



Tuesday, 7 January 2020

AUDIT COMMITTEE

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

Wednesday, 15 January 2020

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 Loxton (Chairman)

Councillor Dart

Councillor Kennedy

Councillor Hill

Councillor O'Dwyer

Councillor Howgate

Vacancy - Liberal Democrat Group

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Email: governance.support@torbay.gov.uk - www.torbay.gov.uk

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 - 7)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 25 September 2019.
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. **Treasury Management Strategy 2020/21 (incorporating the Annual Investment Strategy 2020/21 and the Minimum Revenue Provision Policy 2020/21)** (Pages 8 - 40)
To consider and provide comments on the Treasury Management Strategy 2020/21.
6. **Internal Audit Report - Follow Up Report on Areas Requiring Improvement** (Pages 41 - 58)
To note a report that details follow up reviews in order to provide updated assurance to Members.

- 7. Internal Audit - Half Year Audit Report 2019-20** (Pages 59 - 85)
To consider a report that reviews work undertaken to date in 2019/20, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 8. Annual Certification Report and Sector Update** (Pages 86 - 105)
To note a report that set out the grants certification work and sector update.
- 9. Whistleblowing Complaints** (Pages 106 - 107)
To note the report.



Minutes of the Audit Committee

25 September 2019

-: Present :-

Councillor Loxton (Chairman)

Councillors Hill, Howgate, Kennedy, O'Dwyer, Doggett and Long

188. Apologies

It was reported that, in accordance with the wishes of the Liberal Democrat Group, the membership of the Committee had been amended for this meeting by including Councillors Doggett and Long instead of Councillors Heyse and Dart.

189. Minutes

The Minutes of the meeting of the Audit Committee held on 18 June 2019 were confirmed as a correct record and signed by the Chairman.

190. Grant Thornton - The Audit Findings for Torbay Council

Members considered and noted a report that highlighted the key issues regarding the Council's financial statements for the year ended 31 March 2019. Sarah Ironmonger, Key Audit Partner, Mark Bartlett, Manager, Grant Thornton outlined the submitted report. Sarah informed Members that they conducted their on examination of the Council's financial statements during August instead of June and would give their audit opinion before the audit deadline of 30 September, due to resourcing constraints within Grant Thornton.

The examination did not identify any adjustments affecting the Council's financial statements that have resulted in an adjustment to the Comprehensive Income and Expenditure Statement, and they had not needed to exercise any of their statutory powers. Sarah advised that she anticipated issuing an unqualified audit opinion following today's Audit Committee meeting on the Council's financial statements.

Sarah further explained that as the Council's external auditors they proposed to give a qualified 'except for' value for money (VFM) conclusion, on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources, except for in relation to understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and for planning. Organising and developing the workforce effectively to deliver strategic priorities. This was due to Children Service's being rated as inadequate by Ofsted.

191. Statement of Accounts and Annual Governance Statement 2018/2019

Members considered a report that sought approval of the Council's Statement of Accounts for the year ended 31 March 2019 by a committee of the Council before 30 July 2019. The Head of Finance, Martin Phillips, informed Members that the accounts show a true and fair view of the financial position of the Council's income and expenditure for the year 2018/19 and its assets and liabilities as at 31 March 2019 in line with the CIPFA Code of Practice.

Resolved:

- (i) that Audit Committee having reviewed the accounts including the significant accounting policies and considered the External Auditor's report and opinion on the Accounts, approve the Statement of Accounts and Annual Governance Statement 2018/19 (attached at Appendix 2 to the submitted report); and
- (ii) that the Letter of Representation (attached at Appendix 1 to the submitted report) be approved.

192. Treasury Management Mid-Year Review 2019/20

Members considered and noted a report that provided a review of Treasury Management activities during the first part of 2019/20. The Head of Finance, Martin Phillips, informed Members that the Treasury function aims to support the provision of all Council services through management of the Council's cash flow, debt and investment operations.

The Head of Finance referred to the following key points of the Treasury Management review:

- New borrowing of £32million taken in year to date (as at early September 2019);
- Substantial increases approved to the Capital Plan for the Torbay Economic Growth Fund (£100m) and Investment & Regeneration Fund (increased by £100m) but with spending assumed in later years;
- Re-profiling of capital expenditure reducing the overall borrowing need in 2019/20 but no change to the approved borrowing limits;
- Total borrowing currently over-borrowed ahead of completion of Investment Fund acquisitions. Primary strategy of internal borrowing remains in place;
- Revised interest rate forecast with delayed rise in Bank Rate; and
- Investment performance exceeding the Benchmark.

Members discussed the governance in connection with investment decisions and suggested the benefit of reviewing the value of our investment assets in light of Brexit and bringing an update on investments to the next meeting.

193. Housing Benefit Subsidy Certification - Financial Year 2017/18

The Audit Committee considered and noted a report which provided details of the Housing Benefit Subsidy Certification for 2017/2018. Housing Benefits was a means-tested benefit that helps households on low incomes pay rent. This was administered by local authorities who undertake the day-to-day administration and payment which was then reclaimed as a subsidy from the Department to Work and Pensions. The total subsidy claimed for Rent Allowance (private sector) and Rent Rebates (temporary accommodation) for 2017/18 was £60,452,407.

The certification process identified error with a number of earned income calculations detailed in the submitted report and as a consequence the claim was financially qualified, resulting in a potential loss in subsidy to the Local Authority of £475,282, however, following engagement with the DWP and further testing it was agreed that the full subsidy would be granted. The total subsidy claimed for Rent Allowance (private sector) and Rent Rebates (temporary accommodation) for 2017/18 was £60,452,407.

Members acknowledged the hard work of the Benefits Team in managing large complex caseloads and that this was the first time this type of error had been found. A peer review had identified a number of current good working practices and minor changes had been made to reduce the likelihood of this type of error being made in the future.

194. Corporate Fraud Update

Members noted a report that provided an update on the work undertaken by the Corporate Counter Fraud Officer. Work has continued to be concentrated on the Council's income to ensure the collection fund is maximised and accurate with an emphasis on prevention. Council Tax and Business Rates remained the highest area of risk from fraud for the Council. Work of the team has resulted in over £500k being identified.

The Council was one of six pilot authorities in the South West who matched Business Rates data against alcohol licenses, food registrations, creditors standing data, residential care homes and the business rates charge bases of other Local Authorities which resulted in identifying over £304k in small business rates fraud. This initiative was now being offered nationally.

(Note: Councillors Doggett, Hill and Long left the meeting during discussion of this item.)

195. Performance and Risk Report Quarter 1 2019/20

Members noted the Corporate Performance Report for quarter 1 for 2019/2020. Member's attention was drawn to:

- increased demand for Children's Services;
- number of children looked after;
- child protection plans;

- % of children having an initial child protection conference within 15 days;
- recruitment and retention of social workers;
- future negotiations of adult social care risk share;
- number of people on housing waiting list and in temporary accommodation;
- waste and recycling; and
- variance to the budget in year and risks to future budget.

The Committee noted that this was an interim performance report based on the priorities of the Partnership and that future reports would be developed around the key themes of the Corporate Plan, once approved. A separate report would be circulated to the Committee on complaints in order to raise awareness of this area. It was agreed that members of the Committee would raise with the Chairman any specific areas of performance they wished to consider at the next meeting.

Members discussed issues in connection with the forthcoming Ofsted update visit and overspend in Children's Services and questioned if the quarter 2 budget monitoring report could be considered at this next meeting together with the Ofsted report, if this was deemed an appropriate forum for presentation by the Director of Children's Services.

196. Planned Audit Fee for 2019/20

Members noted the 2019/20 Planned Audit Fee Letter which set out the scale of fee's which were determined by the Public Sector Audit Appointments Limited (PSAA). The PSAA prescribed scale of fee's are based on the expectation that audited bodies are able to provide the auditor with complete, materially accurate financial statements, with supporting working papers, within agreed timescales.

Members noted that the fee for 2019/20 was the same as the fee for 2018/19 (i.e. £78,581).

197. Whistleblowing Complaints

Members noted the report and exempt appendix. Arising from the discussion of this item, the Committee requested the Head of Finance to consider adding work around procurement fraud to the Corporate Fraud Work Programme with support from Internal Audit.

(Note: prior to consideration of the item in Minute 197, the press and public were formally excluded from the meeting on the grounds that exempt information (as defined in paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) was likely to be disclosed.

Chairman



Meeting: Audit Committee

Date: 15 January 2020

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2020/21 (incorporating the Annual Investment Strategy 2020/21 and the Minimum Revenue Provision Policy 2020/21)

Is the decision a key decision? Yes

Executive Lead Contact Details: Councillor Darren Cowell, Cabinet Member for Finance, Darren.Cowell@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, pete.truman@torbay.gov.uk

1. Proposal and Introduction

- 1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2020/21 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in February 2020.

2. Reason for Proposal

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25 March 2010.
- 2.2 The approval of an Annual Investment Strategy by Council is a requirement of MHCLG Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Treasury Management Strategy gives regard to the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 2.4 Under MHCLG regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

forward thinking, people orientated, adaptable - always with integrity.

3. Recommendations

3.1 That the Audit Committee provide any comments and/or recommendations on the proposed:

- **Treasury Management Strategy for 2020/21 (incorporating the Annual Investment Strategy 2018/19);**
- **the Prudential Indicators 2020/21; and**
- **the Annual Minimum Revenue Provision Policy Statement for 2020/21**

as set out in the Appendix to this report.

4. Treasury Management Strategy

4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.3 Currently the Council's approved capital plan has a borrowing requirement of approx. £255 million which will have a significant impact on the Treasury Management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult. **It should be noted that this report is based on the Council's approved capital plan as at (draft) Quarter Three of 2019/20. The final version of this Treasury Management Strategy to Council in February will be updated to include the position as at Quarter Three plus any significant capital activity by end of January 2020.**

5. Prudential and Treasury Indicators

5.1 The Prudential and Treasury Management Codes require local authorities to set measurement indicators for approval to ensure plans are prudent and affordable. The proposed indicators for 2020/21 are set out in Appendix 1 to the Treasury Management Strategy.

6. Minimum Revenue Provision (MRP) policy statement

6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy has been updated in line with the new Prudential Code.

- 6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.
- 6.3 The recommended MRP Policy for 2020/21 is set out at Appendix 2 to the Treasury Management Strategy and will be applicable from date of approval.

Appendices

Appendix 1 Treasury Management Strategy 2020/21



January 2020

Treasury Management Strategy 2020/21

incorporating the Annual Investment
Strategy and the Minimum Revenue
Provision Policy

Contents

1	Introduction	4
2	Capital	5
3	Core funds and expected investment balances	6
4	Prospects for Interest Rates	7
5	Borrowing	8
6	Annual Investment Strategy.....	11
7	Treasury Management Consultants.....	13
8	Reporting Arrangements and Management Evaluation.....	14
9	Other Matters	15
	Appendix 1 Prudential & Treasury Management Indicators 2020/21 – 2022/23	16
	Appendix 2 Policy on Minimum Revenue Provision for 2020/21	21
	Appendix 3 Economic Summary (as provided by Link Asset Services – December 2020).....	23
	Appendix 4 Creditworthiness Policy.....	25
	Appendix 5 Approved Investment Instruments: Specified and Non-Specified	27
	Specified Investments	27
	Non-Specified Investments.....	27
	Appendix 6 Non Treasury Investments (as at 6 th January 2020).....	29

1 Introduction

The Council defines its treasury management activities as:

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

The Strategy for 2020/21 covers two main areas:

- Treasury management issues
 - the core funds and expected investment balances
 - prospects for interest rates;
 - the borrowing strategy;
 - the investment strategy;
 - policy on use of external service providers;
 - reporting arrangements and management evaluation
 - other matters
 - treasury indicators which limit the treasury risk and activities of the Council;

- Capital issues
 - the capital plan and the prudential indicators;
 - the minimum revenue provision (MRP) policy.

2 Capital

The Council's capital expenditure plans are the key driver of treasury management activity and the output of the capital expenditure plans is reflected in the prudential indicators required by the Prudential Code.

The prudential indicators for 2020/21 and future years are detailed for approval by Council within Appendix 1 and headlined below (based on draft quarter 3 figures).

	2019/20	2020/21	2021/22	2022/23
£m	Estimate	Estimate	Estimate	Estimate
Capital Expenditure	128	140	73	51
Net Borrowing Need	107	126	63	50
Capital Financing Requirement	423	542	595	635
Total Gross Borrowing at end of year	393	389	385	380

3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The table below includes the impact of the approved capital plan (as at draft quarter three 2019/20) which shows a future borrowing requirement of £255 million (£88m Investment Fund) by 2022/23, but makes no assumption at this stage on the timing or level of the borrowing required

	2019/20 estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Reserves	20	13	13	15
Capital Funding	10	10	5	5
Provisions	4	4	2	2
Other	(7)	(7)	(7)	(7)
Total "core" funds	27	20	13	15
Working capital*	15	15	15	15
Total (under)/over borrowing	(30)	(153)	(210)	(255)
Expected cash position	12	(118)	(182)	(225)

Working capital balances shown are estimated year end; these may be higher mid-year

In addition any slippage on the capital plan will both increase the cash figure and reduce the under borrowing figure.

Memorandum: (Under)/Over Borrowing	Note	2019/20 estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
-Investment Fund	1	(23)	(88)	(88)	(88)
- Other	2	(7)	(65)	(122)	(167)
Total		(30)	(153)	(210)	(255)

Notes

1. The approved Investment Fund of £300million has already been substantially applied to various commercial investments including retail units in Torquay and Dorset, office accommodation in Exeter and Gloucester, a distribution centre in Kent and a cinema in Taunton. The outstanding balance of £88m represents the amount of the Fund which has not yet been borrowed for as at 31st December 2019.
2. Other schemes relates to non-Investment Fund items within the approved Capital Plan that, when progressed, will require borrowing including housing initiatives, regeneration, Harbour View car park development, etc.

4 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view (at December 2020).

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

PWLB rates are quoted at the discounted Certainty Rate which Torbay Council is eligible for.

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates (PWLB) were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19 following a government decision. However, the unexpected increase of 100 bps in PWLB rates requires a major review of local authority treasury management strategy and risk management.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

This outlook continues to support a policy of restricting new borrowing and running down spare cash balances (Internal borrowing) to reduce net financing costs. However, this policy will need to be carefully monitored to avoid delaying borrowing to a point where rates are significantly higher than the current forecast affordable levels.

