



Tuesday, 13 January 2015

AUDIT COMMITTEE

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

Wednesday, 21 January 2015

commencing at **2.00 pm**

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

Members of the Committee

Councillor Tyerman (Chairman)

Councillor Addis

Councillor Bent

Councillor Brooksbank

Councillor Parrott

Councillor Pountney

Working for a healthy, prosperous and happy Bay

For information relating to this meeting or to request a copy in another format or language please contact:

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AUDIT COMMITTEE AGENDA

1. **Apologies**
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 1 - 3)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 24 September 2014.
3. **Declarations of interests**
 - (a) To receive declarations of non pecuniary interests in respect of items on this agenda
For reference: Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
 - (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda
For reference: Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)
4. **Urgent Items**
To consider any other items that the Chairman decides are urgent.
5. **Treasury Management Strategy 2015/16** (Pages 4 - 38)
To consider a report that outlines the Treasury Management Strategy for 2015/16.
6. **Internal Audit Half Year Report 2014/15** (Pages 39 - 73)
To consider a report on the above.
7. **Strategic Risk Management** (Pages 74 - 75)
To note the report on Strategic Risk Management.

- 8. Audit Committee Update for Torbay Council** (Pages 76 - 93)
To note a report on progress in delivering Grant Thornton's responsibilities as the Council's external auditors.
- 9. The Annual Audit Letter for Torbay Council** (Pages 94 - 102)
To note a report that summarises the key findings arising from the work that Grant Thornton have carried out at Torbay Council for the year ended 31 March 2014.
- 10. Certification Report 2013/14 for Torbay Council** (Pages 103 - 111)
To consider a report that summarises the overall assessment of the Council's management arrangements in respect of the certification process.
- 11. Protecting the Public Purse Fraud Briefing 2014** (Pages 112 - 123)
To note the report.
- 12. Annual Assurance Letter from Audit South West** (Pages 124 - 128)
To note the Annual Assurance Letter from Audit South West.



Minutes of the Audit Committee

24 September 2014

-: Present :-

Councillor Tyerman (Chairman)

Councillors Addis, Bent, Brooksbank, Parrott and Pountney

16. Apologies

An apology for absence was received from Alex Walling of Grant Thornton.

17. Minutes

The Minutes of the meeting of the Audit Committee held on 25 June 2014 were confirmed as a correct record and signed by the Chairman.

18. Statement of Accounts 2013/14

Members considered a report that set out the Council's Statement of Accounts for 2013/14. Members were advised that there had been some changes made to the presentation and format of the accounts following the introduction of the Council Tax Support Scheme and Business Rates Retention Scheme in April 2013. The accounts provided a true and fair view of the financial position of the Council's income and expenditure in 2013/14 and its assets and liabilities as at 31 March 2014.

The Committee thanked the Finance Team for all their work in finalising the accounts and receiving an unqualified audit opinion.

Resolved:

- i) That the Audit Committee reviewed the accounts and considered the External Auditor's report and opinion on the accounts;
- ii) that the Annual Governance Statement, as set out in Appendix 2 to the submitted report, be approved;
- iii) that the Council's Statement of Accounts for 2013/14, as set out in the submitted report, be approved;
- iv) that the Chairman of the Audit Committee sign and date the accounts on behalf of the Council, to represent the completion of the Council's approval

process of the accounts, in the “Statement of Responsibilities for the Statement of Accounts”; and

- v) that the Letter of Representation to Grant Thornton from the Council in relation to the 2013/14 Statement of Accounts, as set out in the submitted report, be approved.

19. The Audit Findings for Torbay Council

The Committee noted a report which highlighted the key matters arising from Grant Thornton’s (external auditors) audit of Torbay Council’s financial statements for the year ending 31 March 2014.

Members were advised that the audit was substantially complete. During the audit an adjustment affecting the Council’s reported financial position was identified by the Council’s Finance Team however Grant Thornton found the draft accounts were produced to a high standard and the audit had been facilitated by good quality working papers and prompt assistance from the Finance Team.

Members paid particular attention to the Action Plan, set out in Appendix A to the submitted report, Members were concerned by the issue of document retention for some personnel files and requested an update once enquiries had been completed.

20. Internal Audit Follow Up Report on Areas Requiring Improvement

Members noted the Internal Audit Follow Up Report on areas that were identified as ‘requiring improvement’. Members were advised that the majority of areas had made progress implementing their action plans resulting in previously identified risks being minimised or mitigated, however there were a small number of areas where progress remained limited.

Members questioned whether there was an increasing trend for services to be judged as requiring improvement due to resource pressures. Officers did not believe there was a drastic deterioration however there may be a point where managers have to accept the risks associated with not implementing appropriate action plans.

21. Strategic Risk Management

Members noted the report on Strategic Risk Management, however they felt that the risk register had become so strategic it was lacking the operational detail they need to be able gain the reassurance they required.

Members were advised that due to internal reconfiguration the risk register would be managed by the Executive Head for Commercial Services which may result in changes which hopefully would provide Members the reassurance they seek. Members were also informed of an opportunity to share learning with neighbouring authorities in order to determine what is appropriate for inclusion in a risk register and what is not.

Members requested the Executive Head for Commercial Services present her initial thoughts on risk management to the Audit Committee on 21 January 2015.

Chairman/woman

Agenda Item 5



**Meeting: Audit Committee
Council**

**Date: 21 January 2015
5 February 2015**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2015/16 (incorporating the Annual Investment Strategy 2015/16 and the Minimum Revenue Provision Policy 2015/16)

Executive Lead Contact Details: Mayor, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

1. Purpose and Introduction

- 1.1 The Strategy outlined in this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2015/16 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The overall objectives of the Treasury Management Strategy are:
 - To ensure sufficient funding is available for day-to-day activities and capital projects through effective cash flow management
 - To seek to reduce the impact on the revenue account of net interest costs through optimal levels of borrowing and investment
 - To prioritise control of risks in investing cash and to then achieve maximum returns from those investments commensurate with proper levels of security and liquidity.

2. Proposed Decisions

Audit Committee

- 2.1 That the Treasury Management Strategy for 2015/16 set out in Appendix 1 to the submitted report be endorsed.

Council

- 2.2 That the Treasury Management Strategy for 2015/16 (incorporating the Annual Investment Strategy 2015/16) set out at Appendix 1 to the submitted report be approved;

- 2.3 That the Prudential and Treasury Indicators 2015/16 laid out in Annex 1 of the submitted report be approved;
- 2.4 That the risk appetite for the current Treasury Management Strategy for investments be widened to include investment in a Property Fund;
- 2.5 That in line with the Council's Constitution and Financial Regulations:
- (i) the Chief Finance Officer be authorised to take any decisions on borrowing and investments. (Delegations to the Section 151 Officer, paragraph 3.1(a));
 - (ii) that the Chief Finance Officer be authorised to invest temporarily or utilise surplus monies of the Council; (Financial Regulations, paragraph 14.5); and
 - (iii) that the provisions outlined above exclude decisions to make loans to external organisations and that these require approval by the Mayor in consultation with the Executive Director and Chief Finance Officer;
- 2.6 That the Annual Minimum Revenue Provision Policy Statement for 2015/16 as shown in Annex 2 to the submitted report be approved.

3. Reason for Decisions

- 3.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25th March 2010.
- 3.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 3.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3.4 Under CLG regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.
- 3.5 The Chief Finance Officer has identified a Property Fund as a potential new in-house investment opportunity subject to Council's acceptance of the increase in risk appetite.

Supporting Information

4. Position

4.1 The Council defines its treasury management activities as:

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

4.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s risk appetite, providing adequate liquidity initially before considering investment return.

4.3 In particular, Section 32 of the Act requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This report, together with the rolling Capital Investment Plan, forms an integrated strategy to ensure the affordability of capital projects.

4.4 The provisional 2015/16 budget for interest payments has therefore been set at a level which will cover the Council’s borrowing requirements in the Capital Investment Plan together with cash flow costs arising from capital projects.

4.5 The interest receipts budget for 2015/16, which is directly linked to the Council’s borrowing position, is based on an average investment balance of £64 million and an average investment rate of 0.94% (the estimate for 2014/15 was 0.84%). This includes monies held by the Council’s external Fund Manager and exceeds the market benchmark rate forecast to remain at around 0.50%

4.6 The budget for payment of interest on debt for 2015/16 is based on an overall borrowing rate of 4.39% which is unchanged from the previous year.

4.7 The core balances for which cash backing is required reflects the level of Council reserves, provisions, unapplied grants and contributions and working capital. This links to the Capital Investment Plan and Medium Term Resource Plan which form the basis of the Council’s longer term strategic cash flow forecasts.

4.8 The proposed strategy for 2015/16 is set out in full at Appendix 1 to this report and covers the following:

- Prudential and Treasury Indicators;
- Capital expenditure and the Capital Financing Requirement
- the minimum revenue provision (MRP) policy
- core funds and expected investment balances
- prospects for interest rates;
- economic conditions and scenario planning;

- the borrowing strategy;
- the Annual Investment Strategy;
- policy on use of external service providers;
- reporting arrangements and management evaluation;
- other matters

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

4.9 The key points of the proposed strategy are:

- * A slow increase in interest rates with little impact in 2015/16
- * A steady but slow increase in the level of the Capital Financing Requirement primarily linked to the South Devon Link Road
- * MRP generates funds per year for repayment of borrowing
- * The Council will seek to early repay up to £10million of borrowing over the medium term on sufficiently favourable movement in rates
- * Opportunity to repay will not be assumed within the budget and investment strategy will be based on current projected cash levels;
- * The number of suitable investment counterparties remains restrictive
- * An element of core cash levels will, where possible, be exposed to deposits of around one year or longer subject to interest rates and creditworthiness
- * A proportion of in-house managed funds to be held in short-term variable rate instruments to enact strategy transactions and to mitigate a rise in investment rates.
- * Alternative investment instruments for in-house use have been evaluated. The CFO has identified an option to diversify into a Property Fund subject to Council approval of the shift in risk appetite.
- * The Council's long term liabilities will increase by £33 million when the Energy from Waste capital scheme becomes operational

5. Possibilities and Options

5.1 Not applicable.

6. Fair Decision Making

6.1 Not applicable

7. Public Services (Social Value) Act 2012

7.1 Not applicable

8. Consultation

8.1 Not applicable

9. Risks

- 9.1 The main risks to Treasury Management activities will arise from interest rate levels and volatility, liquidity and cash flow requirements and creditworthiness of investment counterparties.
- 9.2 The management of specific risks is outlined in the Treasury Management Practices as required by the CIPFA Code of Practice approved by Council on 25th March 2010. Detailed controls are set by the Chief Financial Officer within the Schedules to the Treasury Management Practices and these are reviewed annually.
- 9.3 Other sections of this report below deal further with risk management and mitigation of particular elements of the 2015/16 Strategy.

Appendices

Appendix 1	Treasury Management Strategy 2015/16
Annex 1	Prudential and Treasury Management Indicators
Annex 2	Policy on Minimum Revenue Provision for 2015/16
Annex 3	Interest Rate Forecasts 2015 – 2018
Annex 4	Economic Background
Annex 5	Creditworthiness Policy
Annex 6	Specified and Non-specified Investments
Annex 7	Alternative Investments

Treasury Management Strategy 2015/16

This Appendix sets out full details for all aspects of the Treasury Management Strategy for 2015/16.

A1 Prudential Indicators and Treasury Indicators

Local Authorities are required to set indicators to demonstrate they have fulfilled the objectives of the Prudential Code and CIPFA Code of Practice on Treasury Management. The indicators for 2015/16 and future years are set out at Annex 1

A2 Capital Expenditure and the Capital Financing Requirement

A2.1 Capital expenditure plans are a key driver of treasury management activity and form the first of the Prudential Indicators at Annex 1. Figures are as per the Capital Investment Plan Quarter 2 2014/15 report and are summarised below.

Capital expenditure £M	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	17.3	30.3	18.1	12.4	8.8	0

A2.2 The figures include a borrowing requirement of £27M over the medium term which includes an element of temporary borrowing awaiting confirmation of capital income.

A2.3 These plans feed into the overall Capital Financing Requirement (CFR) which is explained at Annex 1 and summarised below.

CFR £M	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	135	177	178	175	173	TBC

A3 Minimum Revenue Provision (MRP) policy statement

A3.1 The Council is required to set aside an amount for the repayment of borrowing used for capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). It is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

A3.2 CLG regulations have been issued which require the full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

A3.3 The recommended MRP Policy for 2015/16 is set out at Annex 2 to this report.

A4 Core funds and expected investment balances

A4.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £M	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Reserves	37	27	20	15	14	TBC
Provisions	2	2	2	2	2	TBC
Other Balances	1	10	11	13	16	TBC
Total core funds	40	39	33	30	32	TBC
Working capital	12	12	12	12	12	TBC
Total Cash Requirement	52	51	45	42	44	TBC
Excess LTL>CFR	12	3	0	1	(3)	TBC
Expected Investments	64	54	45	43	41	TBC

A5 Prospects for Interest Rates

A5.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita central view.

Annual Average %	Bank Rate %	3 Month LIBID %	PWLB Borrowing Rates % (including certainty rate adjustment)		
			5 year	25 year	50 year
March 2015	0.50	0.60	2.20	3.40	3.40
March 2016	0.75	0.90	2.60	4.00	4.00
March 2017	1.25	1.40	3.20	4.50	4.50
March 2018	2.00	2.10	3.60	4.80	4.80

A5.2 These levels remain low in the short term due to Bank of England policies, market conditions and the impact of quantitative easing.

A5.3 Sensitivity of Forecasts. The projections within this report are based on officers “central” view of market rates applicable in 2015/16. These are subject to variation from interest rate changes and cash flow changes. An illustration of the potential impact of these changes is shown in the following table:

Variation	Central Case	Change +/-	£ Variation*
Change in Investment rates (new investments)	0.94%	1%	£0.54 million
Change in Borrowing Rates (change in penalty cost on early repayment of an indicative £5 million)**	n/a	1%	-£0.2million/ +£0.2 million
Change in Average cash flow (assume increased investments)	£63 million	£10 million	£0.05 million

* Based on current levels of borrowing and investment

**The strategy provides for no additional borrowing in 2015/16 for capital funding and all existing borrowing is at fixed rate so any change in Borrowing Rates will have no effect on interest payable

A5.4 The above forecasts give rise to difficult conditions for implementing the proposed strategy and the need for Treasury Management officers to remain agile and react to any changes in Bank of England policy or market sentiment.

A6 Economic Conditions and Scenario Planning

A6.1 A commentary on the economic background to this strategy, issued by Capita, is provided at Annex 4. The uncertainty of economic conditions within the UK and USA appear to be easing but, along with the Eurozone, will continue to have a significant impact on the Council's Treasury Management function.

A6.2 The Council is still facing a situation where Bank Rate and therefore investment returns are at record lows, well below the level payable on borrowings and the focus of the strategy is to mitigate the resultant cost of carrying debt.

A6.3 The Council has linked its medium term financial planning to the continuing uncertain conditions and the impact on the Council's investment budget has formed part of the budget planning process for future years.

A6.4 The current economic conditions are still very unpredictable and as a result there are a range and potential speed of market movements that could occur over the next few years which will provide a challenge to officers. The current strategy and budgets reflect that uncertainty and are based on prudent views of market movements and counterparty limits are set to minimise the Council's exposure to risk.

A6.5 The latent crisis in the Eurozone and the potential effect on markets will continue to be monitored by Officers for threats to treasury activities. The Council currently excludes

all Eurozone Banks from the approved lending list regardless of individual credit rating.

- A6.6 Varying the Council's counterparty limits could increase or decrease investment yield with a corresponding change in the level of security (risk) over the counterparty. In the current market conditions any extension of counterparty limits and maximum length of investments could increase investment yield. However this would need to be considered against the higher risk of impairment.
- A6.7 Diversifying the investment instruments used in-house could also increase yield but has to be measured in terms of both risk and resource capacity. Options for in-house diversification have been investigated and are discussed at Annex 7.
- A6.8 The government has reduced its share in Lloyds Banking Group to 24% and could sell-off a further £3billion in shares in the run up to the next general election. The CFO is satisfied that the current risk appetite for the part-nationalised banks remains appropriate but will adjust exposure limits as appropriate should diminished government stake holding and potential "bail-in" measures increase the investment risk.
- A6.9 The charge from the Minimum Revenue Provision policy (see section A3 and Annex 2) generates funds for repayment of borrowing or postponement of new borrowing. Current credit and interest risk environments give rise to a preferred repayment strategy to reduce cost and cash levels.

A7 Borrowing Strategy

A7.1 The following table provides an analysis of current borrowing levels against the Capital Financing Requirement (CFR) derived from the approved Capital Investment Plan. This also forms one of the Prudential Indicators at Annex 1.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Debt at 31 March						
External Borrowing	138	138	138	138	134	132
Other long-term liabilities (OLTL)*	9	42	40	38	36	34
Total Borrowing and Other Long Term Liabilities	147	180	178	176	170	166
The Capital Financing Requirement	135	177	178	175	173	TBC

* The PFI Energy from Waste scheme is required to be shown on-balance sheet and has increased the Council's long-term liabilities by £33million from 2014/15

A7.2 Prior year strategies to repay borrowing have succeeded in re-aligning the level of borrowing with the CFR.

A7.3 Based on borrowing rate forecasts and continuing low investment yields the recommended strategy aims to further repay existing borrowing and utilise internal cash resources to fund capital expenditure in the short term.

A7.4 The repayment policy remains for any repayment to be made on significant rises in PWLB rates providing advantageous rescheduling opportunities.

A7.5 The trigger for any repayment option will be considered when the payback period of the repayment penalty falls to two years in terms of net interest.

A7.6 The Capital Investment Plan remains fluid and the CFR in A7.1 includes an element of temporary borrowing which may be replaced by other funding thereby reducing the CFR further.

A7.7 At some point in the future the Council will have to re-borrow when internal resources fall below operational cash flow requirements or borrowing reaches maturity, with potential exposure to higher rates. The benefits of the strategy will therefore be weighed against this future interest rate risk.

A7.8 The current market conditions make repayment less attractive due to high penalty costs and these conditions are now forecast to continue further into 2015/16 (see section A5). Budget forecasts for 2015/16 have therefore not assumed the strategy

aim to repay borrowing. However, the volatile conditions in the economic climate make predicting rate movements extremely difficult and Officers will act on this strategy at any point the rate environment moves to a favourable position.

- A7.9 Based on current PWLB repayment terms, gilt yields need to rise by around 1.10% - 1.50% on the levels as at December 2014 for any repayment to be affordable and by 2.25% to reach the level at which the Council would ideally begin to make repayments.
- A7.10 Any repayment of borrowing will only be applied following a thorough assessment of:
- any change to the level of the borrowing requirement
 - additional capital projects funded from borrowing
 - assessment of working capital and other Council cash backed resources such as Reserves, Provisions and capital grants
 - prevailing market conditions
 - anticipated cash flow and any temporary borrowing requirements
 - future market expectations
 - the need to re-borrow in the medium to longer term as loans reach maturity
- A7.11 Rescheduling of existing debt will also be considered if opportunities arise, to supplement the primary aim of repaying loans.
- A7.12 No new borrowing is envisaged for 2015/16. However, if in future years capital plans significantly change and there is a borrowing need based on internal cash levels, the Council may seek to secure new funding prior to the anticipated rise in borrowing rates in future years.
- A7.13 The majority of the Council's cost of interest and associated Revenue Provision relate to historic borrowing "supported" by central government and other debt transferred from Devon County Council on Local Government Reorganisation in 1998. (Borrowing is no longer fully supported due to reductions in Council grant).
- A7.14 Borrowing from PWLB or other sources is only one option the Council has to finance its expenditure on capital projects e.g. the Council could use finance leases or provide financing via PFI agreements such as the Energy from Waste Plant.
- A7.15 As a matter of policy approved borrowing sources are from the Public Works Loan Board and market instruments from counterparties listed by the Financial Services Authority. The Municipal Bonds Agency, currently in the process of being set up, will also be considered.

