate has also been highlighted in the findings.
Asset Register	2010/11	Final	Good Standard	

CTAX & NDR	2010/11	Final	Improvements Required	<p>Despite considerable change within Customer Contact, the Revenues Team has maintained accuracy and control over property valuations with amendments to billing adequately supported. The effective systems in place for recording payments have been maintained and the requirements of the External Auditor's key controls have been met.</p> <p>Although liability is accurately recorded, it is recommended there is a comprehensive review of ongoing entitlement to reductions in liability to enhance ongoing accuracy. Completion of a full procedures manual is required and the full roll out of the training and needs assessment tool. This is important due to the structural changes within the department and to assist with maintaining service continuity and standards.</p>
FIMS System Admin	2010/11	Final	Good Standard	
POP (electronic ordering)	2010/11	Final	Good Standard	
Benefits	2010/11	Final	Improvements Required	<p>The Council restructure in 2010/11 impacted the management structure in Benefits and related functions and these structure changes and staff reductions are continuing; the pace of change has inevitably had an impact on standards and performance and this is reflected in the findings of this audit. It is therefore pleasing to note that proactive steps are now being taken to address the issues and to also acknowledge the positive attitude to the audit process.</p> <p>The audit confirmed that benefit claims are verified in line with guidance and evidence is appropriately retained to support the assessment of the claim. Although the testing of claims input during the audit was found to be generally accurate, it was noted that the level of local authority error is increasing and that the Performance Indicator EB079a (accuracy of processing) is below target.</p>
IBS Open System Admin	2010/11	Final	Improvements Required	<p>Progress continues to be made in improving the system management arrangements for Open Revenues. The system has been kept current and fit for purpose and the team show a willingness to address the remaining weaknesses identified, however the issues relating to the inadequate segregation of duty impact the overall assurance opinion that can be provided.</p>

Creditors	2010/11	Final	Improvements Required	The processing procedures and practices are robust and a high degree of accuracy continues to be achieved leading to data quality and correct payments being made; this is despite reductions in resource necessitating informed and risk assessed decisions regarding permanent changes in practices. It is therefore pleasing to acknowledge that these changes have not resulted in the audit identifying any processing errors or any new control issues.
				Improvements have been recommended in the control environment in relation to sufficiency of quality control processes to provide full assurance regarding compliance with authorisation expectations. Although outside the direct control of payments issues with respect to the cheque printing control environment and related to lack of segregation of duty in the access rights for CHAPS have impacted the assurance opinion than can be provided in relation to the generation of output.
Debtors Substantive Testing	2011/12	Final	Good Standard	
Executive Head Payroll Verification Process	2011/12	Final	Good Standard	
CTAX & NDR	2011/12	Final	Improvements Required	Despite ongoing organisational structure changes within Revenues and Benefits, the team has continued to maintain accuracy and control over property valuations with amendments to billing adequately supported. The established effective systems in place have been maintained and the requirements of the External Auditor's key controls have continued to be met. In addition progress has been made in addressing a number of the control weaknesses previously identified and also positive steps have been taken to further improve the quality of CTAX and NDR property data on the system. Although liability has been accurately recorded, recommendations have been made to improve consistency and review ongoing entitlement to reductions in liability to improve ongoing accuracy, although it is acknowledged that progress has been made in reviewing empty CTAX property.
Bank Reconciliation	2011/12	Draft	Good Standard	
General Ledger	2011/12	Draft	Good Standard	

Treasury Management	2011/12	Draft	Good Standard	
IBS Open Systems Admin	2011/12	Draft	Improvements Required	Progress continues to be made in improving the system management arrangements for Open Revenues. The system has been kept current and fit for purpose and the team show a willingness to address the remaining weaknesses identified, however the issues relating to the inadequate segregation of duty impact the overall assurance opinion that can be provided.
Benefits	2011/12	Draft	Improvements Required	The Council restructure in 2010/11 impacted the management structure in Benefits and related functions and these structure changes and staff reductions are continuing; the pace of change has inevitably had an impact on standards and performance and this is reflected in the findings of this audit. It is therefore pleasing to note that proactive steps are now being taken to address the issues and to also acknowledge the positive attitude to the audit process.
FIMS System Admin	2011/12	In Progress		Internal Audit has previously been able to give a Good Standard assurance opinion for this audit area and initial findings for this audit suggest that this will be the same for 11/12. The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13..
FIMS Upgrade Project	2011/12	In Progress		Following implementation of the upgraded version of FIMS, this audit is a review of processes adopted during the implementation and migration of data to provide an assurance opinion on their adequacy and effectiveness to ensure the continued integrity of this key financial system. The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.
Income Collection	2011/12	In Progress		Internal Audit has previously been able to give a Good Standard assurance opinion for this audit area and initial findings for this audit suggest that this will be the same for 11/12. The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.
Payroll	2011/12	In Progress		Internal Audit has previously been given an Improvements Required assurance opinion for this audit area. The audit is still in progress and as such it is not appropriate to give an indication of likely assurance opinion for 11/12, however it is anticipated that the report will be issued and agreed in early 2012/13.

POP	2011/12	In Progress		Internal Audit has previously been given a Good Standard assurance opinion for this audit area. The audit has only just commenced and as such it is not appropriate to give an indication of likely assurance opinion for 11/12, however it is anticipated that the report will be issued and agreed in early 2012/13.
Debtors	2011/12	In progress		Internal Audit has previously been given an Improvements Required assurance opinion for this audit area. The audit is still in progress and as such it is not appropriate to give an indication of likely assurance opinion for 11/12, however it is anticipated that the report will be issued and agreed in early 2012/13.
Creditors	2011/12	In progress		Internal Audit has previously been given an Improvements Required assurance opinion for this audit area. The audit is still in progress and as such it is not appropriate to give an indication of likely assurance opinion for 11/12, however it is anticipated that the report will be issued and agreed in early 2012/13.
Asset Register	2011/12	In progress		Internal Audit has previously been given a Good Standard assurance opinion for this audit area. The audit is still in progress and as such it is not appropriate to give an indication of likely assurance opinion for 11/12, however it is anticipated that the report will be issued and agreed in early 2012/13.
<b>Other</b>				
JE Back pay	2011/12	Final	Not Applicable	This was not issued as a standard report and no overall assurance opinion was given. Detailed findings on the sample testing undertaken was provided to the Project Team enabling them to determine the appropriateness of payment of the various groups processed in the period.
File Infrastructure Project	2011/12	Final	Not Applicable	Support to the Council in rolling out its new file infrastructure and to act as the pilot team in terms of data transfer and resulting issues in order to inform the future roll out and ongoing project work.
Claims Handling	2011/12	Final	Good Standard	The Claims Handling Team deal with all claims made against the Council including personal injury claims and liability claims for damage to property. The effectiveness and competency of the claims handling by the team has been commended by the Council's insurers (Zurich Municipal) in their annual audit report and has been confirmed during this internal audit.

Information Security Policy	2011/12	In Progress		Part of the Information Security Group providing advice, support, assistance and consultancy to the group and actual policy development. This work is ongoing in line with the activities of the Group. Internal Audit has been able to actively support the Group in contributing to policy writing and also considerations regarding social media development.
Human Resources	2011/12	In Progress		The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.
Procurement	2011/12	In Progress		Review of adequacy of policies and procedures along with the follow up of 2009/10 Audit report nearly complete. Added value work to identify departments not engaging with Procurement appropriately or complying with current regulations and legislation when letting contracts over £50K due to start.
Northgate Self Service Project	2011/12	In Progress		Ongoing Quality Assurance support role to the project providing advice, support and consultancy to the project team.
Capital Programme	2011/12	In Progress		The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.
Internet & Email Software	2011/12	In progress		Continued to provide support in monitoring the rule base and producing activity reports for customers as requested.
Information Governance	2011/12	Cancelled		This audit was cancelled at the request of the customer and re-scheduled for inclusion in the 2012/13 Audit Plan.
Data Quality (N3)	2011/12	Cancelled		This audit was cancelled at the request of the customer and re-scheduled for inclusion in the 2012/13 Audit Plan.
<b>IT Audit</b>				
E Commerce	2010/11	Draft	Good Standard	

ITRA	2010/11	Final	Improvements Required	Work has been carried out jointly with the Audit Commission in connection with the IT Risk Assessment for 2010/11 culminating in a visit by the Audit Commission to evaluate the present status of controls within the IT department. The outcome of this visit was to confirm that the internal audit recommendations made as part of this year's audit plan should be implemented. As recommended, a separate SPAR based IT Risk Register has now been established by IT.
Email Archiving Project	2011/12	Final	Good Standard	
Change Control	2011/12	Final	Improvements Required	As noted in our previous audit report, it is acknowledged that a unified single system for change control within the IT department covering all aspects of change control including hardware, application and operating system software, desktop and network environments is a high priority for the department.
WebSense & SurfControl	2011/12	Final	Good Standard	
IT IS Strategy	2011/12	Draft	Improvements Required	Formulation of the Council's new IT Strategy is at present in progress, and a number of significant themes have already been identified, including the use of thin client technology to reduce hardware costs and increase security, as well as the possible use of elements of the Government's new Cloud Store where appropriate, and the extended use of social media in the business environment (so called 'channel shift'). There is a need to evidence clearly the link between the IT Strategy and the business strategy of the Council, as well as to ensure that the IT Strategy adequately reflects the prioritised needs of the user community at an individual level.
PCI Compliance Project	2011/12	Final	Improvements Required	Further work has continued during the year, and a decision has been made in principle to host the processing of card transactions externally, although no contract has yet been formalised or signed. As a result, further work still remains to be carried out to ensure that the Council is PA-DSS and PCI-DSS compliant. Other areas that remain to be resolved include the ability to suppress those elements of recorded voice messages that contain credit card data.
Organisational Controls	2011/12	In Progress		The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.



