



Tuesday, 14 March 2017

## **AUDIT COMMITTEE**

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

**Wednesday, 22 March 2017**

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 Tyerman (Chairman)

Councillor Bent

Councillor O'Dwyer (Vice-Chair)

Councillor Stocks

Councillor Darling (S)

Councillor Barnby

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**A prosperous and healthy Torbay**

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# AUDIT COMMITTEE AGENDA

1. **Apologies**  
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 4 - 6)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 18 January 2017.
3. **Declarations of interests**
  - (a) To receive declarations of non pecuniary interests in respect of items on this agenda  
**For reference:** Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
  - (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda  
**For reference:** Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.  
  
(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)
4. **Urgent Items**  
To consider any other items that the Chairman decides are urgent.
5. **Internal Audit Plan 2017-18** (Pages 7 - 22)  
To consider a report that sets out the Internal Audit Plan for 2017-18.
6. **Internal Audit Strategy** (Pages 23 - 28)  
To note the submitted report.
7. **Internal Audit Charter** (Pages 29 - 36)  
To note the submitted report.
8. **The Audit Plan for Torbay Council** (Pages 37 - 58)  
To consider the Audit Plan for Torbay Council.

**9. Audit Committee Update**

(Pages 59 - 71)

To note the submitted report on progress in delivering Grant Thornton's responsibilities as the Council's external auditors.



## Minutes of the Audit Committee

18 January 2017

-: Present :-

Councillor Tyerman (Chairman)

Councillors O'Dwyer (Vice-Chair), Stocks and Lewis

(Also in attendance: Councillor Brooks)

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### 72. Apologies

Apologies for absence were received from Councillors Barnby and Darling (D).

It was reported that, in accordance with the wishes of the Conservative Group, the membership of the Committee had been amended for this meeting by including Councillor Lewis instead of Councillor Bent.

### 73. Minutes

The Minutes of the meeting of the Audit Committee held on 23 November 2016 were confirmed as a correct record and signed by the Chairman.

### 74. Urgent Items

The Chairman informed the Committee that at the Committee's meeting in March he would like to discuss whether the Audit Committee should remain meeting six times a year or whether to reduce the frequency to four times with the length of meeting being extended.

### 75. Treasury Management Strategy 2017/18 (incorporating the Annual Investment Strategy 2017/18 and the Minimum Revenue Provision Policy 2017/18)

Members considered a report that set out the Treasury Management Strategy which aimed to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2017/18 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

The Head of Finance informed Members that the figures detailed in the report were based upon quarter two reporting these would be updated with quarter three reports when presented to Council. Members requested the strategy provide closer links to capital and revenue reports and tables be improved to differentiate

between investments made as a result of the investment fund and other investments.

Resolved that subject to:

- i) The figures being updated to reflect quarter 3; and
- ii) The level of Peer to Peer Lending – individual loan being increased to £2,000 and tables showing borrowing levels separate those that Council business and those that are the Investment Fund.

Council be recommended to approve the Treasury Management Strategy.

#### **76. Internal Audit Half Year Report 2016/17**

Members considered a report that set out the current position of the audit service provision; reviewed work undertaken to date and provided an opinion on the overall adequacy and effectiveness of the Authority's internal control environment. Members were advised that based on work performed during 2016/17 and experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of 'significant assurance' on the adequacy and effectiveness of the Authority's internal control framework.

Members questioned the rationale for undertaking audits on Children's Services later in the year given the financial pressures and special measures of the department. The Head of Internal Audit explained that senior managers are consulted as to the appropriate timing of audits with the majority tending to start in September in order to avoid the school holidays. Members were advised that the fieldwork on Children's Services was due to finish by the 31 March in order to meet the deadline for the publication of the Annual Internal Audit Report.

Members noted the number of irregularity investigations that had been carried out across the Council's Directorates. Members were advised that the level of investigations were not abnormally high, the categories are dictated by CIPFA who require an annual return and provide comparators in order to assist internal audit to form an opinion.

#### **77. Performance and Risk Report October and November 2016**

Members received the performance and risk data for October and November 2016. The Policy and Performance Manager advised Members that the Promoting Healthy Lifestyles indicators were still being monitored against data from 2014/2015 which makes the outcomes difficult to monitor and relate to present day circumstances, potentially the impact of actions taken in 2016 not being known for several years.

Members noted that the number of permanent care home placements was increasing and expressed concern that further demand may be placed upon the system from the proposed closure of some local hospitals. Members requested

this indicator be monitored in order that the financial impact can be monitored and addressed if needed.

Member also challenged the agency staff indicator and requested whether it was possible to have the number of agency staff rather than the cost of agency staff.

Members further requested an overall review of the performance and risk indicators with input from the Senior Leadership Team, Mayors Executive Group, Audit Committee and Overview and Scrutiny Board, to determine whether the indicators are able to inform decision making.

**78. Decision to opt in to the national scheme for Auditor Appointments with Public Sector Audit Appointment as the 'Appointing Person'**

The Audit Committee considered a report that set out proposals for appointing the external auditor to the Council for 2018/19 accounts and beyond. The Head of Finance advised that the vast majority of local authorities had or would be opting into the Public Sector Audit Appointments (PSAA) contract which will produce better outcomes and will be less burdensome for the Council.

Resolved:

That Council be recommended to accept the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

**79. Certification work for Torbay Council for year ended 31 March 2016**

Members noted the report that set out the certification work undertaken on the Housing Benefit subsidy claim for the 2015/16 financial year which related to expenditure of £67.3 million.

**80. Audit Committee Update Year ended 31 March 2017**

Members noted a report that provided an update on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. Members were informed that work had commenced on the interim accounts audit with the final accounts audit scheduled to start on 5 June 2017 enabling an opinion to be issued in advance of the statutory deadline of 30 September 2017. Members were advised on a number of technical matters such as:

- Highways network asset accounting
- Changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting; and
- The 'Delivering Good Governance in Local Government: Framework (2016) which will apply to the annual governance statements prepared for the 2016/17 financial year.

Internal Audit

# Internal Audit Plan 2017-18

Torbay Council  
Audit Committee

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March 2017

Not Protectively Marked

Robert Hutchins  
Head of Audit Partnership



Auditing for achievement

Agenda Item 5

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<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a> .</p>	<p>This report is protectively marked in accordance with the government security classifications. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation’s disclosure policies.</p> <p>This report is prepared for the organisation’s use. We can take no responsibility to any third party for any reliance they might place upon it.</p>



## Introduction

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council's Audit Committee and senior management is the Council's Senior Leadership Team. The Audit Committee, under its Terms of Reference contained in the Council's Constitution, is required to review and approve the Internal Audit Plan to provide assurance to support the governance framework (see appendix 2).

This Council's Internal Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP) as represented in the audit framework at appendix 1, and the scope of Internal Audit work. The PSIAS make reference to the role of "Chief Audit Executive". For The Council this role is fulfilled by the Head of Devon Audit Partnership.

The chief audit executive is responsible for developing a risk-based plan which takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation as represented in appendix 3.

The audit plan represents the proposed internal audit activity for the year and an outline scope of coverage. At the start of each audit the scope is discussed and agreed with management with the view to providing management, the Head of Finance (Section 151) and members with assurance on the control framework to manage the risks identified. The plan will remain flexible and any changes will be agreed formally with management and reported to Audit Committee.

### Expectations of the Audit Committee for this annual plan

Audit Committee members are requested to consider:

- the annual governance framework requirements;
- the basis of assessment of the audit work in the proposed plan;
- the resources allocated to meet the plan;
- proposed areas of internal audit coverage in 2017/18.

In review of the above the Audit Committee are required to consider the proposed audit plan.

**Robert Hutchins**  
**Head of Audit Partnership**

## Annual Service Level Plans

### Adults

Whilst the majority of assurance work is carried out by Health auditors (Audit South West), our work will review the implementation of the Care Act – Better Care Fund and related Section 256 monies. We will also examine arrangements for service commissioning and the associated performance management and follow up our previous work in relation to the Joint Equipment Store.

### Children's Services

Work within Children's Services continues to be aligned to the outcomes of the Ofsted report and the LGA review. Planned work will include a review of progress against the Children's Services Medium Term Financial Strategy / Improvement Plan, and examination of Placement Activity, Adoption and Contracted Services as procured services and their links to the financial strategy. In addition, we will review the PARIS system and consider its use, data quality and performance monitoring along with the linked use of the PDA (personal digital assistant) technology. We will examine School Transport Provision, and the Early Years / Children's Centre Contract along with an overarching review of the Early Help strategy. We will also review the Section 17 Payments process and the Legal Care proceedings process. We will consider the Schools Forum and use of the DSG (Dedicated schools grant). Additionally Schools audit activity and compliance with Schools Financial Value Standards will be maintained.