A8 ANNUAL INVESTMENT STRATEGY

Investment Policy

- A8.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice.
- A8.2 The Council's investment priorities, in line with CLG Guidance, are: -
the security of capital
the liquidity of its investments.
- A8.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- A8.4 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.
- A8.5 Annex 5 to this report details the policy for selection of counterparties and management of investments to achieve the objectives of the Investment Policy.
- A8.6 Investment instruments identified for use in the financial year are listed at Annex 6 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.
- A8.7 In view of the difficult market conditions officers will continue to review alternative investment opportunities for core cash including loans to external organisations. Any loans made under this policy will be classified as policy loans and not a treasury management investment. As such it is recommended that these loans fall outside of the powers delegated to the CFO and that approval is required by the Mayor in consultation with the Executive Director and the Chief Finance Officer.
- A8.8 Annex 7 deals with potential new in-house treasury management investment instruments with analysis of risks. From this the CFO has identified an option to diversify part of the investment funds into the CCLA Property Fund. The shift in risk appetite will require approval by Council.
- A8.10 The Investment Strategy is based on current projected cash levels. If any significant changes occur to cash levels, e.g. strategy implementation of early repayment of PWLB borrowing, then the Investment Strategy will need to be reviewed.
- A8.11 The Council does not adopt a specific Ethical Investments policy but officers will have regard to any questionable activity on the part of a counterparty or sovereign government before depositing funds.

Investment Strategy

- A8.12 The investment strategy for 2015/16 is strongly influenced by the market and credit risks outlined above but needs to be balanced with the need to maximise revenue within these risks.

- A8.13 Expected investment levels at A4.1 are subject to increasing risk. Suitable counterparties complying with the Council's selection policy have decreased slightly but remain a limiting factor. Investment rates available to the Council continue to be influenced to the downside due to the effects of Quantitative Easing and Funding for Lending providing cheaper cash for Banks.
- A8.14 The strategy driver of using investment cash to repay borrowing (A7.6) to reduce exposure to the interest rate, market and credit risks will continue for 2015/16.
- A8.15 The forecast of a slow rise in investments justifies the use of longer term deposits to lock into higher rates and provide guarantee of return in the short term. A total of £15 million is currently locked out to 2016 and any additions will take into account the Treasury Indicator for prudent amounts to be invested for over 364 days as well as liquidity, creditworthiness and interest rate concerns.
- A8.16 Current fixed term deposits are predominantly in UK part-nationalised banks where the implicit government guarantee continues to offer the safest haven for Council cash. Duration will focus on one year deposits with these institutions to provide a maturity structure that allows officers to respond to reducing cash levels or significant changes in government stakeholding (see A6.8).
- A8.17 A proportion of funds will be held in business reserve and notice accounts to ensure appropriate liquidity is maintained for normal cash flow purposes and strategy transactions (eg repayment of borrowing at short notice if PWLB rates move to a favourable position).
- A8.18 The Fund Manager's strategy and performance will be subject to continuous monitoring and the CFO will vary the size of the holding in line with the aims of the overall strategy.

A9 Policy on the use of external advisors

- A9.1 The Council currently appoints Capita Asset Services – Treasury Solutions (brand name changed from Sector Treasury Services in 2013) as its external treasury management advisor. The agreement is currently reviewed on an annual basis.
- A9.2 The Council recognises the value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- A9.3 The Council acknowledges that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external advisors.

A10 Reporting Arrangements and Management Evaluation

A10.1 Members will receive the following reports for 2015/16 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy report (this report)
- Mid-Year Treasury Review report (distributed to Audit Committee and available to all members on the Finance intranet site)
- Annual Treasury Outturn report

A10.2 The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing/repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

A10.3 The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit. Any such change will be reported to the next meeting of the Council.

A10.4 The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

A10.5 The Council's management and evaluation arrangements for Treasury Management are as follows:

- Monthly monitoring report to the Chief Finance Officer, Executive Lead for Finance, Director of and majority opposition Group
- Monthly meeting of the Treasury Manager/Chief Accountant to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Annual meetings with the Council's appointed Fund Managers
- Membership and participation in the Capita Benchmarking Clubs
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

A11 Other Matters

A11.1 **Loans to organisations.** The Council has provided loans or loan facilities to the following organisations. These are policy decisions and not part of the treasury management strategy except for identifying any impact on cash balances:

Organisation	Value of loan at 01/04/14
PLUSS	£139,000
Torbay Economic Development Company*	£575,000
Torbay Economic Development Company*	£1,200,000
Academy Schools	£318,000
Car Loans - staff	£4,000
Babbacombe Cliff Railway	£16,000
Housing Loans	£5,000
Sports Clubs	£30,000
New Loans in 2014/15	Loan Value
Sports Clubs	£8,000
Suttons Seeds Ltd **	£700,000

*Not drawn down as at 31st December 2014

**Balance of £800,000 not drawn down as at 31st December 2014

A11.2 **Advancing cash.** If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

A11.3 **Investing cash for Local Payment Scheme (LPS) Schools.** If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

A11.4 **Soft Loans.** New Financial Instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

A11.5 **Anti-Money Laundering.** The Council will comply with all relevant regulations.

A11.6 **Intranet.** The Council's treasury management procedures and other relevant documents can be accessed on the Council's intranet site within the financial services pages.

Prudential & Treasury Management Indicators 2014/15 – 2017/18

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans (per the Capital Investment Plan Q2 2014/15 report).

Capital expenditure £M	2013/14 <i>Actual</i>	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	17.3	30.3	18.1	12.4	8.8	0

Capital Financing Requirement (CFR)

The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need based on historic expenditure. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely. The minimum revenue provision (MRP) (see section A3) broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £10M of such schemes within the CFR which could rise in 2014/15 if the Council's 17% share of the Energy from Waste liability is accounted for as an "on balance sheet" PFI scheme.

£m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2017/18 Estimate
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Capital Financing Requirement

Total CFR	135	177	178	175	173	TBC
Movement in CFR	(1)	42	1	(3)	(2)	TBC

Movement in CFR represented by

Net financing need for the year - capital	4	47*	7	3	1	TBC
Less MRP/VRP and other financing movements	(5)	(5)	(6)	(6)	(6)	TBC
Movement in CFR	(1)	42	1	(3)	(5)	TBC

*Includes 17% share of costs relating to the Energy from Waste facility in Plymouth

An element of temporary borrowing is included in the above CFR. Capital resources to this amount are expected and once confirmed will therefore reduce the CFR.

Gross Borrowing & Long term Liabilities and the Capital Financing Requirement

In order to ensure that borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not, except in the short term, exceed the total CFR.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Debt at 31 March						
External Borrowing	138	138	138	138	134	132
Other long-term liabilities (OLTL)	9	42	40	38	36	34
Total Borrowing and Other Long Term Liabilities	147	180	178	176	170	166
The Capital Financing Requirement	135	177	178	175	173	TBC
Excess of LTL>CFR	12	3	0	1	(3)	TBC

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

The ratio rises from 2014/15 onward are due to expected substantial reductions in the Net Revenue Budget requirement measured against fixed costs of borrowing.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
%	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Ratio	8.03	8.65	9.11	9.83	9.91	10.55

Incremental impact of capital investment decisions on council tax.

This indicator identifies the revenue costs associated with capital decisions as part of the next year's budget process. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2015/16	2016/17	2017/18	2018/19
£	Estimate	Estimate	Estimate	Estimate
Council tax - band D	0.00	0.00	0.00	0.00

There are no new schemes being presented for approval for 2015/16 and central government has removed supported borrowing. Therefore, there will be no new incremental increases to Council Tax.

However, if temporary borrowing becomes permanent (expected capital receipts and grants are not confirmed) there will then be an incremental impact on the Torbay element of a Band D Council Tax.

Limits on Borrowing and Long-Term Liabilities

The Operational Boundary. This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2014/15 Current	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	138	148	149	145	143
Long term liabilities	42	40	38	36	34
Total	180	188	187	181	177

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

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

Authorised limit £m	2014/15 Current	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	172	167	172	177	182
Other long term liabilities	42	40	38	36	34
Total	214	207	210	213	216

Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

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

Interest rate Exposures				
	2015/16 Upper %	2016/17 Upper %	2017/18 Upper %	2018/19 Upper %
Limits on fixed interest rates:				
• Debt	100	100	100	100
• Investments	80	80	80	80
Limits on variable interest rates:				
• Debt	30	30	30	30
• Investments	75	75	75	75

Maturity Structure of fixed interest rate borrowing 2015/16			
	Lower	Upper	Expected 31/03/2015
Up to 10 years	5%	50%	14%
10 to 20 years	5%	50%	19%
20 to 30 years	10%	60%	26%
30 to 40 years	10%	50%	25%
Over 40 years	0%	50%	17%

Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The limits below allow for the external Fund Manager holding along with 50% of the in-house total to be fixed longer term.

Maximum principal sums invested for over 364 days					
£m	2014/15	2015/16	2016/17	2017/18	2018/19
Principal sums invested > 364 days	45	51	46	37	37

Policy on Minimum Revenue Provision for 2015/16

1. The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.
2. The calculation of the provision is prescribed by legislation, which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their full Council.
3. One of the aims of this legislation is to ensure that the repayment of principal owed for capital expenditure funded from unsupported borrowing is charged on a prudent basis which closely links to the asset’s life. The provision for all assets, irrespective of asset life, for expenditure funded from supported borrowing and prudential borrowing prior to 2007/08 will continue to be charged at a minimum 4% per annum which is in line with central government’s “support” for these costs within the Council’s formula grant.
4. Torbay Council’s Annual Minimum Revenue Provision Policy Statement states that the calculation of the MRP is as follows which has 2 stages:
 - i) The Council will budget as a minimum for a provision of 4% of its capital financing requirement calculated as at 31st March of the preceding financial year. The capital financing requirement (CFR) is a calculation of a Council’s “need to borrow” which is, in summary, the total of expenditure funded from borrowing less any repayments or similar previously made.

To calculate the 4% provision the Council will use the “regulatory method” as identified in the Department of Communities and Local Government’s (DCLG) Informal Commentary on the legislation.

This calculation allows for the adjustments of the following items:

- Deducting any expenditure and revenue provision made in relation to unsupported borrowing after 2007/08. The charge for unsupported borrowing after 2007/08 is calculated separately as described in paragraph ii below.
- “Adjustment A” which relates to a previous calculation change in 2004
- Adjustment of MRP to ensure no disadvantage results to Councils from the regulations compared to previous MRP regulations
- Adjustment of MRP to ensure no disadvantage results to Councils from the requirements for accounting for Finance Lease and Private Finance Initiative schemes
-

- ii) For capital expenditure funded from unsupported or prudential borrowing less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset.

The Council will use the “asset life method” for the calculation, the MRP for each asset will be calculated using an annuity calculation based on the Council’s estimated pooled borrowing interest rate for the relevant year as detailed in the Treasury Management Strategy for that year. This will be adjusted for:-

- An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes operational.
- 5) Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.
- 6) The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) and an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.
- 7) In exceptional circumstances a Service may be allowed to extend the repayment period beyond the prudent asset life but this may be limited to the interest element. The increased revenue cost over the longer term will be a Service issue.
- 8) Where assets prior to 2007/08 have been purchased by unsupported borrowing (before the current legislation applied) and a MRP at 4% is provided for, the Council will aim, over the long term, to balance the annual costs of the MRP on these assets with the repayments made by services. This may result in a Voluntary Revenue Provision (VRP) or reserve transfer being made.
- 9) The Council will not change its existing “Adjustment A” calculation.
- 10) To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.
- 11) In relation to borrowing transferred to the Council from Devon County Council for the Council’s share of the Devon County Council debt for local government reorganisation, the Council will budget to make a VRP over 40 years to ensure cash resources for the repayment of the debt is available on maturity.

12) Loans

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003. Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003 No 3146). The giving of capital loans will result in an increased borrowing requirement for the council until the loan is repaid.

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Option 3 (annuity Basis) linked to the life of the asset being funded.

Interest Rate Forecasts 2014 – 2018 (as at December 2014)

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PW IB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PW IB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PW IB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PW IB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PW IB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PW IB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PW IB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PW IB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Economic Background (provided by Capita Asset Services on 7th January 2015)

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established.

One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015.

However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The **US**, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- **Greece:** the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
- As for the **Eurozone** in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty

risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Creditworthiness Policy

1. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings are supplemented by with the following overlays:
 - Credit watches and credit outlooks from the credit rating agencies
 - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
 - Sovereign ratings to select counterparties from only the most creditworthy countries
2. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.
3. A specific creditworthiness colour band has been created for UK part-nationalised Banks which is based upon the implicit sovereign government guarantee in these institutions in place of their individual credit ratings.
4. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.
5. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
6. Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
7. All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service and the CFO will vary the approved lending list as appropriate to these changes.

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

8. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+. The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Norway	Finland
Canada	Singapore	Hong Kong
Denmark	Sweden	Netherlands
Germany	Switzerland	United Kingdom
Luxembourg		USA

9. Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on government support for banks and the credit ratings of that government support.
10. The Council uses an external fund manager to manage a proportion of the investment portfolio available to offset the borrowing requirement. The use of an external fund manager allows the Council to spread its treasury risk in relation to type of investment, investment counterparties and manager opinion.
11. The external fund manager will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines and duration and other limits in order to contain and control risk.
12. The fund manager mandate allows for additional amounts to be placed and the CFO will exercise this option if this is deemed to be in the best interests of the Council up to a limit of 50% of the total portfolio. As Council's cash investment reduce it is likely the Fund Manager holding will be correspondingly decreased. The Council retains the right to withdraw all or part of the fund at seven days notice.

Specified and Non-Specified Investments

Investments types recorded in bold type are the instruments most commonly used by the in-house team.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

	Minimum ‘High’ Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities and other public sector bodies	--	In-house
Term deposits – banks and building societies	Creditworthiness system colour band “Green”	In-house and Fund Manager
UK nationalised/part- nationalised banks	--	In-house and Fund Manager
Banks part-nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+	In-house and Fund Manager
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds 2. Money Market Funds	AAA	In-house and Fund Manager

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria.

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

The maturity limits recommended will not be exceeded. Under the delegated powers the Chief Finance Officer can set limits that are lower based on the latest economic conditions and credit ratings.

Investment Type	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Sovereign rating AA+	In-house and Fund Manager	50%	3 years
Term deposits (over one year) – local authorities and other public sector bodies	--	In-house	50%	5 years
Term deposits (over one year) – banks and building societies	Creditworthiness system colour band “Purple”	In-house and Fund Manager	75%	2 years
Collateralised deposit	See note 1	In-house	20%	5 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band “Green”	In-house and Fund Manager	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band “Purple”	In-house and Fund Manager	50%	1 year
UK Government Gilts/Treasury Bills	Sovereign rating AA+	In-house and Fund	100%	5 years

Investment Type	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period *
		Manager		
Bonds issued by multilateral development banks	AA+	In-house and Fund Manager	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	In-house and Fund Manager	50%	5 years
Structured Deposits	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	In-House	25%	2 years
Commercial paper issuance by UK banks covered by UK Government guarantee	Sovereign rating AA+	Fund Manager	35%	5 years
Commercial paper other	Creditworthiness system colour band "Red"	Fund Manager	35%	5 years
Floating Rate Notes	Long-term AA	In-house and Fund Manager	35%	5 years
Property Fund: <i>the use of these investments would normally constitute capital expenditure</i>	--	In-house and Fund Manager	35%	5 years
Property Fund: <i>not classified as capital expenditure</i>		In-house	20% to a maximum of £10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1.Bond Funds 2.Gilt Funds	AAA	Fund Manager	35%	5 years

Investment Type	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period *
Corporate Bonds	AA	In-house and Fund Manager	35%	5 years
Other debt issuance by UK Banks covered by UK Government guarantee	Sovereign rating AA+	In-house and Fund Manager	35%	5 years

*Of which in any class of investment:

- 10% maximum 3 years (or over)
- 25% maximum 2 to 3 years

Notes

1. As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.

Alternative Investments

Property Funds

These funds invest in commercial properties and provide income through rental streams and also through capital growth.

Well performing funds have returned average levels of 5% to 6% over the last 10 years. However the value of Property Fund units can fall as well as rise and the Council's cash would be exposed to any volatile movement and might not get back the amount originally invested.

Investment in a property fund should be treated as a long term investment. It is therefore only appropriate for core cash. Property is an illiquid asset class and it is not always possible to sell units quickly. As such an investment horizon for these funds should be a minimum of 5 years.

The acquisition of shares in a property fund usually constitutes capital expenditure with the requirement for Local Authorities to provide a revenue provision for repayment (MRP). However, the CCLA Property Fund is approved by HM Treasury under section 11(1) of the Trustee Investment Act 1961 and in accordance with section 25(3)(d) of the regulations it does not count as capital expenditure. The fund is open only to Local Authorities and has around 90 customers and a fund size of £213 million.

As with all property funds. fee levels are relatively high with an annual management fee of 0.65% and entry and exit fees of 5.75% and 1.55% respectively.

While there is a high market risk due to fluctuations in property values, The CFO is comfortable with diversifying an element of core cash specifically in the CCLA Property Fund on the basis of its management ethos, past performance and it's exemption from capital expenditure classification. The shift in risk appetite to invest in this instrument will require Council approval.

Corporate Bonds/Floating Rate Notes/Asset backed Securities

These are examples of complicated investment instruments allowed within the current Investment Strategy. A high level of knowledge and resource is required to transact the instruments on the primary and secondary markets which are not readily available in-house.

In addition a custodian arrangement is required which can cost in the region of £10,000 (or an alternative arrangement whereby a broker takes a cut of the coupon rate).

It should be noted that the Council already has exposure to these and other instruments through its external fund manager (Aberdeen Asset Management). The fund manager is

continuing to add value to the Council's overall return and it is unlikely that direct in-house investment would gain higher yields than being achieved externally.

Fund Manager

The current mandate with the external Fund Manager is for investments on a low risk, liquidity basis. From discussions regarding higher risk/return funds the Manager has recommended their Absolute Return Fund.

The fund is highly diversified but with a target return of $\text{libor} + 3\%$

To achieve there is no restriction on the type of investment within the fund which includes the use of derivatives.

The fund is not rated. Investment in the fund constitutes capital expenditure There is also some doubt on the legality on the use of derivatives by Local Authorities. For these reasons the CFO is not satisfied that the fund is appropriate for Council investments at this time.

However, discussions will continue with regard opportunities to diversify within the external fund manager environment as part of the regular review process.

Internal Audit

Half Year Report 2014/15

Torbay Council
Audit Committee

Page 639
December 2014

Not Protectively Marked



Auditing for achievement

Agenda Item 6

INTRODUCTION	2
ASSURANCE STATEMENT	3
PROGRESS AGAINST PLAN	4
PROGRESS IMPACT ASSESSMENT	5
VALUE ADDED	7
AUDIT FINDINGS AND PERFORMANCE AGAINST PLAN	8
PUBLIC HEALTH	9
PLACE	10
ADULTS	11
CHILDREN'S SERVICES	12
SCHOOLS	13
FRAUD PREVENTION AND DETECTION	14
CUSTOMER VALUE	15
RESOURCES	15
CUSTOMER SERVICE EXCELLENCE (CSE)	15
WHAT OUR CUSTOMERS SAID	15
ADDED VALUE	15
APPENDIX 1 – SUMMARY OF AUDIT REPORTS AND FINDINGS FOR 2014/15	16
APPENDIX 2 – PERFORMANCE INDICATORS	32
APPENDIX 3 - CUSTOMER SERVICE EXCELLENCE	33
APPENDIX 4 – DEFINITIONS	34

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

Introduction

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

The Accounts and Audit (Amendment) (England) Regulations 2006 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 2014/15 was presented to and approved by the Audit Committee in March 2014. The following report and appendices set out the current position of the audit service provision; reviews work undertaken to date in 2014/15 and provides an 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 a report providing an opinion that can be used by the organisation to inform its governance statement. This report provides a position statement at half year on the progress towards that opinion.

Expectations of the Audit Committee from this half year report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- progress impact against strategic aims
- 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 Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

Robert Hutchins
Head of Audit Partnership

Assurance Statement

Overall, and based on work performed during 2014/15 and that of our experience from the current year progress and previous years audit, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework.

This assurance statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement.