ITRA	2011/12	In Progress		This work is undertaken on behalf of the Council's external auditors and was scheduled to tie in with their visit in March 2012 but which has yet to take place. Some preliminary meetings and provision of information has occurred in line with requests from the external auditors.
Irregularity				
Irregularity Tor 1102 – Internet & Email abuse	2011/12	Final	N/A	Internet and e-mail reports were provided to the Customer First Manager highlighting two members of staff where further management investigation may be required to prove 'conflict with business priorities'.
<b>Audit Area</b>	<b>Year</b>	<b>Status</b>	<b>Assurance opinion</b>	<b>Executive summary</b>
<b>Communities and Local Democracy</b>				
Community Protection	2011/12	Final	Improvements Required	Overall the service has made significant improvement & has effectively embraced multi-agency working for the benefit of the locality & service users.
				Regular peer review of the service to identify improvement areas, determine its effectiveness and progress has been achieved with positive outcomes. Not all recommendations arising from these reviews had been actioned at the time of the audit and steps have been suggested to ensure that recommendations arising from service reviews are actioned in a timely manner.
People, Place, Productivity & Partnerships (Transformation)	2011/12	In progress		Periodic ongoing oversight being maintained throughout 2011/12. The transformation programme is now being run down, but there are a number of on-going legacy projects including the Office Rationalisation Programme (ORP), and the Productivity Improvement Programme (PIP). Current issues include strategic ownership of change.
Commissioning	2011/12	In progress		Ongoing oversight of commissioned areas being maintained throughout 2011/12. EDC, TOR2 and ERTC Commissioning projects are summarised within the Place and Environment Report.
Housing Needs & Homelessness	2011/12	In progress		The audit work is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.
Performance including Payments by Results	2011/12	In progress		The audit work is ongoing and it is anticipated that the report will be issued and agreed in early 2012/13.

Emergency Planning	2011/12	In progress		The audit work is ongoing and it is anticipated that the report will be issued and agreed in early 2012/13.
Voluntary Sector & Community Development	2011/12	Not Started		Audit not started due to other work priorities and therefore has been scheduled for inclusion in the 2012/13 Audit Plan.
Housing Standards	2011/12	Cancelled		This audit was cancelled at the request of the customer and re-scheduled for inclusion in the 2012/13 Audit Plan.
Disabled Facilities & Renovation Grants	2011/12	Cancelled		This audit was cancelled at the request of the customer and re-scheduled for inclusion in the 2012/13 Audit Plan.
<b>Audit Area</b>	<b>Year</b>	<b>Status</b>	<b>Assurance opinion</b>	<b>Executive summary</b>
<b>Children, Schools &amp; Families</b>				
Permanency Planning Team	2010/11	Draft	Good Standard	
Education Management System (EMS)	2011/12	Final	Improvements Required	The Education Management System comprises of approximately fourteen modules. For the purpose of the audit it was not possible to carry out testing in every area, therefore, the audit review was limited to certain key modules.
				Written protocols and guidance for the EMS as a whole and the individual modules have not been established. Therefore it could not be determined as to whether the correct procedures and processes are being followed.
Youth Offending Team (YOT)	2011/12	Final	Improvements Required	With the exception of the Appropriate Adult provision which is provided centrally the other areas reviewed i.e. Court Duty, Volunteers Coordination and Reparation were all found to be delivered in different ways and with their own individual issues affecting them.
				The provision of Appropriate Adults by DAAVS was found to be delivered generally to the satisfaction of YOTs and Police. The main weakness is in the lack of cover at night and the insufficient cover available from the Emergency Duty Service. Concern regarding this and more generally may arise if the age provision is raised to seventeen without appropriate additional volunteer resources in place by that time.

Section 17 Payments	2011/12	Draft	Improvements Required	Section 17 payments are managed by Children's Service finance team. Finance team staff are responsible for administering Section 17 payments within the Children In Need Service, Permanency Planning Service, and Children's Disability Team. The main issues identified during the audit review were: <ul style="list-style-type: none"> <li>- Out of date policies;</li> <li>• No clear authorisation limits;</li> <li>• Lack of evidence of challenge to payments;</li> <li>• Lack of established guidance to social workers and finance staff</li> </ul>
TFM / Boarding Out (Audit Commission)	2011/12	Draft	High Standard	
Youth Services	2011/12	Final	Improvements Required	With changes in staffing and locations the audit review centred upon the adequacy of inventories; whether the necessary annual inventory checks had been carried out and whether new assets purchased were documented and identified within the controlling records. The audit identified a significant lack of proper inventory controls was prevalent and recommendations made in the previous audit report had not been fully actioned. Recommendations for the improvement of controls were made.
Education other than at Schools (EOTAS)	2011/12	Draft	Good Standard	
Supporting People (Audit Commission)	2011/12	Final	High Standard	
Use of Agency Staff	2011/12	Work in Progress		
School Transport	2011/12	Work in Progress		
Locality Working / Early Years	2011/12	Work in Progress		
Housing Needs & Homelessness	2011/12	Work in progress		
Irregularity Tor 1101 – Theft from 'The Nest'	2011/12	Final	Not Applicable	We were asked to undertake an investigation into the theft of £110 from the safe of The Nest Nursery Centre, Brixham. The police were initially advised although The Nest Manager and Audit subsequently agreed that further police involvement would not be effective. The perpetrator could not be discovered or the cash recovered, however, Audit made recommendations for improvements in controls over the security of cash at the Centre. Action has been taken to implement improvements.

Irregularity				
Audit Area	Year	Status	Assurance opinion	Executive summary
Irregularity Tor 1103 - Youth Worker CRB check	2011/12	Final	Not Applicable	As a result of the NFI data matching exercise DAP undertook an investigation into the address history records of a Council Youth Worker. This included the incorrect completion of previous CRB forms with regard to the Youth Worker's address history over the last five years. DAP liaised with the Council's HR dept to investigate concerns that the incorrect address history may have invalidated the CRB checking process. HR undertook a subsequent CRB check having discussed the issue with the Youth Worker and this was processed satisfactorily.
Irregularity Tor 1105 - 'Operation Mansfield' records	2011/12	Final	Not Applicable	An investigation was undertaken into a whistle-blowing referral received relating to the practice of the recording of records upon the Operation Mansfield Paris database. The investigation has been concluded and a response provided to the whistleblower in accordance with the Whistle-blowing Policy.
Irregularity	2011/12	Ongoing	Not Applicable	Whistle-blowing referrals received surrounding the decisions, processes and procedures surrounding the Torbay Adoption Panel meeting of 1 <sup>st</sup> August 2011 and what occurred subsequently.
<b>Place &amp; Environment</b>				
TOR2 JVCo	2010/11	Final	Improvements Required	Contracts covering the three service areas have been drawn up to comprehensively and robustly cover all expected areas, and ensure that both the Council and TOR2's interests have reference to a legally enforceable framework.  However, a sophisticated system and processes linking the Council's Call Centre to TOR2 intended to manage service user queries was not operational from the commencement of the contract which would have better handled a major change to service provision such as the waste collection changes. At the time of the audit this was still being tested to overcome IT issues.

Carbon Management (interim review)	2011/12	Final	Not applicable	Responsibility for fulfilment of the requirements for the CRC scheme within Torbay Council lies with the Corporate Energy Manager. The authority is well placed to achieve completion of its CRC scheme Footprint report, Annual report and evidence pack in advance of the 29th July 2011 deadline for submission. A significant amount of work has taken place to achieve progress against the Early Action Metric goals determined by the scheme. This includes achieving the Carbon Trust Standard in April 2010 and the installation of the required half hourly meters in all significant premises included under the CRC scheme.
Carbon Management	2011/12	Final	Not applicable	It is the auditor's opinion that Torbay Council has fulfilled its obligations with regard to submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme.
Natural Environment	2011/12	Final	Improvements Required	Natural Environment with its current functions is newly formed, the arrangements with the Joint Venture Company are still being embedded and in addition the various functions have not been subject to a recent internal audit. These factors have inevitably resulted in a significant number of findings from this audit, however Natural Environment intend to use the report to develop and improve the control environment within their new department from the outset.
				Contracts are in place for the maintenance of green space, recreation areas, grounds and play / skate parks that incorporate inspection requirements to ensure that they are maintained to a good and safe condition. Condition and contract monitoring inspections by Natural Environment are also established. Additionally, ROSPA inspects play equipment to ensure that it remains safe for users. Weaknesses exist in the contract monitoring arrangements and inspection regime undertaken by the Park Wardens. H&S expectations are not being fully met which could put both the public and staff at risk of injury.
Environmental Policy	2011/12	Final	Good Standard	
Corporate Security & CCTV	2011/12	Final	Good Standard	
Tor Bay Harbour Authority	2011/12	Final	Improvements Required	The Harbour Authority are active in effectively determining and setting harbour charges to maximise income whilst demonstrating their commitment to the harbour users through active consultation. Vacancies are managed however it was found that there are inconsistencies in practices between the three offices and opportunities for improvement in existing vacancy management arrangements and in the recharging of services to customers.

English Riviera Tourism Company	2011/12	Final (to be issued)		An Internal Audit Plan for the work to be carried out during 2011/12 for the new company was been agreed, and audit reviews carried out. A review has now been carried out on Material systems. This review is able to report that there were no significant weaknesses in the systems and controls but highlighted that it was initially anticipated that the funding of pension liabilities in respect of former and present employees would be covered by the Council. However it has transpired that liabilities under IAS 19 are to be the responsibility of the ERTC. As a result, in common with all other businesses, there is an, as yet, unquantified additional liability that will need to be incorporated into the accounts setting out the actuarially calculated shortfall as at year end 31st March 2012.
				Additionally a special exercise on the Tourism Strategy has been carried out at the request of the Environment Commissioner. The findings of this review confirmed that the detailed statistics in the Strategy are in line with reliable industry sources.
Environment Project Involvement	2011/12	In Progress		On-going monitoring of projects including DAP's continued support on the South West Devon Waste Partnership Waste PFI project.
TOR2 Contract Monitoring	2011/12	Final	Improvements Required	Improvements to TOR2, both operationally and from a contract monitoring perspective, have been evident during the 2011/12 audit. This year has seen notable improvements to the recycling rates which is one of the key objectives of implementing the JV Co, and delivery of services against the majority of the contractual performance indicators where this was previously difficult to assess.
				The contract monitoring arrangements and processes for making accurate invoice payments have bedded in during 2011 with good evidence of challenge by Council officers to reported TOR2 performance claims.
				There may , however, within the Asset section of the contract be areas where the monitoring, reporting and challenge are not as robust due to the lack of a formal "Super Client". The importance of having good contract monitoring arrangements in place with the 'thin client' approach to managing a complex set of Contracts magnifies the need for adequate resources and effective systems / processes.
Economic Development Company	2011/12	In Progress		An audit plan was discussed and finalised for the new limited company which includes reviews of material systems, governance and IT and business systems. The first of these, Material Systems, is nearly complete and it is anticipated that the report will be issued and agreed in early 2012/13.
Library Services	2011/12	In Progress		The audit work is ongoing and it is anticipated that the report will be issued and agreed in early 2012/13.
Parking Services	2011/12	Cancelled		This audit was cancelled at the request of the customer and re-scheduled for inclusion in the 2012/13 Audit Plan.