### Public Health

We plan to examine the arrangements for contracts management and monitoring of the commissioned services in relation to Drugs & Alcohol and Public Health Nursing. We will also review the new commissioning of the 0 – 5 Activities (Health Visitors), and examine the Public Health NHS Links.

### Community and Customer Services

We will follow up our 2016-17 work in relation to Concessionary Fares, Sports Pitch Leases and the Highway Network Asset Valuation system and Housing Services as well as considering the new bond scheme and use of the homeless grant recently awarded. Additionally, we will again examine arrangements in relation to Food Safety, Safety & Licensing. We will also review the processes and controls in relation to Printing Services and Post Room.

### Corporate and Business Services

We will continue to support the authority in relation to the LGA (Local Gov. Association) Peer Review through a 'trusted adviser' role in arising projects as a result of the Transformation Programme. In addition, the list of proposed audits demonstrates where our other work links to the Transformation Programme. We will continue to be involved in the MyView, TOAD replacement and FIMS Upgrade projects as a 'trusted advisor'. Work will include the examination of arrangements with the Coroner in terms of the service level agreement for the one coronial area and related charging practices. Work will also include examination of Development and Planning and follow up of our previous work in relation to Section 106. We will review the process and procedures for Exit Packages, and also follow up our previous work in relation to Parking Services along with reviewing the new system and examining the parking strategy. In addition we will consider the Council's the Commissioning and Performance Monitoring by the Council of the Torbay Development Agency (TDA).

### Core Assurance – Business Processes & Governance, Key Financial Systems, ICT

We shall continue work with management to ensure that effective systems and governance arrangements are in place to manage the risks, as shown by our work in areas such as Commissioning and Contracts Management.

Assurance work will be undertaken on areas termed as material systems that process the majority of income and expenditure of the Authority, and which have a significant impact on the reliability and accuracy of the annual accounts.

IT Audit activity will examine the overarching strategic direction of ICT service delivery through reviewing areas such as ICT Strategy and possible operational models; and impact and delivery within the Transformation programme. This will be supported by a review of key technical areas including service operation and website content. The resilience of ICT will be considered in a wider context within reviews covering ICT continuity and disaster recovery, and knowledge management. The reviews will be undertaken using the ITIL framework as a reference for best practice but maintaining specific relevance to the organisation.

### Value Added and Infrastructure / Business Projects

We will support the Corporate Fraud Officer in the National Fraud Initiative this year, which will see a continuation of the review of the main 2016-17 matches and subsequently the uploading of Council Tax and Electoral Roll datasets. This will result in the receipt of data matches for these in early 2018 which will then be reviewed.

We will undertake the annual follow up on all audit areas identified as 'Improvements Required' or 'Fundamental Weaknesses' in 2016/17. A number of projects will be supported ranging from major infrastructure to operational system implementations.

### Service Area Overview of Audit Coverage

		Adults	Children's Services	Corporate & Business	Community & Customer	Public Health	Business Projects	Value Added
<b>Thematic Overview</b> <b>Audit Coverage</b>  Page 11		Care Act – Better Care Fund / Section 256 monies	Financial Strategy / Improvement Plan	Development and Planning	Food Safety, Safety and Licensing	Commissioned Services management and monitoring	Transformation Programme (refer to page 5)	Information Security Group
		Commissioning and Performance Management (non ICO)	School Transport Provision	Section 106	Housing Services	0-5 Activities (Health Visitors)	Payroll / HR system (new modules)	Fraud Prevention and Investigation
		Joint Equipment Store	Procured Services <small>(Placement Activity, Adoption, Contracted Services)</small>	Parking Services	Concessionary Fares	Highway Network Asset Valuations	FIMS upgrade	National Fraud Initiative
		(Adult Social Care audited by Audit South West)	Section 17 Payments	Exit Packages	Highway Network Asset Valuations	Printing Services and Post Room	TOAD replacement	Advice
			Schools Forum	Coroner Service	Sport Pitch Leases			Audit Follow Up
			Early Years / Children's Centre Contract					Schools incl. Financial Value Standard
		Early Help						
<b>Core Assurance</b>	Business Processes & Governance – Commissioning and Performance Monitoring, PARIS, Legal Care Proceedings, Grant Certification, and Audit Assurance Planning and Reporting							
	Key Financial Systems – Payroll, IBS Sys Admin, Creditors & Electronic Ordering, FIMS Sys Admin, Debtors and Corporate Debt, Benefits and Council Tax Support Scheme, Income Collection, Asset Register, Council Tax & Non Domestic Rating, General Ledger and Bank Reconciliation, Treasury Management							
	ICT – Service Strategy, Partnership Working, Shared Service, Service Operation, ICT Continuity and DR, Knowledge Management, Website Content							

The diagram shows the thematic approach to the elements proposed for audit coverage in the coming year as identified through risk assessment and discussion with Senior Management. This overview is supported by the detailed plans, by theme, in appendix 1.

## High Level Audit Plan

This table shows a summary of planned audit coverage for the year totalling 779 direct days. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector.

We have set out our plan based on the current organisational structure for the Authority. Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following pages give a brief overview of the focus of proposed audit coverage for the year.

A detailed analysis of proposed audit reviews is provided in the following schedule.

Core Activity for Internal Audit Review	Coverage in Days
Transformation (audit areas linked to Transformational Change)	182
Public Health	35
Adults (excludes audit activity delivered by Audit South West)	20
Children's Services	93
Community and Customer Services, including ICT	95
Corporate and Business Services	42
Key Financial Systems	123
Anti-Fraud and Corruption including NFI	50
Other Chargeable Activities	139
<b>Total internal audit plan for Torbay Council</b>	<b>779</b>
Schools	24

## Proposed audit reviews

\* Whilst audit area titles are detailed below, our practice is to agree detailed scopes closer to the actual timing of the audits and these will be briefly recorded in our 6 month and annual monitoring reports to Audit Committee.

Risk Area / Audit Entity *	Audit Needs Assessment (ANA) – an assessment of the priority of the planned review	Proposed Timing	
		Days	Quarter
<b>Transformation</b> (audit areas linked to transformational change projects and LGA / CIPFA action plan)			
Transformation Programme - project 'trusted advisor' role including review of <ul style="list-style-type: none"> <li>o the due diligence process,</li> <li>o the execution plans,</li> <li>o ICO (Integrated Care Organisation),</li> <li>o housing company,</li> <li>o investment company,</li> <li>o investment fund,</li> <li>o lottery,</li> <li>o library service,</li> <li>o TOR2,</li> <li>o IT development for the programme,</li> <li>o digitalisation,</li> <li>o additional transformation projects opportunity.</li> </ul>	ANA – critical, client request	80	1-4
Children's Services Medium Term Financial Strategy / Improvement Plan	ANA – high, LGA review, client request	18	3-4
Debtors and Corporate Debt (including collection of CTAX and take up of payment by direct debits building on the work / comments by CIPFA)	ANA – high	22	4
Concessionary Fares (follow up audit including impact of changes)	ANA – medium, client request	7	2-3
Parking Services (new system, parking strategy, fees & charges and previous follow up audit)	ANA – high, client request	15	4
Spatial Planning – Development and Planning (linked to findings of peer review)	ANA - high	18	4
Sports Pitch Leases (follow up audit including sport activities subsidies)	ANA – medium, client request	5	4
Council Tax and Non Domestic Rates (including review of new processes to drive efficiency and take up of payment by direct debit)	ANA – medium	17	3
<b>Other Audit Areas within the Joint Commissioning and Joint Operations Teams</b> (not directly linked to the transformational change programme)			
<b>Public Health</b>			
Commissioned Services – Contracts Management and Monitoring (Drugs & Alcohol and Public Health Nursing)	ANA – high, client request	10	1
0 - 5 Activities (Health Visitors) Commissioning	ANA – medium, client request	10	1
Public Health / NHS Links	ANA – high, client request	15	3

Risk Area / Audit Entity *	Audit Needs Assessment (ANA) – an assessment of the priority of the planned review	Proposed Timing	
		Days	Quarter
<b>Adults</b>			
Care Act – Better Care Fund / Section 256 monies	ANA – critical, client request	5	2
Commissioning and Performance Management (non Integrated Care Organisation)	ANA - high	10	2
Joint Equipment Store – NRS (Nottingham Rehabilitation Services) (follow up)	ANA – low, client request	5	1
<b>Audit Areas linked to Integration</b> <ul style="list-style-type: none"> <li>○ Progress against the Care Model Projects</li> <li>○ Strategy – work to be undertaken across the STP partnership</li> <li>○ Cost Improvement Plans – a joint review with South Devon &amp; Torbay Clinical Commissioning Group</li> </ul> <b>Other Audits</b> <ul style="list-style-type: none"> <li>○ Transition from Children’s Services</li> <li>○ Social Care Debt Management.</li> <li>○ Care Homes – pricing, contracting and quality</li> </ul>		Requested by the Director of Adult Services – to be delivered by Audit South West  To be approved at TSDFT’s Audit Committee	
<b>Children’s Services</b>			
PARIS - Case Recording / Data Quality / Business Use	ANA – critical, Ofsted report	12	1
School Transport Provision	ANA - high	10	1
Placement Activity	ANA – medium, client request, Ofsted report	16	3-4
Adoption	ANA – medium, client request	10	3-4
Contracted Services (Information, Advice, Guidance)	ANA – medium, client request	5	3-4
Section 17 Payments	ANA - medium	8	4
Schools Forum / use of DSG	ANA - medium	5	1
Early Years / Children’s Centre Contract	ANA - medium	10	2
Early Help (strategy)	ANA - medium	5	2
Legal Care Proceedings	ANA - medium	10	3-4
School Financial Value Standard (SFVS)	n/a	2	1
Schools	Service bought by Schools – summary of findings provided in relation to Authority Controlled Schools	24	n/a