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

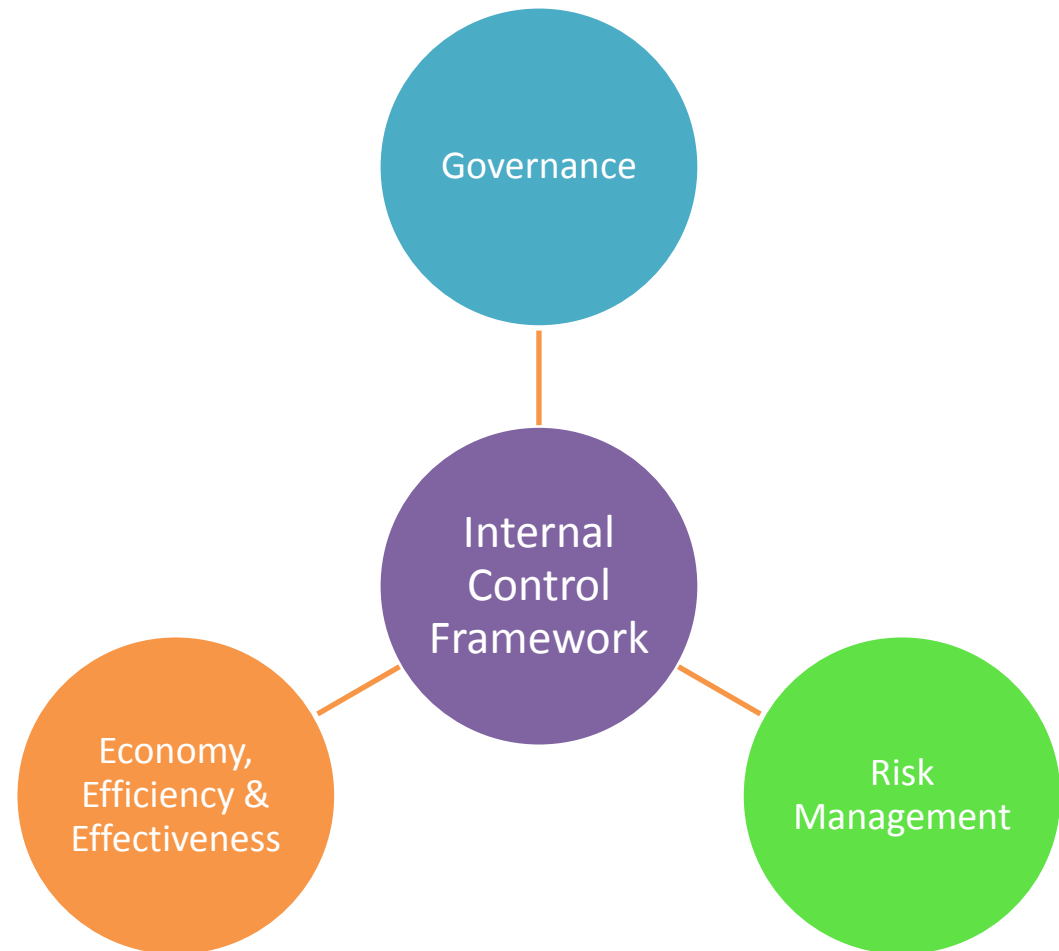
All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Directors have been provided with details of Internal Audit's opinion on each audit review carried out in 2014/15. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2014/15.

Our work has not been affected by notable planned changes during the first six months, but higher than usual levels of sickness have impacted.

The level of irregularity work has been high and this has also had an impact on the overall completion of the plan. Although this has had an impact on the planned assurance work, we feel, based on previous year's work, that the framework of control remains in operation.

This statement of opinion is underpinned by our consideration of :



Progress Against Plan

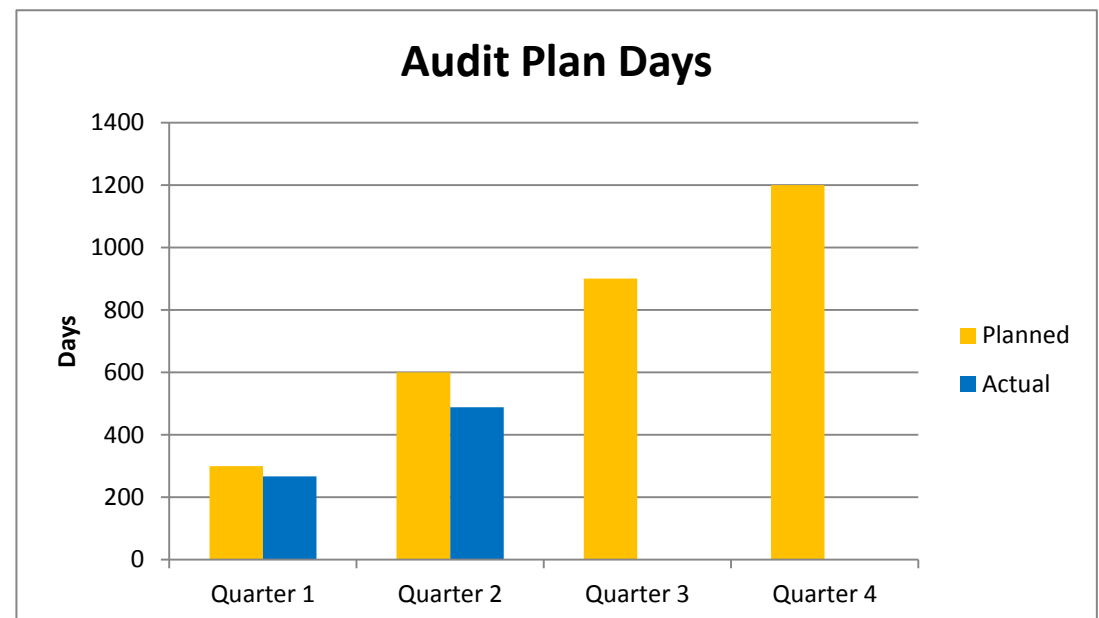
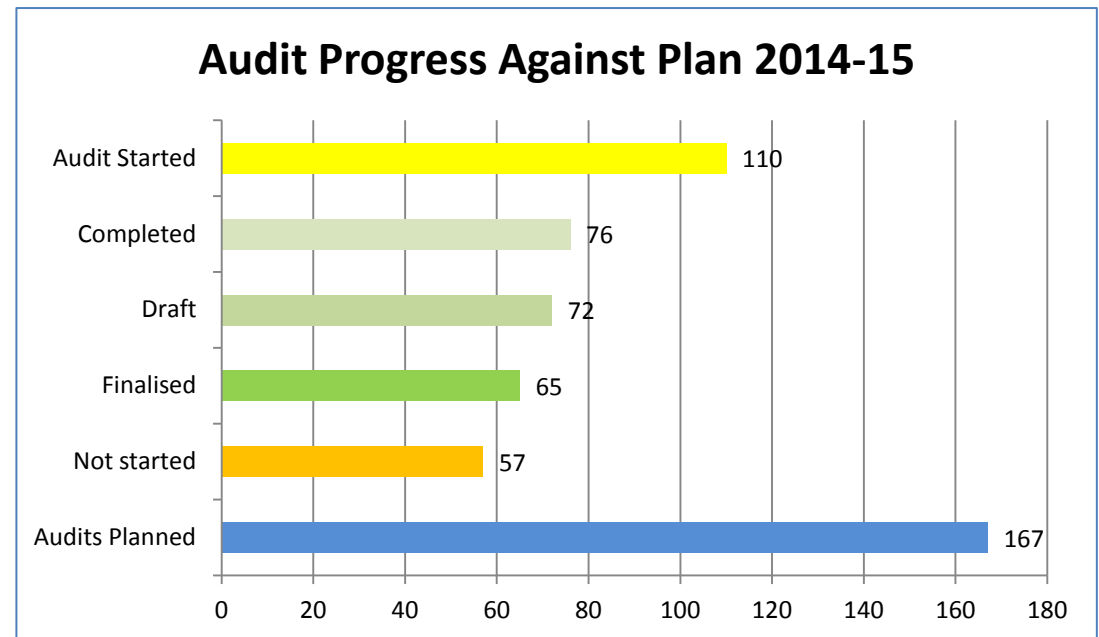
This report compares the work carried out with the work that was planned through risk assessment, presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit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

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

The extent to which our work has been affected by changes to audit plans has not been notable during the first six months of the year. The level of irregularity work has been greater than planned and the need for this investigation work has had an impact on the overall completion of the plan.

The bar charts right show the status of audit progress against plan and audit the days delivered against target planned. The first chart demonstrates that progress is largely in line with expectations, however the second chart shows that the number of audit days delivered is below that planned.

Appendix 2 provides further performance information for the first six months of the year.



Progress Impact Assessment

Our audits completed to date this year, in the majority of areas, provide assurance that identified risks are being minimised or mitigated where appropriate. Progress impact assessments are detailed below by directorate highlighting developmental areas. The overall audit assurance will have to be considered in light of these positions.

With the exception of Adults where the plan is fully complete for 2014/15, although overall progress against plan is largely in line with the revised schedule, the impact of irregularity work has deferred the timing of delivery and particularly completion of work within the other directorates, and hence the majority of our work will be completed in the second half of the year.

Operations and Finance

Assurance progress on the following reviews/ risks remains incomplete or outstanding. The effectiveness of these areas may impact on the success of the organisation's wider strategic risks. For example, continued delivery of services against a backdrop of budgetary and resource constraints require sound material systems controls, a resilient and effective ICT use and robust procurement and supplier monitoring frameworks.

- Material Systems work for the year is predominantly scheduled for the second half of the year, however finalisation of 2013/14 audits carries over into the current year providing a degree of rolling assurance;
- ICT audits, particularly in relation to Change Management, Information Security and Service Strategy, although previous audit work in these areas and ongoing related client liaison has ensured management awareness of audit concerns regarding existing arrangements;
- Procurement Compliance with Statutory and Council Regulations along with TOR2 Contract Monitoring work being undertaken for the Place directorate will provide the client with some assurance in this area.

Support to the Payroll Self Service Project continues in an advisory and quality assurance capacity with the intention of assisting in the establishment of an efficient and controlled operating framework.

Support to the previous Payroll and Asset Register implementation projects during 2013/14 provided opportunity to examine practices in relation to project management and computer system implementations; the outcomes and 'lessons learnt' will be reported in due course to inform future projects.

The level of grant certification work required has increased and Internal Audit have met the condition deadlines; should this trend continue there will be a need to increase the time allowed for this work in future year plans.

Place

The limited progress made in the Place plan means a number of risks previously identified in the audit planning cycle and highlighted to management remain.

Assurance progress on the following reviews/ risks remains incomplete or outstanding. The effectiveness of these areas may impact on the success of the organisation's wider strategic risks. For example, continued delivery of service against a backdrop of budgetary and resource constraints require sound contract and partnership management arrangements.

- Place work for the year is scheduled for the second half of the year, however finalisation of the 2013/14 audits into the current year provides a degree of rolling assurance;
- Similarly the follow up of the 2013/14 Place audits this summer provided assurance regarding the direction of travel in mitigation of risks and progress in areas previously reviewed;
- Continued support and related advice to the evolving Future State Project and operational arrangements with TOR2 provides some assurance regarding this Project and associated impacts on risks;
- The cyclical basis of the Tor Bay Harbour Authority Audit Plan and reporting of outcomes to the Harbour Committee provides assurance that risks are subject to regular review and that progress in improving the control framework is being formally monitored.

Public Health

We have made progress in delivering the Public Health area of the plan, however a number of the risks identified in the audit planning cycle are yet to be subject to audit review.

Assurance progress on the following reviews / risks remains incomplete or outstanding. The effectiveness of these areas may impact on the success of the organisation's wider strategic risks. For example, continued delivery of service against a backdrop of budgetary and resource constraints require sound contract and partnership management arrangements and effective transitions of services between service providers.

- Public Health work for the year is scheduled for the second half of the year, however finalisation of the 2013/14 audit into the current year provides a degree of rolling assurance;
- Similarly the follow up of the 2013/14 Community Safety audits this summer provided assurance regarding the direction of travel in mitigation of risks and progress in these previously reviewed areas;
- Previous audit work on Emergency Planning & Disaster Recovery can be linked to the current integration of ICT Continuity & Disaster Recovery into the Risk Management methodology.

Page 45

Adults

The majority of functions and services within Adults are provided and audited, by the NHS Trust Provider. As a consequence we cannot quantify the impact of audit progress on risks within the whole service area, but do work with Health Audit colleagues to ensure audit coverage is appropriate.

Our planned work for Adults is fully complete; it entailed an audit of the Supporting People function. As detailed in the Appendix 1 to this report, we were able to provide a 'Good Standard' audit opinion in relation to the operation of this function.

The Adults and Children's Joint Commissioning Team encompasses Commissioning, Performance Management, Community Engagement and Prevention, with services provided by the NHS Trust Provider.

We cannot provide assurance in these areas at this time; however the effectiveness of these areas may impact on the success of the organisation's wider strategic risks. For example, continued delivery of

service against a backdrop of budgetary and resource constraints require sound partnership and contract management and performance monitoring arrangements.

- Specifically in Supporting People, it was identified that procurement and contractor performance monitoring required improvement.

Whilst future audit plans may encompass examination of these areas, audit work within this directorate to date has been limited and as such we are unable to provide an overall audit assurance opinion.

Children's Services

We have made progress in delivering the Children's Services area of the plan, however a number of the risks identified in the audit planning cycle are yet to be subject to audit review.

Assurance progress on the following reviews / risks remains incomplete or outstanding. The effectiveness of these areas may impact on the success of the organisation's wider strategic risks. For example, continued delivery of service against a backdrop of budgetary and resource constraints require sound contract management and performance monitoring arrangements and effective delivery of grant funded schemes.

- Children's Services work for the year is scheduled for the second half of the year, however finalisation of the 2013/14 audit in the current year provides a degree of rolling assurance;
- Similarly the follow up of the 2013 /14 audits on the Fostering service and Parkfield (My Place) this summer provided assurance regarding the direction of travel in mitigation of risks and progress in these previously reviewed areas;
- Our ongoing work in certification of Children's Services grants, particularly in relation to the Troubled Families Programme, provides assurance in terms of conditions associated with funding being met.

The completion of our audit work this year has been adversely affected as a consequence of investigations and reduces the assurance that we are able to offer in relation to this area. As a result of the level of investigations in Children's Services, the majority of our work within this directorate will be completed in the second half of the year.

Value Added

Our internal audit activity has added 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.

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:

Operations and Finance

- ongoing involvement in Payroll system implementation projects ensuring that control issues are highlighted and resolved before implementation;
- facilitation of ICT Continuity & Disaster Recovery integration into the Risk Management methodology;
- ongoing involvement as an advisory member of the Information Security Group;
- quality assurance role in the Asset Register implementation project.

Place

- ongoing involvement in the Future State Project and changes to TOR2 contract monitoring arrangements ensuring that control issues are highlighted and resolved before implementation;
- previous consultancy work in relation to commercial development of TCCT, coordination with the TDA and synergies with other agencies;
- the development and annual review of the Tor Bay Harbour Authority Five Year Rolling Audit Plan and related assistance to the Executive Head in supporting the Harbour Committee.

Adults

- decommissioning of Supporting People Services
- the transition to the periodical payment method for payments to Supporting People clients

Public Health

- benchmarking fee comparison for Bereavement Services
- risk / benefit analysis of the transfer of responsibilities of high risk Domestic Abuse from Safer Communities, and analysis of the resource / cost drivers affecting Domestic Homicide Reviews
- facilitation of ICT Continuity & Disaster Recovery integration into the Risk Management methodology, and the associated links to the overall Emergency Planning & Disaster Recovery arrangements.

Children's Services

- notification to the client of the requirement for certification of the Adoption Reform grant as a result of partnership working;
- exploration of changes in relation to the Troubled Families programme which will be used to assist our clients in the transition to the new arrangements;
- assistance in maintaining the impetus in management action plans to address previously identified risks through an annual and robust follow up exercise;
- development of an audit plan that incorporates flexibility to meet the changing and developing business demands of the Children's Services directorate.

Schools

The Partnership has supported the development of School information "Dashboards" for clients to provide the internal audit view of the financial management of individual schools. The provision of internal audit's performance data provides a greater focus on schools causing concern for targeted intervention by appropriate services.

The culmination of this work should once complete, lift the performance of these schools.

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

Audit findings and performance against plan

Operations and Finance

In our opinion, and based upon our audit work completed during 2014/15, 'watching briefs' and direct advice provided for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

Based on audits completed and on indications from previous and on-going work, we are able to report that material systems controls have either been maintained, or improvements are being made to address previously identified weaknesses. Whilst a number of weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action to address them.

Our ICT Audit work has been received positively with the majority of areas reviewed providing good levels of assurance; the exception being in relation to ICT Continuity & Disaster Recovery where the need to integrate this with the Risk Management methodology has delayed the implementation of the required improvements. Internal Audit resources will support Information Services (ICT) and Commercial & Business Services in progressing and implementing an integrated approach.

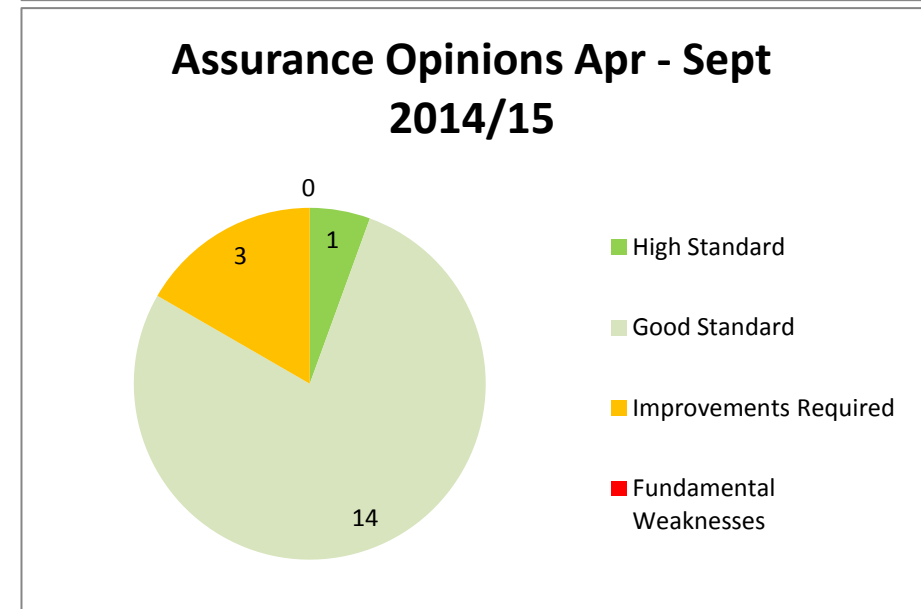
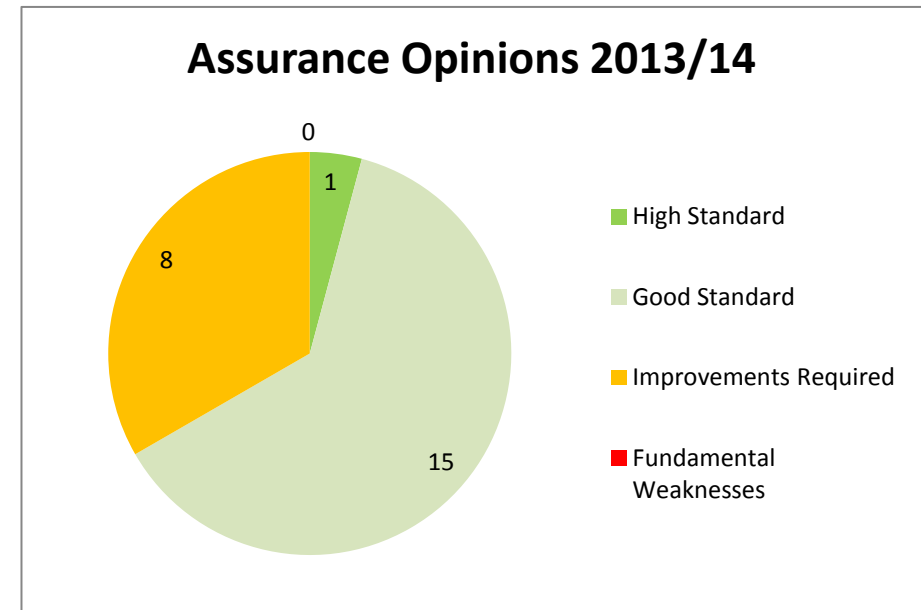
No significant concerns have been identified from our work including that on grants and management have responded positively to any recommendations for improvement. The Appendix 1 details the assurance opinions for individual audits for which definitions of the assurance opinion ratings are given in Appendix 4.

