

Tuesday, 17 May 2022

AUDIT COMMITTEE

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

Wednesday, 25 May 2022

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 Brooks

Councillor Johns

Councillor Douglas-Dunbar

Councillor Kennedy (Vice-Chair)

Councillor Hill

Councillor O'Dwyer

Together Torbay will thrive

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, Town Hall, Castle Circus, Torquay, TQ1 3DR

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. **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.)

3. **Urgent Items**

To consider any other items that the Chairman decides are urgent.

4. **Auditor's Annual Report on Torbay Council 2020/21**

(Pages 4 - 29)

To consider a report that sets out the Council's External Auditors view as to whether the Council has in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

5. **Audit Progress Report and Sector Update**

(Pages 30 - 45)

To note a report that provides an update on progress made by Grant Thornton in delivering their responsibilities as the Council's external auditors.

6. **Annual Audit Report 2021-22**

(Pages 46 - 71)

To consider a report that reviews the work undertaken during 2021/2022, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

7. Treasury Management Outturn 2021-22
To consider a report on the above.

(Pages 72 - 87)

Auditor's Annual Report on Torbay Council

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We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendation made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendation made



Financial sustainability

Despite the uncertainty, and the challenges posed by COVID-19, the Council has maintained a sound financial position in the context of national local authority finances. The Council set a balanced budget for 2021/22 and 2022/23. As at 31 March 2021, the Authority held £63m of general and earmarked reserves, including £17m to meet the 2020/21 collection fund deficit in respect of business rates, and £389m in borrowings matched with property. Our benchmarking has identified that in relation to annual spend, Torbay has unusually high borrowing compared to other councils which is an area that members need to keep under regular review.

The Council has a good understanding of its financial position and like all public bodies, it is under pressure to identify savings in the years ahead.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council.

Further details can be seen on pages 7-11 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements in relation to governance.

Further details can be seen on pages 12-14 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 15-17 of this report.



Opinion on the financial statements

Our work on the 20/21 accounts remains ongoing . All audits with material infrastructure assets are currently delayed pending a CIPFA consultation on new accounting requirements.



Key recommendations



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.

Our work has not identified any significant weaknesses in arrangements and therefore we have not made any key recommendations.

The range of recommendations that external auditors can make is explained in Appendix B.

Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Local Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 18.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 and ongoing financial pressures

The Covid-19 pandemic has been the largest emergency seen in this country since the Second World War. Nationally, the knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. We'd also expect there to have been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. While government grants have covered part of the general shortfall, councils have been with increased financial uncertainty.

Torbay Council has a large property portfolio including investment property held to generate rental revenue. Around 31% of the asset base is investment property but from November 2020 there are no plans to increase the amount of investment property held due to the change in lending available for such property from the Public Works Loan Board.

Precepts for 2020/21 for Fire and Police services were set in February 2020 before the effects of the pandemic were realised and, as such, the Council had to pay these over as planned, while collection rates have been down, providing added pressures on cashflow.

Some services were suspended for example, parking enforcement, while some staff were diverted to Covid-19 related work including paying out Covid-19 related support grants across the authority.

The Council set its budget for 2020/21 in February 2020. The pandemic started in March and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. The Cabinet were briefed on the financial impact of Covid in June 2020. At that time, it was projected that the Torbay area could lose over 18,000 jobs and the Council incur additional staffing costs in the region of £390k to cope with that issue alone. The Medium Term Resource Plan of October 2020 estimated that the financial impact on 2021/22 would be £7.7m. There was, as expected, an overspend in the Collection Fund in the year given the impact on Council Tax and National Non-Domestic Rates, however this deficit is allowed to be spread over three financial years. The final outturn for the General Fund was an underspend which allowed larger than expected contributions to be made to reserves. This is laudable performance given the income losses incurred by the Council due in part to receipt of significant levels of Government Grant but also due to strong budgetary control. This outcome had positive benefits for the Council's financial resilience in 2021/22 and beyond. A balanced budget was set for 2021/22 in February 2021, helped in part by the difficult decision to increase Council Tax. Review of Council papers indicate the assumptions used for the financial planning for 2020/21 and 2021/22 are sound. We have seen no evidence that short term measures are being used to relieve current pressures. The Council has been proactive in securing additional funding where due. For example, the additional pressures caused by Covid-19 on the higher needs block of dedicated schools grant has been assessed and responded to by engaging with the Education and Skills Funding Agency to obtain funding from the 'Safety Valve' programme. **Our understanding is that funding via this programme is based on a rigorous set of criteria for action set out by DfE.**

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement only covered the 2021/22 year and then subsequently 22/23 on a one year basis. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with the clarification that 2022/23 will also be covered by a one year settlement. We are aware that post year end, the Council has successfully negotiated a renewed fixed price arrangement for delivering Adult Social Care Services which will improve future forecasting.

Financial sustainability

2020/21 and ongoing financial pressures (continued)

Given the uncertainty of the financial regime, the Council does not have a detailed long term financial plan. It's existing budgets have been drawn up on prudent assumptions on future income streams. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement considering best and worst case scenarios.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Financial plans are discussed at Council, Cabinet and the Overview and Scrutiny Board. The Council has a history of transparency in financial matters.

Savings plans

The Council plans for savings are summarised in the Proposals for efficiencies, income generation and service change document within the publicly available budget pages on the Council Website. These plans are included in the MRP for the year. The purpose of the proposals are to provide structure, focus and direction in addressing the financial challenge faced by the Council.

The final budget is approved by Council. The Council has a history of delivering on savings and on its budget. Savings delivery is monitored at Cabinet as part of the quarterly budget monitoring reports.

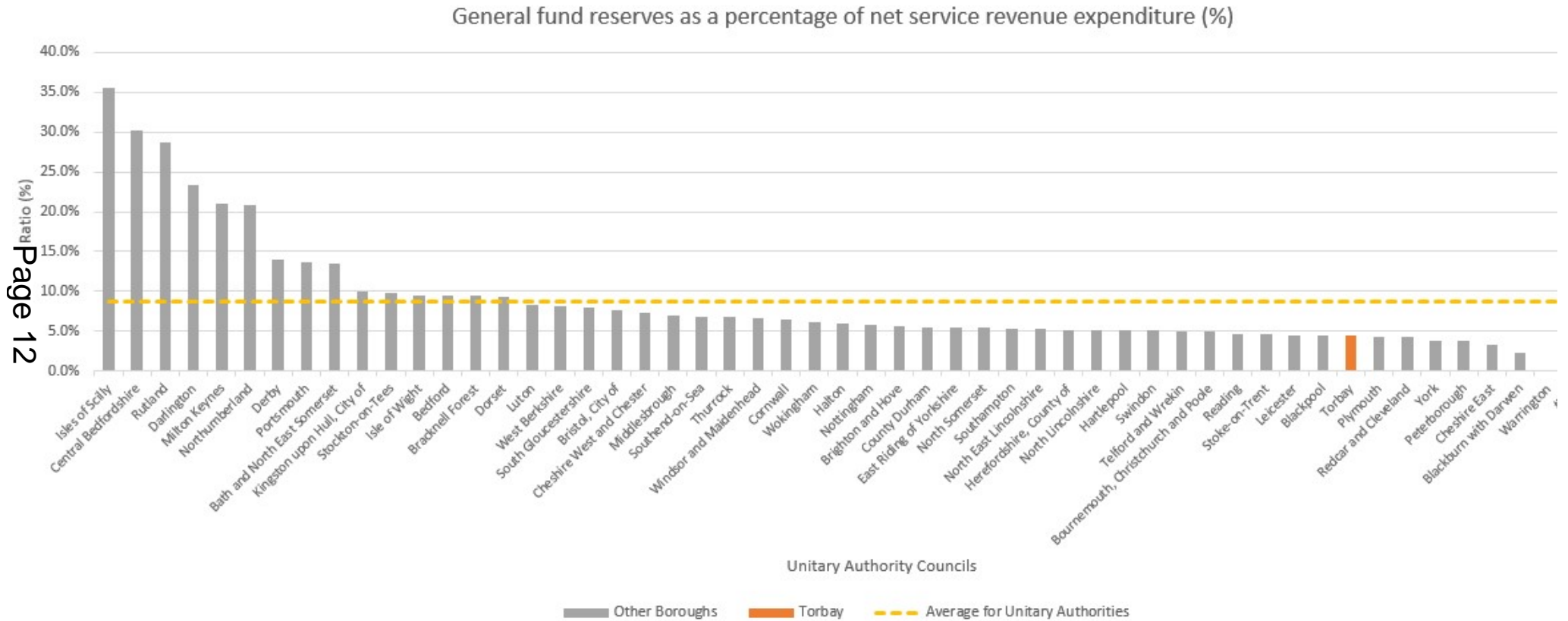
As part of the 2021/22 budget setting, budgets have been reviewed and changes to the budget were made adjusting for pressures, new initiatives, expected cost increases and income changes. The 2021/22 Medium Term Resource Plan highlighted a cumulative £16.2m required from savings or transformation.

The Council is not proposing to use reserves to cover shortfall. At the end of 2020/21 the Council planned to contribute to the general fund balance to bring it up 5% of the Council's net budget using the underspend in the year. This was only after allocating to one off monies to earmarked funds including a Covid-19 reserve to safeguard the Council's future. The Council has clearly identified its relatively low reserves position (see Grant Thornton benchmarking tool overleaf 'CFO Insights' which based on the opening 2020/21 position charted Torbay as one of the unitary authorities with the lowest % of general fund reserve to annual expenditure positions). This is not unusual given Torbay's status as a unitary authority which historically have had lower reserves. The CIPFA Resilience Index in table 2 page 10 shows that while the unallocated reserves balance is low, it has increased steadily since 2017/18.

The Council has been prudent in its use of funding and management of reserves where it can.

The plans for future savings to address the expected funding gap will be addressed further in the 2021/22 Annual Audit report.

Reserves table 1: CFO Insights – total general fund reserves as a % compared to annual net expenditure 20/21



Reserves table 2: CIPFA Resilience Index



Financial sustainability

Treasury Management

A review of benchmarking data from the CFO Insights (CFOI) tool by Grant Thornton shows that borrowing by the Council is very high relative to its net spend (info graphics shown opposite):

1. Relative to its spend, Torbay's borrowing has taken it outside of the trend line comparing spend to borrowing (in percentile terms suggestive of £ per £ of spend) of all UK councils (excluding councils with low borrowing i.e. borrowing is in lowest 50% of £s borrowed). Based on this graph, further tables have been presented overleaf.

2. Borrowing has increased significantly from 2016/17.

In response to this, the auditor has considered the procedures in place around borrowing.

As a general principal, the Council only approves a borrowing funded capital scheme where an income stream will be generated to cover the costs of repayment. All proposed schemes are required to be considered via a laid down governance process and include a business case to be submitted for approval onto the Capital Plan. In terms of the Investment Fund expenditure, all proposals were considered by a dedicated Committee of Members and Officers.

Borrowing decisions are based on the overall Capital Plan (CFR) and consider the availability of internal resources and forecasts for interest rates. Information and advice is received from the Council's treasury advisor and considered in terms of the overall borrowing strategy and timing of individual loans. The overall borrowing strategy forms part of the annual Treasury Management Strategy document approved by full Council and adheres to statutory guidance and the CIPFA Prudential Code and Code on Treasury Management.