Risk Area / Audit Entity *	Audit Needs Assessment (ANA) – an assessment of the priority of the planned review	Proposed Timing	
		Days	Quarter
<b>Community and Customer Services</b>			
Food Safety, Safety & Licensing	ANA – high	15	1
Housing Services (follow up audit, bond scheme, and new grant)	ANA – low	5	2-3
Transport Infrastructure Highways Network Asset Valuations (follow up audit)	ANA – high, client request	5	2-3
Printing Services and Post Room	ANA - medium	15	4
<b>Core Assurance – ICT</b>			
ICT Continuity and Disaster Recovery	ANA – critical	10	2
Service Strategy	ANA - high	10	1
ICT Knowledge Management	ANA - high	5	2
Service Operation (processes, incident management data review)	ANA - high	5	3
Website Content Management	ANA - medium	5	4
Service Design	ANA - critical	10	1
Shared Services and Partnership Working (ICT systems)	ANA – critical	10	1
<b>Corporate and Business Services</b>			
Payroll System – New modules implementation project ‘trusted advisor’ role (including HR workflows)	ANA – critical, client request	7	1-4
Commissioning and Performance Monitoring by the Council of the Torbay Development Agency (TDA)	ANA – high, client request	5	4
Spatial Planning – Section 106 (follow up audit)	ANA – medium, client request	4	2-3
Human Resources – Exit Packages	ANA – medium, client request	6	2
Coroner Service	ANA – low, client request	8	1
TOAD Replacement (Torbay On line Asset Database)	ANA – medium, client request	4	1
FIMS Upgrade	ANA – medium, client request	8	1
<b>Core Assurance – Key Financial Systems</b> (full list here for completeness)			
General Ledger (Main Accounting System) and Bank Reconciliation	ANA – medium	17	3



Risk Area / Audit Entity *	Audit Needs Assessment (ANA) – an assessment of the priority of the planned review	Proposed Timing	
		Days	Quarter
Creditors & Electronic Ordering (POP)	ANA – high	17	3
Debtors and Corporate Debt	ANA – high	Included in the Transformation section	
FIMS Sys Admin	ANA – high	10	2
Asset Register	ANA – medium	10	1
Treasury Management	ANA – low	9	2
Income Collection	ANA – medium	12	3
Payroll	ANA – high	17	3
Benefits and CTAX Support Scheme	ANA – high	21	4
Council Tax and Non Domestic Rates	ANA – medium	Included in the Transformation section	
IBS Open Sys Admin	ANA – high	10	2
* A rolling programme of audits is adopted for material systems whereby although the planned days is likely to remain stable each year, the work programmes may differ, with each audit having varying amounts of system review, testing or a combination of the two. This approach enables us to deliver a more cost-effective service, whilst providing sufficient assurance as to the adequacy of the Authority's material system control environment.			
<b>Value Added</b>			
Information Security Group	client request	4	n/a
Fraud Prevention and Investigation including National Fraud Initiative	business driven requirement, client request	50	n/a
Grant Certification	business driven requirement	20	n/a
Advice	business driven requirement	18	n/a
Audit Follow Up	business driven requirement	12	2-3
<b>Other Activities (not incorporated above)</b>			
Carry forward (completion of previous year work)		40	n/a
Other activities (including audit planning and annual plan report; support for audit committee; 6 month and annual monitoring reports; support for the preparation of the AGS; attendance at corporate meetings; external audit liaison etc.)		45	n/a

**Risk Assessment Key**

SRR / ORR – Local Authority Strategic or Operational Risk Register reference

ANA - Audit Needs Assessment risk level



## Fraud Prevention and Detection and Internal Audit Governance

### Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance in the Fraud Strategy for Local Government “Fighting Fraud Locally”, and the TEICCAF (The European Institute for Combatting Crime and Fraud) publication “Protecting the English Public Purse 2016”. Internal Audit will liaise with the Council’s Corporate Fraud Officer, to enable resource to be focussed on identifying and preventing fraud before it happens. Additionally, new guidance recently introduced by CIPFA, in their ‘Code of practice on managing the risk of fraud and corruption’, and also the new Home Office ‘UK Anti-Corruption Plan’, will further inform the direction of counter-fraud arrangements going forwards.

Nationally, the notable areas of fraud include Housing Benefit, Council Tax, Housing and Tenancy, Procurement, Insurance, Abuse of Position, Blue Badges, and Direct Payments (Social Care).

The Cabinet Office runs a national data matching exercise (National Fraud Initiative - NFI) every two years. Work on the 2016/17 exercise has already commenced, with resulting data matches available from early 2017. Relevant Council departments have been engaged with, to ensure that the matches are reviewed and action taken as may be necessary. This work will continue through the first half of 2017/18.

### Internal Audit Governance

An element of our work is classified as “other chargeable activities” – this is work that ensures effective and efficient services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include:-

- Preparing the internal audit plan and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. Grant Thornton);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2017/18
- On-going development within the Partnership to realise greater efficiencies in the future.

### Partnership working with other auditors

We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of “re-inventing the wheel” in new areas of work which have been covered in other authorities.

The most significant partnership working arrangement that we currently have with other auditors continues to be that with the Council’s external auditors (Grant Thornton) and Audit South West (Internal Audit for NHS).

## Appendix 1 - Audit Framework

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state: “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance”.

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

The Standards require that the Chief Audit Executive must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Chief Audit Executive should take account of the organisation’s risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation’s business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.



We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning & best practice, helping each authority develop further to ensure that risk remains suitably managed.

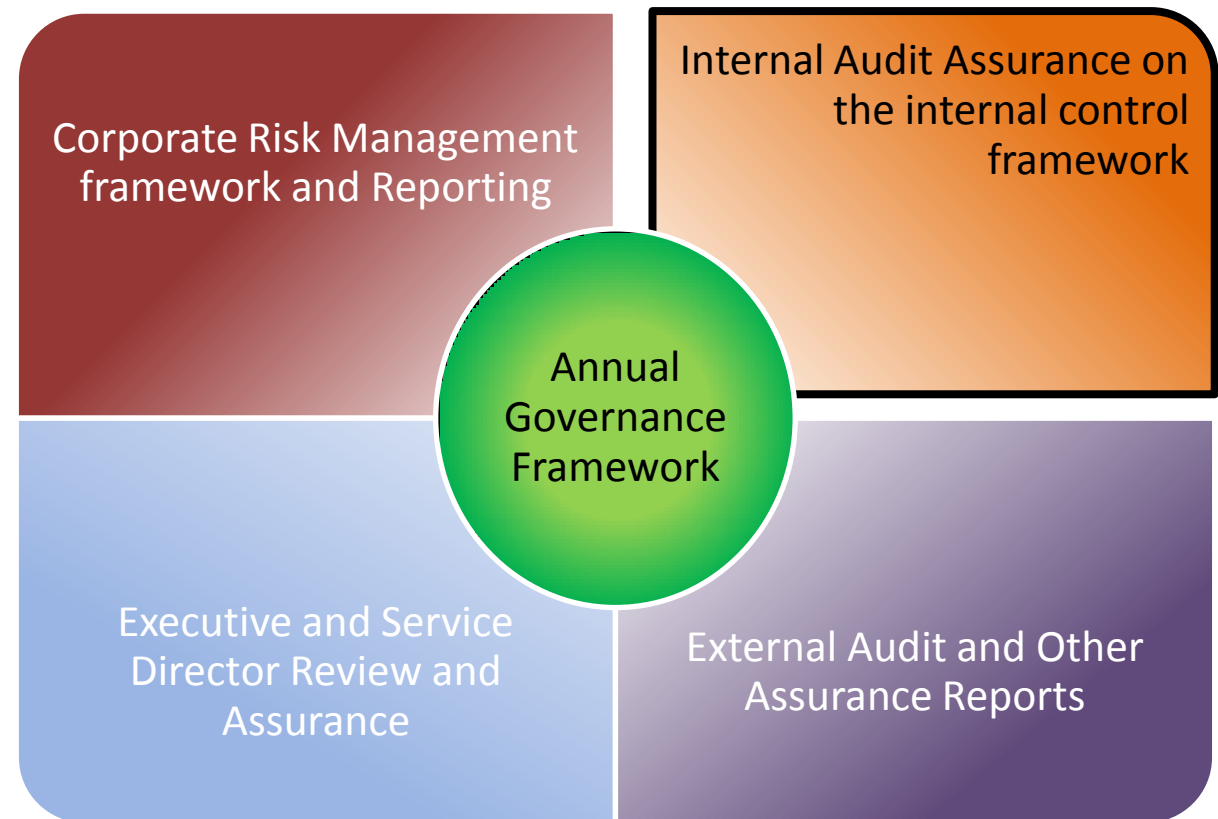
## Appendix 2 - Annual Governance Framework Assurance

The Annual Governance Statement provides assurance that

- The Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

- be prepared by senior management and signed by the Chief Executive and the Mayor;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that is followed to ensure that the governance arrangements remain effective. This will include comment upon;
  - The Authority;
  - Audit Committee;
  - Risk Management;
  - Internal Audit
  - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA's recently revised International Framework – Good Governance in the Public Sector. If not, a statement is required stating how other arrangements provide the same level of assurance.