Key Risks / Issues

The lack of integration of ICT Continuity & Disaster Recovery into Risk Management.

An imminent change to the material systems control framework is the introduction of Payroll 'self-service'; we will review and report on the impact of this change in our annual report.

Given the previous unsuccessful payroll implementation project, there is a risk to the success of the current project; we are providing ongoing support and advice and will be issuing a 'lessons learnt' style report in relation to the previous project in order that this can inform the current project.



Public Health

In our opinion, and based upon our audit work completed during 2014/15, 'watching briefs' and direct advice provided for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

The Public Health directorate incorporates both the Public Health functions and those for Community Safety.

Our Community Safety work is largely complete with both areas examined requiring improvement in the control framework; management have responded positively to our work which in addition to control framework assessment included 'added value' elements involving benchmarking and risk / benefit analysis.

Our Public Health work is scheduled for the second half of the year, and hence this six month report only records the change of status to 'final' of the previous work on the Transfer of Public Health; the planned work for the upcoming six months includes a follow up of this transition.

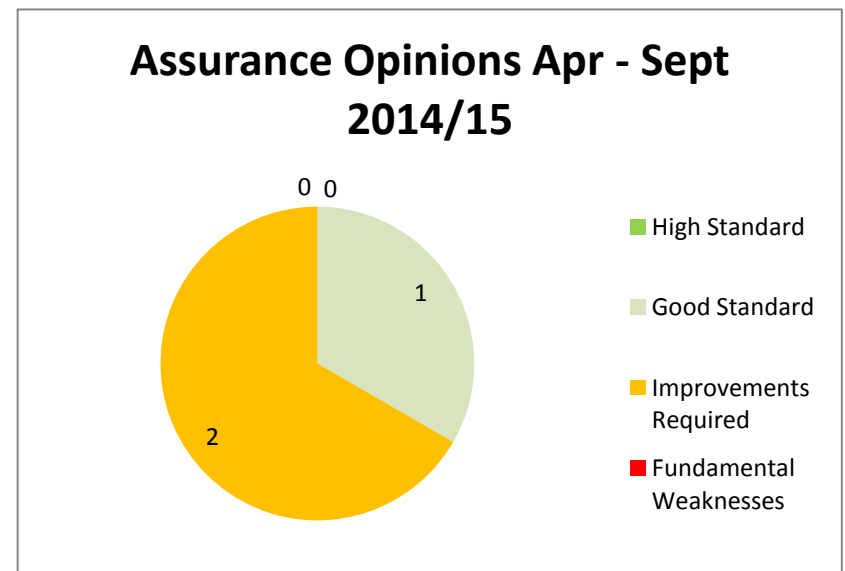
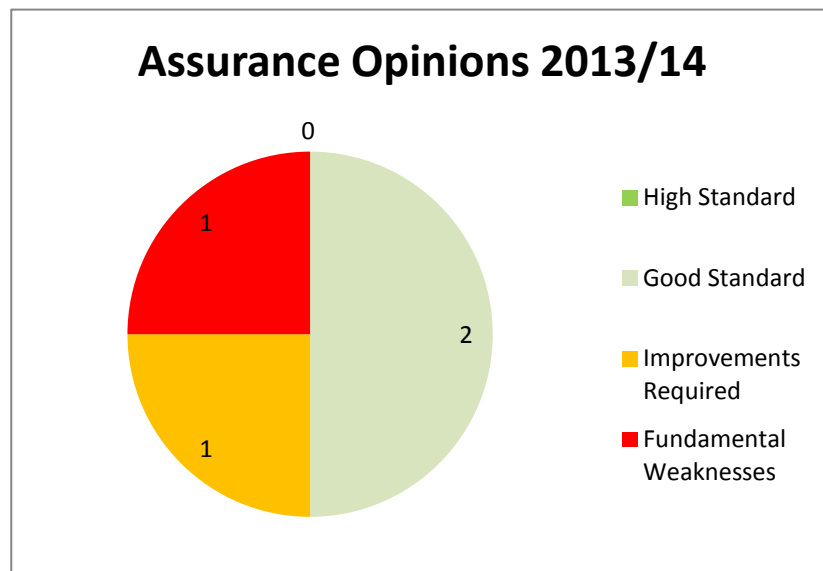
No significant concerns have been identified from our work and management have responded positively to any recommendations for improvement. The Appendix 1 details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix 4.

Key Risks / Issues

Risks inevitably exist when establishing the delivery of a service area such as Public Health, and issues have previously been reported in relation to workforce planning, information governance, emergency planning and preventative work.

Our planned follow up of the transfer of the service will establish whether effective steps have been taken to mitigate the risks identified and facilitate the expedition of progress if necessary.

Contract and partnership management arrangements are a risk to the ongoing provision of service within Community Safety; we are working with management to ensure robust management action plans are established to mitigate these risks.



Place

In our opinion, and based upon our audit work completed during 2014/15, 'watching briefs' and direct advice provided for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

The Place directorate incorporates other entities in terms of the Torbay Development Agency (TDA), the English Riviera Tourism Company (ERTC), Torbay Coast and Countryside Trust (TCCT) and TOR2.

Our work in relation to these entities is predominantly scheduled for the second half of the year, and hence this six month report only records the change of status to 'final' of the previous work and the outcome of our follow up work and ongoing involvement in relation to TOR2 Contract Monitoring and the Future State Project.

In relation to TOR2, we have highlighted the need to focus on managing the risks arising as a result of changes to the Future State Project to ensure service provision is maintained.

The Tor Bay Harbour Authority's five year rolling audit programme agreed by the Harbour Committee ensures that all risk areas are examined on a cyclical basis; the most recent audit of asset management identified weaknesses in arrangements with the TDA.

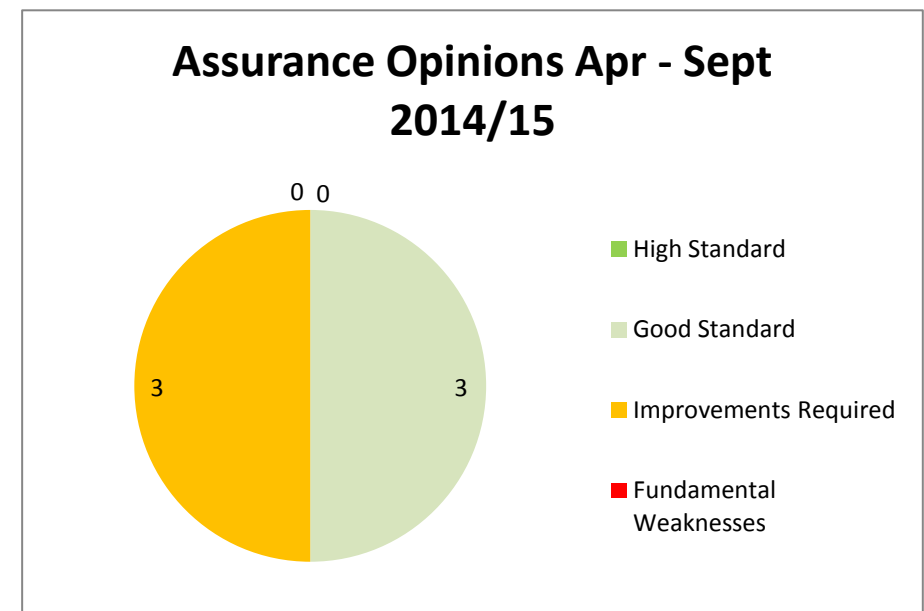
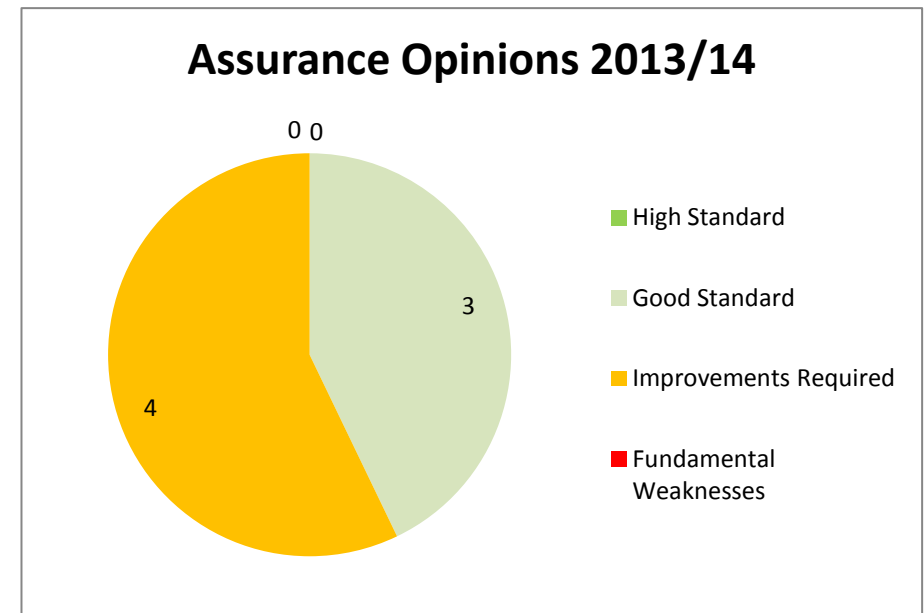
No other significant concerns have been identified from our work and management have responded positively to any recommendations for improvement. The Appendix 1 details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix 4.

Key Risks / Issues

Contract and partnership management arrangements are a risk to the ongoing provision of service with Place; we are working with management to ensure robust management action plans are established to mitigate these risks.

Previously highlighted risks remain in relation to the TCCT finalising a revised business plan in light of changing financial constraints and in its service level arrangements and links with the TDA; we will review and report on status in our annual report.

Issues previously identified in relation to inadequacies in procedures and operational control within Parking Services are a risk to its service delivery; we will follow up and report on status and progress in our annual follow up report in summer 2015.



Adults

As the majority of functions and services within Adults are provided and audited, by the NHS Trust Provider, we are unable to provide an overall opinion. We can, however, comment that in terms of our audit work completed during 2014/15 and where recommendations have been made, action plans have been agreed with management.

The Adults Directorate incorporates both the Joint Commissioning Team functions and those functions provided and audited by the NHS Trust Provider. Our work to date has involved examination of the Supporting People function and the related decommissioning due to be budget reductions. As detailed in Appendix 1, we were able to provide an overall 'Good Standard' audit opinion in relation to the operation of this function.

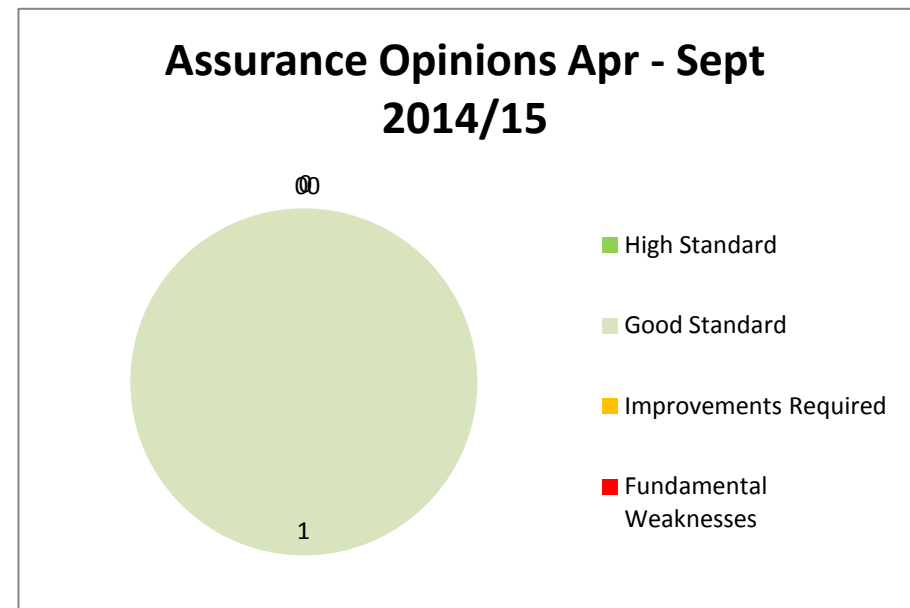
Our planned Adults audit work is complete for 2014/15, and we will be working with management to prepare an audit plan for 2015/16 that examines other functions and addresses new and emerging risks.

The Appendix 1 details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix 4.

Key Risks / Issues

Risks inevitably exist in the delivery of a service area such as Adults, as a result of the vulnerability of the clients and where delivery of the service is commissioned to other service providers.

Issues have been identified in relation to contract procurement arrangements and performance monitoring in a specific service area; we will work with management to develop an audit plan for 2015/16 that evaluates more of the commissioning arrangements.



Children's Services

Based upon our audit work completed during 2014/15 and based on earlier year's work, we conclude that overall a framework of control remains in operation, and where recommendations have been made, action plans have been agreed with management.

The Children's Services directorate incorporates both the Safeguarding & Wellbeing functions and those for Schools.

The overall assurance from schools audit is of good standard. The risk and control framework is of a good standard although there is some non-compliance or poor practice in a small number of schools on governance and use of resources to achieve school improvement. Detailed assurance is provided under a separate report, and also summarised in Appendix 1 to this report.

Our Children's Services work is scheduled for the second half of the year, and hence this six month report only records the certification of the adoption reform grant and the change of status to 'final' of the previous work on the External Contracts and the revised audit opinion as a result of our follow up work; the planned work for the upcoming six months includes opportunity for further additional work to be commissioned in light of changing operational needs and emerging risks to the service area.

Significant concerns have been identified from our previous work; however management have responded positively to recommendations for improvement, as reported in our follow up report in the summer. The Appendix 1 details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix 4.

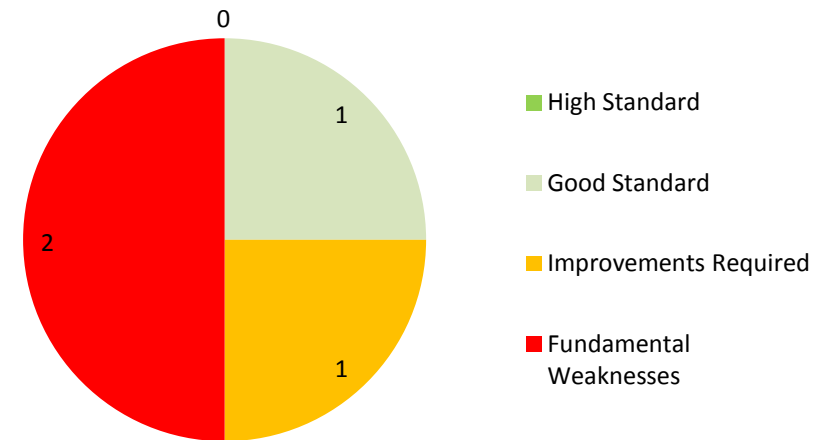
Key Risks / Issues

Risks inevitably exist in the delivery of a service area such as Children's Services, and issues have previously been reported in relation to contract management and performance monitoring.

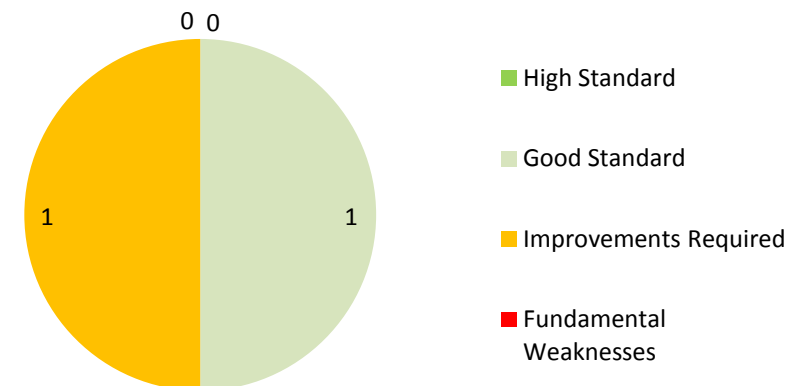
The change to the Troubled Families Programme with movement towards TF Phase 2 will alter the emphasis of the programme to an outcome based grant; we are currently involved in an exploration of the changes and our learning and awareness of best practice from elsewhere will be used to assist our clients.

Our flexible plan for Children's Services will enable us to respond to emerging and new risks.

Assurance Opinions 2013/14



Assurance Opinions Apr - Sept 2014/15



Schools

Our overall opinion is one of Good Standard. In general, the systems and controls in schools mitigate the risks identified in many areas. However, there are risks exposed in key areas which reduce overall assurance.

Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. Although specific risks have been identified on the core element of the audit review at some schools, recommendations have been made to reduce risks and in other areas and are made to strengthen what are reliable procedures.

Key Risks / Issues

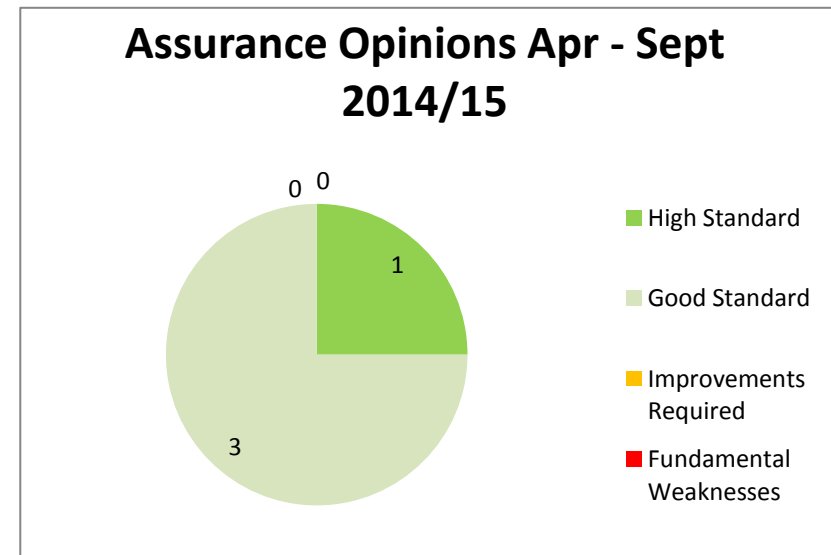
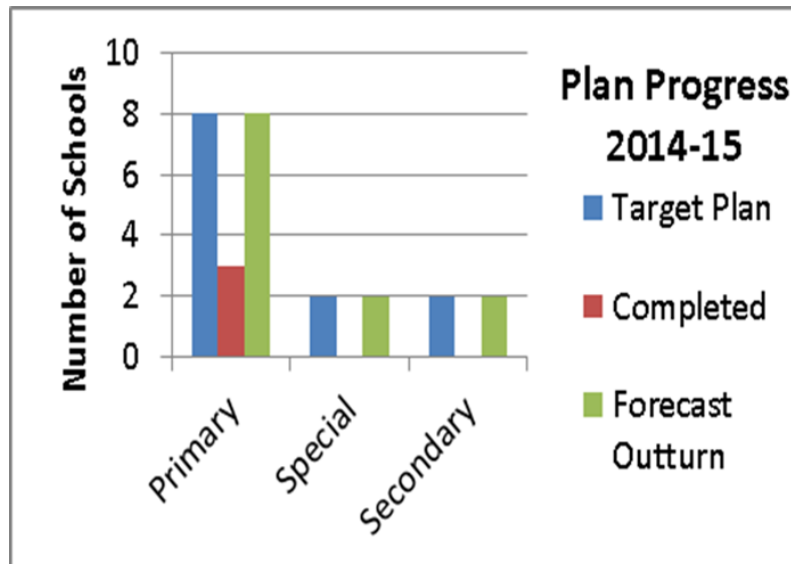
The key matters arising from the audits are the:

- understanding of financial management by governors and skills assessment as evidenced by the requirements of the Standard
- demonstrable financing of plans for raising standards and attainment; and,
- absence of financial benchmarking.

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

We have made good progress in the delivery of our audit plan to schools and schools have again been very appreciative of the quality of our service. The requirements to meet the challenges through change to the SFVS are significant. We are focusing all of our effort to achieve the targets and support schools to the fullest of our ability.

Page 52



Fraud Prevention and Detection

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability.

The Audit Commission runs a major national data matching exercise (National Fraud Initiative - NFI) every two years, with additionally data matching for Council Tax Single Person Discount (SPDs) and Rising 18's, now required annually. Data for the forthcoming 2014/15 NFI exercise has now been provided, and the Matching Reports are expected in January 2015, after which DAP will assist departments in undertaking reviews of the matches as appropriate.