Coast & Countryside Trust	2011/12	Not Started		This audit was not progressed due to other audit work priorities. The Devon Audit Partnership will work with the customer to ensure that this audit is accommodated in 2012/13 either within the Environment Project days or within the Contingency days within the Audit Plan for 2012/13.
Irregularity Tor 1104 – Salary overpayment	2011/12	Draft Report	N/a	We were asked to undertake an investigation into an alleged fraudulent overpayment of salary within Library Services. An overpayment in excess of £17,000 was confirmed. Fraudulent intent was not proven, but weaknesses in controls at various levels were identified, and recommendations for improvements are in the process of being agreed. The overpayment has now been paid back in full by the employee.
Irregularity Tor 1106 – Bribery / corruption	2011/12	Final Report		We were asked to undertake an investigation into an alleged case of bribery / corruption at Oldway Mansion involving a Hall Porter. The source of the allegation was interviewed under caution (in line with PACE requirements) but the suggestion of bribery not found to be substantiated. Subsequent management / HR investigation into other related matters will now be undertaken.
Irregularity Tor 1107 – Excessive overtime hours claimed	2011/12	Final Report		We were asked to investigate the case of an employee within the TDA / EDC working regular and significant overtime hours. Fraud was not found to be the issue but poor controls by management were identified and these were agreed to be addressed by senior EDC management.
Irregularity Tor 1110 – Theft of a PC from Paignton Library	2011/12	Final Report		We were asked to investigate the case of a computer theft from one of the interview rooms within Paignton Library. Security of physical hardware and possibly data were identified as poorly controlled in some areas. Other internal security arrangement issues were also noted. Meetings and e-mails took place between Libraries and Connexions staff, Information Governance, Security team, Facilities Management and Audit. Procedures have now been updated along with physical access controls to various rooms where issues had been identified. Staff using the library rooms have established working protocols to minimise subsequent risks to equipment etc. The PC has not been recovered.

School Audits results 2011/12.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD							
1	<b>School Audit Results 2011-12</b>																																				
2	<b>Risk Assessment Summary of Audit Opinion based on FMSIS standard.</b>																<b>High Std = 3</b>		<b>Good Std = 2</b>		<b>Improvements Req. = 1</b>		<b>Fundamentally Weak = 0</b>		Not Tested or Not Applicable = Space												
4	<b>School</b>	<b>DIE No.</b>	<b>Auditor</b>	<b>Date of last audit</b>	<b>Has FMSIS been implemented?</b>	<b>Leadership and Governance</b>	<b>People Management</b>	<b>Policy and Strategy</b>	<b>Partnership and Resources</b>	<b>Progress</b>	<b>Mandatory Policies</b>	<b>Expenditure Orders and Payments</b>	<b>Attendance Registers and Annual Pupil Counts</b>	<b>Personnel Payroll and Annual Teacher Payments</b>	<b>Single Central CRIS Record</b>	<b>Income Collection and Banking</b>	<b>Imprest (Petty Cash)</b>	<b>Leavings</b>	<b>Security</b>	<b>Computer Security</b>	<b>Inventories</b>	<b>Voluntary Unofficial Fund</b>	<b>School Trips</b>	<b>Education Maintenance Allowance</b>	<b>Rebates</b>	<b>Local Payments Scheme</b>	<b>Total</b>	<b>Areas</b>	<b>%</b>								
5	Ellacombe	2454	AS	19/05/11	Y	1	1	2	1	1	0	1	3	2	0	3	2	3	3	1	1					22	15	49									
6	Preston	2464	CT	13/06/11	Y						3	3	3		3			3	3	3	3				21	7	100										
7	St Marychurch	3616	CT	07/06/11	Y						3	3	3		3			2	2	2	3				21	8	88										
8	Watcombe	2460	CT	22/06/11	Y						3	3	3		3			3	3	3	2				23	8	96										
9	Curledge Street	2434	CT	20/06/11	Y	2	1	2	1	1															7	5	47										
10	St Margaret Clitherow	3601	CT	10/06/11	Y	1	3	2	3	3	1	3	3	2	1	3	3		2	3		2			35	15	78										
11	White Rock	2439	CT	05/07/11	Y	2	3	2	2	3	2	3	3	3	3	3	2		2	2	3	3			41	16	85										
12	Oldway	2438	RT	13/07/11	Y	2		2	3	3	3	2	3	2	2	3	3	3	2	3		3		3	3	45	17	88									
13	Sacred Heart	3612	RT	05/07/11	N	2		2	2	2	1	2	3	2	3	3	2		2	2		2			30	14	71										
14	Torquay Special School	7046	CM	20/07/11		2	2	3	3	3	2		3		3			2		2		3			28	11	85										
15																																					
16	<b>2011/12 Results to date</b>																																				
17	<b>Total Score</b>					12	10	15	15	16	18	20	27	11	21	15	12	3	21	0	21	8	22	0	2	3	<b>Average Score 79</b>										
18	<b>No. of Schools</b>					7	5	7	7	7	9	8	9	5	9	5	5	1	9	0	9	3	9	0	1	1											
19	<b>% of Max achievable score</b>					57	67	71	71	76	67	83	100	73	78	100	80	100	78	#DIV/0!	78	89	81	#DIV/0!	100	100											
20	<b>Total less than good standard</b>					2	2	0	2	2	3	1	0	0	2	0	0	0	0	0	1	0	1	0	0	0											
21	<b>% less than good standard</b>					24%	40%	0%	28%	29%	33%	13%	0%	0%	22%	0%	0%	0%	0%	#DIV/0!	11%	0%	11%	#DIV/0!	0%	0%											



	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	T	V	X	Y	Z	AA	AB	AC	AD										
1	2011 - 12 (SFVS)																																				
2	Risk Assessment Summary of Audit Opinion based on School Financial Value Standard (SFVS)															High Std = 3	Good Std = 2	Improvement	Needs attention																		
4	School	DfE No.	Auditor	Date of Last Audit	Met SFVS Ys = Yes	External asmt. Ys =	Take Gov. Board Staff	Setting the Budget	Value for Money	Processing Public Money	Mandatory Policies	Regulations, Orders and Payments	Attendance Registers and Annual Pupil Census	Personnel Payroll and Teacher Payments	Single Central EYFS Record	Income Collection and Banking	Imprest (Petty Cash)	Lettings	Security	Inventory	School Trips	Admissions	Local Payments Scheme	Total	Areas	%											
5	Sherwell Valley	2469	CT	Feb-2012						3	3	3						3	3	3		3	21	7	100												
6	Barton Primary School, Nursery & Speech and Language Unit	2474	CT	Jan-2012						3		3						3	3	3			15	5	100												
7	Upton St James Church of England Primary School	3120	RT	Nov-2011						2	3	2	3	3	3	3	3	3	3	3			31	11	94												
8	Galmpton C of E Primary School	3600	CT	Feb-2012	YX	3	3	3	3														12	4	100												
9	All Saints, Babbacombe	3615	RT	Sep-2011						2	2	3		2		2		2		1	2		16	8	67												
10	Torre Church of England Primary School	3618	RT	Nov-2011						3	2	3		2				2		1	2	2	17	8	71												
11	Collaton St Mary Church of England (Aided) Primary School	3619	RT	Dec-2011						2	3		2		2	3	3						15	6	83												
12	Kings Ash Primary School	3752	RT	Mar-2012	IP	2	2	2	2	2	3	3	3	2	3	2	2	2	2	2	3		35	15	78												
13	Torquay CC	4115	CM	Nov-2011						2		3		3				3	3	3			17	6	94												
14	Westlands	4117	CM	Dec-2011	IP	2	2	2	2														8	4	67												
15	Paignton C & SC	4119	CM	Nov-2011	YX						1			3	3	2			3			3	15	6	83												
16	St Cuthbert Mayne Secondary School	4601	CM	Sep-2011	YX	2	2	3	3	3		3		3				2		3			24	9	89												
17	Mayfield Special School	7042	CT	Feb-2012	YX	3	3	3	3														12	4	100												
21	<b>2011/12 Results</b>																																				
22	Total Score					12	12	13	13	22	14	20	8	21	11	13	10	20	19	22	2	6	Average Score <b>87</b>														
23	No. of Schools					5	5	5	5	9	6	7	3	8	4	5	4	8	8	8	1	2															
24	% of Max achievable score					80	80	87	87	81	78	95	89	88	92	87	83	83	79	92	67	100															
25	Total less than good standard					0	0	0	0	0	1	0	0	0	0	0	0	0	0	2	0	0															
26	% less than good standard					0%	0%	0%	0%	0%	17%	0%	0%	0%	0%	0%	0%	0%	0%	25%	0%	0%	0%														

# Agenda Item 11



Title: **Treasury Management Outturn 2011/12**

Wards Affected: **All Wards in Torbay**

To: **Audit Committee**                      On: **27<sup>th</sup> June 2012**  
**Council**    **12<sup>th</sup> July 2012**

Contact Officer: **Pete Truman**

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## **1. What we are trying to achieve**

1.1 This report informs the Council/Committee of the performance of the Treasury Management function in supporting the provision of Council services in 2011/12 through management of cash flow, debt and investment operations and the effective control of the associated risks.

### **1.2 Recommendation**

**(a) That the Treasury Management decisions made during 2011/12 as detailed in this report be endorsed.**

**(b) That Council approve the Prudential and Treasury Indicators as set out at Annex 1 to this report**

## **2. Key Points**

2.1 The key points arising from Treasury Management operations in 2011/12 are:

- Challenging interest rate conditions with a static bank rate and poor borrowing rates in terms of opportunities to repay loans (see sections A7 & A9)
- Concerns over counterparty quality limiting investment opportunities (see sections A9 & A10 and Annex 3)
- Repayment of £9 million of borrowing with ongoing revenue savings of £205k (see section A8)
- An average rate of interest paid on borrowing in 2011/12 of 4.25% (see section A8)
- An overall return on investments of 1.43% exceeding the benchmark rate of 0.49% (see paragraphs A4.1 and A10.7).
- Revenue budget outturn within target (see paragraph A11.1)

### **3. Background**

3.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual outturn report reviewing treasury management activities and the actual prudential and treasury indicators for 2011/12.

3.2 This report also meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3.3 Treasury management is defined by the Code as:

*“The management of the authority’s investments and cash flows, it’s banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*

3.4 During 2011/12 the minimum reporting requirements were that full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 2<sup>nd</sup> February 2011)
- A mid-year review report (distributed to Members on 30th November 2011)
- An annual report following the year describing the activity compared to the strategy (this report)

3.5 Recent changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved by Members.

3.6 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to full Council.

3.7 A major element of the Treasury Management function is the implementation and control of the Council’s borrowing decisions. Like all local authorities Torbay Council uses borrowing as a key source of funding for enhancing, purchasing or building assets within the approved capital plan.