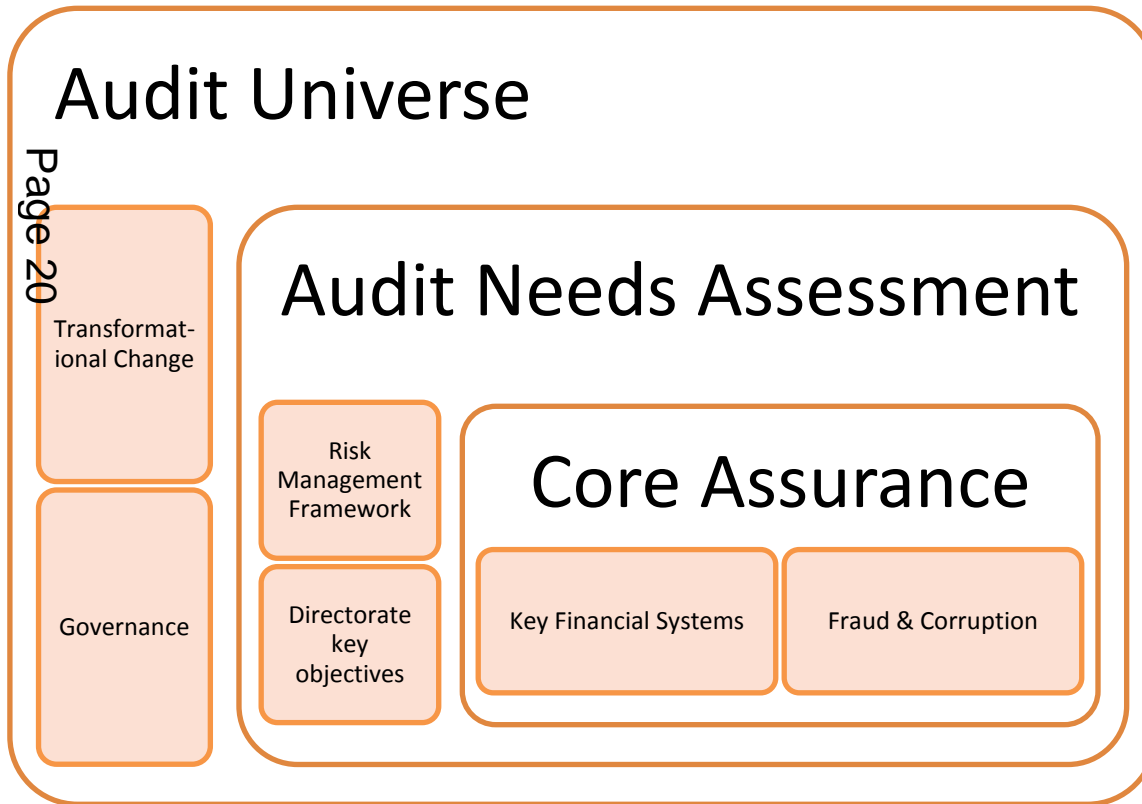
The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Annual Governance process, SLT, Internal Audit, and other assurance providers (e.g. Audit South West) that the statement meets statutory requirements.

## Appendix 3 - Audit Needs Assessment

We employ a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the “Audit Universe” using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention.

The result is the Internal Audit Plan set out earlier in this report.



The audit plan for the year plan has been created by:

Consideration of risks identified in the Authority’s strategic and operational risk registers

Review and update of the audit universe

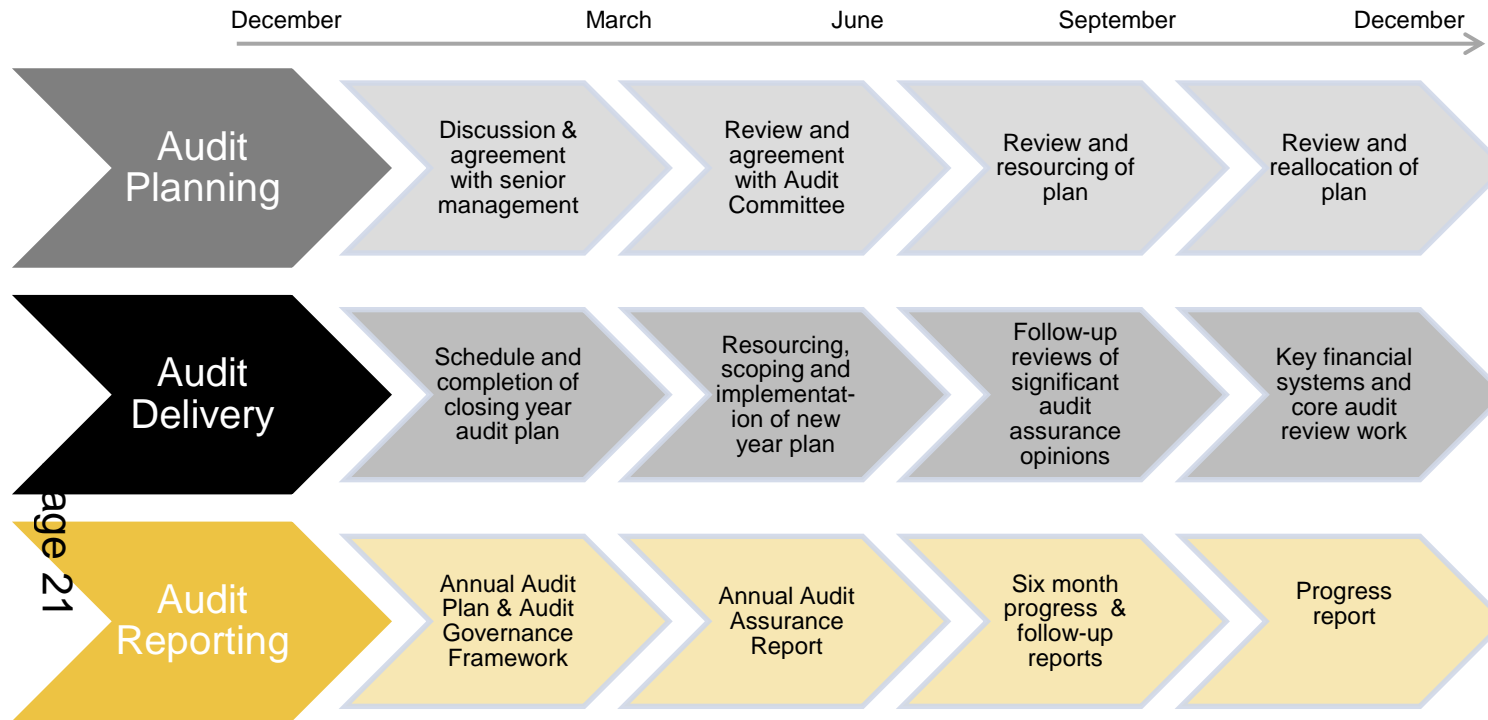
Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives

Taking into account results of previous internal audit reviews

Taking into account Internal Audit’s knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council’s delivery plans

Requirements to provide a “collaborative audit” approach with the external auditors

## Appendix 4 - Our Audit Team and the Audit Delivery Cycle



Date	Activity
Dec / Jan 2017	Directorate planning meetings
March 2017	Internal Audit Plan presented to Audit Committee
	Internal Audit Governance Arrangements reviewed by Audit Committee
	Year end field work completed
Apr / May 2017	Annual Performance reports written
June 2017	Annual Internal Audit Report presented to Audit Committee
	Follow –up work of previous year’s audit work commences
Sept 2017	Follow-up and progress reports presented to Audit Committee
Dec 2017	Six month progress reports presented to Audit Committee
	2018 Internal Audit Plan preparation commences

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## Torbay COUNCIL

### INTERNAL AUDIT STRATEGY (March 2017)

#### 1 INTRODUCTION

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance.