5 Borrowing

The current borrowing position

The Council's borrowing portfolio position with forward projections (excluding new borrowing) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt at 1 April	273	303	375	371	368
Change in Debt	30	72	(4)	(3)	(4)
Other long-term liabilities – School PFI	6	6	6	5	4
Other long-term liabilities – EFW PFI	12	12	12	12	12
Actual gross debt at 31 March	321	393	389	385	380
The Capital Financing Requirement	321	423	542	595	635
(Under) / over borrowing	0	(30)	(153)	(210)	(255)

The forecasts above, based on the draft quarter three 2019/20 capital monitoring report, shows the Council's capital financing requirement (including PFI liabilities) rising to £635m (£300m Investment Fund) by the end of 2022/23 of which £255m is yet to be borrowed (£88m Investment Fund). This total could increase if Council approve any additional schemes to be funded from borrowing such as for new regeneration opportunities.

The Borrowing Strategy

The Council is currently maintaining an under-borrowed position, in line with the current strategy. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

The current level of under-borrowing is exaggerated by a partial suspension of new borrowing following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities. This immediately raised the rates payable by the Council by one per cent.

In light of this decision, alternative borrowing options are being considered, including:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The evaluation process is likely to be concluded after submission of this Strategy document. Until then the Chief Officer is limiting new PWLB borrowing to 50% of Investment Fund transactions; this to ensure sufficient liquidity and act as protection against market lenders declining funding for commercial activities or applying a premium to the rate. Funding in the interim period will be from existing cash resources or temporary, short term borrowing from the market.

The degree to which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but with the impact of potential fees and resourcing issues there could be a case that the PWLB will remain the optimum lending source.

Should the profile of capital spend change to that reported above, the in-year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

It is proposed that the Council generally maintain an under borrowed position of around £10million in the longer term, using existing cash resources to temporarily fund capital transactions thereby limiting the additional borrowing cost on the General Fund until income streams are realised. The timing of borrowing will be prompted by cash requirements but the Chief Finance Officer will look to take advantage of market volatility and secure funding at any point where rates fall below the forecast level.

The budget for payment of interest on debt for 2020/21 has been based on an assumed £375m of borrowing as at 31/03/20 with an overall borrowing rate of 3.03% (3.34% in 2019/20).

The Chief Finance Officer has recognised the value in aligning current low borrowing rates to the business cases of specific schemes generating new income streams and this policy is currently being applied to Investment Fund related schemes. Decisions on other schemes will be made on a case by case basis and non-applicable schemes will continue to reflect the Council's average rate of borrowing.

The outlook for interest rates in section 3 recognises the risk of deferring borrowing and exposure to higher borrowing costs. In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer has delegated authority to vary the primary strategy outlined above and take a greater proportion of the borrowing requirement earlier to protect the affordability of capital schemes over the longer term.

The bodies the Council can borrow from are listed in the Schedules to the approved Treasury management Practices which include PWLB, UK Municipal Bonds Agencies and specified financial institutions.

Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of its needs for treasury management purposes, purely in order to profit from the investment of the extra cash sums generated.

Any decision to borrow in advance, linked to forecast interest rates, will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. No borrowing in advance will be made in relation to any capital project funded from borrowing until individual schemes have been approved by Council and there is a high assumption of spend occurring.

Debt rescheduling

Rescheduling of current borrowing in the debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates imposed on 9th October 2019 only applied to new borrowing rates and not to premature debt repayment rates. The increased disparity between the two sets of rates give rise to excessive penalty calculation for early repayment of loans.

For example repayment of a specimen portfolio loan of £2M with a rate of 4.1% and 20 years to maturity would cost £3.1M on current levels.

Treasury Indicators for limits to borrowing activity are published within Appendix 1 to this report.

6 Annual Investment Strategy

Investment policy

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The creditworthiness policy adopted is detailed at Appendix 4.

A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

Investment instruments identified for use in the financial year are listed at Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

Investment strategy

Based on strategic cash flow forecasts £15million of the Council's investments can be regarded as core cash available to be invested over a longer periods in higher risk/return instruments. £5 million of this core cash has been placed with the Local Authorities Property Fund (current yield around 4.82%). A longer term deposit to November 2021 was taken at 1.00% to protect against a possible cut in Bank Rate.

The remaining investment balance will initially be held as liquid as possible to internally fund the capital borrowing requirement discussed in section 4. As such extensive use is expected to be made of the Council's money market funds and notice accounts.

In the event of new borrowing being taken, opportunities will be sought for longer term deposits to enhance returns in line with the static rate forecast, mainly limited to one year maximum to maintain ongoing liquidity requirements.

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at 1.12%

Investment treasury indicators and limits are published within Appendix 1 to this report

Non-Financial Investments Strategy

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments.

The previous sections relate solely to treasury management “cash” investments and the current schedule of non-financial investments is detailed at Appendix 6. All decision have followed appropriate risk management framework and strategy for non-financial investments approved by Council in February 2019.

7 Treasury Management Consultants

Link Asset Services (formerly Capita Asset Services) was reappointed as the Council's external treasury management advisors for three years from February 2016, following a full tender process. The agreement has been extended until 30th April 2020 and a new tender process will be carried out to appoint an advisor beyond this date.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments are not covered by the expertise supplied by Link Asset Services and alternative specialist advice for these is obtained through the Torbay Economic Development Company.

8 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2020/21 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The Chief Finance Officer will inform the Cabinet Member for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Appendix 1). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Finance Manager, Leader of the Council, Cabinet Member for Finance and Independent Group Leader.
- Quarterly meeting of the Treasury Manager/ Finance Manager / Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in the LINK Investment Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and appropriate training was made available to Audit Committee members in June 2019. Further training for all Members will be arranged following appointment of the Treasury Management advisor contract from 1st May 2020.

The training needs of treasury management officers are periodically reviewed.

9 Other Matters

Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

Anti-Money Laundering

The Council will comply with all relevant regulations.

IFRS 16 Lease Accounting

The Head of Finance will monitor any implications of the introduction of IRFS9 on financial instruments.

Appendix 1

Prudential & Treasury Management Indicators 2020/21 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators below, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

The Council's Capital Plan monitoring report for quarter 3 (draft) is summarised below for approval by Council as the required prudential indicators for capital expenditure.

Capital expenditure at quarter 3 2019/20 (draft) £m	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Services	48	75	73	51
Commercial Activities/non-financial investments	80	65	0	0
Total	128	140	73	51

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of funding resources results in a borrowing need.

Capital expenditure at quarter 3 2019/20 (draft) £m	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	1	2	4	0
Capital grants	15	10	6	1
Capital reserves	2	1	0	0
Capital Contributions	2	1	0	0
Revenue	1	0	0	0
Net financing (Borrowing) need for the year	107	126	63	50

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / non-financial investments £m	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	80	65	0	0
Percentage of total net financing need	75%	52%	0	0

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes and if applicable finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The CFR projections are detailed below for Council approval.

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement				
Total CFR	423	542	595	635
Movement in CFR	102	119	53	40

Movement in CFR represented by				
Net financing need for the year (above)	107	126	63	50
Less MRP, VRP and other financing movements	(5)	(7)	(10)	(10)
Movement in CFR	102	119	53	40

External Debt

The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be

lower or higher depending on the levels of actual borrowing and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	450	570	620	645
Long term liabilities	20	20	20	20
Total	470	590	640	665

The Authorised Limit for external borrowing and long-term liabilities.

This is a key prudential indicator and represents a control on the maximum level of borrowing. It represents a legal limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised Limit £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	500	690	690	690
Other long term liabilities	20	20	20	20
Total	520	710	710	710

A comparison of Gross Debt and the Capital Financing Requirement is also a key indicator of prudence. This indicator is to ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt at 1 April	303	375	371	368
Change in Debt	72	(4)	(3)	(4)
Other long-term liabilities – School PFI	6	6	5	4
Other long-term liabilities – EFW PFI	12	12	12	12
Gross Debt at 31 March	393	389	385	380
Capital Financing Requirement	423	542	595	635
(Under) / over borrowing	(30)	(153)	(210)	(255)

Affordability

To assess the affordability of the Council's capital investment plans, the following indicators provide an indication of the impact on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream For Torbay investment income includes income from investment fund properties and the effect of this is also shown as an additional, local indicator.

£M	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Net Revenue Stream	£111m	£116m	£116m	£116m
Financing Costs				
Interest Paid & MRP as at 31/03/20	£15m	£21m	£21m	£21m
Interest Received	(£1m)	(£1m)	(£1m)	(£1m)
Sub Total	£14m	£20m	£20m	£20m
Percentage of Financing Costs to Net Revenue Stream	13%	17%	17%	17%
<i>Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream.</i>				
Gross Rental Income (as at Sept 18)	£(10)m	£(15)m	£(15)m	£(15)m
<i>Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income</i>	4%	5%	5%	5%

Each £1m of new debt costs £70,000 per annum. Therefore, borrowing £255m for the under borrowing by 2020/21 would cost approximately £18m per annum in MRP and interest.

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	50%
20 years to 30 years	0%	60%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days				
£m	2019/20	2020/21	2021/22	2021/22
Principal sums invested for longer than 365 days	£m 20	£m 20	£m 20	£m 20
Current investments (as at 31/12/19) in excess of 1 year	10	10	5	5

Appendix 2

Policy on Minimum Revenue Provision for 2020/21

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

“the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits”

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing the Council will make a MRP based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table on the following page.)

The MRP for each asset will be calculated on the asset life method using an annuity calculation. MRP will be calculated, on the total expenditure on that asset, in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Finance and Accounting) (England) Regulations 2008.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold within twelve months where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP statutory guidance issued by DCLG will be used. The latest guidance issued in March 2018 suggests a maximum asset life of 50 years.

Each asset life will be considered in relation to the asset being constructed; however as a guide the following are typical ranges for asset lives that will be used.

Asset Type	Range of Asset Life
Freehold Land (speciified in DCLG statutory gudiance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 3

Economic Summary (as provided by Link Asset Services – December 2020)

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (*See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.*) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a

mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

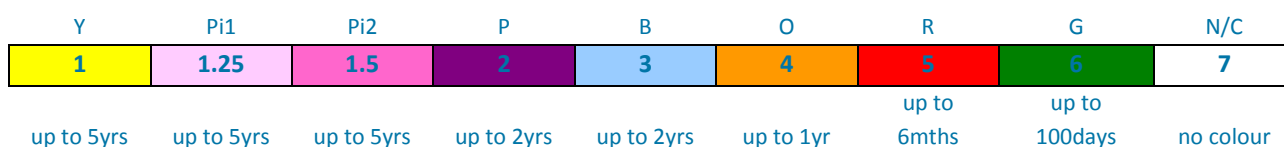
Appendix 4

Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands, illustrated below, which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.



The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a monthly basis and for each investment transaction. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by LINK Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on any external support for banks to help support its decision making process.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits) are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Sovereign ratings

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA+.

The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Netherlands	Finland U.S.A
Canada	Norway	
Denmark	Singapore	
Germany	Sweden	
Luxembourg	Switzerland	
United Kingdom		

Appendix 5

Approved Investment Instruments: Specified and Non-Specified

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories below .

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

Investment Type	Minimum 'High' Credit Criteria/Colour Band
Debt Management Agency Deposit Facility	Yellow
UK Government gilts	Yellow
UK Government Treasury Bills	Yellow
Term deposits – local authorities	Yellow
Term deposits – banks and building societies	Green and above
UK part nationalised banks	Blue
Bonds issued by multilateral development banks	Yellow
Money Market Funds (CNAV)	AAA
Money Market Funds (LVNAV)	AAA
Money Market Funds (VNAV)	AAA
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA

Non-Specified Investments

Investment instruments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Investment Type	Minimum Credit Criteria	Max investment or % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Blue	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	Yellow	50%	5 years
Term deposits (any maturity) – Housing Associations	Equivalent to AA+	35%	2 years
Term deposits (over one year) – banks and building societies	Purple	75%	2 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Green	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Purple	50%	2 years
UK Government Gilts	UK sovereign rating	100%	5 years
Bonds issued by multilateral development banks	AA+	50%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	50%	5 years
Structured Deposits (Fixed term maturities with variable rate and variable maturities)	Creditworthiness system colour band “Orange” <1 year “Purple” >1 year	25%	2 years
Commercial paper	AA	35%	5 years
Floating Rate Notes	Long-term AA	35%	5 years
Property Fund: <i>the use of these investments would normally constitute capital expenditure</i>	--	£10million	5 years
Property Fund: <i>not classified as capital expenditure</i>	--	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1. Corporate Bond Funds 2. Gilt Funds	AAA	35%	5 years
Corporate Bonds	AA	35%	5 years
Multi Asset Funds	--	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	£500,000 Individual loan - £2,000	5 years

Appendix 6

Non Treasury Investments (as at 6th January 2020)

Investment Properties					
The criteria the Council has adopted for the recognition of an investment priorities is :-					
A property held primarily to generate rental income or for capital appreciation or both.					
A property that is used solely to facilitate delivery of services, or to facilitate delivery of services as well as rentals does not meet the definition.					
Asset	Value at 31.03.2019 *	Year Purchased	Purchase Price for investment fund assets including acquisition cost	Asset life for the calculation of MRP	Asset life at March 2019 provided by Valuer
	£ million		£ million	years	years
Distribution Warehouse at Medway	28.8	2017/18	31.4	50	60
Ferndown	26.1	2017/18	27.5	50	50
Fugro House	19.8	2017/18	20.6	50	50
Gadeon House	15.3	2017/18	16.9	50	50
Gala Bingo Club	0.3	n/a	n/a	n/a	n/a
Torquay Golf Course (Petitor)	1.2	n/a	n/a	n/a	n/a
Unit 3 Riviera Park	0.8	n/a	n/a	n/a	n/a
Waterside Caravan Park	2.5	n/a	n/a	n/a	n/a
Warren Retail Park	18.1	2016/17	21.1	50	61
Wyver House, Gloucester Purchase Price £12m	12.3	2018/19	12.5	50	40
Woodwater House Exeter Purchase Price £10m	9.3	2018/19	9.9	50	60
The Range, Babbacombe	8.8	2018/19	8.8	35	60
Lucknow Road, Bodmin	2.8	2018/19	3.0	35	30
Thavelodge, Chippenham	0.1	2019/20	6.3	35	n/a
Distribution facility, Exeter	2.3	2019/20	14.7	35	n/a
Sub Total as at 31.3.19	148.5				
2019/20 investments as at 12/12/19					
Crown Records, Exeter		2019/20	1.8	50	n/a
Bookers, Didcot, Oxfordshire		2019/20	34.6	40	n/a
Odeon, Taunton		2019/20	11.1	to be confirmed	n/a
Total			220.2		