Additionally, in 2014, the Council Tax team has engaged the services of Datatank, for the review of Council Tax SPD awards. The annual review / audit report of the Council Tax and NDR teams, has historically reported a previous lack of appropriate review action in this area, and this engagement with Datatank, and the results including the cancelling of SPD awards to the value of £256K this year alone, has gone a significant way in redressing this audit issue.

Linked to Audit Commission requirements, Devon Audit Partnership (DAP) have undertaken the annual 'Protecting the Public Purse' and 'Fraud and Corruption' surveys which feeds into a national overview of fraud within public bodies.

Proactive anti-fraud work regarding Blue Badge Fraud has begun with initial meetings between relevant Council Departments, Torbay and Southern Devon Health & Care NHS Trust, and DAP. Following these, a strategy is being developed to facilitate future operational Blue Badge anti-fraud work.

Additionally, DAP has continued to undertake a six monthly monitoring of staff internet use, to identify any access attempts to websites deemed inappropriate by the Council's Internet Policy. Two Fraud bulletins have been produced and published on DAP's website.

Irregularities - During 14/15, Internal Audit have carried out, or assisted in a total of 8 new irregularity investigations within the Authority, including schools. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
IT Misuse	2
Employee Conduct	3
Financial Irregularity	2
Misuse of Council Assets / Facilities	1

The details of these irregularities have been reported to Directors. They included a few significant reviews that have required considerable investigative resource, involving allegations against staff and also a contract compliance matter. In addition, there have been investigations of staff internet and email use.

Additionally, a number of significant 2013/14 irregularities were concluded in 2014/15, and senior management have been made aware of the outcomes of these separately.

Customer Value

Resources

Overall, performance against the indicators has been good (see appendix 3); although we acknowledge that actual audit days delivered was below target. We are aware that some of our draft reports were not issued to the customer within the agreed timeframes (15 working days for draft report). We have identified areas where performance has been poor, and are working with our staff to ensure improvement is achieved.

Customer Service Excellence (CSE)

DAP continues to be maintain accreditation by G4S Assessment Services of the CSE standard. We highly value customer comments on our service and how we can improve our work.

During the period we issued client survey forms with our final reports. The results of the surveys returned are very positive. The overall result is very pleasing, with near 99% being "satisfied" or better across our services, see appendix 3. 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

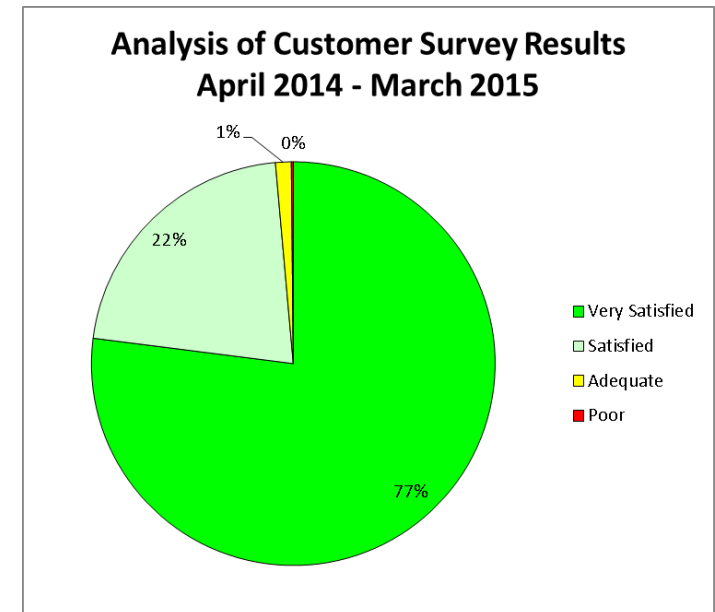
What Our Customers Said

We have had some very complimentary feedback in the last six months. More details can be found on our website www.devonaudit.gov.uk but some of the more relevant comments include:-

"The Auditor was extremely helpful and responsive throughout the planning phase. The Auditor was efficient and flexible which helped us respond and plan appropriately. The reporting was timely, and the outcome of the audit was as expected by the board and senior safeguarding staff. The process has provided a useful vehicle to help us plan next steps and future requirements".

"The Auditor was accessible and pragmatic in his approach recognising the range of issues we were dealing with and it has been a positive experience".

"I cannot praise the Auditor's professionalism highly enough"



Added Value

We aim to provide a cost effective, efficient and professional internal audit service that takes the opportunity to add value whenever possible. Some of the specific examples of where our team have been able to add value to the Council in the first six months of 2014/15 include:-

"The main area of added value is the resource saving made by the audit 'pulling together' all the areas of improvement needed in one document, and providing a useful template for our response and action plan".

"From my perspective, the benefits of using the audit service is that it provides objective and balanced feedback from auditors who know their subject area. It provides assurance that the service is effective as well as offering recommendations for improvement (which is sometimes difficult to see when you are working with it day to day)".

We continue to develop and train our staff so that they can add value to the organisation as it faces the difficult challenges ahead.

Appendix 1 – Summary of audit reports and findings for 2014/15





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




Assurance Progress Key

Green – action plan agreed with client for delivery over an appropriate timescale;
 Amber – agreement of action plan delayed or we are aware progress is hindered;
 Red – action plan not agreed or we are aware progress on key risks is not being made.
 * report recently issued, assurance progress is of managers feedback at debrief meeting.




OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Material Systems					
Corporate Debt	ANA - High	Final	Improvements Required	Assurance was reported in the 2013-14 annual report; please refer to that report for details	
Income Collection	ANA - Medium	Final	Good Standard	Assurance was reported in the 2013-14 annual report; please refer to that report for details	
Main Accounting System	ANA - Medium	Final	Good Standard	Assurance was reported in the 2013-14 annual report; please refer to that report for details	
Benefits	ANA – Medium	Final	Good Standard	<p>The benefits department is generally performing effectively. Our sample testing identified only one error in relation to the processing of benefit / support claims and change notifications, and this was deemed to be as a result of a one-off error, rather than being symptomatic of underlying issues such as poorly trained staff, weak quality control, etc.</p> <p>Performance in terms of processing speed has deteriorated this year, however, we understand that remedial action will be taken in this regard. Specific testing of overpayment recovery did not identify any significant issues, however management were not able to provide evidence that write-offs were properly authorised in line with Financial Regulations during the first three quarters of the year.</p> <p>As was the case last year, the Quality Assurance process is generally robust; and benefit payments themselves are well controlled.</p>	

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Council Tax & NDR	ANA – medium	Final	Improvements Required	<p>The team have continued to maintain accuracy and control over property valuations with amendments to billing adequately supported. Despite the previous establishment of processes, the review and confirmation of the ongoing appropriateness of bill reductions is not consistent or undertaken at a regular frequency, resulting in a risk of unnecessary loss of income.</p> <p>Recommendations have been made to properly embed the new processes, to complete on-going development of procedural documentation, and to make further enhancements to existing processes and controls.</p>	
Bank Reconciliation	ANA – Medium	Final	Good Standard	<p>Bank reconciliation processes for Torbay accounts are robust and effective; only minor issues have been identified in relation to timelines, and retention of supporting records. Reconciliation practices are supported by effective system controls and comprehensive procedure documents.</p> <p>Previous issues identified with the reconciliation of school bank account information in SIMS to FIMS GL have now been fully resolved resulting in accurate reconciliation for 2013/14.</p>	
Debtors	ANA – Medium	Final	Good Standard	<p>The Debtors system is well managed centrally and users are adequately supported by comprehensive procedures and the provision of training. Debtors processes are operating effectively within a sufficiently sound overall control environment with most processes working as expected and as required by the organisation.</p> <p>Certain elements of the debtor process cannot be controlled centrally or are not controlled through system settings / restrictions and therefore reliance is placed on users to comply with procedural expectations. Limited central resources prevent the enforcement of compliance; hence the annual audit highlights incidents of non-compliance.</p> <p>Management continue to accept the risks of not taking action to address control weaknesses and non-compliance issues identified, due to the presence of mitigating controls and for customer service / business practicality reasons.</p> <p>The need for increased reporting and monitoring at senior management / member level in the current economic climate continues to be reported.</p>	

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Payroll (Northgate)	ANA - Critical	Final	Good Standard	<p>We are pleased to report that this year's assurance opinion has improved to 'Good Standard'. This is partly due to the cyclical nature of our work, resulting in a smaller audit programme and hence fewer recommendations; but also due to continuing progress in addressing prior year issues. This is against a backdrop of there being a significant amount of departmental resource being devoted to the new system implementation project during the 2013-14 year.</p> <p>Issues that remain include the outstanding Business Continuity Plan, the efficiency of the current method for recovering salary overpayments, and the Authority's leavers' process as leavers themselves are not required to be involved in any stage of the process before being terminated in the system. Only a small number of minor issues were identified this year in terms of the accuracy of data entry, and all system amendments tested were found to have been appropriately authorised.</p>	
Purchase Order Processing (POP)	ANA – Medium	Draft	Good Standard	<p>The ordering functionality within POP is effective and provides the majority of the expected controls of an electronic ordering system including robust authorisation controls. It provides for accurate recording of all the key information and the automated transfer and reversal of commitment data to the general ledger.</p> <p>Weaknesses continue to exist in the goods receipting functionality, however steps have been taken and continue to be developed to establish mitigating processes, and the residual associated risks continue to be accepted by management.</p> <p>Previous recommendations remain outstanding in relation to paying invoices relating to block orders, and the continued use of the approved item database.</p>	
IBS System Administration	ANA - Medium	Draft	Good Standard	<p>Progress continues to be made in improving the system management arrangements for the Open Revenue system. The system has been kept current and fit for purpose and the established control environment has been maintained.</p> <p>A number of recommendations remain outstanding from the previous audit and these should now be prioritised to ensure that the impetus in resolving the residual control weaknesses is sustained.</p>	

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				There remain issues relating to the management of access rights, in particular in relation to the inadequate segregation of duty; this is reported annually and the associated risks accepted by management due to operational need and the efficiency advantages achieved through generic working practices.	

The following audits are currently in progress:

- Payroll System Procurement and Management 2013/14 (ANA – Critical)
- Northgate Self Service (ANA – Critical)
- Asset Register Replacement Project 2013/14 (Client Request)
- Creditors (ANA - High)
- FIMS System Admin (ANA – High)
- Asset Register (ANA – Medium)
- Corporate Debt (ANA – Medium)
- Purchasing Cards (ANA – Low, Client Request)

It is anticipated that the reports will be issued & agreed in the third quarter of 2014/15. No issues of major concern have been identified from our fieldwork to date.



The following audits have not yet been started as they are not due to commence until the second half of the year:

- Main Accounting System (ANA – Medium)
- Debtors (ANA – High)
- POP (Electronic Ordering) (ANA – Medium)
- Bank Reconciliation (ANA – Medium)
- Treasury Management (ANA – Low)
- Payroll (ANA – Critical)
- Benefits (ANA – Medium)
- Council Tax & NDR (ANA – Medium)
- IBS Open System Admin (ANA – High)
- Income Collection (ANA – Medium)
- Crisis Support (ANA – Low – Client Request)
- Council Tax Support Scheme (ANA – Low – Client Request)
- Capital Programme (ANA – Medium)

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	

Grants

Highways Capital Funding x 4	Client Request	Completed	Certified	No issues identified	
Adoption Reform	Client Request	Completed	Certified	No issues identified	

The following audit is currently in progress:



- Troubled Families x4 (Client request)

It is anticipated that work on Troubled Families will be ongoing until the end of 2014-15. No major concerns have been identified from our fieldwork to date.




The following audit has not yet been started as it is not due to commence until the second half of the year:

- Wave 7 Aspiring Heads

IT Audit

IT Asset Management	ANA - Critical	Draft	Good Standard	Assurance was reported in the half year report; please refer to that report for details.	
Website Content Management	ANA - Low	Final	Good Standard	<p>There are examples of good practice in the management arrangements surrounding the delivery of the Council's website. There is an established process for publishing and management of content. There is a good level of policy and procedural guidance and training material for 'Creators' of the web content, and a large number of staff trained in the upkeep of the content.</p> <p>However, whilst it is understood that organisational shrinkage is having an impact on many council services, it would appear that this is also impacting the ability to maintain the web content, much of which had not been subject to review and is considered out of date. Although the overall opinion is 'Good Standard', the issues identified regarding content being out of date will potentially increase and so the risk will grow.</p> <p>We understand that resource reductions are also likely to impact on the services ability to make satisfactory progress with their planned work programme. To date this has adversely affected the commencement of the</p>	

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				CMS evaluation due to conflicting work priorities. The evaluation should consider modern open source CMS systems which can offer operation and security benefits. These benefits would be customer specific and therefore any evaluation would require a cost benefit analysis to inform this part of the CMS procurement process.	
Social Networking and Media	ANA - Low	Final	Good Standard	<p>The management and development of the Council's social media channels is the responsibility of the Public Access Channel (PACS) Team. There are examples of good practice in the management arrangements surrounding the use of social media which is supported by a good level of policy and procedural guidance and training material. Some monitoring is undertaken of social media content to establish compliance with expected practice and industry related legislation.</p> <p>Social media content is subject to monitoring by the PACS Team, we have identified opportunities for improvement of use of social networking through :</p> <ul style="list-style-type: none"> - monitoring the effectiveness if use against traditional methods of delivery to target the most effective areas; - potential for financial saving through a continuing reduction in costly customer engagements e.g. a SOCITIM study identified reduction in telephony cost through provision of on-line transacting through social media. 	
ICT Continuity & Disaster Recovery	ANA - High	Final	Improvements Required	<p>Follow up Exec Summary - Progress against the agreed recommendations has not been undertaken as originally expected, however there is some integration work required with the revised Risk Management methodology and therefore delays have in part been linked to the further development and integration of Risk Management into the SLT framework.</p> <p>A number of the agreed actions have not yet taken place and therefore the level of risk has not been reduced. The relevant Executive Heads have scheduled a meeting with Audit to facilitate progression of the recommendations.</p>	
Telephony & Voice	ANA - Medium	Draft	High Standard	The controls in place in relation to the Council's telephony network have both a strategic and operational perspective. They are robust and provide the organisation with a sound control framework. As with many areas further investment into IT would greatly increase the entire control framework and the overall resiliency.	

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Information Security Group	Client Request	Ongoing	Not Applicable	<p>Support continues to be provided in the form of attendance and active participation in the Information Security Group, including involvement in the End User Computing policy and PCI compliance.</p> <p>Work continues at the request of the client in terms of meeting attendance and active participation in arising associated activities including involvement in the group's work on emerging issues.</p>	Not applicable

The following audits are currently in progress.

- File Storage (ANA – Critical)
- Change Management (ANA – High)
- Corporate Printing (ANA – Medium)
- Information Security (Data Protection) (ANA- High)

It is anticipated that the reports will be issued & agreed in the third quarter of 2014/15. No issues of major concern have been identified from our fieldwork to date.


The following audits have not yet been started as they are not due to commence until the second half of the year:

- Public Health Data Transfer including N3 (ANA – High)
- Mobile Device Management (ANA – Critical)
- Database Administration (ANA – High)
- Service Strategy (ANA – High)
- Thin Client (ANA – High)
- ITRA (IT Risk Assessment) (ANA – High)
- Channel Shift (ANA – High)
- Harbour Mooring Replacement System (ANA – Medium)

The following audit have been cancelled or deferred to 2015-16 at the request of the client:

- Corporate Information Management (ANA – High)

OPERATIONS & FINANCE

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Other					
Democratic Representation and Management	ANA - Medium	Final	Good Standard	Assurance was reported in the 2013-14 annual report; please refer to that report for details	

The following audits are currently in progress.

- Human Resources (ANA – High)
- Disposal of assets linked to CCRP/ORP (ANA - High)
- Procurement - Compliance with Statutory & Council Regulations (ANA - High)




It is anticipated that the reports will be issued & agreed in the third quarter of 2014/15. No issues of major concern have been identified from our fieldwork to date.

The following audits have not yet been started as they are not due to commence until the second half of the year:

- Business Change (ANA – High)
- Procurement / Contracts (ANA – Medium)
- Demand Management including Financial Planning (LARR – Strategic Risk)

The following audits have been cancelled or deferred to 2015-16 at the request of the client:

- Fair Decision Making (LARR – Strategic Risk)







PUBLIC HEALTH					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Public Health					
Transfer of Public Health Service	ANA – Critical	Final	Good Standard	Assurance was reported in the 2013-14 annual report; please refer to that report for details.	
Bereavement	ANA - Low	Final	Improvements Required	<p>Cemetery and crematorium fees charged were found to be competitive with Torbay comparing favourably i.e. generally lower than Exeter and Plymouth for the majority of services / products. The Appendix gives a detailed breakdown of the comparable fees.</p> <p>Examination of fees charged found that these have not consistently been increased in accordance with the management contract; however, they do accord with the original Memorandum agreed by Council in 2008. Client side management should still however monitor these closely going forwards.</p> <p>Contract management arrangements require improvement in a number of areas. Although accurate, the annual rent review process is not timely, which in turn has impacted the timeliness of income received. Additionally, contract monitoring in relation to asset management and maintenance is insufficient to ensure that the conditions of the 'full repairing lease' (FRL), which imposes full repairing and insuring obligations on the tenant (Contractor) are being met to mitigate the risks of asset deterioration and H&S risks to the public.</p>	
Community Safety - Safer Communities	ANA - High	Draft	Improvements Required	<p>At both an operational and strategic level the Domestic Abuse Steering Group (DASG), and Stronger Board, respectively provide direction and support for the Team delivering domestic abuse services. Despite this support and direction, the 'Torbay Strategy Against Domestic Abuse' for 2013-18 was found to be still waiting approval leading to a risk of a lack of agreed strategic direction and service planning.</p> <p>The DASG membership was incomplete in terms of inclusion of all relevant partners and it was identified that some partners are failing to provide adequate support. Existing arrangements may be further strengthened by having cross-partner agreement regarding levels of resourcing / financing, or a 'pooled budget'.</p>	

PUBLIC HEALTH

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				<p>Performance of the service was found to be effectively monitored and reported in a timely fashion, although recommendations have been made to be more proactive where underperformance has been identified. Case file management is not consistent and this may be an impacting factor on performance.</p> <p>Additional added value information is provided in Appendices to support service improvement, detailing the risks / benefits of the transfer of responsibility for high risk Domestic Abuse cases and the resource / cost drivers affecting Domestic Homicide Reviews.</p>	

The following audits have not yet been started as they are not due to commence until the second half of the year:

- Lifestyle Service review (ANA - Medium)
- Public Health / NHS Links (ANA - High)
- Transition Follow Up (ANA - High)

PLACE					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Place					
Torbay Coast and Countryside Trust	ANA - Medium	Final	Good Standard	Assurance was reported in the 2013-14 annual report; please refer to that report for details.	
Torbay Development Agency - Cockington Court	ANA - High	Final	Good Standard	Assurance was reported in the 2013-14 annual report; please refer to that report for details.	
Parking Services	ANA - High	Final	Improvements Required	Assurance was reported in the 2013-14 annual report; please refer to that report for details.	
Torbay Harbour Authority - Asset Management	ANA - Medium	Final	Improvements Required	<p>Governance in relation to Tor Bay Harbour Authority asset management was found to be exceptional, with the Tor Bay Harbour Authority benefiting from the established arrangements of Torbay Council and enhancing these with specific additional requirements addressed through the Harbour Committee.</p> <p>Although processes and arrangements are in place to operationally manage the assets, a number of weaknesses were identified that could lead to loss of income and unidentified deterioration in assets. The number of issues identified has resulted in our overall assurance opinion being 'Improvements Required'. Torbay Development Agency (TDA) provide certain services to the Tor Bay Harbour Authority in relation to asset management and hence improved monitoring of service delivery and establishing closer and more effective working practices with the TDA would assist in addressing some of the issues found during this audit.</p>	
Carbon Management – CRC Annual Submission	Client Request - Statutory Requirement	Certified	Good Standard	No issues identified.	
TOR2 Contract Monitoring	ANA - High	Final	Improvements Required	<p>As last year, the overall audit opinion above states 'Improvements Required', and the direction of travel has continued upwards i.e. improvements made. However, as specified below, Corporate Governance continues to present an ongoing risk which impacts on the overall audit opinion.</p> <p>The lack of completion and delivery of the Annual Report and Annual Business Plan, in accordance with the requirements of Schedules 17 and 20 respectively,</p>	

PLACE					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Page 66				<p>remains an ongoing concern. Additionally, the updating of the Risk Matrix, and a Business Continuity Plan in the event of TOR2 'going bust', are yet to be provided.</p> <p>On the whole, as at the end of 2013/14, contract monitoring arrangements at the operational level have improved considerably since the start of the contract, and would be close to achieving a 'Good Standard', with some previously reported issues close to resolution, however new issues have also been identified, and some existing IT issues remained outstanding.</p> <p>This report has also identified new risks presented by the changes which the Future State Project brings from April 2014 on, although these have not been used to affect Audit's level of assurance opinion within the Operational Risks (Risk 2) assessment for 2013/14.</p> <p>The introduction of these risks from April onwards provides new challenges to ensure that service provision is maintained within an environment of reduced budget, staff changes, and process / system changes.</p> <p>Focus on managing these risks proactively should prevent the 2014/15 contract management and monitoring arrangements falling back to a less than satisfactory standard, and the associated risks that the quality of service provision drops, and this drop in service is not subsequently identified for appropriate payment deductions to be made.</p>	

The following audits are in progress at year end.