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In The Council, the Head of Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The PSIAS refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For The Council, the role of Chief Internal Auditor is provided by the Head of Devon Audit Partnership.

The PSIAS require the Head of Devon Audit Partnership to produce an Audit Strategy, which:

- is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
- will communicate the contribution that Internal Audit makes to the organisation and should include:
  - internal audit objectives and outcomes;
  - how the Head of Devon Audit Partnership will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
  - how Internal Audit's work will identify and address significant local and national issues and risks;
  - how the service will be provided, and
  - the resources and skills required to deliver the Strategy.
- should be approved, but not directed, by the Audit Committee.

The Strategy should be kept up to date with the organisation and its changing priorities.

## **2 INTERNAL AUDIT OBJECTIVES AND OUTCOMES**

The primary objective of Internal Audit is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Head of Devon Audit Partnership aims to fulfil the statutory responsibilities for Internal Audit by:

- identifying all of the systems, both financial and non-financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- providing managers with an opinion on, and recommendations to improve, the effectiveness of risk management, control and governance processes;
- providing managers with advice and consultancy on risk management, control and governance processes;
- liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- providing the Council, through the Audit Committee, with an opinion on governance, risk and control framework as a contribution to the Annual Governance Statement.

## **3 OPINION ON THE GOVERNANCE, RISK AND CONTROL FRAMEWORK**

As stated above, one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. Regular formal meetings should also be held to discuss issues arising and other matters.

The Head of Devon Audit Partnership will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee.

The Head of Devon Audit Partnership will also provide a written annual report to the Audit Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Head of Devon Audit Partnership's annual report to the Audit Committee will:

- (a) include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) draw attention to any issues the Head of Devon Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement;



- (e) compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- (f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

#### **4 PLANNING, INCLUDING LOCAL AND NATIONAL ISSUES AND RISKS**

The audit planning process includes the creation of and ongoing revision of an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

##### *Assignment planning*

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

#### **5 PROVISION OF INTERNAL AUDIT**

The Internal Audit for The Council is provided by Devon Audit Partnership

The Head of Devon Audit Partnership has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. The manual is reviewed and updated to reflect changes in working practices and standards.

##### **Internal Audit Performance Management and Quality Assurance**

The PSIAS state that the Head of Devon Audit Partnership should have in place an internal performance management and quality assurance framework; this framework must include:

- a comprehensive set of *targets to measure performance*. These should be regularly monitored and the progress against these targets reported appropriately;
- seeking *user feedback* for each individual audit and periodically for the whole service;
- a periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self assessment); and
- an action plan to implement improvements.

### *Performance Measures and targets*

The Head of Devon Audit Partnership will closely monitor the performance of the team to ensure agreed targets are achieved. A series of performance indicators have been developed for this purpose (please see over).

#### Torbay Council - Internal Audit Performance Monitoring Targets 2017/18.

<b>Performance Indicator</b>	<b>Full year target 2017/18</b>
Percentage of Audit Plan completed	90%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%
Draft reports produced with target number of days (currently 15 days)	90%
Final reports produced within target number of days (currently 10 days)	90%

There are a number of other indicators that are measured as part of the audit process that will be captured and reported to senior management.

<b>Task</b>	<b>Performance measure</b>
Agreement of Annual audit plan	Agreed by Chief Executive, SLT and Audit Committee prior to start of financial year
Agreement of assignment brief	Assignment briefs are agreed with and provided to auditee at least two weeks before planned commencement date.
Undertake audit fieldwork	Fieldwork commenced at agreed time
Verbal debrief	Confirm this took place as expected; was a useful summary of the key issues; reflects the findings in the draft report.
Draft report	Promptly issued within 15 days of finishing our fieldwork. Report is "accurate" and recommendations are both workable and useful.
Draft report meeting (if required)	Such a meeting was useful in understanding the audit issues
Annual internal audit report	Prepared promptly and ready for senior management consideration by end of May. Report accurately reflects the key issues identified during the year.
Presentation of internal audit report to management and audit committee.	Presentation was clear and concise. Presented was knowledgeable in subject area and able to answer questions posed by management / members.
Contact with the audit team outside of assignment work.	You were successfully able to contact the person you needed, or our staff directed you correctly to the appropriate person. Emails, letters, telephone calls are dealt with promptly and effectively.

Once collated the indicators will be reported to the S.151 Officer on a regular basis, and will be summarised in an annual report. Performance indicator information will also be presented to the Audit Committee for information and consideration.

The Head of Devon Audit Partnership is expected to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

#### *Customer (user) feedback*

The PSIAS and the Internal Audit Manual state that internal audit performance, quality and effectiveness should be assessed at two levels:

- for each individual audit; and
- for the Internal Audit service as a whole.

Customer feedback is also used to define and refine the audit approach. Devon Audit Partnership will seek feedback from:-

- auditees;
- senior leadership; and
- executive management.

The results from our feedback will be reported to Senior Management and the Audit Committee in the half year and annual reports.

#### *Internal quality reviews*

Devon Audit Partnership management have completed a self-assessment checklist against the PSIAS and have identified that there are no omissions in our practices. We consider that we fully meet over 92% of the elements; partially meet 5.5%; and are not required to or do not meet 2% (seven) of the elements. The self-assessment will be updated annually, and, if management identify areas where we could further strengthen our approaches, these will be added to the Quality Action Improvement Plan.

In December 2016 Devon Audit Partnership welcomed Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service and his colleague Chris Wood, Audit Manager, who completed an external validation of the Partnership.

Terry and Chris concluded that;

“It is our overall opinion that the Devon Audit Partnership **generally conforms\*** to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

\* **Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

## 6 RESOURCES AND SKILLS

### *Resources*

The PSIAS and the Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Chief Internal Auditor (Head of Devon Audit Partnership) should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

Devon Audit Partnership currently has c.26 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter). The Partnership employs a number of specialists in areas such as Computer Audit and Contracts Audit as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff (as at January 2017) includes:-

- 3 x CCAB qualified
- 6 x qualified IIA (including QICA – computer audit)
- 1 x studying for IIA
- 11 x AAT qualified
- 4 x ILM (Institute of Leadership & Management) level 5 or above

Devon Audit Partnership uses MorganKai Insight (MKi) as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

### *Staff Development and Training*

Devon Audit Partnership management assess the skills of staff to ensure the right people are available to undertake the work required.

Staff keep up to date with developments within internal audit by attending seminars, taking part in webinars and conferences, attending training events and keeping up to date on topics via websites and professional bodies. Learning from these events helps management to ensure they know what skills will be required of our team in the coming years, and to plan accordingly.

Devon Audit Partnership follows formal appraisal processes that identify how employees are developing and create training and development plans to address needs.

**Devon Audit Partnership**

**March 2017**

**Auditing for achievement**

## Torbay COUNCIL

### INTERNAL AUDIT CHARTER (March 2017)

#### TERMS OF REFERENCE

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP), and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

#### DEFINITIONS

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

The PSIAS set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council's Audit Committee and senior management is the Council's Corporate Leadership Team.

The PSIAS make reference to the role of “Chief Internal Auditor”. For The Council this role is fulfilled by the Head of Devon Audit Partnership.

#### STATUTORY REQUIREMENTS

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

*5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In The Council, the Head of Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

## **THE PURPOSE AND AIM OF INTERNAL AUDIT**

The role of Internal Audit is to understand the key risks of the Council; to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge his / her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for The Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of The Council, adding value whenever possible.

## **PROFESSIONALISM, ETHICS AND INDEPENDENCE**

### **Being Professional**

We (Devon Audit Partnership) will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council's relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

### **Our Ethics**

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

### **Being Independent**

Internal Audit should be independent of the activities that it audits.

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Head of Devon Audit Partnership should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Chief Executive, the S.151 Officer and the Chair of the Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Head of Devon Audit Partnership should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent. They;

- Must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment by the Partnership / Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- Must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

### **AUTHORITY**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that:

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (2) (a) make available such documents and records; and

(b) supply such information and explanations;  
as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic form.

In addition, Internal Audit, through the Head of Devon Audit Partnership, where deemed necessary, will have unrestricted access to:

- the Chief Executive
- Members
- individual Directors, Assistant Directors and Executive Heads
- Section 151 Officer
- Monitoring Officer
- all authority employees
- all authority premises.

## **ACCOUNTABILITY**

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The Head of Devon Audit Partnership fulfils the role of Chief Auditor at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Head of Finance ‘Section 151 Officer’ will liaise with the Head of Devon Audit Partnership and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Devon Audit Partnership reports functionally to the Audit Committee on items such as:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving reports from the Head of Devon Audit Partnership on the section’s performance against the plan and other matters;
- approving the Head of Devon Audit Partnership’s annual report’
- approve the review of the effectiveness of the system of internal audit.