* Note: Valuation are made inline with the CIPFA Accounting Code as required for the Council's Statement of Accounts

Loans (over £50k balance outstanding)								
All loans over £50k have received Council or Investment Committee Approval in line with Financial Regulations								
Debtor	Value Principal	Loan Term (years)	Remaining term as at 31/03/19	Interest rate per annum	Outstanding Balance 31.03.2019	Draw Downs in 2019/20	Note	Mitigation of risk
	£ million				£ million	£ million		
South Devon College	4.0	25	23 years & 3 months	2.80%	3.7			None - Council decision to accept risk as public sector
TEDC - Cockington Car Park	0.6	n/a		n/a	0.0		Not yet taken up	Wholly owned subsidiary of the Council
TEDC - Unit E, Torbay Business Park	1.5	40	40 years	1.99%	n/a	1.5		
TEDC - Kings Ash House	1.5	25	23 years & 3 months	4.50%	1.4			

Loans (over £50k balance outstanding)							
Parkwood Leisure	1.7	12	12 years	4.80%	1.7		Asset leased from Council
THAT Group	9.3	Capital repayment starts in 2025 (7 years after the agreement)	36 years from 2025	5.25% to increase in 2023 to 8.5% over BR	n/a	5.1	legal agreement and personal guarantee
Effect Photonics Ltd	0.5	6	6	8.00%	n/a	0.2	Final drawdown before 31/03/20
Total	18.6				6.8	6.6	Charge on the equipment

Guarantees

None as at 31.3.19

Pension Guarantees (to Pension Fund not Employer)

Note: Any approved guarantees to new entities will be included once operational

Employer	Nature of Guarantee **	Fund Start Date	Bond Renewal Date	Existing Bond Amount £'000	***2017 Assessed Risk £'000	Mitigation of risk
Action for Children	A	01.08.2012	31.12.2016	80	22	Council contract
Mama Bears	A	08.12.2012	08.01.2018	22	9	Council contract
Healthwatch Torbay	A	01.05.2013	Cash held in Escrow A/C with DCC	13	21	Escrow a/c
Churchill Services (Sherwell Valley)	A	01.10.2014	30.09.2017	24	7	Low value
Torbay Community Development Trust	A	01.03.2014	Cash held in Escrow A/C with DCC	21	18	Escrow a/c
Sanctuary Housing (Intergrated Domestic Abuse)	A	02.09.2014	01.10.2019	10	39	Bond in place until 1.10.19
Torbay Coast and Countryside Trust	C	01.12.1999	n/a	n/a	223	linked charity
Tor 2 Waste (Kier PCG)	C	19.07.2010	n/a	n/a	324	pass through
Tor 2 Street Scene (Kier PCG)	C	19.07.2010	n/a	n/a	659	pass through
Tor 2 Asset Management (Kier PCG)	C	19.07.2010	n/a	n/a	632	pass through
Torbay Econ. Development Agency	C	01.07.2011	n/a	n/a	525	wholly owned subsidiary
The Childrens Society (Services) Ltd	C	01.01.2014	n/a	n/a	8	Low value
ISS Torbay Schools	C	01.08.2014	n/a	n/a	21	Low value

LEX Leisure (transfer of Velopark staff)

n/a

1.12.17

If deficit materialises, through LEX becoming insolvent, amount will be added to Council's existing deficit

Libraries Unlimited (transfer of Libraries staff)

n/a

01.04.18

Any liability arising through Libraries Unlimited becoming insolvent, the amount will be added to the Council's existing fund deficit. In addition, any liability at the end of the contract will also be added to the Council's fund deficit

CSW Group (Cornwall Local Government Pension Scheme)

n/a

2008

Torbay Council's liability limited to 8.1% based on population

**A= Bond is required as part of the organisation's admission agreement

C= A bond is not in place and either the letting authority or a guarantor has responsibility for any residual deficit

***The summary shows the 2017 Assessed Risk Value as supplied by the Devon Local Government Pension Scheme

Subsidiary Companies (wholly owned by Torbay Council) - see Statement of Accounts 2018/19

<https://www.torbay.gov.uk/media/12919/soa-1819.docx>



Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Torbay Council

November 2019

OFFICIAL



Devon Audit Partnership

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.

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 robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

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.

Introduction

At the June 2019 Audit committee, members were provided with the Annual Internal Audit report for the Council. Appendix 1 of that report provided a summary of the audits undertaken during 2018/19, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvements required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

Members discussed and accepted the report; however, members have previously found it beneficial to receive a report on progress on the “improvements required” areas highlighted in Appendix 1 to the report.

As part of adding value, Devon Audit Partnership has completed follow up reviews to provide updated assurance to members. The results from this process are contained in this report at Appendix A.

Assurance Statement

Our assurance opinion remains as reported in our Annual Audit Report 2018/19. However, it should be recognised that there is potential for this assurance opinion to be adversely affected should the lack of progress made against certain individual audit management action plans continue.

Progress Impact Assessment

The progress made in some areas means the previously identified risks are being minimised or mitigated where appropriate. However, the lack of progress made in the majority of action plans means a number of the risks previously identified and highlighted to management continue to remain.

Progress has been limited in certain areas such as Printing Services and Post Room due to ongoing potential changes to delivery arrangements. In other areas, such as Covert Surveillance of Social Networking Sites there has been little progress due to the need to focus on higher priority activities.

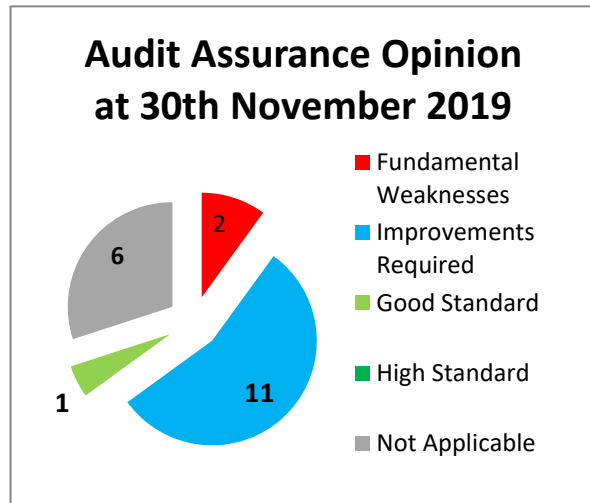
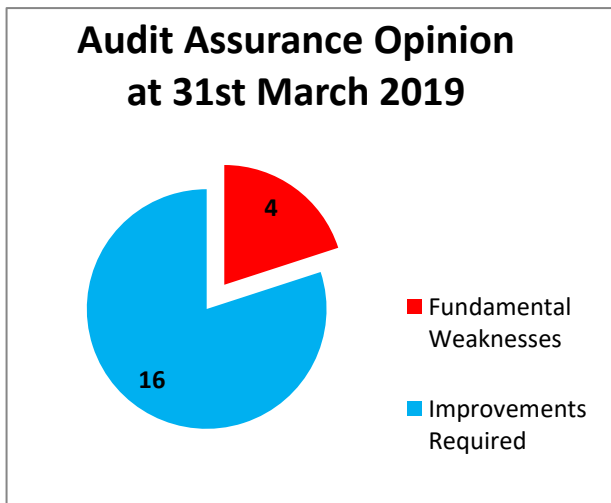
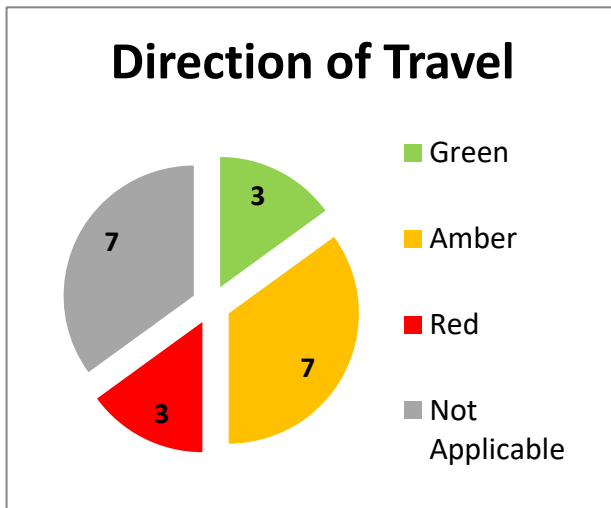
In addition, where agreed actions are set for future dates, and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

This follow up activity was an opportunity to facilitate, review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation’s strategic management arrangements.

Progress

Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

It should be noted that a small number of the audits were not followed up due to the timing being inappropriate, linked to the timing of the agreement to the action plan for the original reports, hence in these instances the original assurance opinion remains.



Although the audits previously followed up in 2018/19 are not subject to further formal audit follow up, for continuity and the avoidance of doubt we have analysed the previous year's output to provide an indication of areas that may require further Management input. Please refer to table over page.

Total audits still at Improvements Required from 2018/19 annual follow up report

Areas subject to follow up activity within 19/20 planned audit work		Audit areas potentially requiring Management review of progress against previous audit recommendations
Material Systems (annual audits)	19/20 audits	
0	1	<ul style="list-style-type: none"> • Procurement and contracting arrangements • HR Exit Packages • Coroner Service • Food Safety, Safety and Licensing • Torbay Safeguarding Children’s Board (TSCB) • Looked After Children – Referrals • PARIS* • TOR 2Commissioning * <p><i>*Note: both PARIS and TOR2 Commissioning are currently subject to change projects and as such will not be fully relevant going forward. However, aspects of the original reports may require some consideration as part of the associated projects.</i></p>

Internal Audit Coverage and Results

Overall, we can report that progress has been made in some areas, but for the majority of reviews the rate of progress is not as good as expected and this is shown in the direction of travel chart above and in Appendix A of this report. A significant number of opinions remain unchanged at this time and this, although not in all cases, reflects the lack of action.

It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations have been completed, but this is as expected.

Some agreed actions have not been implemented for a variety of reasons including strategic and operational changes in the service area and the need to prioritise resource in other directions. We shall work with management in determining revised implementation dates to ensure that actions are taken as promptly as is possible to address the risks identified.

During our initial audit work we have made reference to areas where risk exists; however, in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

Appendix A of this report sets out the audits at the end of 2018/19 which were identified as ‘improvements required’ or ‘fundamental weaknesses’. The appendix shows the current (updated) assurance opinion following our follow up work, and a ‘direction of travel’. We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

Annual Governance Statement

The conclusions of this report provide further internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

These should be considered along with the conclusions from the Annual Audit Report 2018/19 presented to the Committee in June 2019.

Process

For each service area where an overall audit opinion of “improvements required” or “fundamental weaknesses” was provided at the end of 2018/19 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For recommendations of "low" priority we required written confirmation that the action had been enacted upon, or an update on the progress being made.

For "medium" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

For "high" priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work.

Summary of Audit Follow and Findings 2018-19

Risk Assessment Key

LARR – Local Authority Risk Register Score Impact x Likelihood = Total & Level
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available

Direction of Travel - Key

Green – action plan implemented or being implemented within agreed timescales;
Amber – implementation of action plan not complete in all areas or overdue for key risks;
Red – implementation of action plan not complete and we are aware progress on key risks is not being made.
 * report recently issued, opportunity for progress has been limited

Corporate Services and Financial Services

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	



Material Systems

Material systems audits and as such any recommendations made and associated agreed actions are followed up as part of the annual audit process.



Debtors and Corporate Debt (follow up)	Risk / ANA - High	Improvements Required	N/A	The audit for 2019-20 will be reported upon in our annual outturn report.	N/A
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IT Audit



ICT Material Systems - Business Continuity and Disaster Recovery (follow up)	Risk / ANA – High	Improvements Required	N/A	The audit for 2019-20 will be reported upon in our annual outturn report.	N/A
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Corporate Services and Financial Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Other					
Legal Services – cross council use of legal advice	Risk / ANA – Medium	Improvements Required	Improvements Required	<p>The follow up has seen improvements made in relation to compliance with Financial regulations., as reflected in the direction of travel. In relation to Legal Services provision regarding the Council’s property investment / acquisition programme we understand that a Framework Agreement was put in place and that TDA should now procure through that. We have been advised that the TDA are running their own call-offs and should be notifying the Framework managers directly post-award. Procurement only have sight of these if TDA complete a Contracts Register form. Therefore, in our opinion TDA call off processes still present a potential risk to compliance.</p> <p>There is now improved coding of spend intended to support any review of legal costs. A review of current providers has been undertaken and appointments made via an established framework. Procurement continue to engage with Finance in further developing classification methods to improve spend identification.</p> <p>Legal Services has seen recent recruitments aimed at minimising use of external provision and the associated cost to the Council.</p>	
Covert Surveillance of Social Networking Sites	Risk / ANA – Client Request	Improvements Required	Improvements Required	<p>Due to roll out of General Data Protection Regulations (GDPR) and associated increases in demand along with fulfilling the new statutory obligation, issues highlighted are yet to be progressed. The Data Protection Officer considers the associated risk to be low as the Council does not carry out physical directed surveillance under regulation of Investigatory Powers Act. However, the risks remain in relation to the use of social networking sites by staff for surveillance type activity and therefore the need for a training framework remains. A revised timeline has been agreed to align with the next monitoring visit.</p>	


Corporate Services and Financial Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Printing Services and Post Room	Risk / ANA – Medium	Improvements Required	Improvements Required	Limited progress has been made in areas, such as review of the charging mechanism; improvements in invoicing frequency, and additional quotation information being provided. However, a significant proportion of the actions remain outstanding / on hold pending the outcomes of the ongoing tender exercise. There are potentially three outcomes which would impact how Print was taken forward. These are full outsourcing; service taken on by an entity taking on existing staff, or the current arrangement is retained. Since the original Audit we understand that the print/post service is impacted by ongoing resource issues, which will remain until the outcomes of the tender exercise are known.	N/A – pending outcomes of a current service tendering exercise
Contract Monitoring - Library Service	Risk / ANA – Medium	Improvements Required	N/A	The audit has not been subject to follow up within the 2019-20 follow up exercise as the dates agreed for completion of the actions are not yet due.	N/A
Health & Safety	Risk / ANA – Medium	Fundamental Weaknesses	N/A	The audit has not been subject to follow up within the 2019-20 follow up exercise as the dates agreed for completion of the actions are not yet due. In addition, the client has requested inclusion of this audit within the 2020/21 Audit plan, and therefore a follow up of the current audit will be undertaken at that time.	N/A



Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Contracted Services (Information, Advice, Guidance) – Careers South West (CSW)	Risk / ANA: Medium	Improvements Required	Improvements Required	<p>Significant progress has been made against the previous agreed actions. A relatively newly established contract monitoring framework, including clear Senior responsibility for contract monitoring has been adopted which we understand provides Torbay Council with an improved view of CSW delivery and a basis upon which performance can be identified, reviewed and challenged, ensuring compliance with contractual expectations.</p> <p>Some aspects remain ongoing; in particular the planned re-procurement in 2020 which will provide a new contract and contract specification, and KPI definition. Given this, and the fact that Contract Management processes are reasonably newly established, we would anticipate that over time we would see consistent improvements leading to ongoing evidenced compliance with statutory requirements, and performance expectations effectively managed.</p>	
Section 17 Payments	Risk / ANA: Medium	Improvements Required	Improvements Required	<p>Although there have been some improvements in a number of periphery areas, the main issue identified in last year's audit remains, in that there are still no procedures in place in this area. Specifically, what the criteria for a s17 payment should be, and how requests should be determined and processed should a payment request be deemed ineligible for a Crisis Support payment.</p> <p>Until there is clarity in this regard, the risk of inappropriate payment remains.</p>	
Use of Agency staff and control of Safeguarding employee costs	Risk / ANA: High	Improvements Required	N/A	This audit will be followed up as part of the planned 2019-20 Audit and will be included in our outturn report.	N/A


Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Education Services ROI CIPFA Return	Risk / ANA: Client Request	Improvements Required	Good Standard	Risks in relation to 'Inaccurate coding of expenditure within Education Services' and 'Inadequate budget prioritisation for Education Services' were already mitigated at the time of our original audit. The risks related to 'Inaccurate RO Form Structure set up on the Council's financial system (FIMS)', and 'CIPFA Local Authority Comparator Report is inaccurate' have both been minimised or mitigated through review processes undertaken by Finance, providing effective scrutiny to data used, recorded and publicised.	
Children's Services Medium Term Financial Strategy (MTFS) / Improvement Plan	Risk / ANA: High	Improvements Required	Improvements Required	<p>Actions to address the issues raised are ongoing although we recognise that progress has been made in some areas to improve processes, whilst other areas remain outstanding. The Permanency Strategy and supporting policy remain outstanding although we understand are intended to be in place by the end of December 2019. We have been advised that the Financial Recovery Plan 2019-24 has now been 'signed off' providing arrangements for monitoring. The Performance Dashboard itself remains in development, although we understand that monthly performance reporting is in place.</p> <p>Improved engagement and communication with staff across Children's Services is intended to improve cultural aspects to support delivery of the improvement plan and associated process improvements, although it's recognised that this is in its infancy. Peripheral supporting strategies are in development. Performance targets still need to be established to provide the necessary framework for tracking the effectiveness of new processes and strategies to address Children Looked After population. Whilst recognising the progress, given the aspects that remain in progress / ongoing the audit view is that this therefore remains at Improvements Required.</p>	

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Concessionary Fares - follow up	Risk / ANA – Medium	Improvements Required	Improvements Required	<p>It is pleasing to note that progress has been made against the original recommendations. Engagement with the Consultant, ITP, remains ongoing. Concessionary Fares remains a project within the Council's Transformation Commercialism Programme, with a significant proposed financial savings target. Although ITP remain engaged the planned savings target is yet to be realised, although we understand that engagement with ITP is seen as managing this requirement.</p> <p>Negotiations remain ongoing in relation to reimbursement rates and conditions. We have suggested reviewing the current contract arrangement fee with ITP, which is currently a flat fee, to include a savings measure bonus to motivate a more dynamic negotiating approach. There remains opportunity for scrutiny and challenge of data provided within operator reports to support accuracy of the payment process.</p> <p>We are pleased to see that the functional process for disabled passes is now under the responsibility of the Business Development & Performance Manager and provides a more effective control framework regarding compliance with issuing requirements.</p>	
Section 106 - follow up, including Infrastructure Levy	Risk / ANA – Medium	Improvements Required	Improvements Required	<p>As noted within the July 2018 follow up, recommendations relating to calculation of s106 had been implemented.</p> <p>We note that a project to implement a s106 and CIL Monitoring system has made significant progress and understand that live implementation is planned for early 2020. This will provide a means by which S106 and CIL can be effectively monitored, and minimise associated risks identified to date. A s106 and CIL Monitoring Officer has been appointed and regular meetings to monitor progress have been put in place. Given that this solution is yet to go live we are unable at this stage to revise our Audit Opinion.</p>	

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Sports Pitch Leases - follow up	Risk / ANA – Medium	Improvements Required	Improvements Required	<p>Progress has been limited since the previous follow up. In some cases, we have been advised that this is due to changes in operational priorities, the inability to make changes to existing lease agreements, and general ongoing capacity issues. The risk therefore remains that income from sports pitch leasing is not maximised and remain, in some cases, detrimental to the Council. We understand that in relation to some outstanding rental income recovery is now being progressed.</p> <p>The Torbay Council Asset Management Plan remains the effective policy in place for managing, amongst other assets, sports pitch leases. Although the policy has been established, the lack of current take-up of new sports pitch leases continues and as such does not allow review of new lease contracts to confirm the effective implementation of the policy which affects the assurance we can provide. TDA / Torbay Council is not actively pursuing the granting of new sports leases but will do as and when they come up for renewal.</p> <p>Establishing a review of maintenance monitoring arrangements/visits to provide a more robust periodic programme of visits for those leases where maintenance is the responsibility of the tenant remains outstanding, and we understand that progress has been limited due to capacity to undertake such visits.</p> <p>We identified a number of sports pitch leases not managed under leasing arrangements. Although we have been advised that hire charge rates are set annually by the Council, it remains unclear whether these charges are sufficient to cover the Councils residual costs.</p>	

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Contract Monitoring - Public Toilet Provision	Risk / ANA – Medium	Improvements Required	Improvements Required	<p>Some Key Performance Indicators (KPI's) have been established by the Council with regard to certain aspects of the contract, and we understand that these are awaiting agreement. We have been advised that the estimated completion date for the toilet development stage is Easter 2020, following which the agreed KPI's will be implemented and subject to ongoing monitoring.</p> <p>Monthly monitoring of certain information for each provision continues, along with ongoing improvements in relation to Supplier engagement. Management have established a standard performance reporting regime to support effective contract monitoring, all of which will be further enhanced once the KPI's are in place.</p> <p>The previously identified anomalies between Moxi and FIMS data are subject to ongoing investigation in order to resolve them. We also understand that there are ongoing discussions in relation to contractual charging for utilities and any resultant requirement for contract variation.</p> <p>Responsibility has been clearly assigned and it is intended that this will ensure appropriate attendance at quarterly contract review meetings.</p>	
Local Transport Implementation Plan / Strategic Transport (LTIP)	Risk / ANA - Medium	Improvements Required	N/A	The audit has not been subject to follow up within the 2019-20 follow up exercise as the dates agreed for completion of the actions are not yet due.	N/A*

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Parking Services	Risk / ANA – High	Fundamental Weaknesses	Improvements Required	<p>It is pleasing to see that some recommendations have now been implemented, namely in relation to income reconciliations between ICON and Taranto, ensuring password access to the system is robust, completing stock movement logs for scratch cards, and switching to a virtual system for staff permits. In addition, although not fully implemented yet, there has been progress in a number of other areas, for example, following up other system access issues with Taranto, and ensuring write-off are authorised in line with Financial Regulations. We also understand that significant progress continues to be made within a FIMS Project.</p> <p>However, there are some significant areas where risks remain below:</p> <ul style="list-style-type: none"> ensuring card payments made in Lower Union Lane car park and mobile phone payments via Cobalt are entered into ICON and hence reconciled to source by the income team. Following up discrepancies in cash collected from parking machines Ensuring scratch card stock records are properly reconciled Producing an accurate debtor balance at the end of the year. 	
Neighbourhood Forums	Risk / ANA – Client Request	Fundamental Weaknesses	Fundamental Weaknesses	<p>Despite initial agreement from management, there has been no progress on any of the recommendations made. We are still therefore unable to provide assurance that funding is being used to facilitate neighbourhood planning objectives.</p> <p>This has repercussions for future grant funding received, should it be handled in the same way. There's a risk that this could result in a loss of income for the Council, should related grant conditions require monies to be returned if it cannot be demonstrated that they have been spent in accordance with requirements.</p>	

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2019	Updated Audit Assurance Opinion as at 30 November 2019	Commentary and residual risk	
Brixham Ferry	Risk / ANA – Client Request	Fundamental Weaknesses	Fundamental Weaknesses	<p>The project management recommendation made as a result of the original audit did not apply specifically to the contract with Brixham Express Ltd, as the contract is not ongoing. It did, however, address the more general concern we had with project document retention, that resulted in the issues identified.</p> <p>Since the original audit was undertaken, there has been little progress in establishing a methodology to ensure that documentation for future projects is retained appropriately, though we have been informed that officers are aware of the need for this and will be exploring options. Until this is resolved, we are unable to revise our audit opinion.</p>	

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

Internal Audit

Half Year Audit Report
2019-20

Torbay Council
Audit Committee

Page 59

January 2020

Robert Hutchins
Head of Audit Partnership

Auditing for achievement

Agenda Item 7

Introduction

The Audit Committee, under its Terms of Reference contained in Torbay Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2019/20 was presented and approved by the Audit Committee in March 2019. The following report and appendices set out the background to audit service provision; a review of work undertaken to date in 2019/20 and provides our current opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This progress report provides a summary of work completed in the first six months of the year that will help to inform that annual assurance opinion.

Expectations of the Audit Committee from this six-month progress report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- performance and customer satisfaction on audit delivery.

Robert Hutchins
Head of Devon Audit Partnership

Contents	Page
Introduction	1
Opinion Statement	2
Value Added	3
Progress Against Plan	4
Summary Audit Results	5
Irregularities	7
Professional Standards and Customer Service	8
Appendices	
1 – AGS Assurance Framework	9
2 – Basis for Opinion	10
3 – Audit Authority	11
4 – Summary of Audit Reports & Findings	12
5 – Performance Indicators	24
6 – Customer Service Excellence	25

Opinion Statement

Based on work performed to date during 2019/20, our experience from previous years, and the outcome of the Annual Follow Up exercise as separately reported, the Head of Internal Audit's Opinion is one of "Significant Assurance" on the adequacy and effectiveness of the internal control framework in Corporate Services, Financial Services and Public Health. However, for the Children's Services and Place Directorates, we can only give 'Limited Assurance'. In the case of the Adults Directorate our assurance work is limited by the level of audit coverage which is mainly provided by Health colleagues. Our audit planning process is based on a risk approach and as such our report will inevitably focus upon higher risk areas.

This opinion statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 1. Assurance over arrangement for adult social care is mainly provided by colleagues at Audit South West, the Internal Audit provider for Health Services, who provides a separate letter of assurance.

The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value-added reviews which, together with prior years audit work, provide a framework and background within which we can assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the details of Internal Audit's opinion on each audit review carried out in 2019/20 to date. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2019/20.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up.

This statement of opinion is underpinned by:

Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. debtors, creditors, payroll and main accounting) or generally in the reviews undertaken in respect of directorate systems. The Council's overall internal control framework operated effectively during the year. Where internal audit work has highlighted instances of non or part compliance, none are understood to have had a material impact on the Authority's affairs.

Risk Management

We understand that the Risk Management process at Strategic level remains in place, with the need to fully integrate at operational level ongoing.

Our ongoing involvement in Council projects continues to evidence consideration of Risk at both Project and Programme level, and we understand that a mechanism for wider Programme Management across the Council is being considered, alongside Council Redesign.

Governance Arrangements

Governance arrangements have been reviewed in the areas of Transformation, and System Implementation Projects.

The Information Security Group continues to provide governance in relation to management of information and General Data Protection Regulations (GDPR). SLT have wider responsibility for the governance of Health & Safety. Financial Ethical and Probity (FEP) maintain governance over issues within their remit.

Performance Management

Transformation Portfolio is monitored by the Board. Children's Services MTFP is monitored by SLT (Senior Leadership Team).

Performance and risk are monitored by both SLT and Audit Committee.

Irregularity and whistleblowing complaints, alongside the work of the Corporate Fraud Officer are also reported to Audit Committee.

Budget performance is monitored by SLT and full Council.

Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.	Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.	No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can.

We believe internal audit activity can add value to the organisation and its stakeholders by:

- providing objective and relevant assurance;
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Senior Management has found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported in the following areas:

Adult Services

- inclusion again of the 'Care Act – Better Care Fund / Section 256 Monies' audit in the planned work to provide management with the required assurance;
- liaison support in relation to the working relationship between the Council and Audit South West;
- provision of IT audit resource to Audit South West to support this element of their plan.

Children's Services

- engagement in relation to the PARIS replacement system implementation;
- undertaking a high-level review of cross-agency working arrangements with Adult Care Services to ensure adequate support infrastructures are in place for transitioning young care leavers with disabilities;
- assistance in maintaining the impetus in management action plans to address previously identified risks through an annual and robust follow up exercise;
- assistance in maintaining appropriate engagement with the internal function through regular management liaison meetings;
- development of the current year's and future years audit plans to incorporate flexibility to meet changing and developing business demands and to cover existing and new or emerging risks.

Public Health

- the development of future years audit plans to cover new and emerging risk.

Corporate

- ongoing engagement in various Transformation programmes and projects, including FIMS Projects, Children's Services system implementation (excluding procurement stage), ICT investment; early engagement in Council Redesign; TOR2 and Investment and Regeneration. We also continue to provide relevant information and practices from Local Government articles and guidance;
- additional support in relation to the external audit requirement for benefit subsidy;
- support to the ongoing GDPR project, including development of the Council's Information Asset Register (IAR);
- continued advice, guidance and challenge to the Information Security Group.
- Support to the Council's Data Protection Officer in the provision of FOI data; and input to the annual Data Security and Protection Toolkit (DSPT);
- Requested to undertake a specific Data Quality audit that also supports the DSPT submission.

Place

- additional request for a follow up review of Tor Bay Harbour Authority Port Marine Safety Code Compliance;
- additional request to provide a review of ISO9001 procedures at the TDA;
- a review of the governance structure in place at the Council, to ensure it facilitates robust and independent planning decisions.

Schools

- Continued assurance through the routine internal audit visits that systems and controls are in place to ensure compliance with Department for Education and Council requirements are being met.