3.8 Borrowing allows the repayment costs of capital expenditure to be spread over future years which means that the costs of roads, schools etc are more likely to be met by those who use the assets than would be the case if the full cost of providing these facilities were met by taxpayers at the time of their construction.

3.9 As part of the annual budget process the Council sets limits for the total amount of borrowing that it considers is affordable in terms of revenue resources available to make repayments. Treasury Management officers are tasked with maintaining borrowing within these levels and obtaining best value for the Council in terms of repayment rates and length of loans.

3.10 The Treasury Management team also carry out management of the Council's surplus cash balances arising from, for example:

- Short term revenue balances (working capital)
- Cash backed reserves
- Capital funding received in advance of commencement of schemes

Balances are invested with approved financial institutions and other local authorities to obtain the best return for periods which ensure cash is available when needed. Security of cash and liquidity are the absolute priorities in all investment decisions.

3.11 Treasury Management strategies were planned and implemented in conjunction with the Council's appointed advisors, Sector Treasury Services although the Council officers were the final arbiters of the recommended approach.

**Paul Looby**  
**Executive Head of Finance**

## **Appendices and Annexes**

Appendix 1	Treasury Management Activities in 2011/12
Annex 1	Prudential and Treasury Indicators 2011/12
Annex 2	The Economy and Interest Rates in 2011/12
Annex 3	Counterparties with which funds have been deposited in 2011/12

## **Documents available in members' rooms**

### **Background Papers:**

The following documents/files were used to compile this report:

## Treasury Management Activities in 2011/12

### A1. Introduction

A1.1 This Appendix covers:

- Capital Expenditure and Financing 2011/12;
- Capital Financing Requirement;
- Treasury Position at year End;
- The Strategy for 2011/12;
- The Economy and Interest rates 2011/12;
- Borrowing Rates in 2011/12;
- Borrowing Outturn for 2011/12;
- Investment Rates in 2011/12;
- Investment Outturn for 2011/12;
- Revenue Budget Performance;
- Reporting Arrangements and Management Evaluation

### A2 Capital Expenditure and Financing 2011/12

A2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need (though the timing of borrowing may be delayed through the application of cash balances held by the Council).

A2.2 The overall need to borrow has remained fairly neutral with new capital approvals in 2011/12 offset by a reduction in the Office Rationalisation Programme.

A2.3 The actual capital expenditure forms one of the required prudential indicators and is shown in the table below. Other Prudential and Treasury Indicators are presented at Annex 1 to this report.

	2010/11 Actual £m	2011/12 Estimate £m	2011/12 Actual £m
Total capital expenditure	44	25	22

### A3 Capital Financing Requirement

A3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's net debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2011/12 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been financed by revenue or other resources.

A3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

A3.3 **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. The Council's 2011/12 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/12 on 2<sup>nd</sup> February 2011.

A3.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

A3.5 Following the transfer of Local Government reorganisation debt from Devon County Council in 2010/11 the Council now budgets £500,000 per annum to reflect a provision for the repayment of this debt on maturity (similar to MRP). In light of the approved 2012/13 Treasury Management Strategy to maximise flexibility the funds have been paid into a reserve at the end of 2011/12.

A3.6 The Council's CFR for the year represents a key prudential indicator analysed at Annex 1 and summarised below. This includes PFI schemes on the balance sheet, which increase the Council's long term liabilities. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

CFR (£m)	31 March 2011 Actual	31 March 2012 Revised Indicator	31 March 2012 Actual
CFR at Year End	137.6	137.8	137.1

A3.6 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit presented at Annex 1 to this report.

## A4 Treasury Position at Year End

A4.1 The Council's funding and investment positions at the beginning and end of year was as follows:

	31 March 2011 Principal		Rate/ Return	Average Life yrs	31 March 2012 Principal		Rate/ Return	Average Life yrs
Fixed rate funding:								
-PWLB	£147.5m				£143.5m			
-Market	<u>£10.0m</u>	£157.5m	4.31%	26.9	<u>£10.0m</u>	£153.5m	4.31%	27.0
Variable rate funding:								
-PWLB	£5.00m				£0.0m			
-Market	<u>£0.00</u>	£5.00m	0.69%	14.3	<u>£0.0m</u>	<u>£0.0m</u>	<u>0%</u>	
<b>Total debt</b>		<b>£162.5m</b>	<b>4.20%</b>	<b>26.4</b>		<b>153.5m</b>	<b>4.31%</b>	<b>27.0</b>
<b>CFR</b>		<b>£137.6m</b>				<b>£136.4m</b>		
<b>Borrowing in excess of CFR*</b>		<b>£24.9m</b>				<b>£17.1m</b>		
Investments*:								
- in house		£80.7m	1.28%			£67.6m	1.41%	
- with managers**		£35.5m	1.20%			£35.5m	1.51%	
<b>Total investments</b>		<b>£116.2m</b>	<b>1.25%</b>			<b>£103.1m</b>	<b>1.43%</b>	

\* The Capital Investment Plan approved in February 2012 requires £22m to support approved schemes over the next four years.

\*\* Rates for investments reflect the average rate achieved over the full year.

\*\*\* The principal for external management of funds reflects the original amount applied to the contract on 21<sup>st</sup> June 2007 and subsequent additions in 2009/10

A4.2 The total debt figure at year end of £153.5m includes borrowing supported by central government. The Local Government Finance Settlement for 2011/12 (available on the Communities and Local Government website) recognises a figure of £95m on which central funding is based for interest payments and MRP.

A4.3 The outturn against approved treasury limits is analysed at Annex 1 to this report.

## A5. The Strategy for 2011/12

A5.1 The expectation for interest rates within the strategy for 2011/12 anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12.

A5.2 Events in the early part of the year gave rise to a significant shift in the outlook for interest rates with expectations of static Bank Rate extended to 2013 and borrowing rates revised down by around 80 basis points (a change of 20% on the previous forecast).

A5.3 Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

A5.4 The general aim of the treasury strategy for 2011/12 and following years was to bring down the difference between gross and net debt levels (see para A4.1) in order to reduce the credit risk and cost incurred by holding high levels of investments.

## A6 The Economy and Interest Rates 2011/12

A6.1 A commentary of the economic factors prevalent in 2011/12 is given at Annex 2.

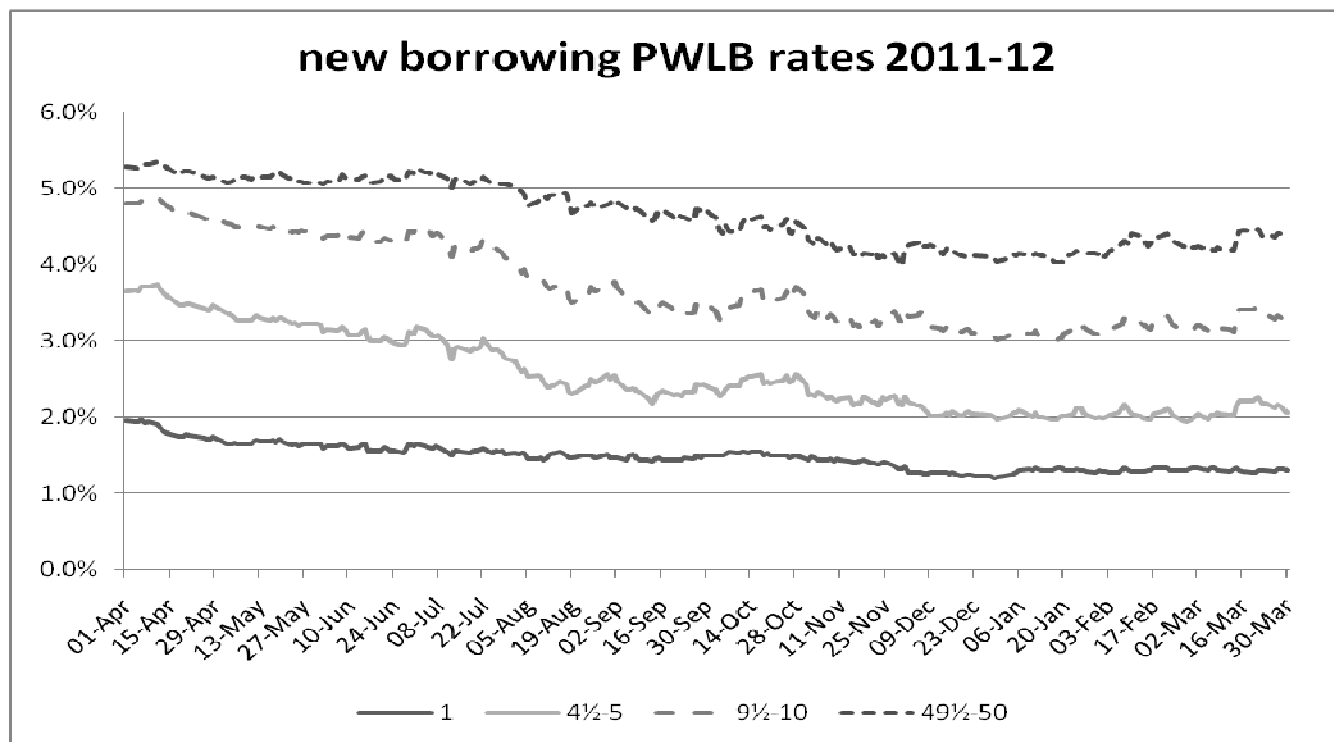
## A7. Borrowing Rates in 2011/12

A7.1 The following table below shows, for a selection of PWLB maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and end of the financial year applicable for new borrowing. The following graph illustrates the path of rate movements during the year.

**PWLB New Borrowing Rates 2011/12 for 1 to 50 Years**

	1 Year	1½ - 2 Years	2½ - 3 Years	3½ - 4 Years	4½ - 5 Years	9½ - 10 Years	24½ - 25 Years	49½ - 50 Years	1 month variable
01/04/11	1.950%	2.420%	2.870%	3.280%	3.650%	4.800%	5.360%	5.280%	1.570%
31/03/12	1.290%	1.420%	1.590%	1.810%	2.050%	3.200%	4.310%	4.350%	1.560%
High	1.970%	2.470%	2.930%	3.350%	3.730%	4.890%	5.430%	5.340%	1.590%
Low	1.190%	1.320%	1.500%	1.710%	1.940%	3.010%	3.940%	3.980%	1.560%
Average	1.466%	1.693%	1.958%	2.243%	2.533%	3.702%	4.610%	4.635%	1.561%
Spread	0.780%	1.150%	1.430%	1.640%	1.790%	1.880%	1.490%	1.360%	0.030%
High date	06/04/11	06/04/11	06/04/11	06/04/11	11/04/11	11/04/11	11/04/11	11/04/11	05/04/11
Low date	29/12/11	30/12/11	30/12/11	27/12/11	27/12/11	30/12/11	18/01/11	30/11/11	15/04/11





A7.2 A separate tier of rates applies to early repayment of loans which is around 1% lower than new borrowing levels. Repayment rates need to be as high as possible (matching or exceeding the individual loan rate) to make debt rescheduling economic. Given the overriding aim to reduce borrowing the rate environment during the year restricted opportunities for loan repayment.