The Head of Devon Audit Partnership has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.



## **RESPONSIBILITIES**

The Chief Executive, Directors, Assistant Directors and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Head of Devon Audit Partnership will provide assurance to the Head of Finance 'Section 151 Officer' regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The Head of Devon Audit Partnership will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping her meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. He will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- advising on internal control implications of new systems;
- providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- being responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues.

## **INTERNAL AUDIT MANAGEMENT**

The PSIAS describe the requirement for the management of the internal audit function. This sets out various criteria that the Head of Devon Audit Partnership (as Chief Internal Auditor) must meet, and includes:-:

- be appropriately qualified;
- determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- produce a Strategy to explain how the service will be delivered and reflect the resources and skills required;
- regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- include in the plan the approach to using other sources of assurance if appropriate;

- be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Head of Devon Audit Partnership is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Head of Devon Audit Partnership should also have the opportunity for free and unfettered access to the Chief Executive and meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

## **INTERNAL AUDIT PLAN AND RESOURCES**

At least annually, the Head of Devon Audit Partnership will submit to the Audit Committee a risk-based internal audit plan for review and approval. The Head of the Devon Audit Partnership will:

- develop, in consultation with Directors, Assistant Directors and Executive Heads, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- submit the plan to the Audit Committee for review and agreement;
- implement the agreed audit plan;
- maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- maintain a programme of quality assurance and a culture of continuous improvement;

The internal audit plan will include timings as well as budget and resource requirements for the next fiscal year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

It is a requirement of the Council's Anti-Fraud and Corruption Strategy that the Head of Devon Audit Partnership be notified of all suspected or detected fraud, corruption or impropriety. All reported irregularities will be investigated in line with established strategies and policies. The audit plan will also include sufficient resource to carry out proactive anti-fraud work.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Head of the Devon Audit Partnership to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

## **REPORTING**

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the

control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be:

- to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- to recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Head of Devon Audit Partnership is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Head of the Devon Audit Partnership will

- submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken;
- submit on an annual basis an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

## **RELATIONSHIP WITH THE AUDIT COMMITTEE**

The Council's Audit Committee will act as the Board as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Responsibility for Functions).

The Head of Devon Audit Partnership will assist the Committee in being effective and in meeting its obligations. To facilitate this, the Head of Devon Audit Partnership will:

- attend meetings, and contribute to the agenda;
- ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;

- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor.

In December 2016 Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service who completed an external validation of the Partnership. Terry concluded that;

“It is our overall opinion that the Devon Audit Partnership **generally conforms\*** to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

\* **Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

## **CHARTER – NON CONFORMANCE AND REVIEW**

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Head of Devon Audit Partnership will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.

**Devon Audit Partnership**

**March 2017**

**Auditing for achievement**

# The Audit Plan for Torbay Council

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**Year ended 31 March 2017**

March 2017

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Agenda Item 8

Torbay Council  
Castle Circus  
Torquay  
TQ1 3DR

22 March 2017

Dear Members of the Audit Committee

**Audit Plan for Torbay Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Torbay Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Alex Walling

Engagement Lead

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**Chartered Accountants**

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# Understanding your business and key developments

## Developments

### Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

### Integration with health sector

Wider transfers of responsibility for public health to local government, and more specifically Better Care Fund (BCF) plans have been operational since 2015/16.

The Council are in partnership with South Devon and Torbay CCG to commission services from Torbay and South Devon NHS FT, which is an Integrated Care Organisation (ICO) following the merger of the community and acute provider Trusts.

## Key challenges

### Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

### Delivery of savings

The Council needs to identify savings of £21.5m by 2020 in order to produce a balanced budget, while it continues to face in year budget pressures from Childrens' services and adults social care.

There is a risk share agreement in place for the ICO which exposes the Council to 9% of the ICO's deficit position, which is currently forecast to equate to £1.7m. The ICO has also given notice that it is withdrawing from the risk share agreement on 31/12/17.

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The timeline was achieved by the Council in 2015/16 and is planned again for 2016/17.

## Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work and issue the opinion on your financial statements by 31 July 2017
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review the Council's progress in managing its responsibilities for public health and how it is working with partners, as part of our work in reaching our VFM conclusion.
- We will review the Council's plan's for addressing its financial position as part of our work for the VFM conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £5,524k (being 1.95% of gross revenue expenditure), which is in line with prior year. Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £276k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

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

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Torbay Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable</li> </ul> Therefore we do not consider this to be a significant risk for Torbay Council.
<b>Management override of controls</b>	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work completed to date:</b> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation to M9</li> </ul> <b>Further work planned:</b> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation to year end.</li> <li>• Review of unusual significant transactions</li> </ul>

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<b>The expenditure cycle includes fraudulent transactions</b>	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.	We have considered this risk and do not consider it to require additional audit procedures because of pattern of expenditure (Based on the 2015/16 audited financial statements): <ul style="list-style-type: none"> <li>• 22% relates to employee remuneration, which is addressed by our procedure in response to the identified risk in this area</li> <li>• 72% relates to operating expenditure, which is addressed by our procedure in response to the identified risk in this area.</li> </ul>
<b>Valuation of property, plant and equipment</b>	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<b>Valuation of pension fund net liability</b>	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<p>Operating expenses</p>	<p>Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for operating expenses.</li> <li>• Completion of a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• Documentation of the processes in place for year end accruals.</li> <li>• Early substantive testing on a sample of operating expenses up to December 2016</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Completion testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period.</li> <li>• Cut off testing of expenditure, including a review of payments made after the year end to identify unrecorded liabilities.</li> <li>• Review of estimates, judgements and decisions made by management for unusual and large accruals.</li> </ul>
<p>Employee remuneration</p>	<p>Employee remuneration accruals are understated</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for Employee Remuneration.</li> <li>• Completion of a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• Review of monthly trend analysis of employee costs from April 2016 to December 2016 to identify any unusual or irregular movements.</li> <li>• Early substantive testing on a sample of employees covering the period April 2016 to December 2016.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Completion of our substantive testing of employees for accuracy of payment and the agreement of employee remuneration disclosures to supporting documentation.</li> <li>• Review of the year end payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements.</li> <li>• Review of monthly trend analysis of employee costs from January 2017 to March 2017 to identify any unusual or irregular movements.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

## Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 45</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>• We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

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# Other risks identified (continued)

## Going concern

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

## Other material balances and transactions

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

- Heritage assets
- Debt and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 31 July 2017.



# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Ofsted inspection of children's services</b> Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate' and the Council is currently subject to follow up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>We will review the action being taken by the Council in response to the issues in the Ofsted report. We will review update reports from Ofsted as they become available and take these into account in forming our conclusion.</p>
<p><b>Medium Term Financial Planning</b> The Council's Efficiency Plan shows that the Council needs to identify further savings £21.5m over the 2017/18-2019/20 period. This includes £9.8m of savings in the 2017/18 budget. The Chief Financial Officer gave a qualified opinion on whether the 2017/18 budget was based on robust budget estimates due to the significant risks the Council faces in respect of adult social care expenditure due to the ICO risk share agreement and the withdrawal of the ICO from the agreement on 31/12/17.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review the Council's latest MTRP, Efficiency Plan and the 2017/18 budget, considering the assumptions that underpin the figures within them. We will also review the 2016/17 savings achieved against those originally planned.</p>
<p><b>Informed decision making</b> The Local Government Association Corporate Peer Challenge (CPC) report in 2015/16 made recommendations around more effective working practices are implemented in respect of transparency and political decision making. The follow up report concludes that there remains work to be done in this area.</p>	<p>This links to the Council's arrangements for a properly constituted and documented governance structure.</p>	<p>We will review the Council's progress with the action plan in response to the original CPC report and the actions agreed in response to the follow up report.</p>
<p><b>Integrated Care Organisation</b> The Council is exposed to a 9% share of any ICO deficit under the risk sharing agreement in place. The financial position of the ICO currently shows an increasing deficit with planned savings not being delivered. The ICO gave notice on 31/12/16 that it is withdrawing from the current risk sharing agreement, meaning that the Council does not have a contract in place for the last three months of the 2017/18 financial year. The CIPFA financial resilience review raised concerns about the risk share agreement.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will review the arrangements in place for the ICO and in particular the options being considered by the Council in the light of the ICO's decision to withdraw from the risk share agreement and the potential impact of these on the Council.</p>

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Transformation Projects</b>            The Council is progressing a number of transformation projects as it seeks alternative methods of delivery and increased rates of return on investment. It has established an Investment Fund, and has recently completed the purchase of RenPark retail park of approximately £20m. It is also developing plans to create a Housing Company to generate income through housing. The CIPFA financial resilience review has raised issues about some of the proposed projects and the Council's capacity to deliver them..</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<p>We will review the arrangements being put in place by the Council for these new initiatives, including the whether appropriate advice has been taken.</p>

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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State