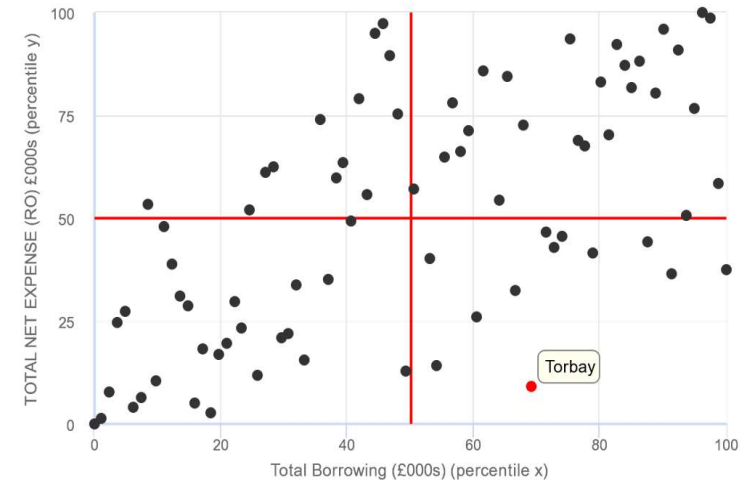
There is no indication that the borrowing is being mismanaged but its security is tied to the success of the capital plan. Having gained assurance over the process for managing borrowing, the 2021/22 Annual Auditor's Report will consider the capital side of the plan in greater detail.

Opposite: Borrowings tables 182.

This data has been taken from information published by Councils across the country. As part of this work, we are not making a value judgement on these data-driven indicators, but are sharing them for member information for the level of borrowing at Torbay.

As part of this work we have considered whether these indicators show potential significant weaknesses. Part of sound governance is to identify problems and take action. The Council has a treasury management strategy to monitor the risk that comes with the borrowing.

Correlation coefficient 0.6



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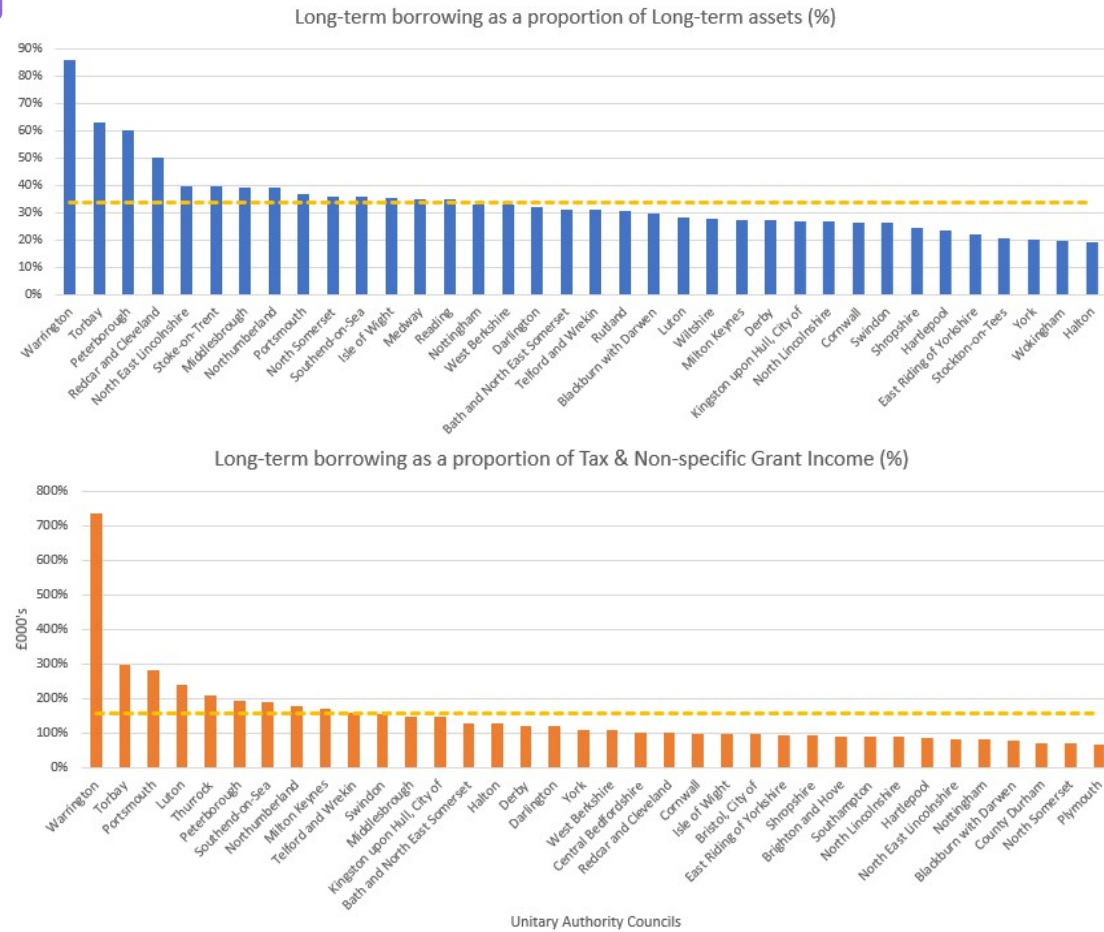
Borrowing Ranking: Total Borrowings ^

This graph showcases the total borrowing of the local authority over time, starting with 08/09. Is the local authority more reliant on debt than previously?



Borrowings tables 3&4: Comparison of borrowing relative to long term assets and income (comparing data from 20/21 financial statements)

After identifying the trend in the scatter graph on p11, we compared Torbay's borrowing level relative to long term assets and income compared to other unitary authorities and confirmed the finding. Torbay ranked second highest in both comparisons.



Financial sustainability

Financial Planning

We found a robust financial planning process which ties in with corporate objectives. There is a formal Budget and Policy Framework which triggers an extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies. Public consultation is included on the draft budget proposals demonstrating good democratic practices.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services. There are also clearly defined responsibilities for budget management by officers and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The finance team is well established with significant experience of managing the Council's finances. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive officer. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained.

Budget holders receive monthly budget reports. The onus is on budget holders to flag issues with finance rather than regular meetings being held. £20k variances must be reported to the Director of Finance

The Council has a Capital Plan and has adopted regularly reviewed and updated annually to reflect changing circumstances. Other than funding for the replacement of assets which deliver services as well as recurring capital expenditure.

The current corporate strategy covers the period 2019 to 2023 and was agreed in September 2019. The current areas of focus are:

- Thriving People (poverty, aspirations, safer communities)
- Thriving Economy (environment for business, premier resort town)
- Tackling Climate Change (carbon neutral and community support)
- Council fit for future (technological, resilient, enabling of community)

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. The Covid-19 pandemic has made it more difficult to predict future costs and demand as the Council has experienced a year which has been difficult to plan for. However, in emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long as a strong financial culture is maintained.

A recommendation has been raised as statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and Medium Term Resource Plan. Whilst discretionary spends are the areas which come under scrutiny when savings plans are being considered, it would not be clear to a resident that there is a distinction between statutory and discretionary spend.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses. We have the opportunity for improvement which is set out overleaf.

Improvement recommendation

Financial Sustainability

Recommendation	Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.
Why/impact	This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.
Summary findings	No distinction is made in the financial information reported to Committees responsible for budgeting between statutory and discretionary spending.
Management comment	In reality, the level of service provision is more complicated than a simplistic discretionary/statutory split. The council budgets will consider the level of all services provided and how it can meet statutory commitments while achieving a balanced budget in the medium term.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the services provided. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the “truth to power”.

The Annual Governance Statement for 2020/21 notes that a new Performance and Risk Strategy was agreed at a Cabinet Meeting in December 2020. This strategy acknowledges that “everyone should be involved in reviewing performance and risks as all staff and elected members need to be aware and act upon the performance and risk data from their areas of responsibility”. Further training to staff has been offered post year end (this is reasonable given the timing of the strategy). Roles and responsibilities are clearly defined and the guidance describes the process for identifying, assessing, evaluating, escalating, allocating and monitoring risk (improvement recommendation made in Improving Economy, Efficiency and Effectiveness section based split between responsibilities of performance versus risk but risk strategy).

As the Performance and Risk Management Strategy was being implemented in the year, internal audit did not the procedures directly but the overall plan and opinion must take account of the organisations risk management framework (Internal Audit Plan 2020-21 p1). In May 2021 the Head of Internal Audit gave an opinion of Reasonable Assurance for the year 2020-21.

Based on our review of your risk management processes, we concur with this view. The Council Corporate Risk Register is reported quarterly to the Audit Committee and Cabinet. The Corporate Risk Register is linked to the corporate plan. In quarter 4 of 2020/21 it had 12 risks relating to Thriving People and Communities, 5 relating to Thriving Economy, 3 Tackling Climate Change and 15 Council Fit for the Future. This is within our expected range of risk (5 to 15 risks for an area) to allow adequate review of those threats to Council objectives. Risks are scored and the risk register contains 10 “red” risks after mitigation.

The risk register format is clear showing current and target risk score, lead officer, description including consequences, and current mitigations. The risk register does not document a number of potential categories such as target score, direction of travel, sources of risk and actions required.

Internal Audit services are provided by the Devon Audit Partnership. Although the agreed plan had to be “significantly revised” as a result of the pandemic to “operationally support” the Council’s response, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion provided to the Council by May 2021. Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

The annual work plans for internal audit are currently approved and overseen by the Audit Committee. From our attendance at Audit Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

Internal audit presented multiple limited assurance reports in 2020/21 however a review of these showed that all were either now improving based on an action plan or were developing one. These related to ICT Information Governance (due to ongoing work on Children’s Services), follow up findings in key financial systems (action plans being agreed for NNDR and Council Tax), Commissioning and Performance Monitoring by the Council of TDA (action plan agreed and progress is reasonable), elements of Children’s Services –Special Educational Needs services and Adoption – working well to action plan.

Counter fraud operations are underpinned by a Code of Corporate Governance within the Constitution and Member and Officer Codes of Conduct. These documents are subject to annual review last updated in May 2022.

Governance

Budgetary control

Budget managers have access to finance system and can review budgets at any time. Budgets are monitored by Finance on key high-risk areas. Meetings are held on ad hoc basis with budget holders, furthermore the accountancy team review the budgets under their control raising questions with the services as required. Budget holders receive a monthly budget monitoring report, all variances over £20k must be addressed with eh finance team. Review of Cabinet papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, stable and experienced. The S151 Officer is the Director of Finance and sits within the Senior Management Team.

It is clear that financial delivery is a key objective from the top down. 2020/21 was been a tough year financially for Torbay and without a concerted effort across the council the year end position could have been troubling for financial sustainability.

We consider budget management arrangements to be robust and we have found no areas of concern during our work.

Monitoring and ensuring appropriate standards

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Officer and Member conduct is set in codes of conduct within the constitution. Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion. There is a member protocol on gifts benefits and hospitality. Officers are advised on the rules related to gifts and hospitality. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared.

Budgetary Setting Process

The Government's challenging financial landscape has made this a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council informs us that arrangements are in place with the Council to model the uncertainties in the system notwithstanding the factors that are outside the Council's control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the council. Given the approach, we have seen evidence of the scenario planning.