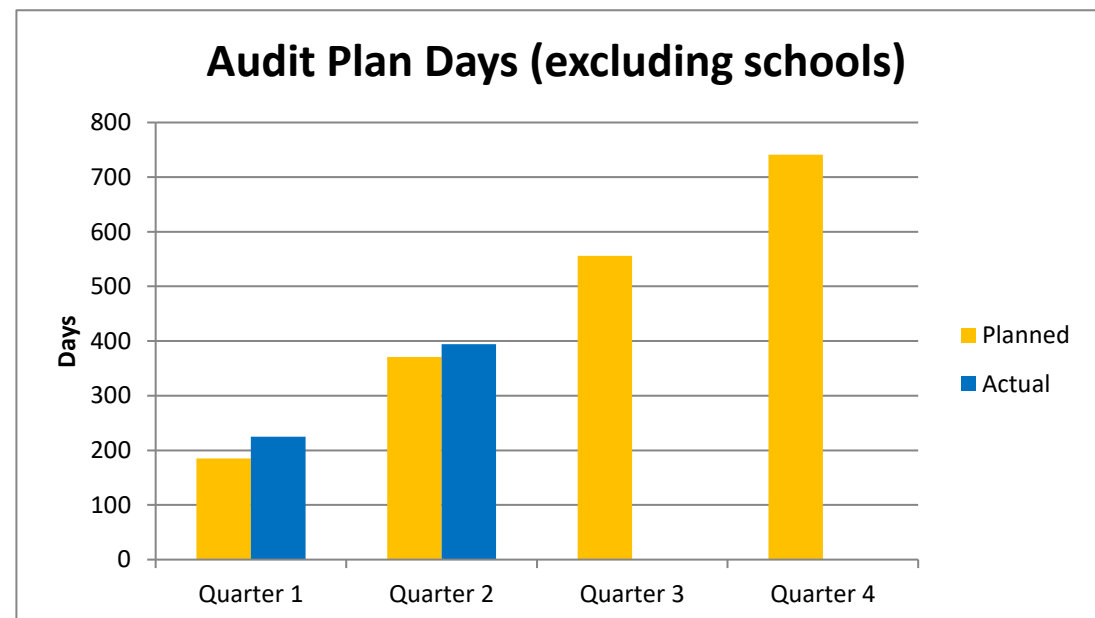
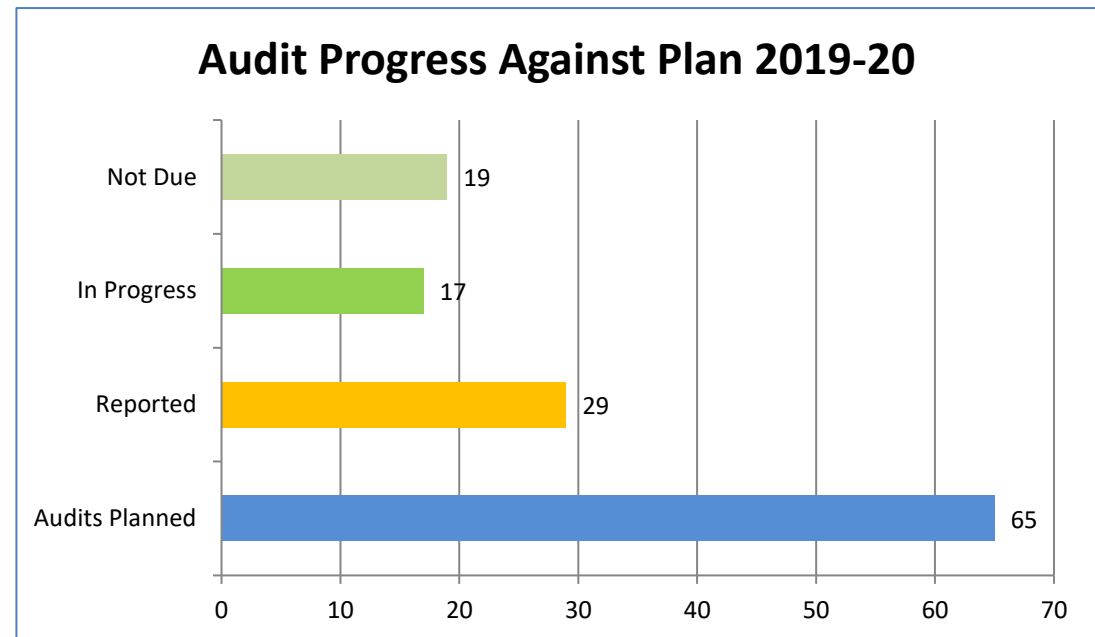
Progress Against Plan

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

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

The extent to which our work has been affected by changes to audit plans has been notable during the first six months of the year due to the need to vary the plan to accommodate investigative work in relation to irregularities and additional 40+ Testing for Benefits Subsidy purposes. Some of our work supports projects and hence completion will be in accordance with project timescales. The level of irregularities has been greater than anticipated and the need for investigation work has had an adverse impact on the overall completion of the plan.

The bar charts right show the status of audit progress against plan and audit days delivered against target planned. The charts demonstrate that, despite the above, progress is largely in line with expectations and that the number of audit days delivered is approximately as that planned.



Summary audit results

Place

Based upon audit work completed in 2019/20 and that undertaken in previous years, our opinion remains as one of '**Limited Assurance**'. The assurance opinions from a significant proportion of audit reviews in 2018/19 and 2019/20 to date, excluding grant certification, has been one of 'Improvements Required', and one 'Fundamental Weaknesses' opinion was also given. However, 'Good Standard' opinions have been given in relation to the two most recently completed audits: Development and Planning, and ISO9001 procedures at the TDA.

We have, again, identified some safety risks which Tor Bay Harbour Authority must address in order to comply with Health and Safety practices.

The 'Fundamental Weaknesses' opinion was given in relation to Parking, where the audit was concluded at the beginning of 2019-20. Many recommendations related to the implementation of the new system, Taranto, as a lack of staff knowledge had prevented us obtaining system information to enable assurances to be given on system access and issuing permits and PCNs. Weaknesses were also found in relation to stock control and year end debtor calculations, though we note that the department has been moving towards virtual permits and away from holding physical stock. Management have responded positively to our recommendations for improvement and it is pleasing to note that the findings from our follow up activity (reported separately) has resulted in a change to the Assurance Opinion to one of 'Improvements Required'.

Public Health

Based on work performed in previous years, our opinion is one of '**Significant Assurance**'* on the internal control framework in the areas so far audited, which include contract management and the use of self-assessment tools.

Our previous audit work in relation to Health Protection and Infection Control found that there was an adequate system in place for undertaking the Sector Led Improvement self-assessment and that it had been completed accurately.

Corporate Services and Financial Services

As a result of our audit work completed so far during the 2019/20 year and in previous years, our opinion remains as one of '**Significant Assurance**'. Based on audits completed and on indications from previous and on-going work, we can report that material systems controls have either been maintained, or improvements are being made to address previously identified weaknesses. Whilst a few weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action.

The requirement for 40+Testing by the External Auditors in relation to Benefits Subsidy for 2018/19 indicates that quality control processes require strengthening as detailed in our findings (page 14). Although some issues were identified as a result of initial 40+ testing, results from additional 40+ testing were positive, with no further issues found.

The Transformation Portfolio is critical to the organisation; it is pleasing to note that the Team resource has increased along with engagement of additional project management support from DELT for two key projects. Although not specific to Transformation, we are still of the opinion that there is opportunity for the Council to review its position in terms of a broader Portfolio Management perspective across the Council, particularly in light of the size and complexity of two key projects currently in progress (PARIS replacement and TOR2

The Council has a Data Protection Officer and has developed an Information Asset Register. We understand that the volume of subject access requests and reported data breaches remain high which put significant pressure on the team and their ability to achieve statutory deadlines.

Improvements should also be made in the control and governance framework within the IT Business Continuity and Disaster Recovery in relation to material systems. Our most significant note is that we gave an opinion of 'Fundamental Weaknesses' in the area of Health & Safety (H&S), which reflects the lack of enforcement and monitoring in relation to departmental compliance, however we are aware of the significant organisational priority and focus that now exists in respect of H&S. Other than the areas detailed above, no significant concerns have been identified from our work, and management have responded positively to any recommendations for improvement.

Children's Services

Based upon audit work completed in 2019/20 and that undertaken in previous years our overall opinion is of '**Limited Assurance**'. Whilst the number of audit reviews undertaken within Children's Services remains the same compared to earlier years, the assurance opinion provided for most individual audit reviews in 2018/19 and 2019/20 to date, excluding grant certification, has been one of 'Improvements Required'.

The current financial situation within Children's Services is well known, with a significant overspend likely to occur this financial year. This is caused mainly by an increase in demand for such services, the provision of which is statutory; and has resulted in significant reliance being placed on the use of agency workers, both to cover a current shortfall in permanent officers in post, and to support the Service in managing the increased demand. Audit work has found that in most areas, both the timeliness of initial assessments and that of subsequent review of ongoing support, requires improvement and we have made a number of recommendations accordingly.

We are aware of the intention to change the Governance arrangements in Children's Services whereby the Council is moving away from the joint management arrangement with Plymouth City Council. Given recent and pending Ofsted Monitoring visits and the current children's services system implementation, the change in Governance presents an additional risk factor in relation to maintaining 'business as usual'.

In addition, of concern in Children's Services as a whole, is data management, and we understand that the Council's Information Governance officer is now working with the service to raise awareness and compliance and minimise the associated risks.

We are very aware of the priorities in Children's Services and always endeavour to work around these, however once an audit is complete it would be beneficial if Children's Services Safeguarding could give greater priority to agreeing the report and providing a management action plan. Previous and ongoing work with Children's Services Education, Learning and Skills has found greater engagement with the audit process resulting in improvements as shown in the Annual Follow Up Report.

Work that is due to be completed later in the year will enable us to report on how other areas of Children's Services are managing in the light of predicted overspends.

Adult Services

As previously mentioned, our assurance work in Adult Services is limited by the level of audit coverage, with most of the work in this directorate being completed by Health colleagues.

Our 2019/20 Adult Services audit work is currently ongoing, with one audit due to commence in the latter half of the year. During this time, we will also work with management to prepare an audit plan for 2020/21 that addresses new and emerging risks.

The Adult Services Directorate incorporates both the Joint Commissioning Team functions and those functions provided and audited by the NHS Trust Provider.

Audit South West provides a separate letter of assurance to the Director of Adult Services and the Council's S151 Officer. Devon Audit Partnership provides support and internal audit input on key areas as agreed with the Director of Adult Services.

Schools

The overall opinion for the routine school audit visits has been maintained as '**Good Standard**'. In general, the systems and controls in schools mitigate the risks identified in many areas.

The key matters arising from the audits are that:

- Completion of the recommended skills matrices for governors and staff (Schools Financial Value Standard)
- Completion of a financial benchmarking exercise by schools using the DfE website.

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

The Schools Financial Value Standard is now an established tool for maintained schools as a self-assessment of their local financial management and schools are required to annually submit their self-assessment to their local authority by 31st March.

Irregularities Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Devon Audit Partnership (DAP) liaise with the Corporate Fraud Officer as required; the key outcomes of this role are the identification and investigation of external frauds.

The Cabinet Office now run the national data matching exercise (National Fraud Initiative – NFI) every two years. Most of the data matching for this involves the investigation of potential external fraud committed against the Authority, i.e. individuals or bodies external to the Council. NFI activity on behalf of the Council is now undertaken by the Corporate Fraud Officer.

DAP has continued to undertake an annual monitoring of staff internet use and to date found no significant concerns. This provides assurance that action has been effective and such use remains within policy. The Council's Whistleblowing Inbox is also monitored daily. Periodic fraud bulletins are also produced and published on DAP's website.

Irregularities – During the first six months of 2019/20, Internal Audit have carried out, or assisted in eleven new irregularity investigations, the majority of which occurred in the Place and Children Services Directorates. Analysis of the types of investigation and the number undertaken, and as compared with the total investigations for previous years shows the following:

Page 66

Issue	19/20 Number Half Year	18/19 Number Whole Year	17/18 Number Whole Year
Poor Procedures	3	2	8
Employee / Member Conduct	7	9	4
Financial Irregularities	1	3	1
Misappropriation of Income	0	0	1
IT Misuse	0	2	0
Theft	0	1	0
Total	11 *	17	14

**This is comparable to the 2018/19 year, where we had received 12 referrals at the six-month point.*

Summary details as follows: -

Most irregularity investigations (ten in number) are as a result of allegations made by whistle blowers. In addition, we have supported Human Resources investigations into a matter related to pensions.

Freedom of Information / Subject Access Requests and Referrals made under the Unacceptable Behaviour Policy: -

We were asked to assist with two requests under Freedom of Information and Data Protection requirements and have received one referral under the Unacceptable Behaviour Policy.

Professional Standards and Customer Service

Conformance with Public Sector Internal Audit Standards (PSIAS)

Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2019. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

Quality Assessment – through external assessment December 2016 “DAP is considered to be operating in conformance with the standards”. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme.

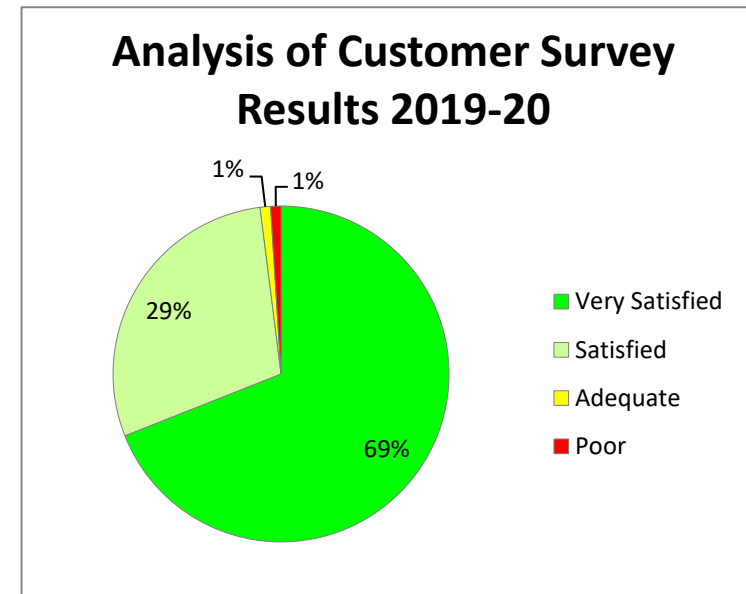
Improvement Programme – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated, and a status report was reported to the Management Board in November 2019.