We certify completion of our audit.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Internal audit</b>	We have also reviewed internal audit's findings on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work findings have not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements

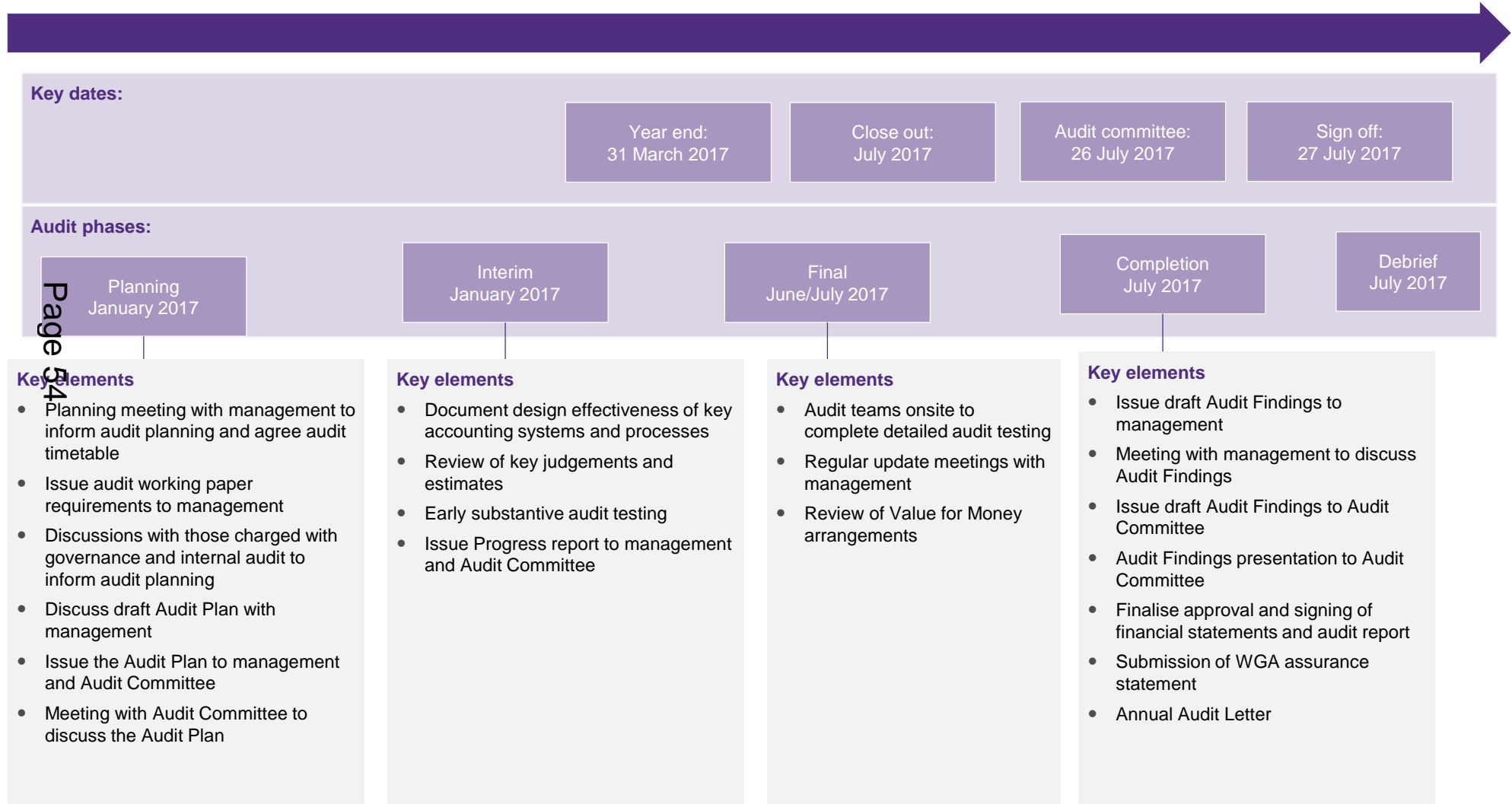
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## Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed most walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>Walkthroughs for PPE valuation and pensions will be carried out at the financial statements audit.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work to date has not identified any weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will complete our detailed testing on journal transactions recorded for the remaining months of the financial year as part of our financial statements audit.</p>
Early substantive testing	<p>We have undertaken early substantive testing of employee remuneration, operating expenses, non-grant income and welfare benefits.</p>	<p>Our work to date has not identified any issues which we wish to bring to the Council's attention.</p> <p>We will complete our sample testing and ensure that related disclosures are appropriate as part of our financial statements audit.</p>
Highways Network Asset (HNA)	<p>We carried out a high level review of the Council's arrangements for identifying and valuing assets in the following categories:</p> <ul style="list-style-type: none"> <li>• Carriageways</li> <li>• Footways</li> <li>• Structures</li> <li>• Street lighting</li> <li>• Street furniture</li> <li>• Traffic Management</li> <li>• Land</li> </ul> <p>This included consideration of whether the Council intended to use national models or local data.</p>	<p>Our work did not identify any significant weaknesses in the Council's arrangements for identifying and valuing assets in preparation for HNA.</p> <p>It should be noted that there were no tests of detail carried out as part of this review.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	102,053
Grant Certification	9,630
<b>Total audit fees (excluding VAT)</b>	<b>111,683</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

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## Fee for other services

Service	Fees £	Planned outputs
<b>Audit related - None</b>	Nil	
<b>Non-audit related - None</b>	Nil	

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.



# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As an auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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Audit Committee  
Torbay Council  
Progress Report and Update  
Year ended 31 March 2017

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March 2017

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Associate Director

T 0117 305 7804

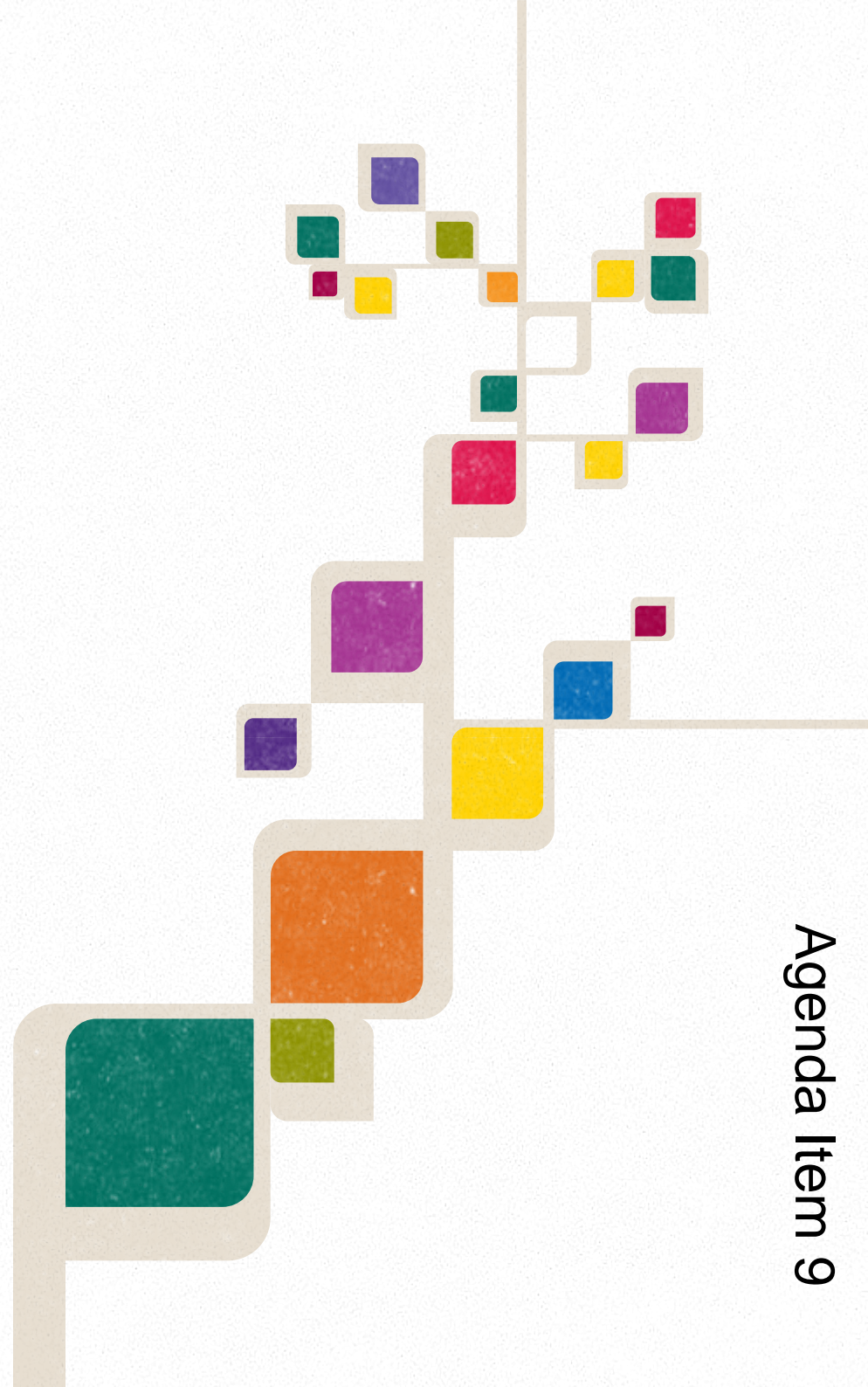
E [alex.j.walling@uk.gt.com](mailto:alex.j.walling@uk.gt.com)