## A8 Borrowing Outturn for 2011/12

A8.1 The Borrowing strategy for 2011/12 anticipated no new borrowing with current year requirements having previously been taken in advance of expected rises in rates.

A8.2 In line with the overall strategy of reducing borrowing levels, £9million of PWLB loans were prematurely repaid with breakage costs of £242,657 partially funded by resultant in-year interest savings.

A8.3 **Borrowing Performance** – Total borrowing was reduced from £162.4 million to £153.4 million during the year generating ongoing annual savings of £205k. The average rate of interest paid on loans in 2011/12 was 4.25%.

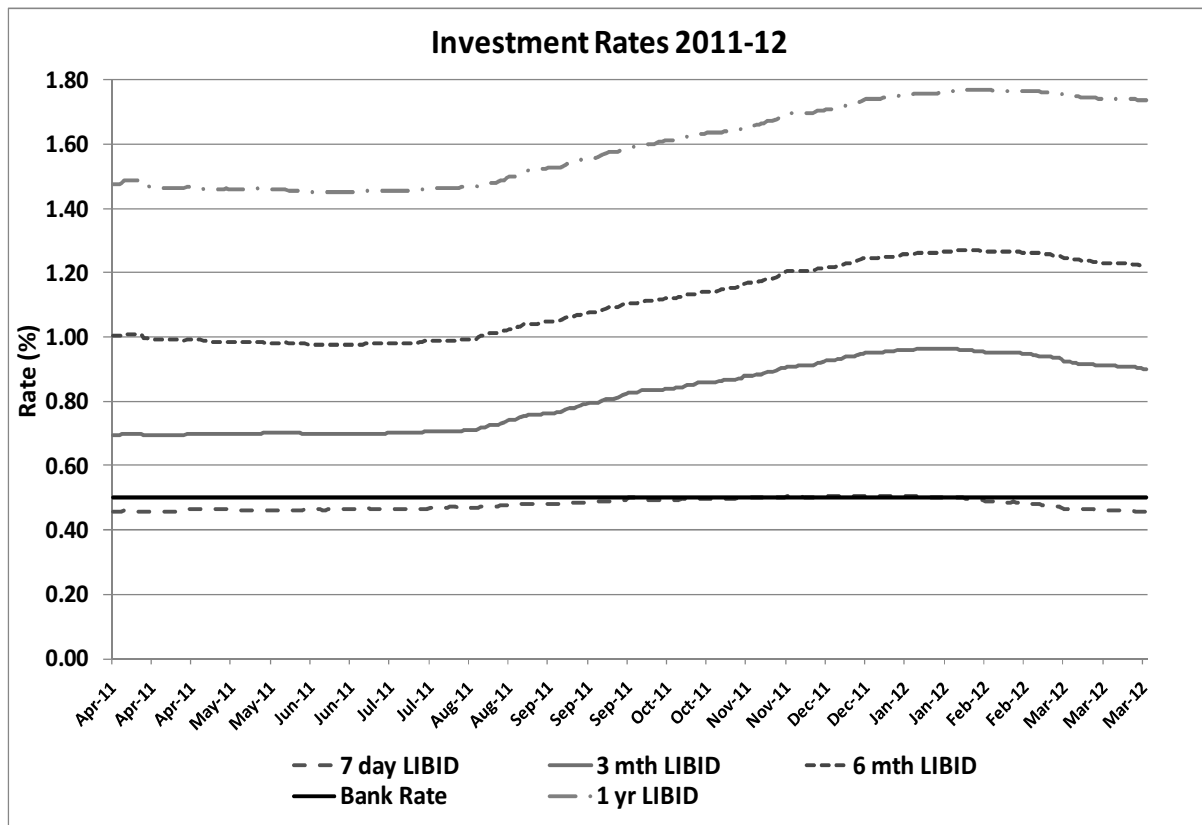
## A9 Investment Rates in 2011/12

A9.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of rate rises were gradually pushed further and further back during the year to the second half of 2013 at the earliest.

A9.2 Overlaying the relatively poor investment returns were the continued counterparty concerns generated by the Eurozone sovereign debt crisis.

A9.3 The table below shows, for a range of investment durations, the range (high and low points) in rates, the average rates and individual rates at the start and end of the financial year. The following graph illustrates the path of market benchmark rates over the year

	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2010	0.44%	0.46%	0.50%	0.70%	1.00%	1.48%
31/03/2011	0.43%	0.46%	0.57%	0.90%	1.22%	1.74%
High	0.55%	0.51%	0.65%	0.96%	1.27%	1.77%
Low	0.43%	0.46%	0.50%	0.69%	0.98%	1.45%
Average	0.45%	0.48%	0.56%	0.82%	1.11%	1.60%
Spread	0.12%	0.05%	0.15%	0.27%	0.29%	0.32%
High date	30/06/11	30/12/11	11/01/11	12/01/12	25/01/12	25/01/12
Low date	14/03/12	01/04/11	01/04/11	12/04/11	11/06/11	22/06/11



## A10 Investment Outturn for 2011/12

- A10.1 **Investment Policy** – the Council’s investment policy is governed by CLG guidance which emphasises the priorities of security and liquidity of funds and requires Local Authorities to set out their approach for selecting suitable counterparties. The policy was approved by Council within the Annual Investment Strategy on 2<sup>nd</sup> February 2011 and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data.
- A10.2 In line with the Strategy investments were made within a tight counterparty selection framework with predominantly short duration. A number of one-year deposits were made where additional margins over market levels were available to boost investment returns.
- A10.3 The Euro zone sovereign debt crisis and its potential impact on banks prompted a decision by the Chief Finance Officer to reduce the maximum duration for new deposits to three months for all counterparties regardless of their individual credit quality (excluding UK part-nationalised Banks).
- A10.4 The exception for UK part-nationalised Banks reflects officer’s view that these institutions offer the safest domicile for Council cash with the implicit UK government guarantee overriding individual credit ratings. In light of this a number of one-year deposits were taken with these institutions at rates over the market level, to boost investment returns.
- A10.5 A list of those institutions with which the in-house team invested funds during the year is provided at Annex 3. No institutions with which investments were made showed any difficulty in repaying investments and interest in full during the year.
- A10.6 **Externally Managed Investments** – Scottish Widows Investment Partnership (SWIP) was appointed to manage £13,500,000 of the Council’s cash on 21<sup>st</sup> June 2007. Additional funds were placed with SWIP during the 2009/10 financial year.
- A10.7 During the year SWIP has made use of a diverse range of investment instruments to enhance returns with market conditions giving rise to particularly strong fund performance in the final quarter.
- A10.8 **Performance Analysis** - Detailed below is the result of the investment strategy undertaken by the Council. Despite the continuing difficult operating environment the Council’s investment returns remain well in excess of the benchmark.

	Average Investment Principal	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark/ Target Return
<b>Internally Managed</b>	£79,587,914	1.413%	1.413%	0.480%
<b>Externally Managed</b>	£35,500,000	1.510%	1.360%	0.529%

The benchmark for internally managed funds is the average 7-day LIBID rate (uncompounded).  
The benchmark for externally managed funds is the 7-day LIBID rates, averaged for the week and compounded weekly.

A10.9 In interest terms, the in-house treasury function contributed an additional £742,000 to the General Fund over and above what would have been attained from the benchmark return. SWIP's net return achieved an additional £295,000 over their target return level of 10% above benchmark.

## A11 Revenue Budget Performance

A11.1 The effect of the decisions outlined in Appendix 1 to this report on the approved revenue budget is outlined in the table below.

	Revised Budget 2011/12	Actual 2011/12	Variation
	£M	£M	£M
Investment Income	(1.2)	(1.7)	(0.5)
Interest Paid on Borrowing	6.7	6.7	0.0
Premium on early repayment of Borrowing	0.2	0.2	0.0
<b>Net Position (Interest)</b>	<b>5.7</b>	<b>5.2</b>	<b>(0.5)</b>
Minimum Revenue Provision	4.3	4.3	0.0
PFI Grant re: MRP	(0.4)	(0.4)	0.0
<b>Net Position (Other)</b>	<b>3.9</b>	<b>3.9</b>	<b>0.0</b>
<b>Net Position Overall</b>	<b>9.6</b>	<b>9.1</b>	<b>(0.5)</b>

A11.2 The Revenue Grant settlement 2011/12 includes funding of £8.8m for interest payments and MRP related to supported borrowing within the above figures.

A11.3 The changing position was regularly reported to OSB and Council throughout the year as part of the budget monitoring reports to Members

## A12 Reporting Arrangements and Management Evaluation

A12.1 The management and evaluation arrangements identified in the annual strategy and followed for 2011/12 were as follows:

- Weekly monitoring report to Executive Lead for Finance and Chief Finance Officer
- Monthly meeting of the Treasury Manager and Chief Accountant to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Regular meetings with the Council's appointed Fund Managers
- Membership and participation in the CIPFA Benchmarking Club

A12.2 Draft results for the 2011/12 CIPFA Benchmarking Club, show that the treasury management team achieved interest rate performance in the top 33% of participating Authorities for borrowing and in the top 25% for investments.

A12.3 An Internal Audit Review of Treasury Management assessed the function as Good Standard overall with a High Standard rating specifically for assurance against financial loss and undetected error or fraud. The draft report observed, *“As in previous years very high operational standards are maintained and it is pleasing to be able to report a number of improvements, particularly in regard to ensuring all procedural documentation is complete and up to date.”*

**Prudential and Treasury Indicators 2011/12**

**Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR (£m)	31 March 2011 Actual	31 March 2012 Revised Indicator	31 March 2012 Actual
Opening balance	129.7	137.6	137.6
Capital expenditure in year funded from borrowing	12.3	4.2	3.4
Minimum Revenue Position	(4.0)	(4.0)	(3.9)
Repayment of Deferred Liabilities	(0.4)	0	0
<b>CFR at Year End</b>	<b>137.6</b>	<b>137.8</b>	<b>137.1</b>
<b>Net borrowing position</b>	<b>56</b>	<b>89</b>	<b>60</b>

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. Borrowing levels were below the operational boundary throughout the year.

	2011/12
Authorised limit	£228m
Maximum gross borrowing position	£173m
Operational boundary	£201m
Average gross borrowing position	£168m

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term liabilities net of investment income) against the net revenue stream.