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, refer to consideration in the Financial Sustainability section.



Governance

Leadership and committee effectiveness/decision making

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides appropriate levels of scrutiny to external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorisation in line with the wishes of the Council.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic response have been deliberate and thought out.

Wholly Owned Companies

The governance arrangements in place for the wholly owned subsidiary companies have been highlighted as an area of focus assessing Value for Money. Due to changes in 2020/21 to improve Council oversight of the subsidiaries and member queries, it is considered more appropriate to draw conclusions in the 2021/22 Annual Auditor's Report. It is noted that the companies are considered within the financial planning and treasury management strategy.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

This year has been incredibly challenging one for public services as a whole and Torbay are no different. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Torbay Council played its part in the county wide effort to support residents and local business. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

In the first quarter of 2020/21, the Council appointed a Senior Performance and Risk Officer. One of their responsibilities has been to improve performance review, monitoring and assessment, which has continued in to 2021/22. Having a lead officer for performance management is an example of how Torbay is building a strong platform for improving economy, efficiency and effectiveness.

2020/21 was in the middle of the 2019-2023 Community and Corporate Plan. This set out four visions for the Council which have been appropriately referenced in the risk register and performance monitoring and reporting. This means that there is a framework for how the Council can demonstrate that it is achieving its goals, or identify and improve areas where it is missing targets.

There is a comprehensive suite of key performance indicators which are reported on quarterly to the Overview and Scrutiny Board. (17 Thriving People goals with 36 Key Performance Indicators (KPIs), 7 Thriving Economy goals with 7 KPIs, 13 Tackling Climate Change goals with 15KPIs and 12 Council Fit for the Future goals with 20 KPIs).

Having reviewed the reports and observed the collation of data and benchmarking, this reporting can be considered robust. The Senior Performance and Risk Officer oversees the collation and content of the reports which comprise of narrative summaries written by the lead directors and data input directly from department heads taken from live reporting systems used by the respective teams. Benchmarking data is taken directly from government recognised sites such as NOMIS. Torbay has worked in partnership with the LGA to build a national indicators report allowing the Council to promptly obtain relevant data for their monitored benchmarks.

Although the quality performance reporting is good, a recommendation has been made to suggest that the performance and risk reports should be separated. The performance report should go to the Overview and Scrutiny board rather than the Audit Committee.

In 2018 Ofsted rated the quality of Children's Services in Torbay as Inadequate. Just prior to 2020/21 the Council appointed a new Director of Children's services.

There is evidence that the Council's response to improve has been appropriate. Firstly, Failure to implement the Children's Services Improvement Plan has remained as an item on the Corporate Risk Register since then showing a dedication to use the reports of regulators to improve services. Secondly, this Improvement Plan has helped create KPIs which are tracked in the quarterly performance reporting and also to the Improvement Board specifically for Children's Services. The Council has engaged in multiple peer reviews from the LGA network and with the Department for Education which have allowed scrutiny of performance.

Partnership working

We have reviewed the Council's arrangements for working in partnerships such as the Devon Audit Partnership (DAP), the South West Devon Waste Partnership (SWDWP) as well as how the Council works with the Local Government Agency and other Authorities. We have also considered how the Council Manages major contracts including those with the local NHS Foundation Trust for services for People with Complex Needs.

Improving economy, efficiency and effectiveness

The Council has Member representation on the SWDWP Joint Committee which annually considers performance, future plans and the financial position of the SWDWP. The DAP produces annual reports for the Council making recommendations to the authority for any improvements – these are added to the relevant service boards to improve prospective performance.

In September 2020 the Council appointed a central Senior Contracts Officer and a Contracts Support Officer. One of their responsibilities has been to monitor contract performance and management including where the Council has been working with partners. One development has been the creation of a formal contract variation process which has identified where performance issues have arisen. One instance was the energy contract where it became clear that the relationship with supplier was not being monitored effectively as responsibility was spread across too many individuals. As a result, the contract has been restructured with oversight passed back to the Contract Management team.

The Council is flexible in its approach, working in partnership when it is efficient and economical to do so, and reverting to direct provision, should circumstances call for that.

The Council also works with other agencies to co-ordinate and improve services and value for money. In the financial sustainability section, we noted the fixed price arrangement for Adult Social Care services. The contract would not have been arranged but for the careful monitoring of cost by the Council to secure effective value for money in the new contract. This arrangement is a market leader for councils obtaining a secure price for one of their core services. The Council's long term integrated care model provides real certainty and value.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Procurement

Procurement support services across the organisation delivering front line and back-office services. The Council has an up-to-date Procurement Strategy approved in August 2020 and running to March 2023 based on the National Procurement Strategy. The strategy covers partnering, e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement, as well as safeguarding and social value needs. The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives and it's clear that this has been considered.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules). The Council has responded to these requirements by ensuring that there is a formal process to tendering and moderating tender applications. Where applicable, the waiver process has also been enhanced to seek permission for waivers and documenting the alternative proves followed. In 2021/22, the audit team will consider the volume of waivers used. Any contracts procured via direct award are published using a Voluntary Ex Ante Transparency (VEAT) notice. The Council have not received any challenges or complaints in relation to VEAT notices in 2020/21.

We found no evidence that appropriate procurement processes were not followed during 2020/21.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified some opportunities for improvement, set out below.



Improvement recommendation

Improving economy, efficiency and effectiveness

Recommendation	Currently, the quarterly performance reports are presented to Audit Committee for review and challenge. It would be more appropriate for the performance reports to be present to Overview and Scrutiny Board and for the risk reports to remain with Audit Committee so their focus is on the updated risk register and mitigating actions being taken to address it. The responsibilities of the Audit Committee and Overview and Scrutiny Board should be clearly split and this would be apparent by not taking the performance reports to a non-scrutiny committee.
Why/impact	There is a risk that the council's Audit Committee are taking on the responsibility for performance review as well as risk oversight. This reduces the committee's capacity to focus on identifying and reviewing risk and also prevents overview and scrutiny members seeing sight of the performance reports to enable political challenge against performance.
Summary findings	The council's performance management processes are good and improving but currently the member involvement in the review and challenge is not inline with what we would expect to see.
Management comment	The Monitoring Officer will liaise with Chair of Audit Committee and the Overview and Scrutiny Co-Ordinator to review the Council's Approach.



The range of recommendations that external auditors can make is explained in Appendix B.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

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COVID-19 arrangements

On 15 March 2020 based on epidemiological forecasts, the UK government said everyone should avoid all "non-essential" travel and contact with others, avoid crowds, and work from home if possible. Those with symptoms, and their household, were asked to self-isolate. Pregnant women, people over 70, and those with certain health conditions were asked to self-isolate for longer. On 20 March 2020, the UK governments closed all schools, restaurants, pubs, indoor entertainment venues and leisure centres, with some exceptions. On 23 March 2020, the government imposed a lockdown on the whole population, banning all "non-essential" travel and contact with people outside one's home, and shutting almost all businesses, venues, facilities, amenities and places of worship. People were told to keep apart in public. Police were given power to enforce the lockdown, and the Coronavirus Act 2020 gave the government emergency powers including local authorities.

In response to the covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Torbay went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business.

In March 2020 there was an impact on business as usual and delivery of services, mainly due to staff working at home and some self-isolation. Some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated when required.

The pandemic has had significant financial effect on the Council predominately through the loss of income from such things as commercial rents and car parking. However, operational changes have led to a change in expenditure profile which have partially offset losses.

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

The Council's response to the Covid-19 emergency included the Torbay Covid Champions Programme which facilitated the spread of public health messages and also receive feedback on their delivery. The Council also recognised that Torbay has a high proportion of older people in its communities and co-ordinated an approach to protect those people including the establishment of the Proactive Care Homes Group as early as April 2020 providing information to that sector via webinars, newsletters and an available Quality Assurance and Information team. A care homes visiting group was also established to support homes in developing visitor pods, screens, communications technology, and other ways of keeping in contact with families.

Nevertheless, there is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of losses incurred will be funded by Government Grant.

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates through reports to Cabinet.

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic.

Opinion on the financial statements



Audit opinion on the financial statements

Our work on the 20/21 accounts remains ongoing.

Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

Audit Findings Report

The final AFR will be published once the work on the 20/21 accounts is concluded. A draft was shared with the Audit Committee at the meeting on 06/12/2021

Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements to date are disclosed in the 20/21 Audit Findings Report, Appendix C.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and, overall, the supporting working papers continue to be of a good standard.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

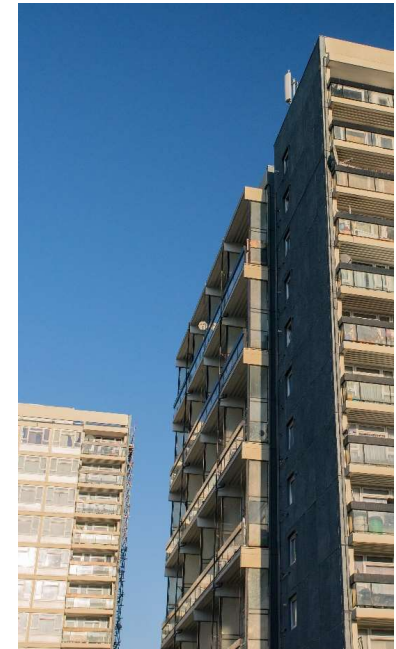
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	FS p. 11 Governance N/A 3Es p. 17



Torbay Council Audit Progress Report and Sector Update

Year ending 31 March 2022

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

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Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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

Progress at May 2022

Financial Statements Audit 20/21

The financial statements for 2020/21 remain unsigned while we await the outcome of the CIPFA consultation relating to Infrastructure assets. The results of this consultation will be known at the end of June 2022 and (if approved) will result in all councils needing to provide updated accounts – eg in Torbay’s case for 20/21 and for those who have all years signed- they will need to prepare their 21/22 accounts with prior year adjustments. There are a number of small matters on Group accounts which needs resolution but we expect them to be completed alongside the update for Infrastructure assets.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements. We have included our Auditor’s Annual Report for 2020/21 in the papers for this Audit Committee and intend to issue the 2021/22 report in before the end of 2022.

Progress at March 2022 (cont.)

Financial Statements Audit 21/22

We undertook our initial planning for the 2021/22 audit in March and April 2022. We expect to begin our work on your draft financial statements in early July.

Our planning work included:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Understanding how the Authority makes material estimates for the financial statements

The results of our work to date are included in this report.

In March we issued our audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

Meetings

We met with Finance Officers in February as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in February to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have shared this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee in this document.

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

Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
Internal audit	We have reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	<p>We have started to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>We have gained an understanding of the controls through conversations with relevant personnel but need to observe and document these controls to complete our testing in this area.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We have completed walkthrough tests of the Authority's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. This includes the revaluation of PPE and Pension liabilities. We have also performed walkthrough procedures for accounts payable, accounts receivable and payroll systems.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding. However, this work has not yet been reviewed by the engagement lead or manager and so further questions could be teased out during fieldwork.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p> <p>The outstanding work on the journals environment is a whistleblowing confirmation exercise which is traditionally performed during the year end fieldwork testing.</p>	Our work has not identified any weaknesses which impact on our audit approach.