- Transport - Synergy Strategic & Operational (ANA - High)
- Section 106 (ANA – Medium)
- TOR2 Future State Project (ANA – Medium) (Client Request)

It is anticipated that the reports will be issued & agreed in the third quarter of 2014/15. No issues of major concern have been identified from our fieldwork to date.

The following audits have not yet been started as they are not due to commence until the second half of the year:

- Tor Bay Harbour Authority (ANA - Medium)
- Museum Services (ANA - Low)
- Concessionary Fares (ANA - High)
- Sports Facilities (Client Request)

PLACE


Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	


- South Devon Link Road / Waste PFI (ANA - High)
- Place projects (ANA - Medium)
- Torbay Development Agency (TDA) (ANA - High)
- English Riviera Tourism Company (ERTC) (ANA - Medium)
- Torbay Coast & Countryside Trust (TCCT) (ANA - Medium)

The following audit has been cancelled or deferred to 2015-16 at the request of the client:

- Planning (ANA – Medium)




Grants

Highways Capital Funding x 4	Client Request	Completed	Certified	No issues identified.	
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Adults					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Supporting People	ANA – Medium Risk	Final	Good Standard	<p>Supporting People have achieved a ‘High Standard’ assurance opinion in relation to decommissioning by ensuring that all of their services have been fully informed of the possible cuts by producing a consultation summary document detailing the proposals and including an equality impact assessment for each of those areas. Councillors were then able to make informed decisions as part of the decision-making process regarding the Council's budget. This led to transitional funds being made available for some of the services at risk to allow for a phased withdrawal from the service.</p> <p>Post decommissioning reviews have since been undertaken, however the resulting decommissioning plan needs to be formalised as part of a project plan for each service at risk. Performance indicators are in place for service providers, but require review for ongoing currency and relevance.</p> <p>Review of contracts with service providers found a lack of authorisation of waivers in relation to procurement rules. Additionally, it was noted that invoices were not provided to support payments leading to VAT non-compliance; it is acknowledged that the payments examined were fully supported by contract information and that reconciliation processes were robust.</p>	

Page 68

Our work in Supporting People concludes our audit plan for 2014/15. We will work with the Adults management team to produce an audit plan for 2015/16 that examines other functions and addresses new and emerging risks.

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Children's Services External Contracts	ANA - High Risk	Final	Improvements Required	<p>Assurance was reported in the 2013-14 annual report; please refer to that report for details.</p> <p>Revised assurance was reported in the 2014-15 Follow Up Report on Areas Requiring Improvement, changing our audit opinion from 'Fundamental Weaknesses' to Improvements Required; please refer to that report for details.</p>	
Maintained Schools audit programme	Agreed programme through 'buy back'	On-going	Good Standard	The overall opinion for the routine school audit visits has been maintained as 'good standard' (refer to summary data below). The provision of internal audit's performance data provides a greater focus on schools causing concern in the wider control environment.	
Schools Financial Value Standards (SFVS)	ANA – Low Mandatory for LA / Schools	Final	Good Standard	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2013/14 submitted to the Department for Education.	

The following audit is currently in progress:

- Intensive Family Support Service (IFSS) (Client Request)


It is anticipated that the report will be issued & agreed in the fourth quarter of 2014/15. No issues of major concern have been identified from our fieldwork to date.

The following audits have not yet been started as they are not due to commence until the second half of the year:

- Early Years (ANA – Medium)
- PARIS (ANA – Critical)
- Safeguarding (LARR – Strategic Risk)

In addition, time has been allowed in the plan for additional work to be commissioned as a result of changing operational needs and related audit requirements.

Grants

Adoption Reform	Client Request	Completed	Certified	No issues identified.	
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Children's Services

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	

The following audit is currently in progress:

- Troubled Families Programme x4 (Client Request)

It is anticipated that work on Troubled Families will be ongoing until the end of 2014-15. No major concerns have been identified from our fieldwork to date.

The following audit has not yet been started as it is not due to commence until the second half of the year:

- Wave 7 Aspiring Heads

Maintained Schools Summary Data	Assurance Opinion
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<p>The key matters arising from the audits are the:</p> <ul style="list-style-type: none"> Understanding of financial management by governors and skills assessment as evidenced by the requirements of the Standard demonstrable financing of plans for raising standards and attainment; and, absence of financial benchmarking. <p>Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.</p>	<p>Good Standard</p>
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Appendix 2 – 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:

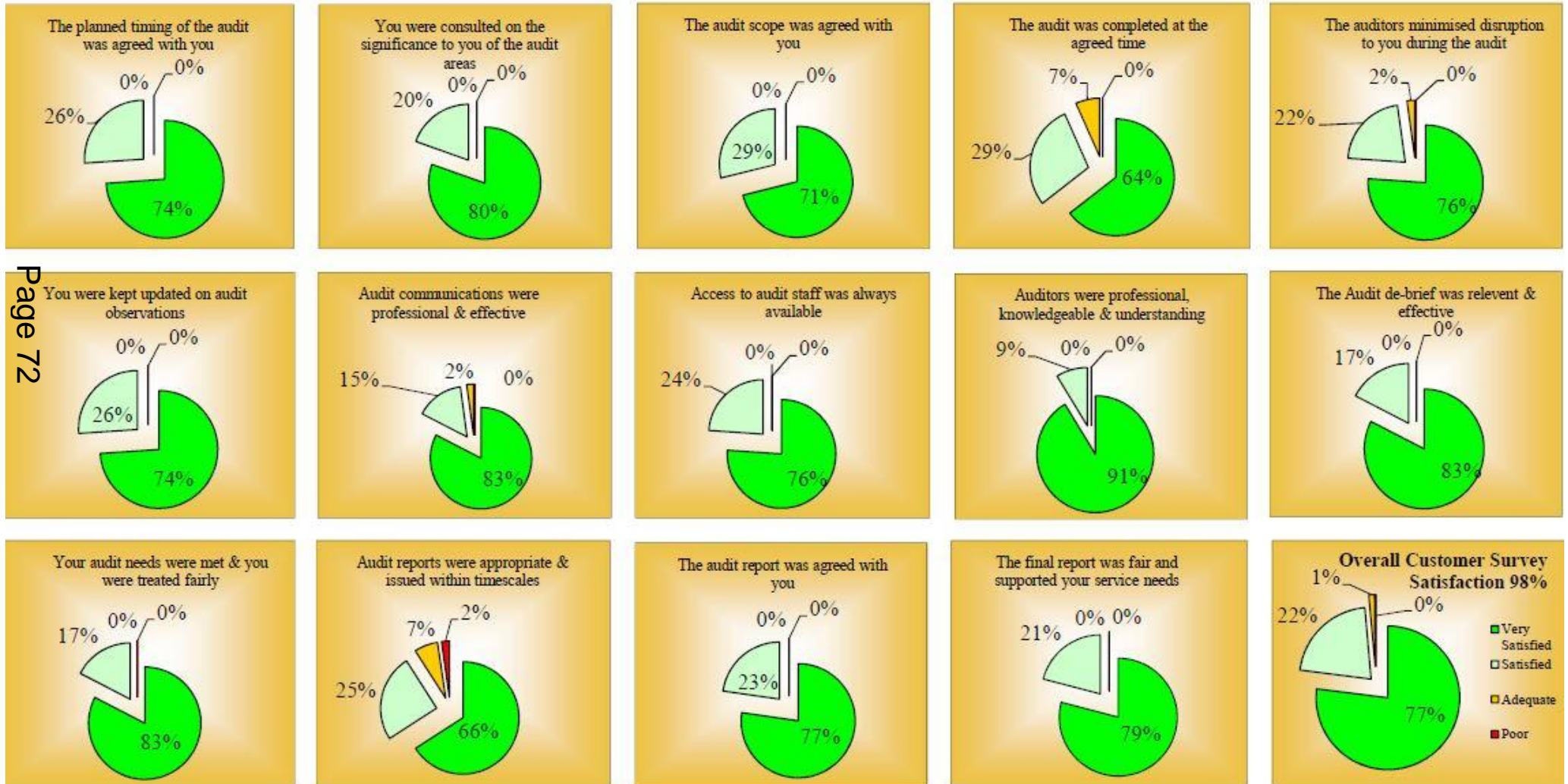
Annual Local Performance Indicators (LPI)	2012/13	2012/13	2013/14	2013/14	2014/15	2014/15
	Target	Actual	Target	Actual	Target	Six Month Actual
Percentage of Audit plan Commenced (Inc. Schools)	95%	97.75%	100%	96.5%	100%	63.9%
Percentage of Audit plan Completed (Inc. Schools)	90%	94.3%	93%	94.6%	93%	44.4%
Actual Audit Days as percentage of planned (Inc. Schools)	90%	99.7%	95%	97.5%	95%	39.3%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	On target
Percentage of chargeable time	65%	66.1%	65%	69.3	65%	66.6%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	94.5%	90%	98%	90%	99%
Draft Reports produced within target number of days (currently 15 days)	90%	79.7%	90%	80.1%	90%	77.5%
Final reports produced within target number of days (currently 10 days)	90%	86.4%	90%	89.1%	90%	95.2%
Average level of sickness absence (DAP as a whole)	2%	2.9%	2%	3%	2%	2.5%
Percentage of staff turnover (DAP as a whole)	5%	8.5% (3 people)	5%	3%	5%	2% (1 person)
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	On target

Overall, performance against the indicators has been good, although we acknowledge that actual audit days delivered was below target. We are aware that some of our draft reports were not issued to the customer within the agreed timeframes (15 working days for draft report). This is improving and we have identified areas where performance has been poor, and are working with our staff to ensure improvement is achieved.

Appendix 3 - Customer Service Excellence

Customer Survey Results April 2014 - Sept 2014

The charts below show a summary of 46 responses received.



Appendix 4 – Definitions

Definitions of Audit Assurance Opinion Levels

Confidentiality under the National Protective Marking Scheme

Assurance	Definition	Marking	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.	Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.	Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Improvements Required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.	Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.	Secret and Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

Page 5

Agenda Item 7



Title: **Strategic Risk Management**

Wards Affected: **All**

To: **Audit Committee** On: **21 January 2015**

Contact Officer: **Anne-Marie Bond**

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1. Background

- 1.1 At its meeting on 24 September 2014, the Audit Committee considered the position at Quarter 1 with regard to the Strategic Risk Register. Members identified that they felt that the risk register had become so strategic it was lacking the operational detail that they needed to gain the reassurance that they required.
- 1.2 At that meeting the Committee was also informed that responsibility for the risk register would, from now on, lie with the Executive Head – Commercial Services. Members requested that the Executive Head attend the next meeting to present her initial thoughts on risk management.
- 1.3 This report provides those thoughts and outlines the work that is currently taking place to ensure that risk management is appropriately embedded within Torbay Council.

2. Introduction

- 2.1 The new approach to strategic risk management was introduced in early 2013 at which point five strategic risks to the Authority were identified together with mitigating actions. Since that time, quarterly reviews of progress against those actions have been undertaken and reported to the Audit Committee.
- 2.2 In March 2014, Devon Audit Partnership undertook a review of the new risk management process. The report acknowledges that the new process was in its infancy and that the assurance opinion of “improvements required” reflected that current status and that it was “evident that there is still work being done to ensure that the Council is operating a fully robust Risk Management methodology”.
- 2.3 Devon Audit Partnership have separately identified that there may be opportunities between Torbay, Devon County and Plymouth City Councils to share experience and learning around risk management as many of the risks faced by county and unitary councils may well be similar. To that end the Partnership facilitated a meeting between officers from those authorities which has started a conversation around risk management issues.

3. Moving Forward

- 3.1 The Policy, Performance and Review Team have taken on board the findings of the Devon Audit Partnership report and are currently refreshing the performance and risk management framework of the Council. The aim is to ensure that there is integration through the organisation ensuring linkages between operational risk, strategic risks, performance and financial management. Ultimately there also needs to be integration with business continuity and disaster management.
- 3.2 In developing the revised approach, the Team is ensuring that the specific issues of concern within the Devon Audit Partnership report are being addressed including the formalisation of the Risk Management methodology. Further, the currently identified strategic risks are being compared with those identified by a selection of south west local authorities.
- 3.3 The revised approach to performance and risk management identifies how the Council will meet its priorities, how we will monitor how well we are meeting those priorities and what are the risks associated with the priorities. Monthly monitoring reports in the form of performance and risk dashboards will be prepared for consideration by the Senior Leadership Team. SLT will then be able to review and challenge the Council's performance.
- 3.4 Once a quarter, a composite report including performance, risk and financial management information will be considered by the Overview and Scrutiny Board which will mean that there is open, democratic review and challenge to how well the Council is meeting its priorities.
- 3.5 Operational performance and risk management information will continue to be held by each Business Unit. However, the increased challenge from SLT and the Policy, Performance and Review Team will help to ensure that operational issues are escalated onto the strategic dashboard for consideration at SLT and the Overview and Scrutiny Board.

4. Feedback from Audit Committee

- 4.1 Views of the Committee are welcomed on issues such as:
 - How can members challenge whether the strategic risks are appropriate without becoming overly involved in operational issues?
 - Are there any strategic risks the Committee do not feel are currently included in the Strategic Risk Register?
 - Should the Risk Register focus purely on the risks faced by the Authority or by the area as a whole?

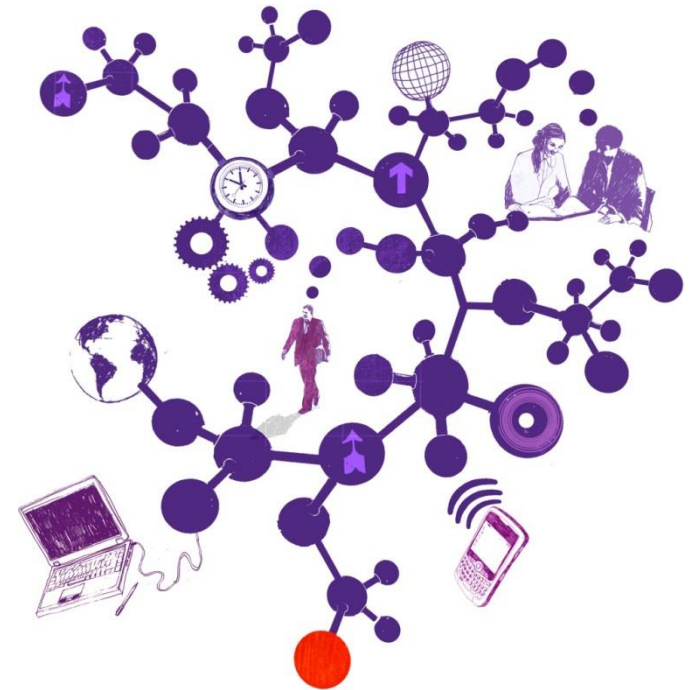
Anne-Marie Bond
Executive Head – Commercial and Business Services

Audit Committee Update for Torbay Council

Page 7
Year ended 31 March 2015
21 January 2015

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

Contents

Section	Page
Introduction	4
Progress at 9 January 2015	5
Emerging issues and developments	
Grant Thornton	7
Accounting and audit issues	10
Local government guidance	15

Page 78

Introduction

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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

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

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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 Audit Manager.

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Progress at 9 January 2015

Work	Planned date
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	March 2015
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none">• updating our review of the Council's control environment• updating our understanding of financial systems• review of Internal Audit reports on core financial systems• early work on emerging accounting issues• early substantive testing• proposed Value for Money conclusion.	January – March 2015
2014-15 final accounts audit Including: <ul style="list-style-type: none">• audit of the 2014-15 financial statements• proposed opinion on the Council 's accounts• proposed Value for Money conclusion.	June – September 2015

Progress at 9 January 2015

Work	Planned date
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises: <ul style="list-style-type: none">• securing financial resilience; and• challenging how it secures economy, efficiency and effectiveness.	January – July 2015
Other areas of work Grant claims and certification <ul style="list-style-type: none">• Housing benefit subsidy for 2014/15	June – November 2015
Other activity undertaken <ul style="list-style-type: none">• Grant Thornton workshops on accounting for schools and infrastructure assets.	Workshops were held in Taunton on 2 December 2014 and in Plymouth on 5 January 2015.

Emerging issues and developments

Grant Thornton

Our national report, *Rising to the Challenge, the Evolution of Local Government*, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Emerging issues and developments

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Emerging issues and developments

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>.

The reports asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Emerging issues and developments

Accounting and audit issues

Accounting for schools

The debate about the recognition of school land and buildings on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they could be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet. This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school building to be clear cut and local judgement would need to be applied. We have not seen evidence that would support the view taken by CIPFA and have concerns about:

- whether the treatment proposed by CIPFA complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are working with the Audit Commission, CIPFA and the other audit firms suppliers to try to seek a practical way forward as soon as possible.

Continued overleaf

Emerging issues and developments

Accounting and audit issues

Accounting for schools (continued)

We will continue to share the latest developments with officers. In the mean time we would recommend that you continue your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

Challenge question

Has your Executive Head of Finance put in place a plan to address the changes in accounting for schools?

Emerging issues and developments

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Emerging issues and developments

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- under IAS 31 joint ventures were legal entities. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. In a joint operation the investing parties have rights to the assets and obligations for the liabilities of the arrangement, whereas in a joint venture the parties have rights to the arrangement's net assets
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Challenge questions

- Has your Executive Head of Finance assessed the potential impact of these standards for the Council's financial statements?

Emerging issues and developments

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

The Council prepared its 2013/14 draft accounts and working papers in time for the audit to start on 16 June 2014. The start date for the 2014/15 audit is scheduled for 15 June 2015.

Challenge question

- Has your Executive Head of Finance put in place a plan to continue to address the earlier close date?

Emerging issues and developments

Local government guidance

In November the National Audit Office published their report on the [Financial Sustainability of Local Government](#).

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

Emerging issues and developments

Local government guidance

Sir Bob Kerslake published his report, [The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council](#), on 9th December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.

The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.

Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.

In moving from a 20,000 people organisation in 2010 to a 7,000 people one by 2018 the Council needs fit for purpose workforce planning.

- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midland MBCs to make the combined authority a reality that delivers jobs and prosperity to the region.

Challenge question

- Has the Council considered whether there are lessons or issues from the report that it also needs to action?