	2011/12
<b>Total Financing Costs</b>	<b>£10.7m</b>
Net Revenue Stream	£125.4m
Ratio – Including direct financing from Revenue	8.6%
<b>Ratio - Excluding direct financing from Revenue</b>	<b>7.8%</b>

#### Treasury Indicators:

**Maturity Structure of the fixed rate borrowing portfolio** - This indicator assists Authorities avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.

	31 March 2012 Actual	31 March 2012 Proportion	2011/12 Original Limits Upper-Lower
Under 12 months	£0	0%	3% - 0%
12 months and within 24 months	£0	0%	3% - 0%
24 months and within 5 years	£0	0%	12% - 0%
5 years and within 10 years	£15M	10%	20% - 3%
10 years and within 25 years	£36M	24%	50% - 12%
25 years and above	£102M	66%	95% - 60%

**Principal sums invested for over 364 days** - The purpose of this indicator is to contain the Council's exposure to the possibility of losses that might arise as a result of it having to seek early repayment or redemption of principal sums invested. The 2011/12 Actual applies to funds administered by the external Fund Manager.

	2010/11 Actual	2011/12 Limit	2011/12 Actual
Investments of 1 year and over	£12m	£69m	£9m

**Exposure to Fixed and Variable Rates** - The Prudential Code requires the Council to set upper limits on its exposure to the effects of changes on interest rates. The fixed rate limit set allows for the Council's entire borrowing to be locked out at affordable levels. The variable limit reflects the use of Liquidity Accounts for investing cash. (The negative Actual value reflects the extensive use of these variable rate instruments (due to attractive rates and counterparty concerns), netted against a zero level of variable debt.)

	31 March 2011 Actual	2011/12 Limits	31 March 2011 Actual
Net principal re fixed rate borrowing / investments	£116m	£119m	£70m
Net principal re variable rate borrowing / investments	-£29m	£35m	-£15m



## **The Economy and Interest Rates 2011/12**

*By Sector Treasury Services 23<sup>rd</sup> April 2012*

Sovereign debt crisis. 2011/12 was the year when financial markets were on tenterhooks throughout most of this period, fearful of the potential of another Lehmans type financial disaster occurring, sparked off by a precipitous Greek default. At almost the last hour, the European Central Bank (ECB) calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two huge three year credit lines, totalling close to €1 trillion at 1%. This also provided a major incentive for those same banks to then use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.

A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below panic levels. The final planks in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a "haircut" (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU / IMF bailout package for Greece which was signed off in March.

Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece, but also in other EU countries with major debt imbalances. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population. In addition, an impending general election in April / May 2012 will deliver a democratic verdict on the way that Greece is being governed under intense austerity pressure from the northern EU states.

The UK coalition Government maintained its aggressive fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.

UK growth proved mixed over the year. In quarter 2, growth was zero, but then quarter 3 surprised with a return to robust growth of 0.6% q/q before moving back into negative territory (-0.2%) in quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in the EU in quarter 4, our largest trading partner, and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and dovish comments from the major western central banks: the Fed in America may even be considering a third dose of quantitative easing to boost growth.

UK CPI inflation started the year at 4.5% and peaked at 5.2% in September. The fall out of the January 2011 VAT hike from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, falling further to 3.4% in February. Inflation is forecast to be on a downward trend to below 2% over the next year.

The Monetary Policy Committee agreed an increase in quantitative easing (QE) of £75bn in October on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.

**Gilt yields** fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

**Bank Rate** was unchanged at 0.5% throughout the year while expectations of when the first increase would occur were steadily pushed back until the second half of 2013 at the earliest. Deposit rates picked up in the second half of the year as competition for cash increased among banks.

**Risk premiums** were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

**Counterparties with which funds were deposited (April 2011 – March 2012)**

**Banks and Building Societies**

Bank of Scotland  
Barclays Bank  
Lloyds TSB  
Nationwide Building Society  
Oversea Chinese Banking Corporation (Singapore)  
Royal Bank of Scotland/National Westminster  
Santander UK  
United Overseas Bank (Singapore)

**Local Authorities**

City of Newcastle upon Tyne  
Corby District Council  
Falkirk Council  
Salford City Council

**Other Approved Institutions**

Royal Bank of Scotland Money Market Fund  
Scottish Widows Investment Partnership

# Agenda Item 12



Title: **Annual Governance Statement 2011/12**

Wards Affected: **All Wards**

To: **Audit Committee** On: **27 June 2012**

Key Decision: **No**

Change to Budget: **No** Change to Policy Framework: **No**

Contact Officer: **Mark Bennett**

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## **1. What we are trying to achieve and the impact on our customers**

1.1 The preparation of the Annual Governance Statement provides the opportunity for the organisation to review its processes, controls and objectives and to provide assurance to Members, Senior Officers and stakeholders as to the reliability of its statement of accounts and the probity of its operations.

## **2. Recommendation(s) for decision**

2.1 **That the Committee consider and agree the proposed Annual Governance Statement for 2011/12 which can then be approved by the Mayor and Chief Executive and appended to the Statement of Accounts report to be approved by Council in September.**

2.2 **That, following the review of the Annual Governance Statement by External Audit, Officers be requested to bring an action plan back to this Committee.**

## **3. Key points and reasons for recommendations**

### Key points

3.1 The key features of the Annual Governance Statement (AGS) are summarised as follows: -

- It is a requirement of the Accounts & Audit (Amendment) (England) Regulations 2006, Regulation 4
- The Statement of Required Practice (SORP) requires the AGS to be included

with the Statement of Accounts, therefore it will need to be completed and signed off prior to the Council considering the Statement of Accounts at its meeting in September.

- The AGS is not audited but it is reviewed by external audit. This, in itself, will not give rise to qualifications on the accounts but it will be an integral part of other assessments of our arrangements eg. our use of resources.
  - The AGS should relate to the entire financial year, it is not something which should be done only at year end but the assurance should be in place throughout the year.
  - The statement will need signing by the Chief Executive and Mayor (as most senior Member of the Council).
  - Action Plans will need to be produced to address any weaknesses/issues that are identified in the consequential inspection.
- 3.2 The Annual Governance Statement for 2011/12 is attached as Annex 1 to this report. The format of the statement is in accordance with the CIPFA / SOLACE Code of Practice and the contents of the Statement have been agreed with the Senior Officers of the Council.
- 3.3 Business Unit Managers have undertaken a self assessment of their areas' position and have identified suitable evidence to support the assertions made where applicable. The statement produced reflects those issues identified from those assessments plus any audit or inspection reports. Appropriate action plans will need to be produced to address the significant weaknesses identified.

#### Reasons for the Recommendations

- 3.4 To inform Members of the Council's Governance and Internal Control framework and any significant control issues in line with statutory requirements under the Accounts & Audit (Amendment) (England) Regulations 2006.
- 3.5 To ensure key issues are communicated to and actioned by the Council to ensure risks are managed and the Governance Framework is sound.

**For more detailed information on this proposal please refer to the supporting information attached.**

**Mark Bennett**  
**Executive Head, Business Services.**

## **Supporting information**

### **A1. Introduction and history**

A1.1 The Accounts and Audit Regulations 2006 require every local authority as good practice to include in their annual statement of accounts a “Annual Governance Statement” signed by the Leader/Most senior Member (i.e. Elected Mayor) of the Council and the Chief Executive. The statement is wide ranging and includes an assessment of risks, Corporate Governance and the delivery of the Council’s functions. Internal Audit work forms an element of the evidence required but it is the management of the organisation that is responsible for the governance and internal control framework and for providing the assurance required.

A1.2 In assessing our use of resources a number of elements are considered. One such area is internal control and this includes the requirement for the Annual Governance Statement to be considered independently by Members prior to the consideration of the final Statement of Accounts.

### **A2. Risk assessment of preferred option**

#### **A2.1 Outline of significant key risks**

A2.1.1 The report is predominantly for information and therefore there are no risks associated with the recommendations. However the report highlights a number of issues, which if not addressed could potentially expose the Council to risk.

### **A3 Remaining risks**

A3.1 It is the responsibility of management to establish systems of governance and internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. It does not matter how good the systems of internal control are, it is not possible to guarantee that a fraud will not occur, although it is hoped any irregularity would be quickly identified and resolved. As such Internal Audit can never give full assurance that the controls are working effectively or that fraud is not occurring. However with reference to the annual report from the Head of Internal Audit the Council can take reasonable assurance regarding the controls in place are operating satisfactorily.

### **A4. Other Options**

A.4.1 The issues raised in this report are predominantly for information and as such there is no requirement to consider alternative options.

A.4.2 There is a statutory requirement for the Council to publish an Annual Governance Statement as part of its Statutory Accounts.

A.4.3 Internal Audit provides one element of the assurance required to enable the Mayor and Chief Executive to sign the Annual Governance Statement required under the Accounts and Audit Regulations 2006 (amended). Service Managers provide another source of assurance and should provide evidence to support their view that the governance framework and internal controls are adequate. External reviews provide a further source of assurance.

**A5. What impact will there be on equalities, environmental sustainability and crime and disorder?**

A5.1 Resource implications are therefore related to staff time in preparing the Statement and in monitoring the controls in place to ensure the achievement of the Council's objectives.

**A6. Consultation and Customer Focus**

A6.1 The Annual Governance Statement is a statutory requirement and describes the Council's systems of governance and internal control and its processes for monitoring compliance with legislative requirements including equalities, environmental sustainability and crime and disorder.

**A7. Consultation and Customer Focus**

A7.1 The draft Statement has been subject to consultation with Service Management, External Auditors and the Torbay Care Trust.

A7.2 The Annual Governance Statement has to be included within the Council's Statement of Accounts and is therefore available to the general public and all stakeholders and interested parties.

**A8. Are there any implications for other Business Units?**

A8.1 The Annual Governance Statement covers all services of the Council and will therefore have linkages and implications for all business units and for Torbay schools.

**Appendices**

Annex 1                      Annual Governance Statement 2011/12

**Documents available in members' rooms**

None

**Background Papers:**

The following documents/files were used to compile this report:

Internal Audit Out-turn Report 2009/10

CIPFA FAN Guidance

CIPFA / SOLACE Delivering Good Governance in Local Government framework, Guidance Note and Briefing Note.

# Agenda Item 12

## Appendix 1

Annex 1

### ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2011/12

#### **Scope of responsibility**

Torbay Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Torbay 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 discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Torbay Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website at [The Council's Constitution](#) or can be obtained from Democratic Services. This statement explains how Torbay Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

#### **The purpose of the governance framework**

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

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

The governance framework has been in place at Torbay Council throughout the year ended 31st March 2012 and up to the date of approval of the annual report and statement of accounts.