External Audit fees

PSAA awarded the contract of audit for Torbay with an agreed scale fee of £76,581. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on the next page in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

The 2021/22 fee also reflects recent regulatory reviews for accounting for infrastructure assets and the additional work that audit teams have been requested to perform considering the potential for derecognition of historic components.

Where audited bodies have asked us to work remotely for the 2021/22 audit (working on site is seen as being the audit team being physically present for 3 days week with access to relevant staff), Grant Thornton have chosen to charge an additional fee. This is to reflect that remote working impacts on all the Code work we do and results in increases to our inputs and in the time it takes to complete an audit. The cost in the plan is an estimate of cost which will be revisited once the audit is completed.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

	Proposed Fee 2020/21	Actual Fee 2020/21	Proposed fee 2021/22
Torbay Council Audit	£138,581	£TBC*	£120,931
Group audit challenge			£5,000
Total			£125,931
Remote working (additional fee if required)			£10,000
Total with remote working (if required)			£135,931

*Pending conclusion of audit and Annual Auditors Report (VFM).

Assumptions

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

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

		Proposed 20/21	Proposed 21/22
Scale fee published by PSAA	Scale fee	£76,581	£76,581
<i>Recurring variation to scale fee (first identified in 2019/20)</i>			
Raising the bar/regulatory factors	Increase quality threshold	£5,000	
	Local factors (additional quality reviews)	£7,000	
Enhanced audit procedures for Property, Plant and Equipment	Increased requirements	£3,500	£4,375
Enhanced audit procedures for Pensions	Increased requirements	£3,500	£4,375
<i>Non-recurring variation to scale fee</i>			
New standards and developments	Auditing standards change in estimates	£17,000	£10,600
	Additional procedures for infrastructure assets		£5,000
	Group audit challenge		£5,000
Additional work on Value for Money (VfM) under new NAO Code		£26,000	£20,000
Uplift for remote working	(if needed)		£10,000
Total audit fees (excluding VAT)		£138,581	£135,931 (If remote working needed)

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

[The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified]

[The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	£20,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,250 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teacher's Pension Scheme	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Harbour audit	£1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Sector Update

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

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

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

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

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

Public Sector

Local
government

Levelling up White Paper – Department for Levelling Up, Communities and Housing (“DLUCH”)

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

- Page 41
- Physical capital – infrastructure, machines and housing.
 - Human capital – the skills, health and experience of the workforce.
 - Intangible capital – innovation, ideas and patents.
 - Financial capital – resources supporting the financing of companies.
 - Social capital – the strength of communities, relationships and trust.
 - Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \(NAO\) Report](#)



Internal Audit

Annual Audit Report 2021-22

Torbay Council
Audit Committee

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May 2022

Official

CUSTOMER
SERVICE
EXCELLENCE



CSE



Robert Hutchins
Head of Devon Audit Partnership

Auditing for achievement

Agenda Item 6

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 2021/22 was presented and approved by the Audit Committee in March 2021. The following report and appendices set out the background to audit service provision; an update to the agreed plan due to the continued impacts of Covid-19, a review of work undertaken in 2021/22 and provides our 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 report provides that opinion.

Expectations of the Audit Committee from this annual 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;
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Senior Leadership Team, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework (see appendix 4) and satisfy themselves from this assurance for signing the Annual Governance Statement.

Robert Hutchins

Head of Devon Audit Partnership

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Overall Opinion Statement

Based on work performed during 2021/22, 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 "Reasonable Assurance" on the adequacy and effectiveness of much of the Authority's internal control framework. The exception is Children's Services, where our opinion remains as 'Limited Assurance', although we acknowledge a positive direction of travel as previously reported by Government appointed bodies for regulatory inspections as directed by the Education and Inspections Act 2006 legislation on behalf of the Secretary of State **. The Opinion considers the limited audit work in some directorates due to the ongoing impact of the pandemic on Council service areas, and the need to significantly adjust the plan to redirect Audit resource to new risks and challenges arising from the Council's response.

Our audit planning process is both risk based and agile, and as such our resources, and consequently our annual report, will inevitably focus upon higher risk areas.

** assessments by the legal regulatory organisations that are carried out on behalf of ministers (for example Ofsted focussed visit in March 2021) noted significant improvement in Children's Services, albeit work remained at that time to see this through to the final stages of the full implementation of the improvement plan. Although this does not affect our internal audit opinion, readers of this report may also wish to consider such reports.

This opinion statement provides Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 4. Assurance over arrangements 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 (due to the timing of the provision of the letter, this will be attached to the 2022-23 six month report).

The Authority's internal audit plan for 2021/22 included specific assurance, risk, governance, and value-added reviews which, together with prior years audit work, provided a framework and background within which we assessed the Authority's control environment. The audit plan has been significantly changed with the agreement of the S151 Officer due to insufficient capacity in the Council's departments as a result of the continued impact of Covid 19.

The reviews in 2021/22 have informed the Head of Internal Audit's Opinion. If significant weaknesses have been identified, these will need to be considered by the Authority in preparing its Annual Governance Statement as part of the 2021/22 Statement of Accounts. In carrying out reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily 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 economical, effective and efficient use of resources, compliance with established policy, procedure, law and regulation; and safeguard the Council's assets and interests from losses of all kinds. Core financial and administrative systems were reviewed by Internal Audit.

The Council's overall internal control framework is considered to have 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. However, the opinion provided must be considered in light of Covid-19 and the ongoing impact of this on the Council. Our opinion is based on internal audit work undertaken during 2021-22, as part of a revised plan.

Covid-19 measures have resulted in a significant level of challenge to the Council and put pressure on the expected control environment; the need for prompt and urgent action by officers has required changes to some procedures and control arrangements. In respect of this report, it has not been possible to fully quantify the additional risk that may have arisen from such emergency and associated measures or fully determine the overall impact on the framework of governance, risk management and control.

Risk Management

Work continues in relation to ongoing development of the Performance and Risk Management (PRM) practices. We will be undertaking an assurance mapping exercise. We support the development of recommendation/ action tracking. Until fully embedded this area remains a risk. We maintain involvement within Business Improvement and Change Programmes and Projects, including the current work within the Children's Services IT Systems Board. These present a number of risks being managed by the respective Boards. The Cyber Governance review identified risks in relation to the need for specific Cyber Risk Management at Senior and Member level. The ongoing Covid-19 response continues to present financial and service risks.

Governance Arrangements

Arrangements are generally reviewed within projects, including Business Improvement and Change, with opportunity to further broaden Portfolio Management. The Information Governance Steering Group (IGSG) provides overarching governance in relation to information and cyber security, and information governance. We have identified opportunities to establish and strengthen specific Cyber Governance arrangements. We have evaluated the Council's compliance with the Local Government Transparency Code the outcomes of which are being taken forward by the IGSG. Finance, Ethics and Probity (FEP) maintain governance over issues within their remit.

Performance Management

As detailed under Risk Management, the Performance Framework remains subject to ongoing development, with monitoring arrangements continuing, and includes outcome mapping and business planning. Until embedded this area remains a risk.

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.

Children's Services Sufficiency Strategy and Medium-Term Financial Plan (MTFP) are monitored by SLT and were recently updated, including a 3-year forecast. We are examining the Sufficiency Strategy within the 2022-23 Audit plan.

Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.	Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.	No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Summary Assurance Opinions

Service Area Overview of Audit Coverage		
Children's Services	Place	Corporate Services, Financial Services and Covid 19 Response
Special Guardianship Orders Virtual School – Personal Education Plan	Port Marine Safety Code Grant Certification: Local Transport Capital Block Funding; Local Growth Fund; Local Growth Fund (Claylands)	ICT Key Financial Systems Continuity and Disaster Recovery Information Governance Compliance and Transparency Code ICT Project Management Key Financial Systems: Asset Register; FIMS System Admin; Treasury Management; IBS Open Systems; Covid 19 Response: Test & Trace Support Payments & Discretionary Fund ICT Information Governance (IG) and Data Quality Apprenticeship Levy Cyber Governance Covid 19 Response: Business Grants - Post Award Assurance; Discretionary Business Grants - Post Award Assurance; Local Additional Restrictions Support Grants; Local Restrictions Support Grants (Closed) and Closed Business Lockdown Payments; Local Restrictions Support Grants (Open); Local Restrictions Support Grants (Sector); Christmas Support Payments for Wet led Pubs; Business Restart Grants Transformation Portfolio (Business Improvement and Change) Information Risk Management Procedure Information Governance Steering Group Housing Benefit Subsidy Testing Covid 19 Response: Omicron Grants – Operational Support; Grant Certification Covid 19 Test and Trace

Key: **Green** = Substantial or Reasonable

Amber = Limited

Red = No Assurance

Blue = Opportunity or Value Added

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:

Corporate Services and Financial Services

- ongoing engagement in various Business Improvement and Change programmes and projects. We also continue to provide relevant information and practices from Local Government articles and guidance;
- support to the Council's newly developed Performance and Risk Management framework in relation to Internal Audit recommendation and action tracking;
- continued advice, guidance and challenge to the Information Governance Steering Group;
- support to the Council's Data Protection Officer in the provision of Freedom of Information (FOI) and Subject Access Request (SAR) data; and support to the Information Commissioners Office Audit recommendations and the Council's response;
- an addition to the plan in relation to Cyber Governance and Resilience, and an Information Governance Compliance review, Transparency Code compliance linked to Freedom of Information;
- completion of the Housing Benefit Subsidy testing to support the requirements of external audit;
- an amendment of the plan to include a review and test of the Council's Apprenticeship Levy process which identified an opportunity for greater use of the DfE STEM funding, and potential for operating a levy transfer scheme to support the local economy and Council vision.

Place

- annual Port Marine Safety Code compliance audit;
- in addition to the planned grant work, inclusion of the Local Growth Fund Grant (Claylands) certification; Home to school and college grant certification; and Travel Demand Management grant certification.

Children's Services

- ongoing engagement with the Liquid Logic project post go-live within the Children's Services IT Systems Board;
- quarterly certification of Troubled Families grants.

Covid-19 Response

- changes to the plan to accommodate audit examination and assurance in relation to the Covid-19 grants awarded, and certification of the Covid-19 Test and Trace grant;
- operational support to the Council's Covid-19 response in relation to Omicron Grant processing.

Schools

- continued assurance through the routine internal audit visits that systems and controls are in place to ensure compliance with Department for Education and that Council requirements are being met.
- maintained schools' visits have taken place despite the impact of the COVID-19 pandemic and it is hoped to complete as many of the remaining planned audits as possible by the end of the Summer Term 2022.