Emerging issues and developments

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December 2014.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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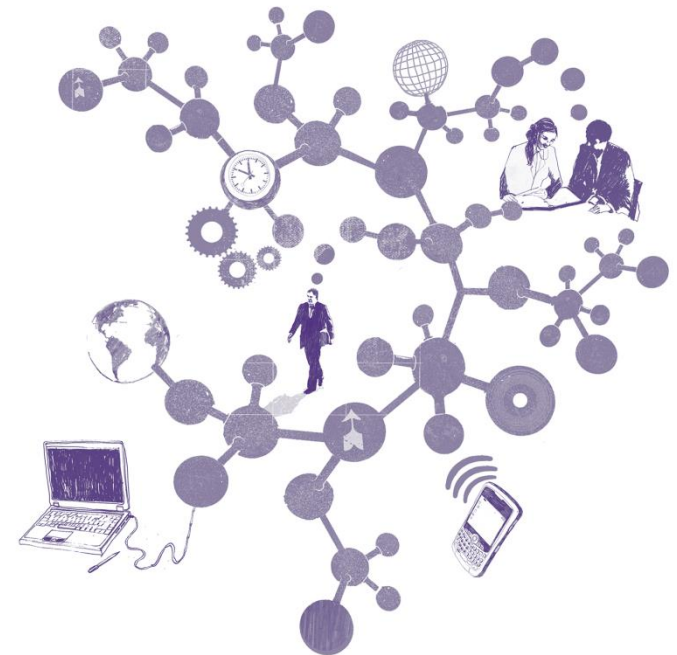
The Annual Audit Letter for Torbay Council

Year ended 31 March 2014

October 2014

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Contents

Section	Page
1. Key messages	3
Appendices	
A Key issues and recommendations	5
B Summary of reports and audit fees	8

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Torbay Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 25 June 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p>Financial statements audit (including audit opinion)</p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September 2014 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"> • the draft accounts were produced to a high standard • the audit was facilitated by good quality working papers and prompt assistance from the finance team. <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 29 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirmed that the financial statements gave a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We also issued an unqualified VfM conclusion for 2013/14 on 29 September 2014.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we were satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

Key messages

Whole of Government Accounts (WGA)	We were not required to carry out a full review of the WGA pack as the Council fell below the threshold set by the National Audit Office (NAO). We reported that the Council's IAS19 Pensions and Property, Plant and Equipment (PPE) disclosures were consistent with the audited financial statements.
Certification of grant claims and returns	Our work on the Council's housing benefit subsidy claim is in progress and the results of the certification work will be reported in the Annual Certification Report later this year.
Audit fee	Our fee for the 2013/14 audit was £135,000, excluding VAT, which was in line with our planned fee for the year and was the same fee as in the previous year. An additional fee of £1,070 is currently being considered by the Audit Commission to account for the additional work required as part of the final accounts audit due to the Non Domestic Rates return not requiring certification in 2013/14. Further detail is included within Appendix B.

Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
1.	<p>Application of the Council's document retention policy within payroll has resulted in missing documentation relating to employees who have been in post for more than 6 years.</p> <p>Recommendation: Ensure guidance to staff is clear on the application of the document retention policy and copies of all essential documentation are retained.</p>	Medium	<p>Personnel Files are in accordance with the Councils Information Governance Retention Scheduled which has been attached. This is six years for non social care roles and twenty five years for social care roles.</p> <p>Grant Thornton have been asked for details of the sample in order that a check of these files can be undertaken to ensure compliance and will re-communicate to team members the retention policy if there is an issue. These details have been provided and the issue is being followed up by officers.</p> <p>Responsible officer: Susan Wiltshire - Service Manager HR & Payroll. Due date: Already in place</p>
2.	<p>No review of information security logs created by financial applications or Active Directory</p> <p>Recommendation: The logs relating to information security events on each system and the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>	Medium	<p>With the resources available it is not possible to proactively examine logs for security events and to investigate any potential issues, particularly given the level of expertise required to make a valid risk assessment of each event. A protective monitoring system fully compliant with CESG's Good Practice Guide 13 has been considered but the impact of diverting limited resources away from other administration activity is seen as creating the greater risk.</p> <p>Responsible officer: Bob Clark - Executive Head -Information Services Due date: Not agreed</p>

Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>The Northgate Payroll and ABS Firms systems have weak password management controls. This was first identified in our 2012/13 review and our recommendations at that time have not been implemented to date.</p> <p>Recommendation: Passwords should be a minimum of 8 characters, complex and set to renew between 30 - 60 days to ensure a robust protection against unauthorised access. The new payroll system being delivered should have robust password management embedded at implementation.</p>	Medium	<p>Payroll - We are going to re-visit the existing solution security controls especially in the light of the introduction of self service. It is anticipated that the upgrade for self service will improve security controls.</p> <p>ABS - We are pursuing two avenues here. a) the introduction of SSL and b) the introduction of single sign-on (active directory tie-in).</p> <p>Responsible officer: Bob Clark - Executive Head -Information Services Due date: 31 March 2015</p>
4.	<p>Login sessions on the network and therefore over the financially critical systems are not automatically disconnected after a period of inactivity.</p> <p>Recommendation: The active directory screensaver policy should be enabled to automatically lock the user screens after a period of inactivity after a maximum period of 15 minutes.</p>	Medium	<p>This is something we could implement to strengthen our security however most staff (to comply with IT security policy) should be locking there active session when they leave their office for meetings, etc. The issue with locking the session automatically after 15 minutes of inactivity can be annoying to our users if they are actually still at their desks working but not accessing their PC's. In this scenario we see no reason why the PC should be locked. However the security issue identified is recognised and will be referred to the Council's Senior Leadership Team with a recommendation to implement a change and I will ask PC support to look into this further and come up with other alternative recommendations.</p> <p>Responsible officer: Bob Clark - Executive Head -Information Services Due date: On-going</p>

Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
5. Page 100	<p>The Council have identified £12m of savings in 2014/15 and require a further £14m in 2015/16. Proposals have been out to consultation but detailed plans have yet to be developed.</p> <p>Recommendation: The Council needs to ensure that detailed savings plans are developed to support the required savings going forward. As part of this, a robust process for monitoring savings plans should be developed and action taken where slippage occurs.</p>	High	<p>The Mayor is to present budget reduction proposals to Council on 30 October 2014. As part of the Council's approach to prepare for the implementation of savings from April 2015, the Mayor has made his proposals 3 months earlier than in previous years. Officers and Members will continue ensure detailed proposals are finalised for the 2015/16 budget.</p> <p>All savings proposals will be monitored throughout the year and will form part of the regular quarterly budget monitoring process.</p> <p>Responsible officer: Paul Looby - Executive Head – Finance Due date: On-going</p>
6.	<p>The risk management arrangements introduced in 2012/13 are monitoring strategic risks but have yet to be embedded at an operational risk management level.</p> <p>Recommendation: The Council needs to work on embedding the new risk management process at the operational risk management level.</p>	High	<p>The next step in developing the new risk management process, is to make it an intrinsic part of planning and decision making, this will be done by incorporating risk issues into the Senior Leadership Teams (SLT) regular meetings and their associated work teams, the operational elements of the risk management process involves a wider group of employees as part of their day to day roles in maintaining the key controls that help mitigate risk to the Council. The intention therefore is to link the these day to day activities and bring more attention to addressing risks that require the attention of SLT.</p> <p>Responsible officer: Ann-Marie Bond – Head of Commercial and Business Services. Due date: On-going</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	135,000	135,000
Additional fee – Business rates*		1,070
Grant certification fee**	10,605	10,605
Total fees	145,605	146,675

Fees for other services

Service	Fees £
None	Nil

* There is additional fee of £1,070 in respect of work on material business rates balances. this additional work was necessary as auditors are no longer required to carry out work to certify NNDR3 claims. The additional fee is 50% of the average fee previously charged for NNDR3 certifications for unitary councils and is subject to agreement by the Audit Commission

** This work is on-going and the final fee will be notified in the Annual Certification Report later this year.

Reports issued

Report	Date issued
Audit Plan	June 2014
Audit Findings Report	September 2014
Certification report	December 2014
Annual Audit Letter	October 2014



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Certification report 2013/14 for Torbay Council

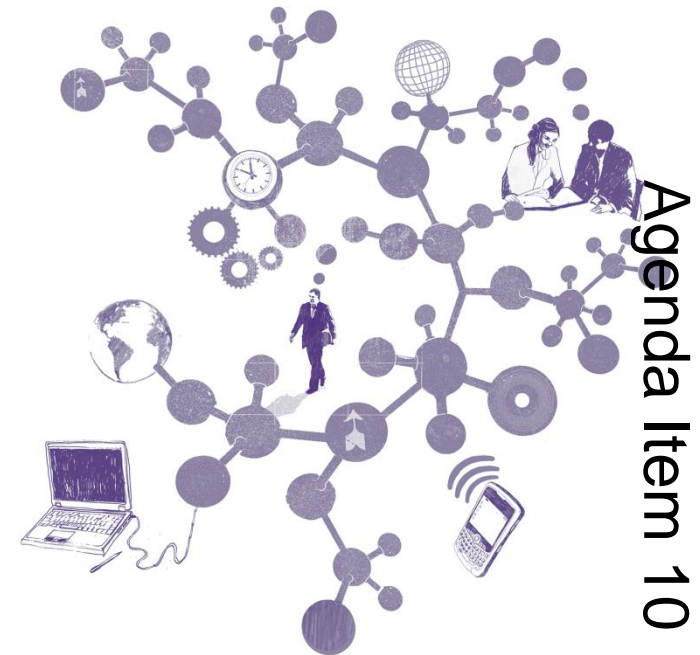
Year ended 31 March 2014

January 2015

Page 103

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Agenda Item 10

Contents

Section	Page
1. Summary of findings	3

Appendices

A Details of claims and returns certified for 2013/14	7
B Fees	8

Page 104

Section 1: Summary of findings

01. Summary of findings

Page 105

Summary of findings

Introduction

We are required to certify certain claims and returns submitted by Torbay Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified one claim for the financial year 2013/14 relating to expenditure of £68.4 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in June 2014.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	Submitted by the Council and certified by Grant Thornton by the due deadline	●
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	The housing benefit subsidy claim was subject to a qualification letter	●
Supporting working papers	There were no issues noted with the Council's working papers	●

Certification fees

The indicative certification fee set by the Audit Commission for 2013/14 for Torbay Council is based on final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix B.

The indicative certification fee for Torbay Council for 2013/14 was £10,605.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2015

Page 108
Appendices

Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim	£68,445,347	No	N/A	Yes	The claim was qualified due to a system issue, identified at a number of Civica sites, where the correct amount of benefit awarded has not been reported, in some cases resulting in an incorrect amount of subsidy being claimed on the subsidy claim form. Due to the complexity of the issue it was not possible to quantify the value or number of cases affected, which we identified in two of the twenty rent allowance cases that we tested. Therefore it was not possible to establish the net impact on the amount of subsidy claimed. Civica are working on a solution to correct the issue.

Appendix B: Fees

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	14,590	10,605	10,605	3,985	No requirement to certify council tax benefit in 2013/14

Page 110



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Protecting the Public Purse Fraud Briefing 2014

Torbay Council



Purpose of Fraud Briefing



Provide an information source to support councillors in considering their council's fraud detection activities



Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities



Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed



Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

Understanding the bar charts

Outcomes for the first measure for your council are highlighted in yellow in the bar charts. The results of your comparator authorities are shown in the green bars.



Outcomes for the second measure for your council are highlighted as a green symbols above each bar. The results of your comparator authorities are shown in the white triangles.



A '*' symbol has been used on the horizontal axis to indicate your council.

All data are drawn from council submissions on the Audit Commission's annual fraud and corruption survey for the financial year 2013/14.

In some cases, council report they have detected fraud and do not report the number of cases and/or the value. For the purposes of this fraud briefing these 'Not Recorded' records are shown as Nil.

Interpreting fraud detection results



Contextual and comparative information needed to interpret results



Detected fraud is indicative, not definitive, of counter fraud performance (*Prevention and deterrence should not be overlooked*)



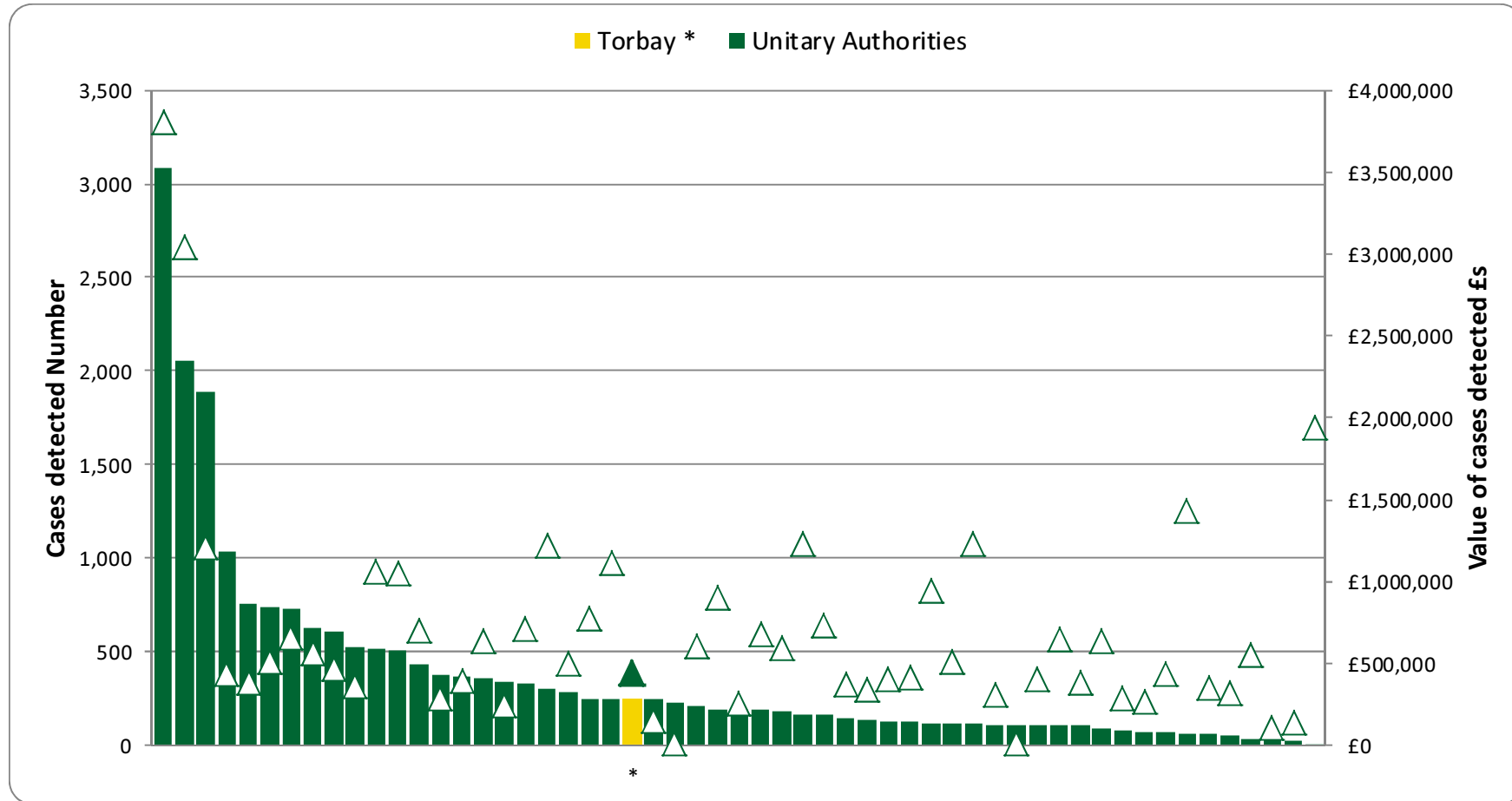
No fraud detected does not mean no fraud committed (*Fraud will always be attempted and even with the best prevention measures some will succeed*)



Councils who look for fraud, and look in the right way, will find fraud (*There is no such thing as a small fraud, just a fraud that has been detected early*)

Total detected cases and value 2013/14 (Excludes Housing tenancy fraud)

Torbay

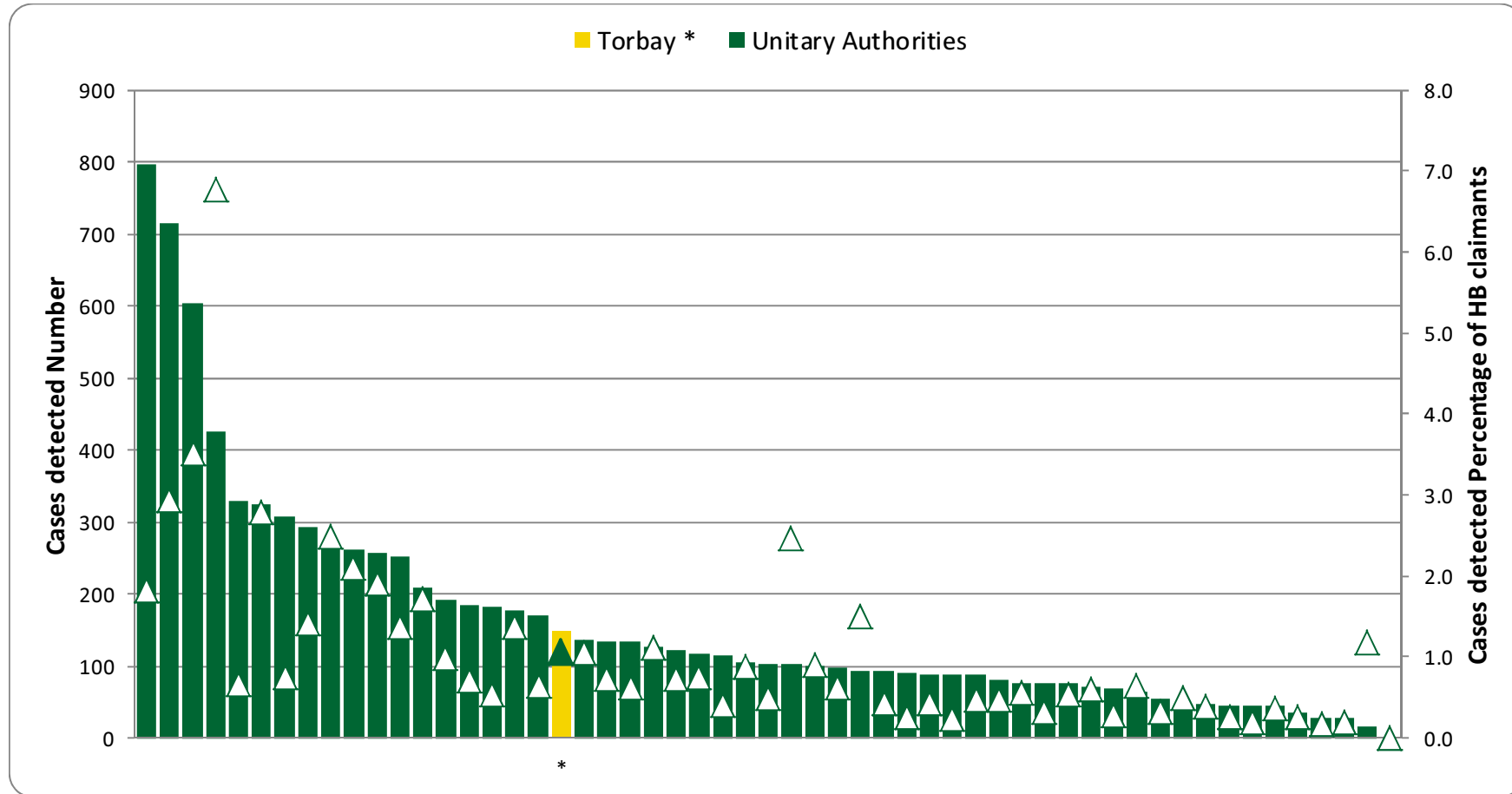


Torbay detected 245 cases #. The value of detected fraud was £431,522 #.
Average for other Unitary Authorities: 372 cases, valued at £698,808

Housing Benefit (HB) and Council Tax Benefit (CTB) 2013/14

Total detected cases, and as a proportion of housing benefit caseload

Torbay



Torbay detected 148 cases of this type of fraud. The value of detected fraud was £360,682.