## **The Governance framework**

The key elements of Torbay Council's governance framework are summarised below:

### **(A) Arrangements for identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

- A Community Plan refreshed in Autumn 2011 sets out the Council's vision developed jointly with the Torbay Strategic Partnership which brings together representatives of the public, voluntary and business sectors
- A medium term resource plan which is regularly updated to support the achievement of the Council's corporate priorities.
- A transformation programme does this still exist in this name?aimed at reducing costs and improving services and customer satisfaction
- A performance management framework which includes monthly performance reports (but only public reporting quarterly?) covering financial performance, risks, and achievement of key performance targets and priorities.
- A programme of consultation with the public through public meeting and other mediums on a regular basis. Members and officers have also undertaken consultation with stakeholders when new strategies and policies have been developed
- As part of its budget setting process the Council co-ordinates a series of public events to gain an understanding of the communities views. The Council's main partners, the Care Trust, Police, Fire and Rescue and the Voluntary Sector also attend these events so that the local community has a comprehensive understanding of its local public and voluntary sectors
- The Council and the Care Trust, together with the Police and other partners have worked together to identify the needs of the area, including Health matters, and published a Joint Strategic Needs Assessment.
- The Corporate Plan and Business Plans (did we have business plans last year?)are reviewed annually as part of the Council's Annual Planning Cycle.
- The Council's Communication Strategy, is communicated to staff, and all stakeholders via regular internal and external updates using promotional material, the web, the intranet, resident's magazine, staff newsletter
- Torbay Council 2011/12 Statement of Accounts for the year ended 31st March 2012
- Community Partnerships where local ward members and stakeholders can discuss concerns and issues with their constituents

## **(B) Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements**

- The authority has also kept under review other key initiatives such as the actions arising from the Joint Strategic Needs Assessment for Health and Well Being, development of an Older Persons Strategy etc. and where appropriate have adapted the priority issues facing the Council.
- Regular consultation events were also used to inform the development and review of the Authority's vision. These have continued to be used to obtain feedback on both service delivery and proposed plans and developments.
- The budget setting process includes detailed scrutiny of proposals and their links to the Council's vision, priorities and stakeholder views, together with equalities impact assessments
- Issues identified in the Community Plan are monitored and tracked through the Corporate Plan and Business Plans and performance against targets is recorded on SPAR and reported through the scorecard to the appropriate body, the senior management team on a monthly basis and the SLB and Overview and Scrutiny quarterly.
- The Council is also very mindful that the staff are also key stakeholders and as such, senior officers and Members have taken part in road shows. Internal communication approaches have been reviewed to ensure all staff are aware of all issues and new policies and practices. Positive working relationship with TU consultation, through monthly formal meetings and informal meetings with the CEX

## **(C) Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

- Surveys of users in service specific groups are used together Viewpoint surveys to assess quality of service and policy changes to be made in light of user feedback. All these surveys and results are publicly accessible on the Council website. In addition the Council also encourages user involvement in appropriate services areas, examples being SPOT within the learning disabilities and Torbay Together Involvement group for consultation groups.
- The Council records performance information using performance-reporting software (SPAR) and action on areas of poor performance is closely scrutinised, monthly by the senior leadership team and quarterly by the Senior Leadership Board and Overview and Scrutiny members. The performance reporting system is based on exceptions and where performance is identified as a concern, appropriate corrective action will be considered, scrutinised and monitored.
- The Council uses a range of benchmarking information, including the Audit Commission comparative data set and NHS data. It uses the data to measure

performance against comparators and to identify authorities from whom the Council could learn, and to identify potential areas of focus for budget reductions,

- There is also a range of consultation and feedback mechanisms for obtaining feedback from customers.

**(D) Arrangements for defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

- A Constitution which sets out how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.
- This includes the publication of a monthly Forward Plan containing all key decisions
- The Constitution includes Standing Orders, Financial Regulations, Delegated powers, Contract Procurement rules and the budget and policy framework. These are underpinned by Codes of Conduct for officers and Members, Gifts and Hospitality rules, local protocols and by the Authority's Code of Corporate Governance.
- The full Council of 37 elected Members, including the Mayor, is responsible for approving the Mayor's budget and the policy framework. The Mayor is responsible for decisions within this framework and has been supported by a cabinet of up to other Members who oversee and advise on specific areas
- Matters outside of the budget and policy framework are referred to full Council for decision.
- A Scrutiny function with the Overview & Scrutiny Board which undertakes a range of reviews into policies and performance. The Board also has the facility to 'call-in' Mayoral decisions or Officer key decisions and makes recommendations to the Cabinet / Council as appropriate
- An Audit Committee responsibility for all internal and external audit matters along with some other Governance associated matters.
- Some regulatory functions remain the responsibility of the Council rather than the Mayor and most of these are delegated to a small number of regulatory committees appointed annually by the Council.
- All meetings are open to the public but a small number of confidential matters are considered in private when the press and public are formally excluded from meetings. It is the Council's objective to keep these private papers to a minimum with only the confidential elements being kept exempt from the press and public. This ensures open and transparent decision making is undertaken at all times. Council officers provide appropriate advice at the points of consideration and decision, and report to Members on progress and outcomes of decisions taken.

- The Authority has developed a number of Local Protocols (including in relation to Member and Officer Relations; Planning Matters and the role of the Monitoring Officer), all in line with good Corporate Governance.,
- The Council's Standards Committee has a majority of Independent Members (six independent members, four Torbay councillors and 3 Brixham Town councillors) and is chaired by an Independent Member. This far exceeds the legal requirement for involvement of Independent Members and the Committee has been given responsibility for promoting high ethical standards amongst Members; monitoring the operation of the Members' Code of Conduct (including observing performance at public meetings and training members); and dealing with complaints against Members under the Local Protocols.
- The Council has an approved organisational structure with job descriptions for all officers and Members.

**(E) Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

- The Council's intranet contains a range of policies, procedures and guidance for all staff including Human Resources (HR) policies, Computer Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution.
- Legislative changes, are monitored and reported to SLT and communicated to staff as required.
- Corporate induction courses are run on a regular basis. Managers are responsible for local induction arrangements. Officers in politically restricted posts and those responsible for negotiating contracts are required to register their personal interests.
- Following the local Government elections in May 2011, a comprehensive member induction programme was put in place
- The Council has a Fraud and Corruption Policy which is reviewed regularly and has been communicated to all staff and is available on the Council's Intranet. That has been discussed and approved by the Council's Standards Committee.
- The Standards Committee's remit includes the conduct of Members and investigating complaints in respect of individual Members and is comprised of a majority of independent co-opted Members. The Standards Committee has an annual work programme to promote and embed ethical standards and this is reported to the Council.
- The Standards Committee's members also observe Council, Cabinet and other meetings and provide feedback reports on probity and conduct issues. This has resulted in improvements to the Constitution, procedures and a coaching programme for individual councillors.

**(F) Arrangements for reviewing and updating Standing Orders and Financial Regulations, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

- The Council's Constitution is reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Democratic Services Manager in consultation with the Mayor and Group Leaders to ensure the Council's governance arrangements reflect best practice.
- Commissioners and Executive Heads are responsible for managing risk within their departments,.
- The Executive Head Community Safety is responsible for the implementation and monitoring of the risk management strategy and provides regular progress reports to the Audit Committee which has responsibility for monitoring the approach to Risk Management. The overall risk register has been considered by the Audit Committee as part of the process.
- The Council completed a detailed review of its Risk Management Policy and Strategy and the Strategic Risk Register in the current year.
- The Council, when considering any matter, will have a risk assessment within the report.
- The Council fully recognises the need to continue to manage risks in all projects and, where appropriate Prince II and MSP are applied.

**(G) Ensuring the Authority's financial management arrangements conform with the governance arrangements of the CIPFA statement on the role of the CFO in local government.**

- The Chief Financial Officer (CFO) has direct access to the Chief Executive on all matters and has direct access to all Members and senior officers of the Council.
- The Council follows practices to ensure it makes best use of its resources. The CFO works with the Commissioners and Executive Heads to identify any financial issues which may require management action. These are reported to the Overview and Scrutiny Board and Council on a quarterly basis, regular discussions take place with the Executive Member with responsibility for finance.
- All reports to Members include a section on the resource implications , prior to publication these implications are cleared by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate.
- The full Council approves the Treasury Management Strategy on an annual basis and all Members are briefed on key financial issues.
- The CFO has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems. Devon Audit Partnership undertake the role of auditing these systems to give the assurance needed.

- The Council has developed a Medium Term Resource Plan, which is reviewed on an on going basis to take into account new information and changing circumstances, this is used to inform reports to members, detailed in year plans are produced as part of the annual budget process, these in year plans represent the business units individual business plans through which financial and operational performance are monitored.

**(H) Undertaking the core functions of an Audit Committee, as defined in CIPFA's *Audit Committees – Practical Guidance for Local Authorities***

- A stand alone Audit Committee was established during 2008-09 and meets on a quarterly basis where reports from both Internal and External Audit are considered as well as risk and associated matters.

**(I) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

- The system of internal financial control is based on a coherent accounting and budgeting framework including Financial Regulations, Contract Standing Orders, Scheme of Delegation and accountability.
- Medium-term resource plans covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements. These also link in with the business development proposals which are fed by the Strategic Plan.
- Operation of the Capital Strategy aims to ensure that investment is linked to Strategic Objectives. Bids for capital and other asset management funding require an effective 'business case' linked to Strategic Objectives, and progress in delivering projects is formally monitored by the Capital Asset Management Team, Councillors and Commissioners' Management Teams. Linked in with this is the Asset Management Plan which ensures that assets are only retained for effective business purposes.
- Financial stewardship in respect of both capital and revenue is reported to Overview and Scrutiny and Council quarterly, and is considered regularly by the Strategic Leadership Team. Management Teams also consider their respective budgets on a regular basis. This is supported by an established budget monitoring process by managers and Finance staff and the electronic distribution of budget monitoring reports to all managers.
- Commissioners and Executive Heads are required to produce an annual statement of Internal Control for their areas which includes statements about risk and the internal control framework. This is supported by Internal Audit who help embed risk management by cyclical audits and other management initiatives.

**(J) Arrangements for Whistle-blowing and for receiving and investigating complaints from the public**

- The **Fraud & Corruption Policy, Fraud Response Plan and Whistle Blowing Policy** were reviewed and updated in 2008. The Policy is available on the website, intranet and direct from the Information Governance team. The Authority also subscribes to Public Concern at Work which provides a staff helpline.
- The Council has an established phone line that any whistle blowing call can be made to and which goes directly to the area which has responsibility for dealing with these issues in the first instance. These are recorded and passed on to the appropriate part of the organisation to investigate and the outcomes are monitored.
- The Council has procedures for dealing with customer complaints and provides the means for customers to feedback concerns or issues. Complaints are analysed and reported back to Members and Managers along with the actions taken. An Annual Report is produced outlining the complaints and compliments handled by the Council and Ombudsman during the previous financial year. This is reported to the Overview & Scrutiny Board. Customer Care standards have been agreed and published. The complaints procedures are regularly reviewed.