Performance Indicators

Overall, performance against the indicators has been good with some improvements made on the previous year (see Appendix 5). To note that certain areas of the audit plan relate to project work and will not be complete until the end of the year. As already mentioned on page 10, the level of irregularity work has also impacted completion of planned audit work. Although performance in relation to issuing reports is improving overall, we are aware that some of our draft reports were not issued to the customer within the agreed timeframes (15 working days). We continue to review where performance in this area can be improved.

Customer Service Excellence

DAP was successful in re-accreditation by G4S Assessment Services of the CSE in June 2019. We continue to issue client survey forms with our final reports and the results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with 98% being "satisfied" or better across our services, see appendix 6. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.



Appendix 1 - Annual Governance Framework Assurance

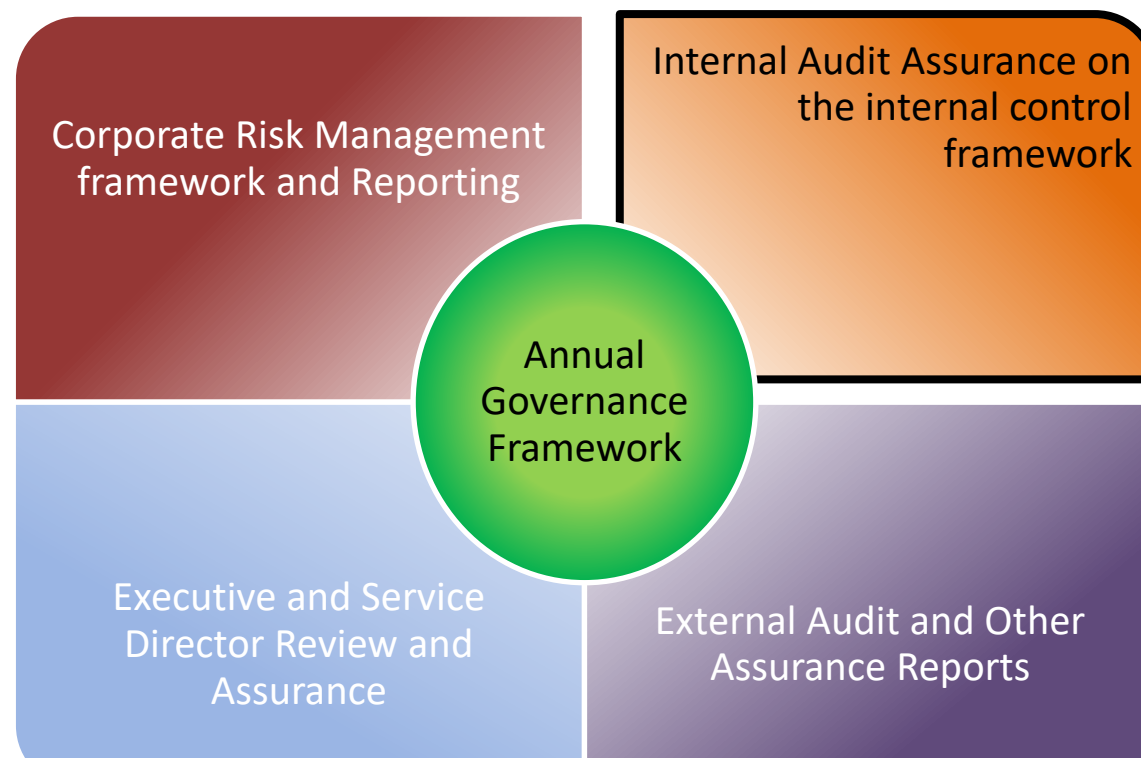
The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

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 Chair of the Audit Committee;
- 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 has been 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 / SOLACE Framework *Delivering Good Governance in Local Government*. 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 Corporate Risk Management Group, Executive and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.

Appendix 2 - Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, formed from risk-based reviews and sample testing, of the framework of governance, risk management and control.

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

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

The extent to which our work has been affected by changes to audit plans has been notable this year to date.

The changes made have been to enable redirection of audit resource into irregularity investigations and additional Benefits subsidy work and are not as a result of service areas needing to defer our activity.

The overall audit assurance will have to be considered in light of this position.



In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2019/20, including those audits carried forward from 2018/19;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

Appendix 3 - Audit Authority

Service Provision

The Internal Audit (IA) Service for Devon County Council is delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

Regulatory Role

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

- Page 70
- **Section 5 of the Accounts and Audit Regulations (England) Regulations 2015** which states that ".....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....."
 - **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

Professional Guidelines

We work to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards.

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

Our Internal Audit Manual provides the method of work and Internal Audit works to and with the policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.



Appendix 4 – Summary of audit reports and findings for 2019/20

Risk Assessment Key


LARR – Local Authority Risk Register score Impact x Likelihood = Total & Level


ANA - Audit Needs Assessment risk level as agreed with Client Senior


Management

Client Request – additional audit at request of Client Senior Management; no risk assessment information available

Direction of Travel Assurance Key

 - action plan agreed with client for delivery over appropriate timescales & is progressing;



 - action plan agreed and is being progressed though some actions are outside of agreed timescales or have stalled

 - action plan not fully agreed, or we are aware progress has stalled or yet to start;
 * report recently issued, assurance progress is of managers feedback at debrief meeting.




CORPORATE SERVICES AND FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Transformation			
Transformation Programme - project 'trusted advisor' role (ANA – Critical) Risk / ANA - Critical	Added Value Status: Ongoing	<p>We continue to provide a dual role in both Audit assurance and operational delivery in line with programme and project timescales.</p> <p>We continue to provide reports resulting from our audit work where there is a direct link to Transformation Programmes and projects. These provide our opinion on specific areas along with any recommendations where we feel controls could be strengthened.</p> <p>In relation to specific Transformation Programmes and Projects, we have provided the following:</p> <ul style="list-style-type: none"> • Children's Services ICT – we have now been engaged in the Children's Services system implementation. Our initial concerns some of which related to Governance and timescales, have been highlighted. We continue to work closely with the Project Manager, providing an ongoing project assurance role; • Commercialism Programme – attendance at and participation in Commercialism Board in an active Project assurance role, along with engagement within associated projects; • TOR2 – ongoing support at Board and operational project team level. We continue to engage with the Project Manager and have raised our initial concerns in relation to the scale and complexity of the project, the associated deadline, and the need for both a project and contingency plan. A number of these points are being taken forward by the Project Manager and monitored through the established Board. • Investment Committee – we have reviewed the Governance and supporting process arrangements. • FIMS projects – we have recently been engaged in a number of ongoing FIMS projects, again providing a project assurance role; 	N/A



CORPORATE SERVICES AND FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Page 72		<ul style="list-style-type: none"> • Council Re-design – we have had early engagement in this project in its early stages, and are currently awaiting clarity regarding our ongoing role; • ICT investment – we have reviewed the planned ICT investment funds along with the supporting ICT strategy and will provide a specific advice note to the Head of ICT and Head of Finance upon conclusion. <p>Our research of and dissemination of relevant Local Government Publications to the Transformation team continues, which provides a view of projects and associated activities at other Local Authorities.</p> <p>It is pleasing to note that the Transformation Team resource has increased since last year including engagement of project management support from DELT, however we remain of the opinion that the Council review its position in terms of a broader Portfolio Management perspective integrating other Council projects that fall outside of the Transformation remit. This would provide the organisation with greater clarity on all projects and identify interdependencies, priorities and a method for identifying peaks in resource requirement.</p>	
	Material Systems		
Asset Register Risk / ANA -Medium	High Standard Status: Final	All previous recommendations have now been actioned. Apart from the implementation of these there has been no change to the system, as confirmed by walkthroughs of the various functions. The walkthroughs did not identify any issues of concern, but a couple of points have been mentioned in the report, providing an opportunity to improve the control environment in place.	
Treasury Management Risk / ANA - Low	High Standard Status: Final	Around half of the recommendations made last year have now been implemented, including a new TM Strategy which has been updated as a result of the new CIPFA Code. We are therefore pleased to report a revision in our opinion to 'High Standard'. Areas that remain outstanding include agreement and testing of the Business Continuity Plan and updating daily procedures in line with the new Code and it would be good to see related recommendations implemented soon.	


CORPORATE SERVICES AND FINANCIAL SERVICES






Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
FIMS System Administration Risk / ANA - Critical	Good Standard Status: Final	Risks in relation to the lack of segregation of duty remain, but they have been accepted by management on an ongoing basis. There have been no changes to the system in place or related processes since the last audit.	
IBS* System Administration Risk / ANA – High *International Business Systems	Good Standard Status: Final	Although agreed by management, the majority of recommendations made last year have yet to be implemented. It would be good to see this done soon, and management have agreed new deadlines to ensure progression.	
Income Collection Risk / ANA - Medium	High Standard Status: Final	We are pleased to report that all but one of last year’s recommendations have now been cleared. The final recommendation is for ‘opportunity’ only and is currently in progress.	
Benefits – testing of earned income. Risk / ANA: N/A	Added Value Status: Complete	A number of potential issues were identified and returned to the client for investigation / correction.	N/A
Benefit Subsidy Claim – Discovery and initial 40+ testing. Risk / ANA: N/A	Added Value Status: Complete	A number of potential issues were identified, comprising the following: <ul style="list-style-type: none"> Weekly earned income being incorrect due to errors made when either undertaking manual calculations or inputting amounts. Temporary accommodation licence agreements not being signed by the Authority Ineligible service charges not being excluded for ‘spot-purchase’ homeless accommodation Full tenancy agreements not being obtained from rent allowance claimants Increases in War Disablement Pension not being actioned 	N/A
Benefit Subsidy Claim – Additional 40+ testing. Risk / ANA: N/A	Added Value Status: Complete	Additional 40+ testing was required in relation to the above issue of full tenancy agreements not being obtained from rent allowance claimants; however no further instances were identified.	N/A
The following audits are currently in progress: <ul style="list-style-type: none"> General Ledger and Bank Reconciliation (ANA – Medium) Payroll (ANA – Critical) 		The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> Creditors and POP (ANA – High) Debtors and Corporate Debt (ANA – High) Benefits (ANA - Medium) Council Tax and National Non-Domestic Rates (ANA – Medium) 	

CORPORATE SERVICES AND FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
IT Audit			
ICT Material Systems - Business Continuity and Disaster Recovery (follow up) Risk / ANA – High	Improvements Required Status: Final	Report now finalised, with recommendations agreed. Assurance was reported in last year’s annual report; please refer to that report for details.	
GDPR – Information Asset Register Risk / ANA – Client Request	Added Value Status: Ongoing	We were engaged by the Council in 2018-19 to support the development and completion of the Council’s Information Asset Register and will also provide support to the review and update of the Council’s Data Retention policy and guidelines; this is continuing this year.	N/A
Information Security / GDPR (trusted advisor) Risk / ANA – High	Added Value Status: Ongoing	We continue to support the project as required, however as noted below, management of the project has now been transferred to the Information Security Group.	N/A
Information Security Group Risk / ANA - N/A	Added Value Status: Ongoing	We maintain membership of, and attendance at, the Council’s Information Security Group. Our role continues to provide advice, guidance and challenge in terms of active participation within the group. There remains concern re the level of data breaches and subject access requests (SAR). The resource requirement to investigate and respond to these is significant and currently impacts upon the other operational duties of the team. Management of the GDPR project has recently been transferred under the Information Security Groups remit and going forward will be reported under here.	N/A
The following audits are currently in progress:		The following audits are not due to commence until the second half of the year:	
<ul style="list-style-type: none"> ICT Investment in the Service (ANA – High) 		<ul style="list-style-type: none"> ICT Continuity and Disaster Recovery (ANA – High) ICT IG and Data Quality (ANA – High) 	
Other			
Housing Services (follow up) Risk / ANA - Medium	Improvements Required Status: Draft <i>Draft Report Issued 18/4/2019 Awaiting client response</i>	This report remains at draft stage as we await the client response to recommendations made. Assurance was reported in last year’s annual report; please refer to that report for details.	


CORPORATE SERVICES AND FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Health & Safety (H&S) Risk / ANA - Medium	Fundamental Weaknesses Status: Final	<p>A new H&S Policy has recently been published, however it is not clear how this ties in with the existing H&S Manual that incorporates a series of guidance, procedure and policy documents.</p> <p>Although there is substantial training provision, the sufficiency of take up was not tracked beyond the initial induction training for new staff, until April 2018, when a new H&S accredited provider was used. Similarly, until 2019, there was no method to track the Council's compliance with both general and specific H&S requirements, including risk assessments. Both are now tracked through the use of spreadsheets.</p> <p>Our opinion of 'Fundamental Weaknesses' reflects the lack of enforcement and monitoring in relation to departmental compliance with H&S; it is not a reflection on the current H&S Team who are already making a positive impact on corporate H&S, with limited resources.</p> <p>We are aware that SLT are promoting a cultural shift in relation to H&S, and this includes a robust action plan to address the issues raised by the external review commissioned by the H&S Team and matters being raised by the internal team. This includes additional resources for training, a new Corporate H&S Officer, and the procurement of an electronic H&S management system. It is anticipated that such a system, along with the other measures put in place, if correctly implemented and appropriately utilised, could address all the issues raised in our report.</p>	
The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> Community Protection - Prevention (ANA – High, client request) 		The following audits have been deferred until next year: <ul style="list-style-type: none"> Emergency Planning & Business Continuity (ANA – Medium) 	

PLACE			
Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Museum Services – Tor Abbey (follow up) Risk / ANA - Medium	Good Standard Status: Final	Report and action plan now finalised. Assurance was reported in last year’s annual report; please refer to that report for details.	
Parking Services Risk / ANA – High	Fundamental Weaknesses Status: Final	Report and action plan now finalised. Assurance was reported in last year’s annual report; please refer to that report for details. Management have advised that the weaknesses found should in part be attributed to insufficient capacity in the team, which they are now addressing through additional resources in the form of a new managerial post (from September 2018) and working more closely with other departments from March 2019. Our follow activity (reported separately) has found that management are now acting resulting in a change to the Assurance Opinion to ‘Improvements Required’.	
TDA ISO9001	Good Standard Status: Final	Our overall opinion is that the Quality Management System (QMS) is operating effectively and that the internal procedures are clearly designed to support the ISO9001:2008 requirements.	
Port Marine Safety Code (follow up) Risk / ANA - Client request (May 2019)	Non-Compliant Status: Final	We have undertaken a follow up of previous recommendations and also taken into account recent issues and incidents that have occurred across Tor Bay Harbour Authority in determining our opinion on compliance with the requirements of the Port Marine Safety Code. To the best of our knowledge and belief, and having carried out appropriate follow up checks, in our opinion the Tor Bay Harbour Authority is not currently compliant with all requirements of the Port Marine Safety Code. We do acknowledge the significant progress that has been made against the previous year's recommendations and Torbay Harbour Authority has demonstrated compliance against a number of areas. Our opinion has however been impacted by the loss of key staff at Brixham and incidents that have identified and/or resulted in significant risk to staff, harbour users and the general public.	
Port Marine Safety Code Risk / ANA – Client request (December 2019)	Compliant Status: Final	To the best of our knowledge and belief, having carried out appropriate checks and considered responses provided to us by relevant Harbour staff, in our opinion the Tor Bay Harbour Authority is currently compliant with the Port Marine Safety Code. There remain concerns in relation to land-based Health and Safety (H&S), however these are outside of the scope of the Code and we understand are being investigated, managed and resolved through the Council’s Health and Safety Team in conjunction with the Tor Bay Harbour Authority.	