Audit Coverage and performance against plan

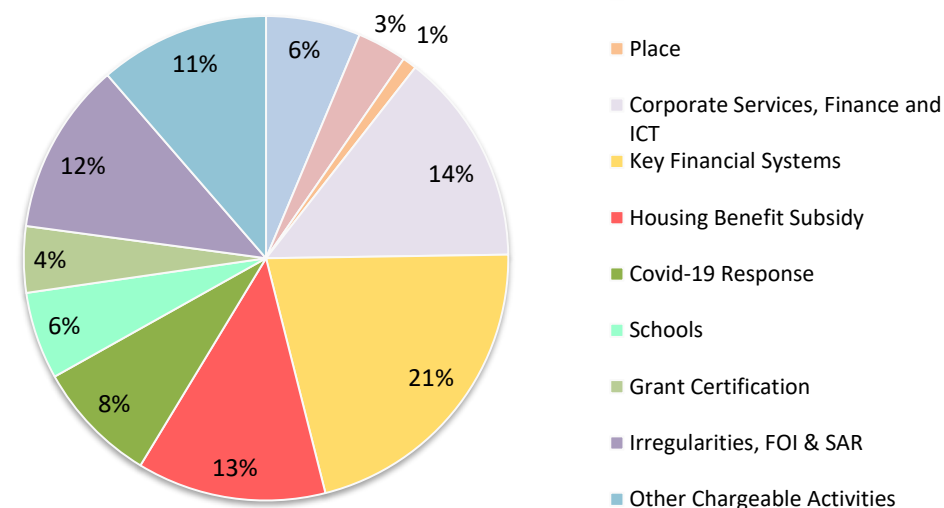
The pie charts right show the breakdown of the revised audit days planned by service area / type of audit support provided. The balance of work has varied slightly during the year as can be seen from comparison with the second chart, and variations have been with full agreement of the client.

Appendix 1 to this report provides a summary of the audits undertaken during 2021/22, along with our assurance opinion. Where a 'substantial' or 'reasonable' standard of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of "limited assurance" has been provided then issues were identified during the audit process that required attention. We have provided a summary of some of the key issues reported that are being addressed by management. We are content that management are appropriately addressing these issues.

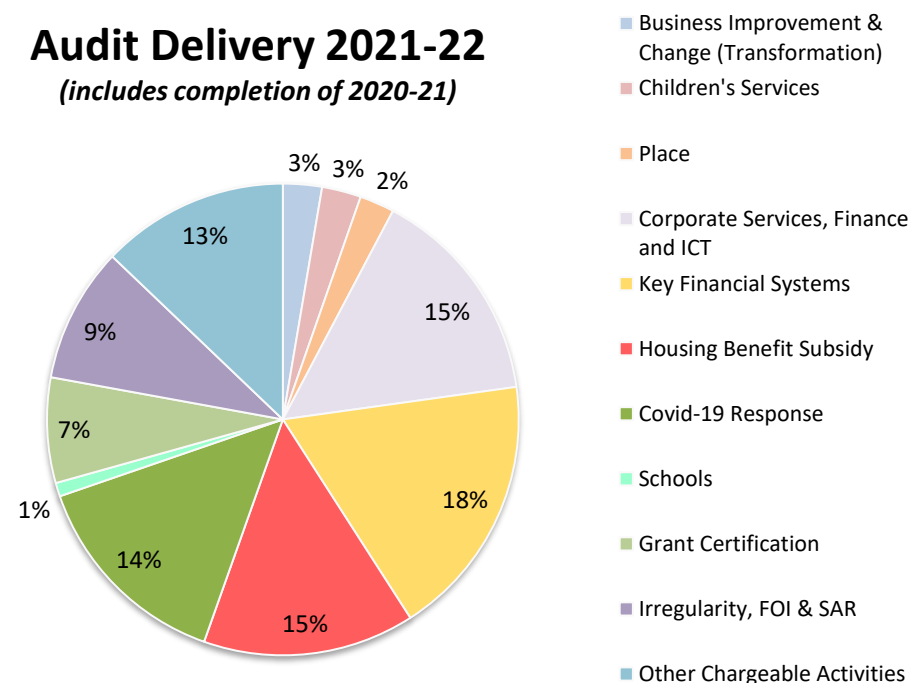
Appendix 6 shows the performance indicators for audit delivery in 2021/22 against the revised audit plan. It will be noted that there was a small increase in the total number of audit days that we provided during the year. When we prepare our plans, we make an educated assessment of the number of days that an audit is likely to take.

When the fieldwork is completed, there is inevitably a variance from the planned days. In addition, we provide an allowance for work on areas such as irregularities; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review.

Revised Audit Plan 2021-22



Audit Delivery 2021-22 (includes completion of 2020-21)



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. The majority of 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 daily monitoring and management the Council's Whistleblowing Inbox. We have provision to interrogate the Council's email archive system to support investigations, FOI's and SAR's. Periodic fraud bulletins are also produced and published on DAP's website.

Irregularities – During 2021/22, Internal Audit have carried out, or assisted in 18 new irregularity investigations. Analysis of the types of investigation and the number undertaken, and as compared with the total investigations for previous years shows the following:

Issue	21/22 Number Whole Year	20/21 Number Whole Year	19/20 Number Whole Year	18/19 Number Whole Year
Poor Procedures	2	0	4	2
Employee / Member Conduct	7	9	9	9
Financial Irregularities	2	4	1	3
Misappropriation of Income	0	0	0	0
IT Misuse	1	0	0	2
Theft	0	0	0	1
Tenders & Contracts	2	2	1	0
Support to IG and HR Investigations	4	N/A	N/A	N/A
Total	18	15	15	17

Summary details as follows: -

The majority of irregularity investigations are as a result of allegations made by whistle blowers. In addition, we have supported Information Governance and Human Resources with the provision of emails in relation to their investigations.

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

We have been asked to assist with four requests under Freedom of Information and Data Protection requirements or the Unacceptable Behaviour Policy during 2021-22.

Appendix 1 – Summary of audit reports and findings for 2021/22

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		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Transformation			
Transformation Portfolio (Business Improvement and Change)	Status: Ongoing Added Value	<p>Throughout the second half of the year, we continued to provide both a Project Assurance and Project Audit role within key Council programmes / projects. As with all project work, our input is aligned to the required timescales of the individual programmes of work and projects.</p> <p>The project assurance role focussed upon project delivery aspects, primarily overall delivery confidence based upon our evaluation of programme and project areas such as time, cost, benefits, aims, governance, skills and capabilities, project processes, dependencies, and the organisations overall readiness to change. The role provides assurance that the Board are considering the right factors to keep the project on track and in budget and ensuring it delivers intended benefits.</p> <p>The Project Audit role is focussed upon the control framework related to the processes that the project is intended to change in any way be it through a system implementation and/or operational change to practices.</p> <p>We provide both ad hoc and formal documented advice and feedback through attendance at and input to respective programme / project Boards and review of supporting programme / project records.</p> <p>Our focus continues to be in relation to two key Business Improvement and Change Programmes and Projects, as follows:</p> <ul style="list-style-type: none">• Liquid Logic Post System Implementation – within the Children's Services IT System Board;• Council Redesign Programme – attendance at and participation in Council Redesign Board along with the ongoing overview of sub-projects. <p>As stated in our six-month report, our key concern remains as project capacity in relation to the ability of project teams to deliver outcomes in addition to maintaining business as usual in what continues to be challenging times.</p> <p>We continue to review information/articles from Local Government and other relevant publications identifying projects and programmes that may be of interest to Torbay Council.</p>	N/A

CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
IT Audit			
ICT Information Governance (IG) and Data Quality (ANA - High)	Status: Final Limited Assurance	Report now in Final version with management action plan agreed. Assurance was reported in last year's annual report; please refer to that for details.	
Information Risk Management Procedure	Status: Final Added Value	Report now in Final version with management action plan agreed. Assurance was reported in last year's annual report; please refer to that for details.	
ICT Key Financial Systems Continuity and Disaster Recovery (ANA – High)	Status: Final Reasonable Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	
IG Project Management (ANA – High)	Status: Final Reasonable Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	
Information Governance Compliance and Transparency Code 2021-22 (ANA – Client Request) Client request to change audit scope/focus as above from 'Information Governance and Data Quality 2021-22' (ANA - High)	Status: Final Reasonable Assurance	<p>In relation to Information Governance (IG) team's compliance with the requirements of the Data Protection and Information Security checklist, it was pleasing to note that there was a significant level of compliance in place. We have made some recommendations to further strengthen the framework and supporting policies and procedures.</p> <p>Our review of the FOI process, focusing upon compliance with the Publication Scheme, and the Local Government Transparency Act identified some potential areas for improvement. We found the Council to be primarily compliant in several areas, however there are some areas where further clarification is required to ensure compliance is achieved and maintained, and some opportunities to evaluate practices at other Local Authorities.</p> <p>The Council has seen a significant increase in FOI requests, approximately 43% since 2019-20. We understand that the IG team capacity is not sufficient to achieve compliance with FOI timescales in all cases, hence our review of publicised information under the Transparency Act and Publication Scheme to determine whether further publication may reduce the level of FOI requests received. Whilst we identified a number of areas for improvement through a review of existing practices, we also undertook some benchmarking against other Local Authorities which concluded that there was no clear correlation between further information publication and a reduction in FOI requests. Therefore, this coupled with the other statutory requirements placed on the IG team, such as Subject Access Requests, results in the associated risks to the Council remaining.</p>	

CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Cyber Governance (ANA – Client Request)	Status: Final	As Council services move online and the use of technology develops, it is becoming increasingly more important that the Council continues investing in cyber security to keep systems, technology and data safe. Cyber-attacks on councils are increasing in number and sophistication with a high-profile attack on Hackney Council demonstrating the devastating impacts and significant financial and physical resources to recover services. In addition, the Council recently experienced a cyber-attack of one of its wholly owned company's where the IT provision was outside of Torbay Council control. This attack had the real potential to compromise Torbay Council's IT network.	
	Limited Assurance	<p>With appropriate cyber defences and supporting governance in place the risks and impacts of cyber-attacks are reduced, in turn protecting residents from the potential disruption of local authority services. The COVID-19 pandemic exposed cyber vulnerabilities, primarily bringing existing ones to light, such as the need to manage and control a primarily home based / remote workforce which has added to the IT workload.</p> <p>We reviewed and evaluated both technical and non-technical cyber resilience controls. Whilst it was pleasing to see that IT have implemented a number of technical solutions, supported by some recent additional investment, the ongoing investment into ICT remains critical in the fight against cyber-attacks and maintaining Council service provision. Despite the advised resource and capacity issues, ICT have a number of initiatives planned, including an IT security review, currently in progress; an operational review that will consider network resilience aspects; an update to the critical systems list; development of a cyber risk assessment; an update to the Council's business continuity arrangement with a planned update to the disaster recovery contact to ensure a robust provision.</p> <p>The key issues we identified in relation to the Council's cyber defences are the lack of IT and Cyber risks routinely included within the Performance and Risk framework and Organisational risk register; the potential cyber risk knowledge gap at Senior Officer and Member level; ongoing advised resource and capacity issues within ICT resulting in a reactive service; lack of assurance regarding wholly owned company cyber defences; the need to strengthen the Business and Civil continuity arrangements and associated disaster recovery provision; and a lack of cyber priority within the Local Resilience Forum.</p>	
Information Governance Steering Group (including GDPR - trusted advisor) (ANA – High)	Status: Ongoing Added Value	We have continued to provide input to and active participation in the Council's Information Governance Steering Group (IGSG). The group provides a framework within which existing and emerging information security matters are reviewed, evaluated and managed, and have recently increased the scope and terms of reference to include specific cyber security issues given the heightened cyber risks currently present. We have concerns regarding the Information Governance Team's capacity to comply with statutory timescales of Freedom of information requests and Subject Access Requests. We provided support to the recent ICO Audit and are pleased to note the progress that has been made against the ICO audit recommendations.	N/A





CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance


The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic and at the agreement / request of the s151 officer:

- Cyber Essentials (ANA - High)

Key Financial Systems

Asset Register (follow up) (ANA – Medium)	Status: Final Substantial Assurance	Assurance was reported in this year’s half yearly report; please refer to that report for details.	
FIMS System Admin (ANA – High)	Status: Final Reasonable Assurance	Assurance was reported in this year’s half yearly report; please refer to that report for details.	
Treasury Management (ANA – Medium)	Status: Draft Substantial Assurance	<p>Sample testing undertaken this year found that in the main, cash flow forecasting is being undertaken effectively, and investments placed are appropriate, properly authorised, and accurately recoded.</p> <p>The ongoing Covid-19 pandemic, and the requirement for officers to work remotely continues, and we have made a minor recommendation to ensure that email authorisations are retained.</p> <p>A number of recommendations from prior year audits remain and it would be good to see these implemented soon, although we accept that additional work may now be required as a result of changes to working practices due to the pandemic, and the new CIPFA Code on Treasury Management.</p> <p>The opportunity recommendation made last year in relation to the lack of specific TM software remains as we feel that the related control environment could be strengthened, and processes streamlined, were this area to be automated.</p>	
IBS Open system Administration (follow up) (ANA – High)	Status: Draft Reasonable Assurance	Of the five recommendations made last year, only one has now been implemented. Management have accepted the risks relating to another, as has been the case in previous years, and are awaiting advice from elsewhere in the Council for a third. Although not high risk, it would be good to the remaining two recommendations implemented soon.	




CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Housing Benefits – Subsidy testing (ANA – High)	Status: Complete Added Value	<p>This is a significant piece of work, involving the testing of over two hundred housing benefit claims on behalf of the Authority's external auditors, Grant Thornton. Initial results showed a fairly significant number of errors in relation to the following areas:</p> <ul style="list-style-type: none"> • Incorrect classification of overpayments • Incorrect calculation of earned income • Non-earned income being entered incorrectly • No evidence to support the non-dep deduction • Pension deduction not treated correctly • Claim not suspended when employment ended • Incorrect calculation of ineligible service charges • Pro-rata incorrectly applied to subsidy cap • WDP being incorrectly omitted or removed • Incorrect WDP amount being used • Local scheme overpayments being incorrectly classified <p>Our results were passed to Grant Thornton for their review and subsequent determination on the impact on the Authority's subsidy claim. We understand that their work has recently been completed and will be separately reported to the Authority.</p>	N/A
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> • Creditors & POP (ANA – High) • Payroll (ANA – High) • Debtors and Corporate Debt (ANA – High) • Income collection (ANA – Medium) • Benefits and Council Tax Support Scheme (ANA – High) • Council Tax and National Non – Domestic Rates (ANA – Medium) • General Ledger & Bank Reconciliation (follow up) (ANA – Medium) 			
Other			
Apprenticeship Levy (ANA – client request)	Status: Draft Limited Assurance	<p>The Audit was requested following a number of DfE apprenticeship funding application errors, resulting in Science, Technology, Engineering and Maths (STEM) funding payments being incorrectly paid by the DfE to the Council. This has prompted an internal review by the DfE, which may result in the overpaid funds being recovered from the Council.</p> <p>Whilst our evaluation of the standard apprenticeship processes (non-STEM) found these to primarily comply with both DfE and local guidance, we did identify some areas where the control framework can be further strengthened and opportunity to align internal process and procedure documents with a newly implemented system operated within the MyView system.</p> <p>In relation to the STEM application processes, we concluded that internal practices are not yet sufficiently robust to prevent the STEM funding error from recurring. We have made several recommendations</p>	

CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>including clarification surrounding any statutory guidance and establishing appropriate internal practices. Whilst DfE funding is available for STEM apprenticeships, it is not routinely utilised by the Council, instead choosing to use the Council's own levy fund. By utilising the DfE funding for all STEM apprenticeships this would result in greater funds available within the Council Levy Fund.</p> <p>This audit also identified that the Council does not yet operate a formal Levy Transfer Scheme. In our opinion there is scope for such a scheme, particularly if the Council made greater utilisation of the DfE STEM funding, which would then have clear benefits to the local economy and associated benefit to supporting the Council's visions.</p>	
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> Corporate Complaint System (ANA – Medium) Legal Services (cross Council use of Legal Advice) (ANA – Medium) Coroner (agreement monitoring) (ANA-Medium) 		<p>The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic with the agreement of the s151 officer:</p> <ul style="list-style-type: none"> Capital Programme (including new Financial Code and IR35 - Council and Companies) (ANA – Medium, client request) Elections (ANA – Medium) Democratic Services and Member Allowances (ANA - Medium) 	

COVID-19 RESPONSE


Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Test & Trace Support Payments & Discretionary Fund (ANA – Client Request)	Status: Final Reasonable Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	
Business Grants - Post Award Assurance (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	
Discretionary Business Grants - Post Award Assurance (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	

COVID-19 RESPONSE



Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Local Additional Restrictions Support Grants (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	A
Local Restrictions Support Grants (Closed) and Closed Business Lockdown Payments (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	A
Local Restrictions Support Grants (Open) (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	A
Local Restrictions Support Grants (Sector) (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	A
Christmas Support Payments for Wet led Pubs (ANA – Client Request)	Status: Draft Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	A
Business Restart Grants (ANA – Client Request)	Status: Draft Limited Assurance	<p>A review of the publicised information regarding these schemes found that this was minimal, with some areas not being in line with related Government guidance. In addition, we were unable to obtain details on stage one of the application process in terms of the information that was requested from claimants and hence how eligibility was being determined.</p> <p>In relation to verification of solvency, reliance has been placed on previous checks undertaken for payments awarded under different grant schemes, however there's a risk that a claimant may have become insolvent since those checks were undertaken.</p>	A

COVID-19 RESPONSE

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>Sample testing of a number of payments found that information had not been requested in relation to whether the business was trading at the beginning of April 2021, nor whether the Government's subsidy allowance conditions were being met. We therefore cannot provide assurance that payments had been made in line with Scheme requirements.</p> <p>We did not find any evidence of duplicate payments having been made.</p> <p>At the time of the audit, the required Pre- and Post-Payment Assurance Plan, informed by a Fraud Risk Assessment had yet to be undertaken, as we understand the template for this has only recently been received.</p>	
Omicron Grants – Operational Support	Status: Complete Added Value	The Devon Audit Partnership provided operational support to the processing of Omicron grants through the provision of one auditor to work full time for five weeks in the Exchequer & Benefits team in the role of a grants processor.	N/A
Grants x1 Covid 19 Test and Trace	Status: Complete	No issues identified	N/A
The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic with the agreement of the s151 officer: • Household Support Fund • Vulnerable Renters			

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Port Marine Safety Code (ANA-Medium)	Compliant Status: Final	Assurance was reported in this year's half yearly report; please refer to that report for details.	
Grants x 3 <ul style="list-style-type: none"> Local Transport Capital Block Funding Local Growth Fund Local Growth Fund (Claylands) 	Status: Complete	No issues identified for the Local Transport Capital Block Funding, and Local Growth Fund. A number of minor issues reported to the accountable body in relation to the Local Growth Fund (Claylands).	N/A
The following grant certification audits are currently in progress: <ul style="list-style-type: none"> Grant - Bus Subsidy Grant – Home to School and College Grant – Travel Demand Management Parking (ANA-Medium) Tor Bay Harbour Authority – Mooring system (contract management) (ANA - Medium) Public Toilets (contract monitoring) (ANA – Low, client request) 		The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic with the agreement of the s151 officer: <ul style="list-style-type: none"> Spatial Planning - s106 and CIL (ANA- Medium) Asset Management Strategy / Plan (ANA – High) Technology Forge system review (ANA – Medium) Housing Companies (client role / management) (ANA – Medium) Beach Services (ANA - Low, client request) Tor Bay Harbour Authority (ANA – Medium) 	

CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Special Guardianship Orders – Follow up (ANA – Medium)	Status: Final Limited Assurance	Assurance was reported in this year's half yearly report; please refer to that report for details.	
Virtual School – Personal Education Plan (ANA – Medium)	Status: Draft Limited Assurance	Our primary focus of the audit was directed at the disparity between PEP performance figures reported from the Virtual School and those reported from the Children's Services LCS System. Our work did not evaluate child/young person outcomes of the Personal Education Plan (PEP) processes, rather it focussed upon the process itself. We examined the process via a walkthrough of a single PEP record and found the information recorded and timing of the PEP review to be in line with requirements, however as this was a walkthrough it should be noted that the sample base was therefore limited. Through discussion with various parties and our evaluation of evidence and documentation provided we concluded that there were a significant number of issues compounding the differences in reporting. These ranged from points of failure within the process itself, to differences in the cohort detail being reported, and potential system issues. We have identified a number of recommendations which we feel will strengthen the process and provide consistent and accurate PEP reporting.	
Troubled Families Grant Claims x 4	Status: complete	One family removed from the December claim and another from the March claim, otherwise no issues to report.	N/A
The following audits are currently in progress: • Child Protection Processes and Planning Conference (ANA – High)		The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic with the agreement of the s151 officer: • Fostering and connected carers (ANA – Medium) • Sufficiency Strategy Progress (ANA – High) • Recruitment, Retention and Learning Academy (ANA – Medium) • Quality Assurance and Audit Frameworks (ANA – High)	
Schools Financial Value Standards (SFVS)	Reasonable Assurance	The SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2020/21 was submitted to the Department for Education in June 2021. Work is underway to collate the 2021/22 returns received from schools, the results of which will appear in the latest CFO assurance statement that has to be submitted to DfE by 31 May 2022.	N/A
Maintained Schools audit programme	Reasonable Assurance	The routine visits have taken place, albeit remotely, i.e., by not visiting schools. Six out of ten planned visits were completed during 2021-22, with plans being made to complete the remaining visits by the end of the Summer Term 2022. The overall opinion for the routine school audit visits has been maintained as 'reasonable assurance' (refer to summary data below).	N/A

CHILDREN'S SERVICES

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Maintained Schools Summary Data The key matters arising from the audits are: <ul style="list-style-type: none"> Financial links from the School Development Plan to the budget. The approval of the budget and the review of the budget monitoring report at least six times a year by the Full Governing Body. Completion and / or update of the recommended skills matrices for Governors and staff. Establishment of a contracts register. 			

ADULT SERVICES INCLUDING COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<p>The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic with the agreement of the s151 officer:</p> <p>Adult Services</p> <ul style="list-style-type: none"> Commissioning and Performance Management (Direct Contract Management – Young Devon Contract) (ANA – Medium) Joint Equipment Store (Contract Management) (ANA – Medium) Adult Social Care Precept Use (Control of Procurement and Spend) (ANA – High) Commissioning and Performance Management (ICO) – Mental Health (ANA – High) Adult Social Care Client Debt (Monitoring of commissioned function) (ANA – High) <p>Community and Customer Services</p> <ul style="list-style-type: none"> Health & Safety (ANA – High) Emergency Planning and Business Continuity (ANA – Medium) Housing (including joint working of fragmented service) (ANA – Medium) Housing Options (ANA – High) 			

PUBLIC HEALTH

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<p>The following audits have been deferred / cancelled due to the impact of the Covid-19 pandemic with the agreement of the s151 officer:</p> <ul style="list-style-type: none"> 0-19 Service Commissioning and Performance Management (ANA – High) 			

Appendix 2 - 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 2021. This is supported through external assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note in November 2021.