**(K) Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training**

- A comprehensive induction took place for elected Members following the local elections in May 2011. Dedicated support within the Democratic Services team has been identified to work on the Council's approach to member development and the Council was awarded the South West Charter for Elected Member Development in March 2008 and Charter Plus in 2010. Annual one to one development sessions with senior officers from the Democratic Services team are offered to all Members and a Members' skills framework is used to identify development needs which in turn inform the annual Members' development programmes. 35 members have personal development plans. Corporate training needs for Members are also identified by the Commissioning Officer Group.
- The Member Development Strategy seeks to build on the work already undertaken to ensure a structured approach and that all members, including our co-opted members on Overview and Scrutiny and Independent Members on the Standards Committee, are supported in their role. It also ensures that the Members are effective in supporting the Council's corporate objectives.
- Strategic roles and development needs are identified and assessed through Senior Management Forums, annual RADARs and Management Team Meetings.
- The Council has strongly supported staff development, particularly through programmes such as ILM.

**(L) Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

- The Council used the Audit Commission stakeholder analysis to improve local relations. Regular consultation events are held with public and voluntary services plus regular business forum meetings. Other consultation and feedback surveys are also undertaken throughout the year including via the refreshed Viewpoint Panel
- Torbay Council operates a Call Centre which is based in Torquay and deals with a wide variety of calls from residents and visitors over an expanding range of issues as more services are included in those dealt with in the first instance by the centre.
- All customer contact received via our Call Centre or our Connections offices is documented to ensure the information is actioned by, or forwarded to, the relevant department, as necessary. The Council also uses its libraries and Tourist Information Centres as initial contact points from which enquiries can also be dealt with.
- The Consultation and Engagement framework is available on the website indicating mechanisms and groups and how the Consultation and Engagement Group effectively manages engagement with the public and voluntary sector. There are also a number of Community Partnerships across Torbay and regular newsletters to Viewpoint Panel members and a residents' magazine Torbay View, which is distributed to every household. Councillors have also been encouraged to produce their own means of communication and, for example a number have created their own website.
- A number of community groups have been established to support those members of the community who can be regarded as "hard to reach", e.g. BME, LGBT, Faith, Older Persons, Young People and those with Disabilities. The Council's approach is to support the development of these groups and build their capacity to make them largely self-sufficient.

**(M) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements**

- The governance of the Torbay Strategic Partnership was considered and reviewed in 2011 to ensure its fitness for purpose in delivering the new Community Plan to reflect the changes in delivery Partnerships. A further review will be undertaken in response to changes in government policy
- The Council's Code of Corporate Governance is available on its website and Local Strategic Partnership stakeholders are aware of governance arrangements and the link to the council code and processes. There is a robust Constitution established for the Torbay Strategic Partnership and for the local Community Partnerships.



- Appropriate arrangements in respect of service specific partnerships such as the Torbay Care Trust and the Torbay Coast & Countryside Trust, TOR2 and English Riviera Tourist Company and Economic Development Company are in place

## **Review of effectiveness**

- Torbay 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 the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of the Devon Audit Partnership's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.
- Overall responsibility for the governance framework including the system of internal control rests with the Mayor and Chief Executive and they receive regular reports from the Section 151 Officer on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Resource Plan.
- This is supported by an annual review of Internal Audit by the Section 151 Officer which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. 2011-12 saw the third year of operation of the Devon Audit Partnership which was the amalgamation of the three Internal Audit functions of Devon County Council, Plymouth City Council and Torbay Council and has continued during this year. As in previous years the service undertook certain assurance work on behalf of the Council and to give assurance to the external auditors as part their audit opinion. The external auditors raised no concerns by the standard of work. No major issues were identified and the service has maintained the level of assurance it is able to provide to management.
- The Council's Constitution is continually reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Democratic Services Manager in consultation with the Mayor and Group Leaders and defines the relative responsibilities of the Council, the Mayor, Overview and Scrutiny and Senior Officers. This also includes the Scheme of Delegation to the Mayor, Cabinet, Committees and Officers, and also the Officer Scheme of Delegation.
- Torbay operates a mayoral system and has a constitutional working party whereby improvements and changes to the constitution are made and agreed. All members are inducted into the importance and processes of good governance and have informal and if required, formal ways of raising governance issues with the monitoring officer, chief executive, section 151 officer and the senior leadership staff. This has been supported by detailed training programme for new and existing members in the first few months of the new administration.
- Since May 11 elections the new Mayor has chosen to operate a system whereby both full council decisions (part of the policy framework) and Mayoral decisions are taken in public with full questions by council in order to further introduce further transparency and public accountability.

- The Audit Committee and Overview and Scrutiny Board operate to provide assurance and call the executive to account, through decisions in the forward plan, performance management and risk and the use of 'call in' where appropriate.
- Risk is embedded in performance management and can therefore be challenged and has oversight through the Executive, Audit Committee and Overview and Scrutiny Board.
- The standards committee continue to be part of the successful operation of the council's governance, despite the national system being stood down in the localism bill. Members here wish to retain it in order to provide a transparent and fair mechanism for members to be called to account if concerns /complaints are made by officers, the public or other members.
- There is also the whistle blowing mechanism which can be used to raise concerns which can include governance matters. Standards also provide independent feedback to members in their public duties through observing conduct at Council, Cabinet and Overview and Scrutiny. This has allowed members to improve their performance individually and collectively, in addition to the 1-1s of member performance management.
- The Council continues to challenge itself in governance and includes governance 'days' for all members to refocus when required.
- The council's section 151 officer, holds regular meetings with the Head of the Devon Audit Partnership (DAP) with responsibility for Torbay to discuss all on-going and planned work and any issues which arise. The Head of Internal Audit reports 6 monthly to the Audit Committee setting out work to be undertaken and the planned work for the year. This will include reporting on audits and work undertaken where there are concerns over practice or systems of internal control and sets out how these will be addressed.

## **Internal Audit**

- The Council's Internal Audit Plan, which is risk based, is agreed annually with Commissioners and the Council's Audit Committee. This provides the basis for the review of internal control and governance within the Council and includes the following: -
- Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
- Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which considers the strategic and operational risks identified in the Corporate Risk Register and Business Plans and also includes consideration of materiality, sensitivity and previous audit and inspection findings;

- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council’s whistle-blowing policy.
- Advice and support to ensure future safeguards when implementing new systems
- Value for Money work in relation to assessing the efficiency, economy and effectiveness of the Council’s operations and recommending improvements as necessary.
- The Council also receive reliance from the NHS Internal Audit Confederation over the controls in operation at Torbay Care trust. The controls cover the provision of the adult social expenditure.
- Achievement of the Audit Plan is reported to the Audit Committee on a twice yearly basis. This report also includes an opinion and assurance about the system of internal control throughout the Council.
- Regular meetings were also held between the Section 151 Officer and a representative of the Devon Audit Partnership to discuss specific issues that have arisen.

**Areas of the Council’s work where further action is required**

Issue	Action Planned
<p>Payroll – the examination of the systems and controls by internal audit, identified the following for further action or consolidation, it is however acknowledged that further progress has been made in improving the control environment</p> <ul style="list-style-type: none"> <li>• The need to ensure the process of regular notification of establishment to Executive Heads, including evidenced confirmation of accuracy, is sufficiently timely</li> <li>• The need to fully embed the process in place for verifying authorised signatories for core Council</li> </ul>	<p>Processes are in place for this, but are continually under review to ensure that the processes used are able to meet the challenges of changing organisational structures and management arrangements</p> <p>Action taken as required</p>

<p>Tor 2 - contract monitoring arrangements - there were issues that arising from the examination of systems and controls that warrant inclusion in the Annual Governance Statement as follows:-</p> <ul style="list-style-type: none"> <li>• The need to ensure that visibility of TOR2's performance is available to scrutiny by senior Council officers and Members via the timely provision of quarterly and annual reports, and subsequent challenge via appropriate meetings.</li> <li>• The need to ensure that proper governance arrangements of TOR2 are in place via effective presence at Board level and subsequent dissemination of information to relevant Council officers and Members.</li> </ul>	<p>The situation as identified in the Internal Audit has subsequently moved on in relation to both of these points,</p> <p>Although the information required within the mentioned reports had been available to the Council it was not presented as per the contractual requirements and contained within formal quarterly and annual reports. The annual and first quarterly reports are now being produced in draft form for approval with final versions available for the end of July 2012. These reports will be presented to the Quarterly Strategic Partnership meetings held between the Council and the JVCo senior management for approval and sign off.</p> <p>The Councils representation at Board level has been reviewed, with representation now undertaken by a nominated Council Member with the support of the Councils Governance Officer. Regular meetings between the Board representative and the Councils Partnership Manager responsible for the TOR2 contract now supports exchange of information.</p>
<p>Continue strict financial monitoring to ensure that:</p> <ul style="list-style-type: none"> <li>• Agreed spending reductions are achieved</li> <li>• The on-going Community Impact of reductions is fully understood</li> </ul>	<ul style="list-style-type: none"> <li>• Executive Heads to provide monthly progress reports</li> <li>• Equalities Impact Assessments are regularly updated</li> </ul>
<p>Ensure the Council is well prepared to respond to new government requirements including:</p> <ul style="list-style-type: none"> <li>• Localisation of Council tax benefits and business rates</li> <li>• Phased transfer of Housing Benefit to DWP as part of implementation of Universal credit</li> <li>• Transfer of social fund from DWP to the Councils</li> <li>• NHS reforms, including the transfer of</li> </ul>	<ul style="list-style-type: none"> <li>• Devon wide group assessing implications of Devon Wide Scheme. Torbay Project Group formed.</li> <li>• Implementation to be completed 2017. Transitional period to be managed by Executive Head of Finance</li> <li>• Report to Members setting out recommendations for the scheme.</li> </ul>

<p>public health to Local Authorities from NHS</p> <ul style="list-style-type: none"> <li>• Introduction Planning reforms including the Neighbourhood Planning agenda</li> <li>• Review the future of structure and roles of the Torbay Strategic Partnership</li> <li>• Learning from best Practice from payment by results pilots</li> </ul>	
<p>Detailed, in the Annual Internal Audit Report presented to the Audit Committee. Are a identified number of additional “areas for improvement”</p>	<p>Actions addressed at departmental level</p>