**Mark Bartlett**

Manager

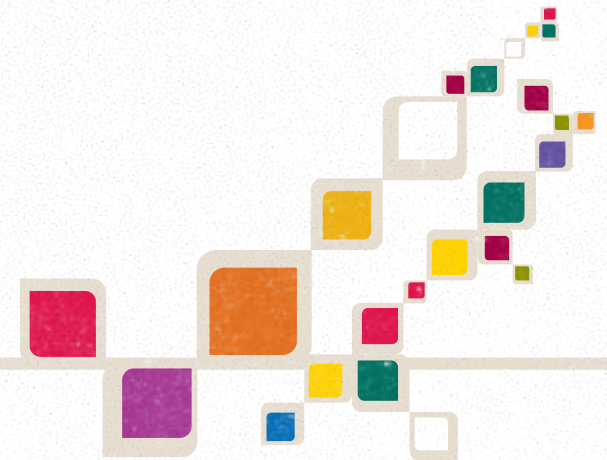
T 0117 305 7896

E [mark.bartlett@uk.gt.com](mailto:mark.bartlett@uk.gt.com)





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



# Introduction

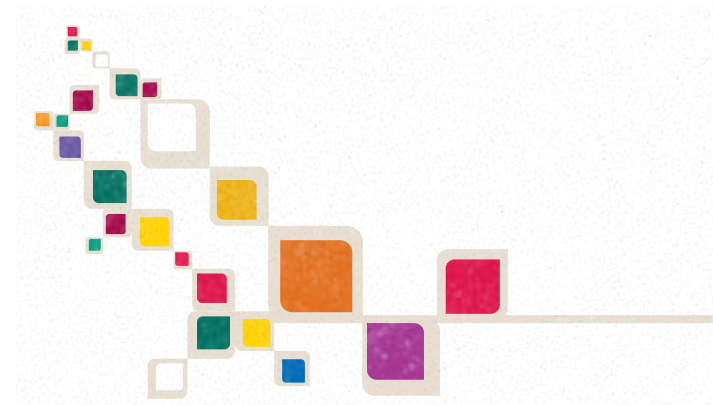
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

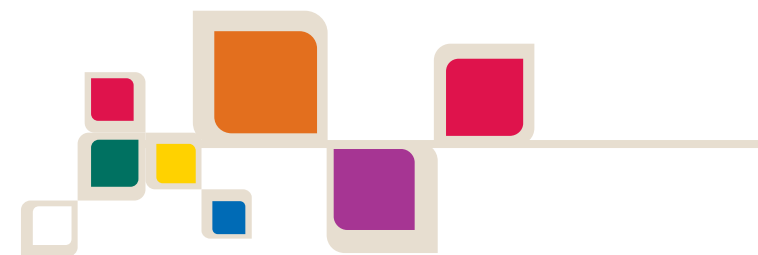
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016); <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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

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

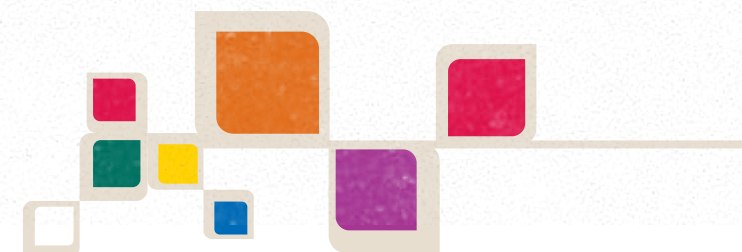


# Progress at 9 March 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016.
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	March 2017	Yes	The Audit Plan is included on the agenda of this meeting.
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	January 2017	Yes	The results of the interim audit are reported in the Audit Plan, which is a separate item on the agenda of this meeting.
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</li> </ul>	June – July 2017	Not yet due	We will undertake work on your draft financial statements to provide an opinion by end of July 2017, in advance of the statutory deadline of 30 September 2017. The final accounts audit is scheduled to start on 5 June 2017.

# Progress at 9 March 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>Jan – June 2017</p>	<p>Not yet due</p>	<p>The results of our initial risk assessment are reported in our audit plan which is included as a separate item on the agenda of this meeting.</p>
<p><b>Other areas of work</b></p> <ul style="list-style-type: none"> <li>• Housing benefits subsidy claim</li> <li>• Teachers' Pension return</li> </ul>			
<p><b>Annual Audit Letter</b></p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	<p>October 2017</p>	<p>Not yet due</p>	
<p><b>Grant Thornton events</b></p> <ul style="list-style-type: none"> <li>• We held an Income Generation workshop in Exeter on 13 October 2016. The aim of these events is to bring together senior leaders from local government and the private and investment sectors to stimulate cross-sector debate and consider current and future funding models. The workshop was attended by your Head of Finance.</li> <li>• We held a Faster Close and Highways Network Asset (HNA) workshop on 19 October 2016 in Exeter. This workshop was aimed at local authority practitioners and will consider the main factors for authorities to consider in accelerating their financial reporting procedures to produce their year-end accounts, and provided training on the latest developments in accounting for the HNA in 2016/17. The workshop was attended by members of Council's Finance team, and the Head of Finance did a joint presentation with your Audit Manager on how we worked together to achieve approval of the audited accounts by 31 July in 2015/16.</li> <li>• Our Joint Venture Seminar was held in Taunton on 6 December 2016, which provided an insight into setting up and running JVs and was attended by 22 officers and members from Councils in the South West, including your Head of Finance.</li> <li>• We are holding our own local government accounts workshops on 2016/17. Local events were held in Plymouth on 28 February and in Bristol on 1 March. Your Head of Finance and Finance Manager (Technical &amp; Budgeting) attended the Plymouth workshop.</li> </ul>			



# Sector issues and developments

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# Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

## 100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published.

[http://downloads2.dodsmonitoring.com/downloads/Misc\\_Files/LocalGovFinance.pdf](http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf)

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

## Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

**Paul Dossett Head of Local Government in Grant Thornton LLP** has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

## National developments

*"Social care precept changes will not help those living in more deprived areas"*

*"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"*

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

# Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

### Governance arrangements

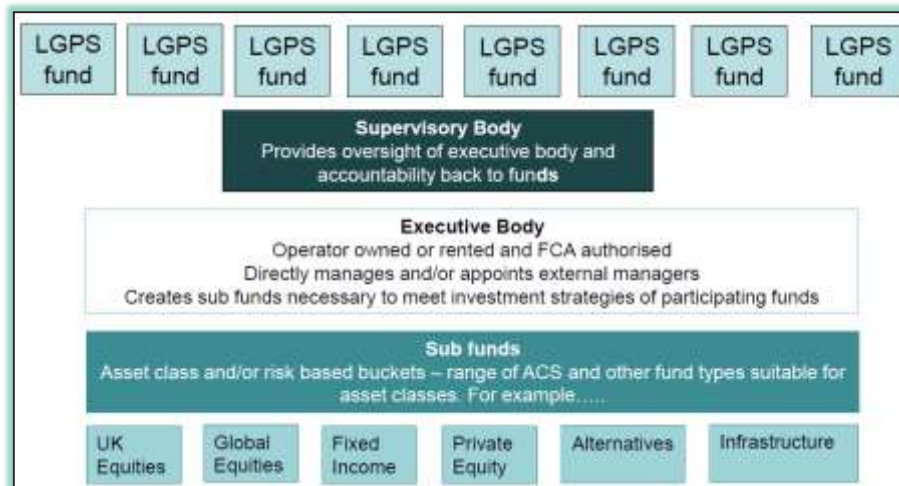
There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article [Clear pools: the future of the LGPS](http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps) highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

## National developments



Link:  
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool

# Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

## National developments

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/590464/Fixing\\_our\\_broken\\_housing\\_market\\_-\\_print\\_ready\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf)



# Grant Thornton

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# Apprentice Levy-Are you prepared?

Grant Thornton update

## What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

## What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

## What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill:  $250 \times £20,000 = £5,000,000$

Levy sum:  $0.5\% \times = £25,000$

Allowance:  $£25,000 - £15,000 = £10,000$  annual levy

## How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

## What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

# Off-payroll working and salary sacrifice in the public sector

## Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

**HMRC Digital Tool** – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

## Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

## Grant Thornton update

### Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications



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