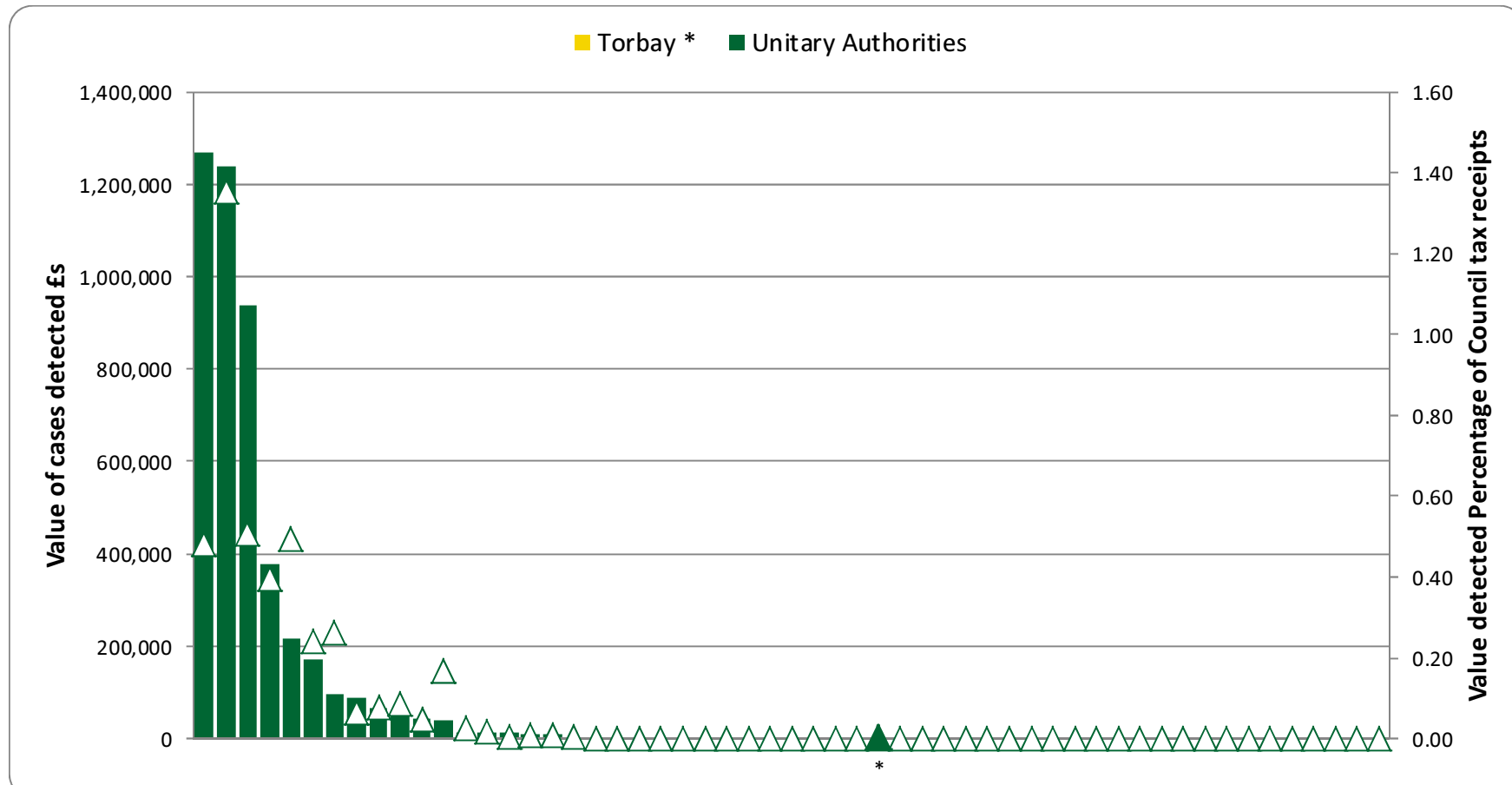
Average for other Unitary Authorities: 163 cases, valued at £548,579



Council tax discount fraud 2013/14

Total detected value, and value as a proportion of council tax income

Torbay



Torbay detected cases of this fraud but did not report the number.
 Average for other Unitary Authorities: 173 cases, valued at £86,424



Councils without housing stock 2013/14

Housing tenancy fraud

4 per cent of social housing stock in London and 2 per cent outside London is subject to tenancy fraud

Second largest fraud loss to local government, £845 million

The Prevention of Social Housing Fraud Act 2013: criminalises tenancy fraud

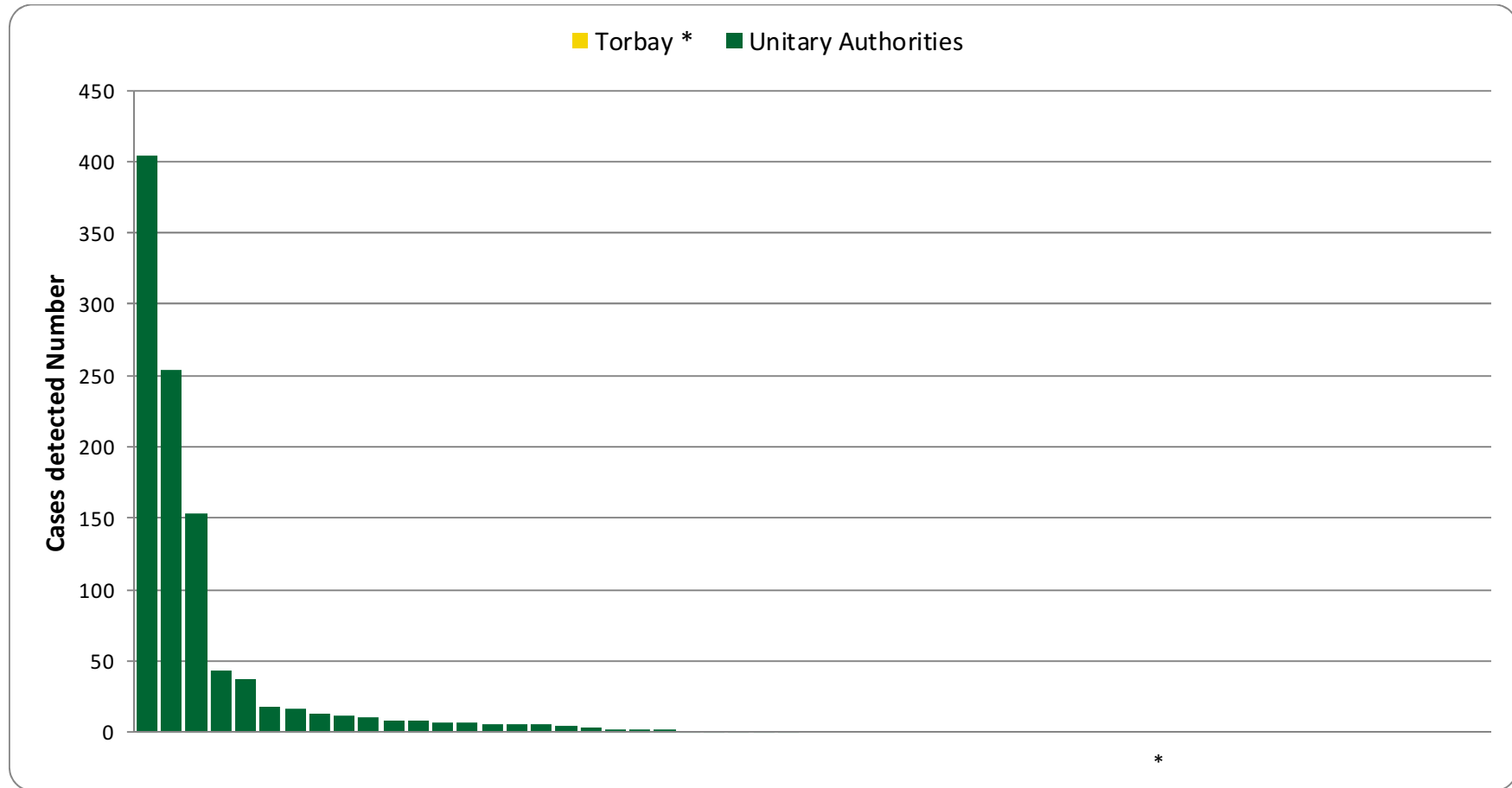
Combined with housing associations the total loss in England, £1.8 billion

Councils have powers to investigate and prosecute tenancy fraudsters on behalf of housing associations

Should you be using this legislation and powers to work in partnership with local housing associations?

Disabled parking (Blue Badge) fraud 2013/14

Torbay



Torbay did not detect any cases of this type of fraud.
Average for other Unitary Authorities: 19 cases



Other frauds 2013/14 Torbay

Procurement: Torbay did not detect any cases of this type of fraud.
Total for other Unitary Authorities: 25 cases, valued at £832,190

Insurance: Torbay did not detect any cases of this type of fraud.
Total for other Unitary Authorities: 34 cases, valued at £988,636

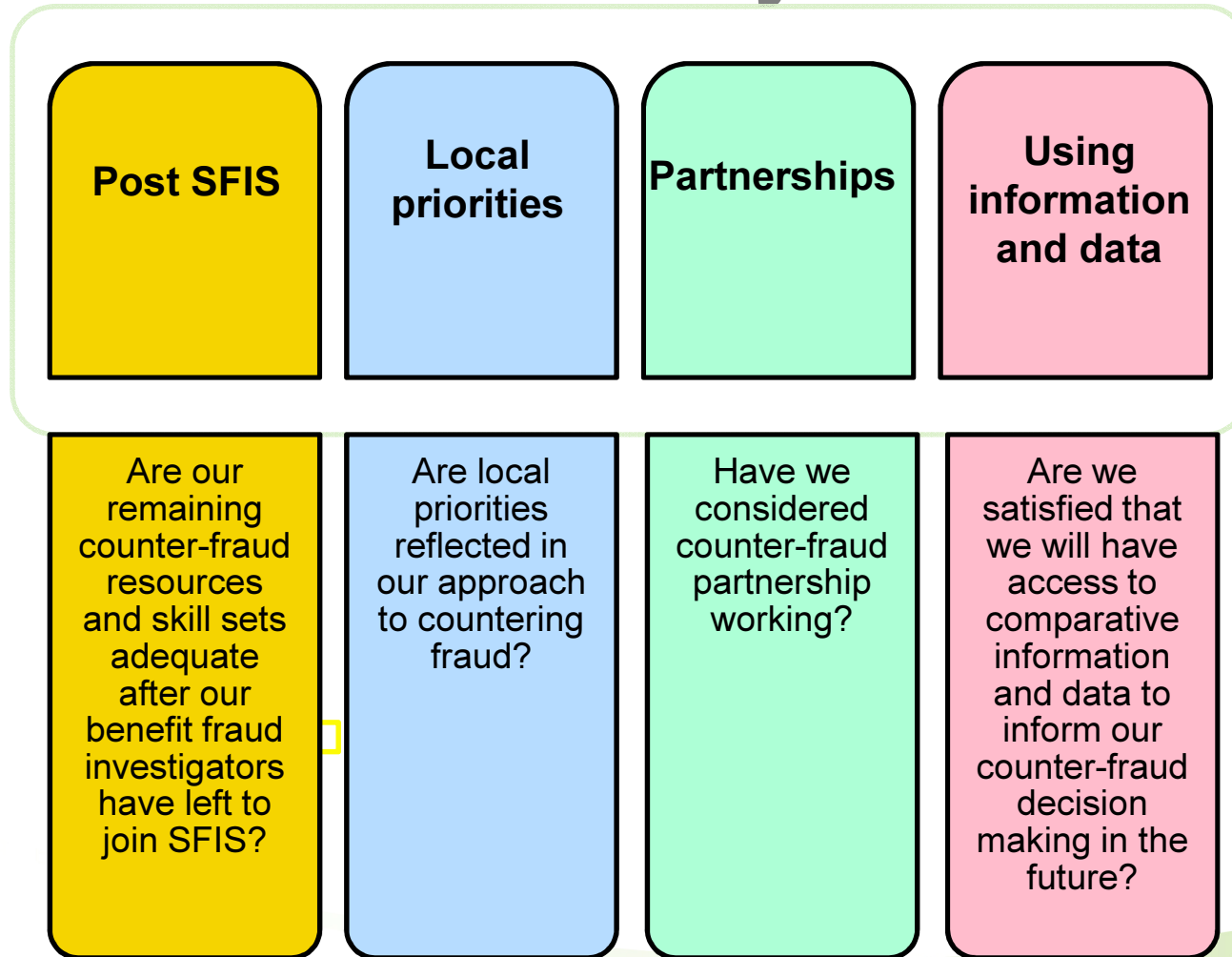
Social care: Torbay detected 1 case of this type of fraud.
Total for other Unitary Authorities: 46 cases, valued at £731,379

Internal: Torbay did not detect any cases of this type of fraud.

Total for other Unitary Authorities: 315 cases, valued at £1,016,698

*Correctly recording fraud levels is a central element in assessing fraud risk.
It is best practice to record the financial value of each detected case*

Questions elected members and decision makers may wish to ask



Any questions?



Agenda Item 12

Audit South West

Internal Audit, Counter Fraud and Consultancy Services



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Newcourt House
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Devon
EX2 7JU

Mr P. Looby, Executive Head – Financial Services
Mrs C. Taylor, Director of Adult Social Care
Torbay Council
Town Hall
Castle Circus
Torquay TQ1 3DS

Sent via Email to paul.looby@torbay.gov.uk and caroline.taylor@torbay.gov.uk

20th August 2014
Our ref: JM/VP

Dear Mr Looby and Mrs Taylor

Introduction

The following statement of assurance is provided by the Director of Audit of Audit South West, the provider of Internal Audit, Counter Fraud and Consultancy Services to Torbay and Southern Devon Health and Care NHS Trust for audits in relation to the April 2013 to March 2014 internal audit plan.

The provision of Adult Social Care services is the responsibility of Torbay and Southern Devon Health and Care NHS Trust under the arrangements specified within the original Partnership Agreement between Torbay Council and Torbay Care Trust, established in 2005.

This statement has been compiled to meet the assurance needs of Torbay Council, as the accountable body for the provision of Adult Social Care services.

This assurance statement consists of the following elements:

- Overall Assurance Statement;
- Counter Fraud Service Assurance Statement;
- Third Party Assurances:
 - ISAE 3402 report in respect of Shared Business Services (SBS).
 - ISAE 3402 report in respect of IT General Controls in respect of the Electronic Staff Record (ESR); and
- Appendix A – schedule of relevant final Internal Audit reports.

Overall Assurance Statement

1. The annual audit plan for Torbay and Southern Devon Health and Care NHS Trust for 2013/14, as approved by the Audit and Assurance Committee in March 2013, included a number of audit areas specific to the provision of adult social care and the systems and processes used in delivering, monitoring and accounting for the service. The adult social care audits and associated systems covered within the annual audit plan for 2013/14 are listed at Appendix A.

2. We have reviewed, evaluated and tested the Trust's control systems in accordance with the agreed annual audit plan for 2013/14 and have reported the outcome of all audit work and the progress against the annual audit plan to the Trust's Audit and Assurance Committee regularly throughout the year. All internal audit work has been conducted in line with the requirements of the Public Sector Internal Audit Standards.
3. All internal audit work has been reviewed by senior staff and reports have been issued to operational management on matters of good practice and issues for further action. Management has responded positively to audit recommendations. Each recommendation is subject to a follow-up process as action dates become due, and the status of outstanding actions are reported to the Trust's Audit and Assurance Committee.
4. Torbay and Southern Devon Health and Care NHS Trust's annual audit plan for 2013/14 included specific assurance, risk and corporate governance reviews, which provide a background and framework within which we are able to assess the Trust's control environment. These reviews have informed the Head of Internal Audit Opinion on the Trust's system of internal control. The Head of Internal Audit Opinion provided for 2013/14 was "significant assurance", in line with the Department of Health definitions below.

This opinion statement was presented to the Audit and Assurance Committee on 2 June 2014.

Full Assurance	Full assurance can be given that there is a sound system of internal control which is designed to meet the organisation's objectives and that controls are being consistently applied in all the areas reviewed.
Significant Assurance	Significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls, put the achievement of particular objectives at risk.
Limited Assurance	Limited assurance can be given as weaknesses in the design, and/or inconsistent application of controls, put the achievement of the organisation's objectives at risk in a number of the areas reviewed.
No Assurance	No assurance can be given as weaknesses in control, and/or consistent non-compliance with controls, could result/ has resulted in failure to achieve the organisation's objectives in the areas reviewed.

Counter Fraud Service Assurance Statement

The Counter Fraud Service's main aims for the Trust in 2013/14 year were to:

- enhance the anti-fraud culture by engaging with Trust staff to increase their awareness of fraud risks;
- work with the Trust to identify, manage and mitigate the risk of fraud; and
- maximise the work on prevention, deterrence and detection of fraud through policy and procedure reviews and local proactive exercises.

Details of achievement of these objectives have been provided throughout the year in reports to Trust's Audit and Assurance Committee, in summary:

- the anti-fraud culture work continued through planned presentations, training courses and update sessions as well as newsletters and posters;

- reviews of local policies and local proactive exercises were carried out in known risk areas and improvements to systems and policies have been implemented; and
- counter fraud update reports were presented to the Audit & Assurance Committee meetings held in 2013/14 confirming the work undertaken and highlighting any emerging risks and issues.

All formal referrals received (even where no fraud is proven) resulted in a report being produced by the Local Counter Fraud Specialist and where relevant these reports contained recommendations to strengthen areas of weakness highlighted by the investigation process.

Third Party Assurances

ISAE3402 Third Party Assurance report in respect of Shared Business Services (SBS)

The Trust purchases a range of financial support services, including its Oracle General Ledger system from Shared Business Services Ltd. An established routine is in place whereby third party assurance is provided within an Independent Service Auditor's ISAE 3402 third party assurance report, which informs the Trust's Annual Governance Statement.

We are satisfied that the 2013/14 Independent Service Auditor's report provided by Grant Thornton, dated 17th April 2014, provides sound assurance in respect of the services provided by NHS Shared Business Services which supports the Trust's Annual Governance Statement.

The key messages in the overall audit opinion Section I Report of Independent Service Auditor are as follows:

- The accompanying process description in the report **fairly presents** the core services provided to Clients throughout the period 1 April 2013 to 31 March 2014.
- The controls related to the control objectives stated in the description were **suitably designed to provide reasonable assurance that the control objectives would be achieved** if the controls operated effectively throughout the period 1 April 2013 to 31 March 2014.
- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period 1 April 2013 to 31 March 2014.

Detailed testing identified one minor area where control was either not designed or operating efficiently, however this did not adversely impact upon the overall control environment.

ISAE3402 Third Party Assurance report in respect of IT General Controls in respect of the Electronic Staff Record (ESR)

In common with all NHS bodies, the Trust utilises the Electronic Staff Record (ESR) for its HR functions. An established routine is in place whereby third party assurance is provided annually within an Independent Service Auditor's ISAE 3402 third party assurance report, which helps to inform the Trust's Annual Governance Statement on Internal Control. This covers the IT general controls operated by McKesson UK in relation to the ESR.

We are satisfied that the 2013/14 Independent Service Auditor's report provided by PricewaterhouseCoopers, dated 30th April 2014, provides reasonable assurance in respect of the IT general controls operated by McKesson UK in relation to the national

Electronic Staff Record. This supports the organisation's Annual Governance Statement.

The audit work conducted by PricewaterhouseCoopers covered the following six areas:

- Change Management;
- Logical Security;
- Problem Management and Performance and Capacity Planning;
- Physical Security and Environmental Controls;
- Computer Operations; and
- Payslip Distribution.

The key messages in the overall audit opinion of the Report of Independent Service Auditor are as follows:

- The accompanying process description **fairly presents** the ESR service that had been designed and implemented throughout the period 1 April 2013 to 31 March 2014.
- The IT general controls related to the control objectives stated in the description were **suitably designed** throughout the period 1 April 2013 to 31 March 2014.
- The controls tested, which were those necessary to provide reasonable assurance that the IT general control objectives stated in the description were achieved, operated effectively throughout the period 1 April 2013 to 31 March 2014.

The overall conclusion from their audit opinion was that for the period 1 April 2013 to 31 March 2014, the control environment and IT general controls for the ESR service were suitably designed and effective in helping to achieve objectives in relation to the areas above. Detailed testing identified a small number of areas where controls were either not designed or operating efficiently, however these did not adversely impact upon the overall control environment as appropriate mitigating controls were in place for all but one of the controls and this control was not regarded as a key control.



Jenny McCall
Director of Audit
Audit South West

APPENDIX A

Table of Relevant Final Internal Audit Reports

Financial Management
Budgetary Control including Continuous Improvement Programme
Local Financial Systems including Ledger to Board Reporting
Debt Management
General Corporate Assurance
Risk Management
Assurance Framework
Continuing Healthcare
Care Quality Commission
Information Governance
Local Handling of Safety Incidents
Data Quality
Estates Governance
Mandatory Training
Sickness Absence Management
Supervision – Clinical Reflection; Social Care Supervision; and Child Protection Supervision
Hollacombe CRC – Review
South Hams and Ivybridge Zone Review
Complaints
ICO Transition Programme Board – Phase 1
Use of Bank & Agency
Performance Reporting