Quality Assessment – through external assessment “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 are supported by a development programme.

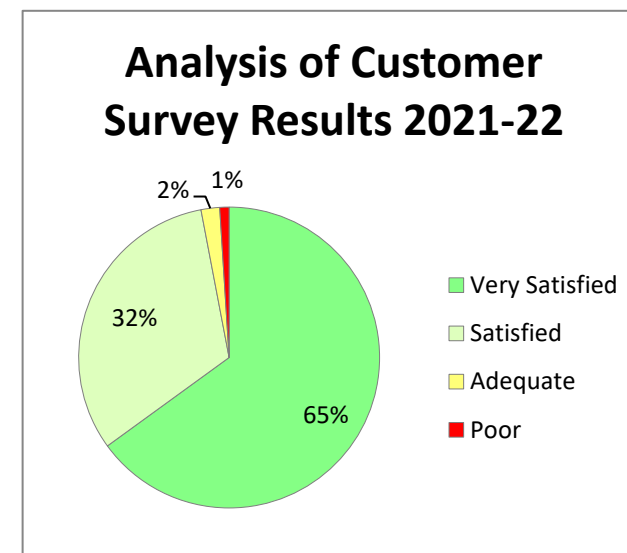
Improvement Programme – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated, and a status report was reported to the Management Board and Partnership Committee in November 2021.

Performance Indicators

Overall, performance against the majority of indicators has been maintained with some exceptions (see Appendix 6). 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 4, there has remained an ongoing need for fluidity in the 2021/22 agreed audit plan.

Customer Service Excellence (CSE)

In November 2021, DAP was successful in re-accreditation by G4S Assessment Services of the CSE. 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 97% being “satisfied” or better across our services, see appendix 7. 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 3 - Audit Authority



Appendix 4 - 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.

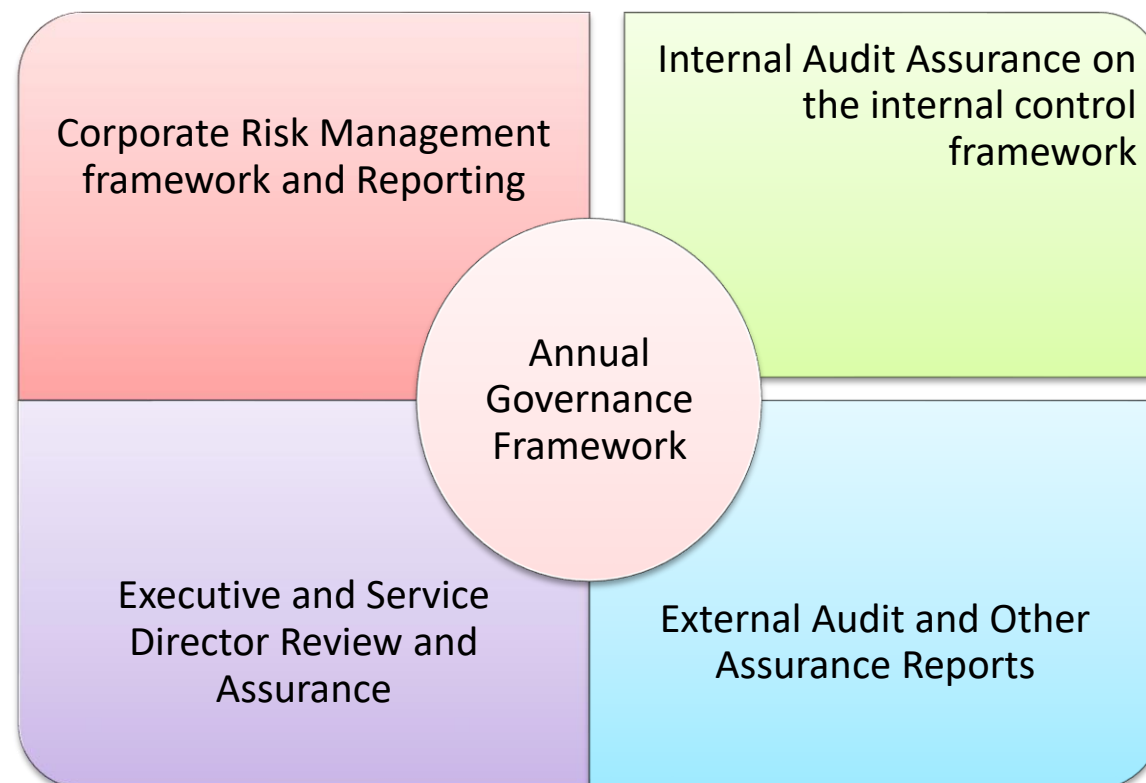
The Annual Governance Statement (AGS) provides assurance that

- 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 5 - 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 and any changes are shown in Appendix 1.

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 2021/22, including those audits carried forward from 2020/21;

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 6 – 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)	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	Target	Actual	Target	Actual	Target	Actual
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	100%	100%	100%
Percentage of Audit plan Completed (Inc. Schools)	93%	97%	93%	95%	93%	83%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	104%	95%	108%	95%	86%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	100%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	99%	90%	96%	90%	97%
Draft Reports produced within target number of days (currently 15 days)	90%	83%	90%	90%	90%	92%
Final reports produced within target number of days (currently 10 days)	90%	99%	90%	100%	90%	98%
Average level of sickness absence (DAP as a whole)	2%	3%	2%	4.65%	2%	2.45%
Percentage of staff turnover (DAP as a whole)	5%	4%	5%	20%	5%	33%*

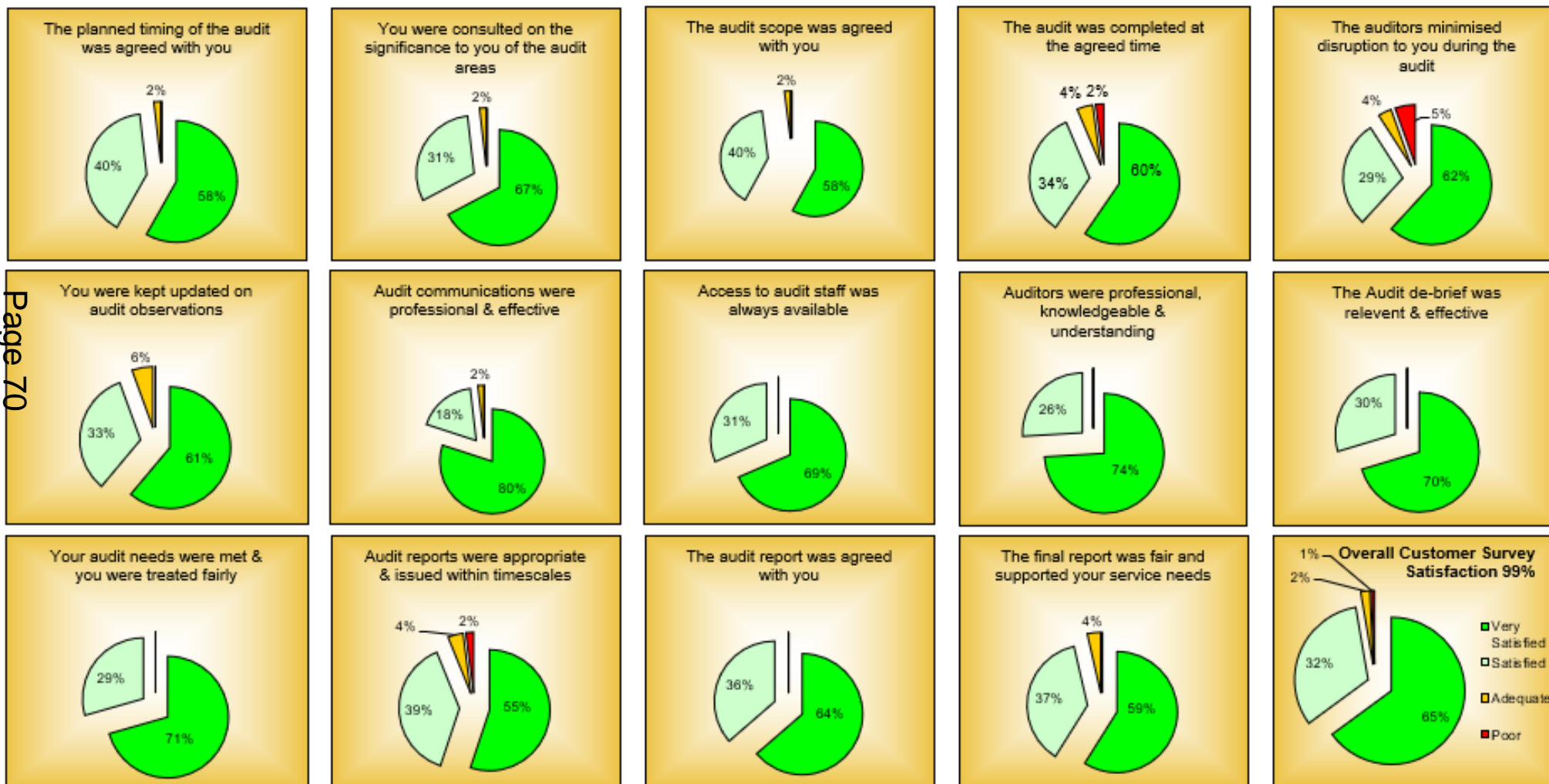
* Turnover – 7 leavers and 9 starters (x2 Apprentices; x4 Auditors; x1 Auditor Level 2; x1 Senior Auditor; x1 Senior Audit Manager)

Overall, performance against the majority of indicators has been maintained, the exception to this being 'Percentage of Audit plan completed' and 'Actual Audit Days as percentage of planned'. Departments have generally requested that Audits be undertaken later in the year to allow them to continue to recover from the impacts of Covid-19, which has also impacted departments' capacity to support the audit process, resulting in further delays to audit completion. We agreed a 'smoothing' policy with the DAP Management Board, which allows for completion of deferred work and delivery of related days in the next year to offset the impact on our delivery. As expected, certain areas of the audit plan relate to project work, the completion of which is aligned to project timescales.

In addition, DAP itself has needed to undertake significant recruitment to replace leavers, as shown by the 'Percentage of Staff turnover' indicator. 'The 'Average Level of sickness' is also higher than the target indicator. The variance to these indicators links to recruitment activity and increased charging of non-productive activities including training and development of new starters and apprentices.

Appendix 7 - Customer Service Excellence

Customer Survey Results April 2021 - March 2022



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Devon Audit Partnership	Confidentiality and Disclosure Clause
<p>The Devon Audit Partnership has been formed under a joint committee arrangement. 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@devon.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>

Meeting: Audit Committee

Date: 25th May 2022

Wards affected: All Wards in Torbay

Report Title: Treasury Management Outturn 2021/22 Report

Cabinet Member Contact Details: Councillor Darren Cowell, Darren.Cowell@torbay.gov.uk

Director/Assistant Director Contact Details: Pete Truman, Principal Accountant,
pete.truman@torbay.gov.uk

1. Purpose of Report

- 1.1 This report is to provide members with an annual report on the treasury management activities undertaken during the year 2021/22, which is compared to the 2021/22 Treasury Management Strategy.