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Spatial Planning – Development and Planning Risk / ANA – High	Good Standard Status: Draft <i>Draft Report Issued 30/8/2019 Awaiting client response</i>	Generally, the control environment within the Council’s Planning Department is relatively sound, ensuring that there is a robust framework in place to enable appropriate and independent planning decisions to be made. This could be further strengthened by having procedures in place for locally determined processes, and by introducing a system to ensure officers can declare an interest in, and therefore be prevented from taking part in determining related planning applications. A number of minor issues were identified during sample testing of pre-application queries and full planning applications; and we found that enforcement complaints are not being progressed as promptly as they should be.	A
Grants x 3 Risk / ANA: N/A	Certified Status: Complete	Grants certified comprise; Local Transport Capital Block Funding, Pothole Funding and Local Growth Fund. A number of minor issues were identified and reported to the relevant funding body.	N/A
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> • Commissioning and Performance Monitoring by the Council of the TDA (ANA – High) • TOAD Replacement (ANA – Medium) • Bus Subsidy Grant (ANA - N/A) • Tor Bay Harbour Authority (ANA – Medium) 		<p>The following audits are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> • Events (ANA – Medium) • Asset Management Strategy / Plan (ANA - High) 	
<p>The following audits have been deferred at the request of the client:</p> <ul style="list-style-type: none"> • Beach Services (ANA – Low / client request) • Spatial Planning - s106 and CIL (ANA- Medium) 		<ul style="list-style-type: none"> • Highways, Street Scene, Lighting & Transport infrastructure (ANA - High) 	

PUBLIC HEALTH




Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Health Protection and Infection Control	Good Standard	Assurance was reported in last year's annual report; please refer to that report for details.	
Risk / ANA – Medium / client request	Status: Final		
The following audit is currently ongoing: <ul style="list-style-type: none"> Public Health / NHS Links (ANA – High, client request) 			

Page 78

ADULT SERVICES

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following audit is currently in progress: <ul style="list-style-type: none"> Care Act – Better Care Fund / Section 256 monies, follow up (ANA – Critical) 		The following audit is not due to commence until the second half of the year: <ul style="list-style-type: none"> Community Engagement - Prevention (ANA – High) 	
The following audit has been deferred to 2020-21 at the client's request: <ul style="list-style-type: none"> Health Watch (ANA - Medium) 			

CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Children's Services Medium Term Financial Strategy (MTFS) / Improvement Plan Risk / ANA: High	Improvements Required Status: Final	Report and action plan now finalised. Assurance was reported in last year's annual report; please refer to that report for details.	
Disability Services Risk / ANA: Medium	Improvements Required Status: Final	<p>The Ofsted reports concluded that the services in relation to children with disabilities have shown some improvement. However, we found that there are some areas that would benefit from further improvement. These are particularly in relation to consistency of procedural and process documents, eligibility assessments, management approval processes, review frequency and quality and consistency of records on PARIS.</p> <p>The Ofsted report also concluded that support structures have shown improvement, with the establishment of a quality assurance performance process. However, we identified weaknesses in performance monitoring and the effectiveness of the quality assurance process given our findings above. Accordingly, we have made recommendations in relation to establishing appropriate performance monitoring across the service area and supporting this through progression of the teams' health check process.</p> <p>Of concern, in Children's Services as a whole, is data management, and we understand that the Council's Information Governance officer is now working with the service to raise awareness and compliance and minimise the associated risks.</p>	
Transition from Children's to Adults Risk / ANA: Medium	Improvements Required Status: Final	<p>Generally, the transition from Children's to Adult Social Care services for young people with disabilities was found to be effective, with appropriate care having been arranged in each of the cases reviewed, and effective involvement from the Adult Social Care Team identified throughout the process.</p> <p>We understand that this is likely to be as a result of the Multi-Agency Transition Panel recently put in place, which Ofsted have reported has improved communications and joint planning. However, we have recommended that the related terms of reference should be kept up to date to help ensure the Panel's ongoing effectiveness.</p> <p>We have also made a number of other recommendations including:</p> <ul style="list-style-type: none"> • alignment of procedures, • ensuring timeliness of assessments and Pathway Plans 	



CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
		<ul style="list-style-type: none"> recording all relevant information, including involvement from relevant parties ensuring agreement from all relevant parties, including an appropriate manager ensuring timeliness of Plan reviews <p>Should these not be implemented, there's a risk that transitions become less effective and care into adulthood is either unsuitable or untimely.</p> <p>We have been unable to obtain information relating to how the service determines whether it is successfully meeting its objectives in relation to young disabled people leaving its care, and so cannot provide assurance in this regard.</p> <p>We further understand that there are issues relating to information governance that are in the process of being addressed.</p>	
Special Guardianship Orders (SGOs) Risk / ANA: High	Improvements Required Status: Draft <i>Draft Report Issued 22/8/2019</i> <i>Awaiting client response</i>	<p>Testing has found that Special Guardianship Reports to the court are being properly prepared, however improvements are required in relation to Special Guardian Support (SG) Plans. Although these are generally comprehensive, information is currently lacking in terms of timescales for provision of support and procedures for review; as were related financial assessments, as these could not be located for the sample reviewed.</p> <p>We also understand that capacity issues are preventing proper review of ongoing support, including periodic financial support. There's therefore a risk that SGs are not being effectively supported, and that some may be receiving ongoing financial support inappropriately.</p> <p>At the time of the audit, the SG process, including making assessments both for court reports and for the provision of support services, was being undertaken by two separate teams, using different guidance. We consider the improvements recommended, and therefore the process as a whole, would be more effective if SGOs and related support for SGs was the responsibility of one team.</p>	A
Permanency Planning Risk / ANA: High	Improvements Required Status: Draft	Permanence options have been properly identified and set out in a comprehensive Permanence Planning Policy, and local capacity for the majority of permanence options has been assessed. We note that plans to address the shortfall in capacity identified have only recently been set out within Children's Services Financial Recovery Plan 2019-	A

CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Page 81	<i>Draft Report Issued 23/8/2019 Awaiting client response</i>	<p>24, so timescales in terms of their implementation are all for later in 2019-20. We, therefore, cannot provide assurance on their effectiveness at this time.</p> <p>There are comprehensive procedures in place in terms of ensuring the Policy is adhered to in practice, and sample testing of a number of cases found that, generally, the need for permanence had been properly considered.</p> <p>Issues were however found in terms of recording information on PARIS, for example, family meetings and involvement in preparing the care and permanency plan, and a lack of parallel / contingency planning was identified.</p> <p>In addition, although looked after children are required to have regular reviews, these were not always being carried out within the timescales identified. Management review was also sometimes lacking, with related sections on the updated care plans not being completed; and sign off not to be taking place within prescribed timescales.</p> <p>Recommendations have been made to ensure required processes are undertaken effectively, ensuring that permanence remains a key priority for all looked after children.</p>	
	Grants x 3 Risk / ANA: N/A	Certified Status: Complete	Grants certified comprise; Troubled Families first three claims of 2019/20.
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> Adoption (Client monitoring of the Regional Adoption Agency) (ANA - Medium) Early Help Strategy (ANA - Medium) Legal Care Proceedings (Review of operation of new process) (ANA - Medium) Special Education Needs / Higher Needs (ANA - Medium) 		<p>The following audit was cancelled by the s151 officer in order to direct audit resource to higher priority areas as per prior agreement in the annual audit planning process:</p> <ul style="list-style-type: none"> Admissions and Place Planning (ANA - Low) 	
<p>The following audits are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> Contracted Services / commissioned Services (ANA - High) Fostering and Connected Carers (ANA - Medium) Use of Agency staff and control of Safeguarding employee costs (follow up audit) (ANA - High) 		<ul style="list-style-type: none"> Early Years – Prevention (linked to the Future Model – Improved Outcomes) (ANA - High) Early Education / Nursery Funding (ANA - High) Troubled Families Grants x 4 	

CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Schools Financial Value Standards (SFVS)	Good Standard	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2018/19 submitted to the Department for Education.	
Maintained Schools audit programme	Good Standard	The overall opinion for the routine school audit visits has been maintained as 'good standard' (refer to summary data below). The provision of internal audit's performance data provides a greater focus on schools causing concern in the wider control environment.	
Maintained Schools Summary Data			Assurance Opinion
The key matters arising from the audits are: <ul style="list-style-type: none"> • Completion of the recommended skills matrices for governors and staff (Schools Financial Value Standard)'; • Completion of a financial benchmarking exercise by schools using the DfE website. 			Good Standard

Appendix 5 – Performance Indicators

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

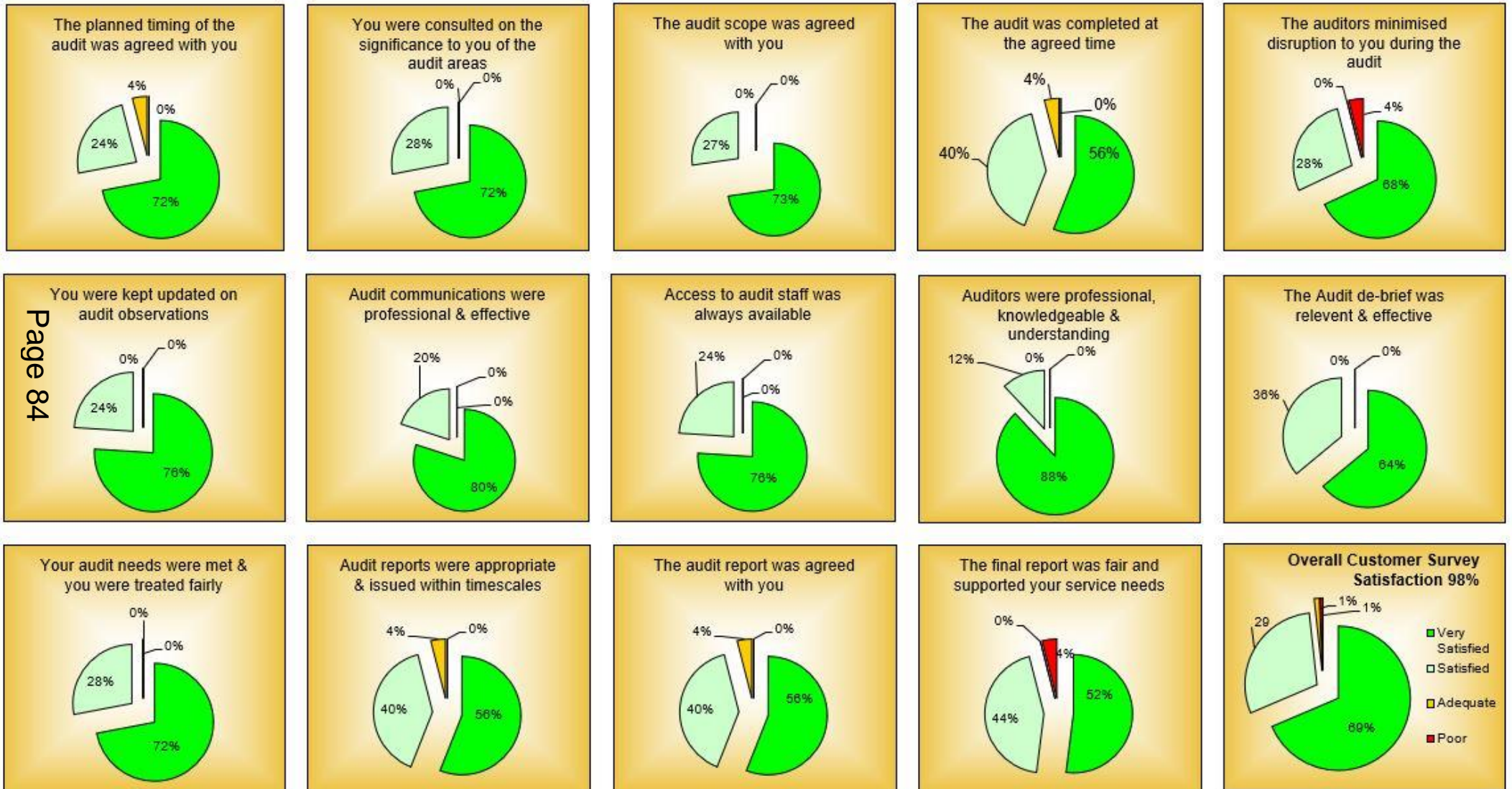
Local Performance Indicator (LPI)	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20
	<i>Target</i>	<i>Actual</i>	<i>Target</i>	<i>Actual</i>	Full Year Target	Six Month Actual
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	100%	100%	58.2%
Percentage of Audit plan Completed (Inc. Schools)	93%	87%	93%	91%	93%	35.2%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	96%	95%	94%	95%	51.4%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	On target
Percentage of chargeable time	65%	71%	65%	66%	65%	64.3%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	97%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	91%	90%	81%	90%	84.4%
Final reports produced within target number of days (currently 10 days)	90%	97%	90%	100%	90%	100%
Average level of sickness absence (DAP as a whole)	2%	4%	2%	3%	2%	2.9%
Percentage of staff turnover (DAP as a whole)	5%	11%	5%	4%	5%	6.7%*
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes

* Turnover – 1 new starter and 1 apprentice.

Overall, performance against the indicators has been maintained; certain areas of the audit plan relate to project work and will not be complete until the end of the year in line with project timescales. It should also be noted that the level of irregularities has been greater than anticipated and the need for investigation work has had an adverse impact on the overall completion of the plan.