2. Reason for Proposal and its benefits

- 2.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report

3. Recommendation(s) / Proposed Decision

- i) **That the Treasury Management decisions made during 2021/22, as detailed in the submitted report be noted.**

Appendices

Appendix 1: Economic Commentary

Appendix 2: Revised CIPFA Codes, Updated PWLB Lending Facility Guidance, Levelling Up and Regeneration Bill

Background Documents

Treasury Management Strategy 2021/22

Supporting Information

1. Introduction

- 1.1 In February 2019 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 1.2 The Authority's treasury management strategy for 2021/22 was approved by Council at a meeting on 11th February 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

2. External Context

- 2.1 An economic commentary for the year provided by the Council's treasury management advisors, Arlingclose, is provided at Appendix 1 to this report. Bank Rate was 0.1% at the beginning of the year and despite the economy gathering momentum after pandemic restrictions eased, market expectation was for rises to be delayed until 2022. Rising, persistent inflation changed that with Bank Rate rising to 0.75% at the end of the year.
- 2.2 During 2021 CIPFA published changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes.
- 2.3 In addition HM Treasury issued, in May 2022, updated guidance on PWLB lending to authorities where there is more than a negligible risk of non-repayment. In the same month the Levelling Up and Regeneration Bill announced in the Queens Speech gives government more oversight of the Prudential Framework.
- 2.4 The main points of these new Codes, PWLB guidance and Levelling Up and Regeneration Bill are summarised at Appendix 2.

3. Local Context

- 3.1 At the start of the year, the Council had net borrowing of £314.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Actual £m
Total CFR	419.5
Less: *Other debt liabilities	(16.8)
Borrowing CFR	402.7
External borrowing	391.5
Internal borrowing	11.2
Less: Usable reserves	(49.1)
Less: Working capital and other cash backed balance sheet items	(20.2)
Less: Timing of Covid grants to be applied or repayable to central government	(19.1)
Net treasury position	314.3

* PFI liabilities that form part of the Authority's total debt

- 3.2 The Council is still in the process of compiling its year end position for 2021/22, therefore the Capital Financing Requirement as at 31st March 2022 will be disclosed within the Statement of Accounts 2021/22.
- 3.3 Low official interest rates have kept the cost low of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep interest costs low.
- 3.4 The treasury management position on 31st March 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Long-term borrowing*	391.5	(2.6)	388.9	2.98
Short-term borrowing	0.0	0.0	0.0	0.0
Total borrowing	391.5	(2.6)	388.9	2.98
Long-term investments*	(4.7)	(0.8)	(5.5)	3.85
Short-term investments	(71.4)	(35.2)	(106.6)	0.54
Cash and cash equivalents	(0.8)	(3.4)	(4.2)	0.02
Total investments	(76.9)	(39.4)	(116.3)	0.68

Net position	314.6	(42.0)	272.6	2.45
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*Long term investments include the CCLA Property Fund at market valuation.

4. Borrowing Update

- 4.1 The Council was not planning to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code (see appendix 2).
- 4.2 At 31st March 2022 the Authority held £388.9m of loans, (a decrease of £2.6m to 31st March 2021) as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £m	Net Movement £m	31.3.22 Balance £m	31.3.22 Weighted Average Rate %	31.3.22 Weighted Average Maturity (years)
Public Works Loan Board	381.5	(2.6)	378.9	2.946	27.1
Banks (LOBO)	5.0	-	5.0	4.700	56.6
Banks (fixed-term)	5.0	-	5.0	4.395	52.5
Total borrowing	391.5	(2.6)	388.9	2.987	27.8

- 4.5 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 4.6 In keeping with these objectives, no new borrowing was undertaken, while £2.6m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 4.7 LOBO loans: The Authority continues to hold a £5m LOBO (Lender's Option Borrower's Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The lenders option does not become due until 2028.

5. Other Debt Activity

- 5.1 After £0.75m repayment of prior years' Private Finance Initiative liabilities, total debt other than borrowing stood at £16.0m on 31st March 2022, taking total debt to £404.9m

6. Treasury Investment Activity

- 6.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use during business.
- 6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £81 million and £118 million due to timing differences between income and expenditure. The Council's cash flow is still significantly influenced by short term cash balances linked to COVID and other funding received but not yet spent or owed to other bodies. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.21 Balance £m	Net Movement £m	31.3.22 Balance £m	2021/22 Income Return %	2021/22 Weighted Average Maturity days
Banks & building societies (unsecured)	22.8	(6.1)	17.2	0.27	18
Government (incl. local authorities)	31.0	46.0	77.0	0.60	92
Money Market Funds	14.4	(1.8)	12.6	0.55	1
Other Pooled Funds:					
- <i>Cash plus fund</i>	4.0	-	4.0	0.02	
- <i>Property fund</i>	4.7	0.8	5.5	3.85	
Total investments	76.9	39.4	116.3	0.68	

- 6.3 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing

money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 6.4 Ultra low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being at, or close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31st March, the 1-day return on the Council's MMFs ranged between 0.48% - 0.58% p.a.
- 6.5 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Authority's DMADF deposits in year was 0.08%.
- 6.7 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.09.2021	4.46	AA-	55%	20	0.08
31.03.2022	3.63	AA-	28%	70	0.54
Similar LAs	4.58	A+	69%	43	0.46
All LAs	4.39	AA-	63%	14	0.46

- 6.8 The benchmarking results reflect the Council's cautious risk appetite in terms of counterparties and the maximum sum invested in any one counterparty. Priority has been to keep funds as secure as possible during the early part of the year when returns were not justifying any sort of risk. When rates climbed, the appetite was adjusted to increase duration (and lock into yield) with local authorities. £15M was placed in these deposits during March and the rest of the short-term portfolio is well placed to track further forecast rises in Bank Rate.
- 6.9 Funds were substantially kept liquid to achieve the Council's policy of internal borrowing and in anticipation of future rate rises. At outturn the capital spend was significantly lower than the original plan contributing to the continuing higher than forecast cash balance.
- 6.10 **Externally Managed Pooled Funds:** £5m of the Authority's investments are invested in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £0.21m (4.01%) and an unrealised capital gain of £0.8m (16.53%).

- 6.11 In light of Russia's invasion of Ukraine, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

7. Non-Treasury Investments

- 7.1 The definition of investments in CIPFA's revised Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
- 7.2 The outturn position of the Council's non-treasury investments will form of the Statement of Accounts 2021/22 and will be reported with the usual level of detail within the Treasury Management 2022/23 mid-year review.

8. Treasury Performance

- 8.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

As at 31 st March 2022	Revised Budget 2021/22	Projected Outturn 2021/22	Variation
	£M	£M	£M
Investment Income	(0.3)	(0.3)	(0.0)
Interest Paid on Borrowing	11.8	11.7	(0.1)
Net Position (Interest)	11.5	11.4	(0.1)
Minimum Revenue Provision	6.9	6.8	0.2
Net Position (Other)	6.9	6.8	0.2
Net Position Overall	18.4	18.2	(0.2)

9. Compliance

- 9.1 The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific limits is demonstrated in table 7 below.

Table 7: Debt Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied? Yes/No
Borrowing	£391.5m	£388.9m	£590m	£700m	Yes
PFI & Finance Leases	£16.8m	£16.0m	£20m	£20m	Yes
Total Debt	£408.3m	£408.3	£610m	£720m	Yes

- 9.2 **Treasury Management Indicators:** The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.22 Actual	2021/22 Target	Complied?
Portfolio average credit rating (score)	AA- (4)	A (6)	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

	31.3.22 Actual	2021/22 Target	Complied?
Total cash available within one month	£41M	£15M	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£258,000	£300,000	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£258,000	£300,000	Yes

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.22 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	1%	40%	0%	Yes
12 months and within 24 months	1%	40%	0%	Yes
24 months and within 5 years	4%	30%	0%	Yes
5 years and within 10 years	11%	40%	0%	Yes
10 years and within 20 years	15%	50%	0%	Yes
20 years and within 30 years	7%	60%	0%	Yes
30years and within 40 years	36%	50%	0%	Yes
40 years and over	25%	50%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£5m	£5m	£5m
Limit on principal invested beyond year end	£25m	£20m	£20m
Complied?	Yes	Yes	Yes

10. Other

- 10.1 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Chief Finance Officer intends for the Council to adopt the new standard on 1st April 2024, if resources permit adoption from April 2023 will be considered.

Economic Commentary (provided by Arlingclose, April 2022)

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the ‘pingdemic’ – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements and Torbay Council will implement the new Code fully commencing from the 2023/24 financial year.

To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

The Council will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 strategy year.

Public Works Loan Board (PWLB) – updated guidance for applicants

On 12th May 2022 HM Treasury issued an update to PWLB lending guidance, addressing lending to authorities where there is more than a negligible risk of non-repayment.

The update states that where HM Treasury considers that a local authority may be at risk of being unable to repay PWLB lending, it will engage with that local authority to establish the extent of the risk of non-repayment. **Loans will not generally be advanced where there is a more than negligible risk of non-repayment.**

HM Treasury will generally consider that where a local authority is actively and constructively

engaged with Government on addressing financial risk, that local authority is sufficiently managing risk of non-repayment. This includes where a local authority is working with the government as part of ongoing financial support measures. In such cases, HM Treasury will work with the relevant department to assess any risks to the PWLB.

The Department for Levelling Up, Housing and Communities (DLUHC) has announced plans to bring forward measures to provide the government with appropriate powers to directly address excessive risk arising from local government investing and borrowing practices. Where DLUHC believes it to be probable that a local authority would fall within the scope of the powers, it will be engaging with them immediately to get a better understanding of their risk positions in advance of the powers coming into force and to reach agreement on any actions needed to address government concerns.

Levelling Up and Regeneration Bill

The Levelling Up and Regeneration Bill that was included in the Queen's Speech in May 2022 proposes to introduce new powers into the Local Government Act 2003 for capital finance risk management. The proposals would represent an increase in the Government's oversight of the Prudential Framework and its ability to intervene.

Under the proposals, the Secretary of State would be able to issue risk mitigating directions to an authority if a trigger event has occurred. A direction will be able to place borrowing limits on an authority or require it to take specified action, which could include disposing of an identified asset.

One such trigger event is if a risk threshold is breached. For the assessment of risk thresholds, there will be a range of capital risk metrics, whose basis of calculation will be specified, as will the thresholds against which breaches are to be measured. The metrics specified in the Bill are:

- the total debt (including credit arrangements) as compared to the financial resources of the authority
- the proportion of the total capital assets which are investments made, or held, wholly or mainly to generate financial return
- the proportion of the total debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority
- the amount of minimum revenue provision charged to a revenue account for a financial year
- any other metric specified by regulations.

The Secretary of State will have the power to appoint an independent expert to review the level of an authority's financial risk. Authorities will be required to co-operate with the expert in any way that they consider necessary or expedient for the purposes of the conduct of the review, as far as this is practicable.