Appendix 6 - Customer Service Excellence

Customer Survey Results April – September 2019



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Page 85

Devon Audit Partnership	Confidentiality and Disclosure Clause
<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 robert.hutchins@devonaudit.gov.uk .</p>	<p>This report is protectively marked in accordance with the National Protective Marking Scheme. 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>

Annual Certification Report and Sector Update

Page 8
Orbay Council
Year ending 31 March 2019

15 January 2020



Contents

Section	Page
Introduction	3
Annual Certification Report	4
Sector Update	10

Introduction



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This paper provides the Audit Committee with our Annual Certification Report.

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

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

Page 88



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Engagement Manager

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Annual Certification Report

This section summarises our grants certification work and fees charged for 2018/19.

We certify the Council's annual Housing Benefit Subsidy claim in accordance with the Housing Benefit Assurance Process (HPAP) procedures agreed with the Department for Work and Pensions.

We have certified the Housing Benefit subsidy claim for the financial year 2018/19 relating to subsidy claimed of £57.7 million. Further details of this claim are set out in Appendix A.

We identified a number of issues from our certification work, which we wish to highlight for your attention. These are set out in the HBAP Report at Appendix B.

We reported our findings to the DWP on 29 November 2019. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The base fee for 2018/19 for the Council was £10,407, with the fee for each additional set of 40+ testing being £1,748, as set out in our quote dated 2 May 2018. There were two additional sets of 40+ testing required and the final fee is therefore £13,903. This is set out in more detail in Appendix A.

We also certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2018/19 claim was completed on 28 November 2019, in advance of the 29 November deadline.

Appendix A - Details of claims and returns certified for 2018/19

Claim or return	Value	Amended?	Amendment (£)	Exceptions/Errors?	Comments
Housing benefits subsidy claim	£57,680,004	No	-	Yes	The HBAP Report to the DWP sets out the results of our testing and is included at Appendix B.
Teachers' Pension return	N/A	Yes	65	Yes	<p>When checking the reasonableness of the calculations used for the percentage contributions of employers and teachers, an exception was identified on employer's contributory salary was identified by the client which has been corrected in the amended marked up form.</p> <p>Variations on employee contributions above those that could be attributable to rounding were identified on tiers 1 2 and 3. The Council provided explanation for these to Teachers' Pensions, which were included in our report.</p>

Page 90

Claim or return	2017/18 fee (£)	2018/19 base fee (£)	2018/19 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim	£10,824	£10,407	£13,903	£3,496	<p>The 2017/18 fee was set by PSAA and was based on prior year fee levels rather than the amount of work required to complete the work.</p> <p>The 2018/19 base fee was based on the estimated amount of work required to complete the testing, with internal audit carrying out the discovery testing. Our quote included a fee of £1,748 per set of additional 40+ testing. There were two sets of 40+ testing resulting in an additional fee of £3,496.</p>
Teachers' Pension return	£3,800	£3,900	£3,900	-	-

Appendix B – Torbay Council HBAP report to the DWP

29 November 2019

Dear Sirs

Housing Benefit (Subsidy) Assurance Process 2019 Module 6 DWP Reporting Framework Instruction (Applicable to England only) Reporting accountants' report for the Housing Benefit Subsidy claim form MPF720A, year ended 31 March 2019

This report is produced in accordance with the terms of our engagement letter with Torbay Council dated 28 June 2018 and the standardised engagement terms in Appendix 2 of HBAP Module 1 2018/19 issued by the Department for Work and Pensions (DWP) for the purpose of reporting to the Section 151 Officer of Torbay Council and the DWP.

Our report is prepared solely for the confidential use of the Local Authority and the DWP and solely for the purpose of facilitating the claim for Housing Benefit Subsidy on form MPF720A dated 29 April 2019.

This report should not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by the standardised engagement terms), without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than the local authority and the DWP, we acknowledge that the local authority and/or the DWP may be required to disclose this report to parties demonstrating a statutory right to see it.

This report is designed to meet the agreed requirements of Local Authority and the DWP as described in the DWP HBAP reporting framework instruction 2018/19.

This report should not therefore be regarded as suitable to be used or relied by any other party for any purpose or in any context. Any party other than the Local Authority and the DWP which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so entirely at its own risk. To the fullest extent permitted by law, we accept no responsibility or liability in respect of our work or this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by the reliance of anyone other than the addressees on our work or this report.

Respective responsibilities of the Local Authority and the reporting accountant

We conducted our engagement in accordance with HBAP Modules 1 and 6 2018/19 issued by the DWP, which highlight the terms under which DWP has agreed to engage with reporting accountants.

The Section 151 Officer of the Local Authority has responsibilities under the Income-related Benefits (Subsidy to Authorities) Order 1998. The section 151 Officer is also responsible for ensuring that the Local Authority maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Local Authority. It is also the Section 151 Officer's responsibility to extract relevant financial information from the Local Authority's accounting records, obtain relevant information held by any officer of the Local Authority and complete the attached form MPF720A in accordance with the relevant framework set out by the DWP.

Our approach

For the purpose of the HBAP engagement we have been provided with a signed copy of form MPF720A 2018/19 dated 29 April 2019 by the Section 151 Officer. The Section 151 Officer remains solely responsible for the completion of the MPF720A and is the signatory on the local authority's certificate on claim form MPF720A.

Our engagement was carried out in accordance with the DWP reporting framework instruction which has been prepared in accordance with the International Standard on Related (ISRS) 4400, Engagement to perform agreed-upon-procedures regarding financial information. The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis as set out in HBAP Modules of the HBAP reporting framework instruction on the Local Authority's form MPF720A dated 29 April 2019 and to report the results of those procedures to the Local Authority and the DWP.

The results of these are reported on in appendices A, B, C and D.

Appendix B – Torbay Council HBAP report to the DWP (cont.)

Inherent limitations

The procedures specified in DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the local authority's claim for Housing Benefit subsidy on form MPF720A. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the local authority's claim for Housing Benefit subsidy on form MPF720A in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the Local Authority's form MPF720A and does not extend to any financial statements of the Local Authority, taken as a whole.

This engagement will not be treated as having any effect on our separate duties and responsibilities as the external auditor of the Local Authority's financial statements. Our audit work on the financial statements of the Local Authority is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. Our audit report on the Local Authority's financial statements is made solely to the Local Authority's members, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work was undertaken so that we might state to the Local Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Local Authority and the Local Authority's members, as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of that audit.

Summary of HBAP report

Summary of Initial Testing

In accordance with HBAP modules an initial sample of cases was completed for all general expenditure cells. We have re-performed a sample of the Local Authority's testing and confirm the tests we have carried out concur with the Local Authority's results:

Cell 011 Non HRA Rent Rebate Ineligible service charges

3 claims had ineligible service charges included in the rent amount. These relate to specific properties and the Authority has identified all claims and has tested each claim.

Cell 094 Rent Allowance – Rent liability

1 claim did not have adequate supporting evidence for the rental liability as only the first page of the tenancy agreement was on the system. Further testing of an additional 40 cases did not identify any further issues.

Cell 214 Modified schemes

1 claim did not reflect an increase in war pension following an appeal. The Authority has tested all modified scheme cases.

Completion of Modules

Completion of Module 2

We have completed the uprating checklist and no issues were identified.

Completion of module 5

We have completed the questionnaire for the appropriate software supplier and no issues were identified.

Summary of testing arising from Cumulative Assurance Knowledge and Experience

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding Qualification Letter. Where appropriate the Authority has completed testing of the sub populations for:

Non-HRA Rent Rebates Cell 11 – rent liability error

Rent allowances Cell 094 overpaid Benefit earned income calculation error

Summary paragraph/ending of letter

For the form MPF720A dated 29 April 2019 for the year ended 31 March 2019 we have completed the specific test requirements detailed in the DWP reporting framework instruction HBAP and have identified the following results set out in Appendix A, B, C and D.

Firm of accountants: Grant Thornton UK LLP
29 November 2019

Appendix B – Torbay Council HBAP report to the DWP (cont.)

Appendix A Exceptions/errors found

Cell 094 Overpaid benefit – Earned Income calculation error

Cell 094: Rent allowances total expenditure

Cell Total: £57,864,042

Cell Total £8,715,934 – sub population

Cell Population: 13,435 cases

Cell Population: 2,625 cases – sub population

Headline Cell: £57,864,042

Testing of the initial sample of 20 cases did not identify any errors. However, in 2016/17 and 2017/18 it was identified that the Local Authority has incorrectly calculated earned income resulting in an overpayment of benefit.

Given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where an assessment in the subsidy period was based upon earned income was tested. This additional testing identified:

One case which resulted in an overpayment of housing benefit of £198 in 2018/19 due to miscalculating the claimants earned income.

3 cases which had resulted in an underpayment of housing benefit to a total of £381.06 in 2018/19 due to miscalculating the claimants earned income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

Sample:	Movement / brief note of error:	Original cell total: sub population (claims with earning)	Sample error:	Sample value:	Percentage error rate (to two decimal places)	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
Initial sample - 20 cases	Incorrect Income Calculation	£57,864,042	£0	£98,887		
CAKE sample - 40 cases	Incorrect Income Calculation	£8,715,934	£198	£150,744		
Combined sample - 60 cases	Incorrect Income Calculation	£8,715,934	£198	£249,431	0.00%	£6,919
Corresponding adjustment:	Cell 103 is overstated	£8,715,934	£198	£249,431	0.00%	-£6,919
Total corresponding adjustment	Total understatement of Cell 113					£6,919

Cell 094 Overpaid benefit – Rent liability error

Cell 094: Rent allowances total expenditure

Cell Total: £57,864,042

Cell Population: 13,435 cases

Headline Cell: £57,864,042

Our initial sample of 20 cases identified 1 case where the rent liability was not supported as only the first page of the tenancy agreement was included on the file, resulting in an overpayment of £2,400.

Additional Testing

The Authority tested an additional random sample of 40 cases and identified no further issues. We reperformed 4 cases and did not identify any errors.

The full tenancy agreement was obtained during the audit and supports the rent liability. Had this been available during the audit it would not have been an error.

Sample:	Movement/ brief note of error	Original cell total:	Sample error:	Sample value:	Percentage error rate	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 20 cases	Rent liability not supported	£57,864,042	£2,400	£98,887		
Additional sample - 40 cases	Rent liability not supported	£57,864,042	£0	£181,894		
Combined sample 60 cases	Rent liability not supported	£57,864,042	£2,400	£280,581	0.86%	£497,950
Corresponding adjustment:	Cell 103 is overstated	£57,864,042	£2,400	£280,581	0.86%	£497,950
Adjustment	Total understatement of cell 113					-£497,950

Appendix B – Torbay Council HBAP report to the DWP (cont.)

Appendix B Observations

There are no observations to report.

Appendix C: Amendments to the claim form MPF720A

No amendments have been made to the claim form.

Appendix D Additional issues

Cell 11 Rent rebates (tenants of Non-HRA properties) – Total expenditure (benefit granted)

Cell total £636,255

Cell population: 443

Headline cell £636,255

CAKE testing identified 4 cases out of 40 sampled where the rental amount included ineligible service charges. The initial testing identified a further 3 cases. These relate to specific properties and the Authority has identified all claims and has tested each claim. All of the 22 cases result in underpayments of benefit

The Authority has undertaken to amend all cases in the 2019/20 subsidy year.

Cell 214 Modified schemes subsidy – Expenditure due to voluntary disregarding of War Disablement Pensions or War Widows Pensions

Cell total: £79,693

Cell population: 42

Our testing of modified schemes identified 1 case out of 9 sampled where the income did not reflect an increase in war pension following an appeal. The Authority has identified and tested all modified scheme cases. No further errors were identified.

We have reformed 4 cases and did not identify any errors.

The Authority has undertaken to amend all cases in the 2019/20 subsidy year.

Control issue

Cell 011 Non HRA Rent rebate – Tenancy agreements

Our CAKE testing of rent liability identified 6 cases out of 40 tested where the tenancy agreement had not been signed by the Authority. Our main discovery testing of 20 cases identified 1 further case without a signed agreement. The Authority have provided alternative evidence that supports the rent liability and tenancy, however it must ensure that this control issue is addressed and that all tenancy agreement are signed by all parties.

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.

On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose

Delivering social value through commercial activity

Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>



MHCLG – Independent probe into local government audit

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

Other key areas of the review include whether:

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

National Audit Office – Code of Audit Practice

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

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

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

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

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

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

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

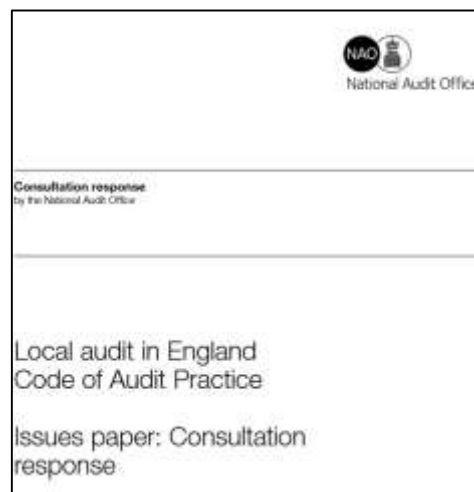
Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

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

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation closed on 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



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

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

The reporting environment

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

Critical judgements and estimates

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

IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Clear identification of practical expedients used on transition and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.



What is the future for local audit?

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

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

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

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

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

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

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

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

There are a number of possible solutions including:

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

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

The online article is available here:

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

Grant Thornton's Sustainable Growth Index Report

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

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

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

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

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

Our index is divided into six baskets. These are:

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

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

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

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

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

The online report is available here:

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



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

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

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

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

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

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

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

The IFS report is available on their website below:

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





Meeting: Audit Committee

Date: 15 January 2020

Wards Affected: All

Report Title: Overview of Investigations

Is the decision a key decision? No

When does the decision need to be implemented? n/a

Supporting Officer Contact Details: Anne-Marie Bond, Director of Corporate Services and Operations, 01803 207160, anne-marie.bond@torbay.gov.uk

1. Introduction

- 1.1.1 Following previous debate within Audit Committee, it was agreed that a high level overview will be given to Audit Committee of any alleged fraud by staff or alleged financial irregularities.
- 1.2 Exempt Appendix 1, sets out such an overview.

2. Reason for Proposal

- 2.1 To provide a greater level of detail to Audit Committee.

3. Recommendation (s) / Proposed Decision

- 3.1 That Audit Committee note the contents of Exempt Appendix 1, and give consideration to any further information or action that they require.

Document is Restricted