



Tuesday, 12 January 2016

AUDIT COMMITTEE

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

Wednesday, 20 January 2016

commencing at **2.00 pm**

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

Members of the Committee

Councillor Tyerman (Chairman)

Councillor Bent

Councillor O'Dwyer (Vice-Chair)

Councillor Robson

Councillor Stocks

Councillor Stringer

A prosperous and healthy Torbay

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 4 - 13)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 29 July 2015 and 23 September 2015.
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 2016/17 (incorporating the Annual Investment Strategy 2016/17 and the Minimum Revenue Provision Policy 2016/17)** (Pages 14 - 42)
To consider a report that outlines the Treasury Management Strategy.
6. **Internal Audit - Half Year Report 2015/16** (Pages 43 - 80)
To consider a report that enables Members to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit in accordance with the Audit Committee's Terms of Reference.

7. **Certification Work for Torbay Council for Year Ended 31 March 2015** (Pages 81 - 84)
To note the above.
8. **Audit Committee Update for Torbay Council** (Pages 85 - 99)
To consider a report that details progress on delivering Grant Thornton's responsibilities as the Council's external auditors.
9. **Performance and Risk** (Page 100)
To consider a report on the above.



Minutes of the Audit Committee

29 July 2015

-: Present :-

Councillors Bent, O'Dwyer, Robson, Tyerman and Stocks

1. Election of Chairman/woman

Councillor Tyerman was elected as Chairman for the 2015/2016 Municipal Year.

(Councillor Tyerman in the chair)

2. Apologies

An apology for absence was received from Councillor Stockman.

It was reported that, in accordance with the wishes of the Liberal Democrat Group, the membership of the Committee had been amended for this meeting by including Councillor Stocks instead of Councillor Darling.

3. Minutes

The Minutes of the meeting of the Audit Committee held on 18 March 2015 were confirmed as a correct record and signed by the Chairman.

4. Appointment of Vice-Chairman/woman

Councillor O'Dwyer was appointed Vice-Chairman of the Audit Committee for the 2015/2016 Municipal Year.

5. Audit Committee Terms of Reference

Members of the Committee requested the Terms of Reference be updated to reflect the Committee's responsibilities in respect of Treasury Management and Regulation of Investigatory Powers Act 2000 (RIPA). Members were advised technical amendments to the Constitution could be made by the Monitoring Officer in consultation with the Group Leaders.

Resolved:

That the Chief Finance Officer in consultation with the Chairman be authorised to propose amendments to the Audit Committee Terms of Reference for the Monitoring Officer and Group Leaders to consider.

6. Torbay Council Audit Findings Report 2014/15

Members noted a report that highlighted key matters arising from Grant Thornton's audit of the Council's financial statements for the year ending 15 March 2015. As the Council's external auditors Grant Thornton are required to provide their opinion on whether the Council's financial statements present a true and fair view of the financial position, expenditure and income for the year and whether the financial statements have been made in accordance with the CIPFA Code of Practice on Local Authority Accounting. Members were also informed that Grant Thornton were also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Members were advised that Torbay would be one of the first local authorities in the South West to receive an opinion of their financial statements. Mark Bartlett of Grant Thornton advised that the draft accounts were produced to a good standard, the audit was facilitated by good supporting working papers and excellent assistance from the finance team. Grant Thornton had not identified any adjustments affecting the Council's reported financial position and as such was able to anticipate providing an unqualified opinion in respect of the financial statements.

7. Statement of Accounts and Annual Governance Statement 2014/15

Members were advised that the Accounts and Audit Regulations 2011 require approval of the Council's Statement of Accounts and Annual Governance Statement for the year ended 31 March 2015 by a Committee of the Council before 31 September 2015.

Members paid particular attention to the pension liability (as set out in the table at Appendix 1 under heading 'Material Assets or Liabilities acquired – Assets'). Members sought clarification on the criteria that would enable a scheme to be placed in the 'other scheme' category as this totalled £13.4 million. In response the Chief Finance Officer agreed to circulate the criteria and provide a web link to the most recent capital outturn report.

Members proceeded to consider the Annual Governance Statement (AGS). The Assistant Director for Corporate and Business Services advised the Committee that the AGS had been compiled using a new format as the previous AGS did not make reference to the Code of Corporate Governance. Taking account of the Code of Corporate Governance, this had resulted in a change of emphasis with the AGS becoming a document that evolves and is built upon throughout the year rather than written in hindsight.

Members requested a separate statement regarding the Audit Committee holding the Mayor and executive to account from the Overview and Scrutiny Board, to enable the Audit Committee to undertake investigations in order to seek assurance that the appropriate controls are in place.

Resolved:

- i) that the Audit Committee reviewed the accounts including the significant accounting policies and considered the External Auditor's report and opinion on the accounts:
- ii) that the Assistant Director of Corporate and Business Services be authorised to correct typing errors and amend the following statement:

'The Audit Committee and Overview and Scrutiny Board have met throughout the year to hold the Mayor and executive to account and therefore provide assurance.'
- iii) that subject to the amendments in ii) above the Annual Governance Statement as set out in pages 98 to 110 of Appendix 2 to the report be approved;
- iv) that the Council's Statement of Accounts for 2014/15, as set out in pages 14 to 97 of Appendix 2 to the report be approved;
- v) 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' shown on page 16 of the Statement of Accounts;
- vi) that the Letter of Representation to Grant Thornton from the Council in relation to the 2014/15 Statement of Accounts, as set out in Appendix 1 to the report be approved; and
- vii) that the Chief Finance Officer establish a schedule of training on the Statement of Accounts, including a workshop when the accounts are in draft form, for Members of the Audit Committee.

8. Treasury Management Outturn 2014/15

The Committee considered a report that informed Members of the performance of the Treasury Management function in supporting the provision of Council services in 2014/15 through management of cash flow, debt and investment operations and the effective control of the associated risks.

The Chief Finance Officer advised Members that a briefing had been arranged for September. Several advisors on investment methods would be present in order for Members and Officers to consider different investment approaches with a report then being presented to the Audit Committee on 23 September 2015.

9. Annual Audit Report 2014/15

Members were advised that the Audit Committee, under its Terms of Reference, was required to consider the Chief Internal Auditor's Annual Report, in order to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Chief Internal Auditor informed Members that Internal Audit had not identified any fundamental weaknesses with only 14 areas 'requiring improvements' during 2014/15 – overall a reasonably positive report given the changes that the authority had undergone.

Members queried why some partner organisations were not required to have an internal audit function. Members were advised should they require assurance on partners governance arrangements, the contracts would need to specify such a requirement. Members requested future contracts include arrangements to require independent assurance from the contractor or retain the right for the Council's internal audit team to undertake an examination and evaluation of the governance arrangements.

Members noted that a significant amount of work on Children Services had been deferred due to the changes that were being implemented. Members were advised that the issue had been raised with the Senior Leadership Team and the Chief Internal Auditor had been reassured that a plan would be in place in order for Internal Audit to review the processes. Members were further informed that the Internal Audit Team had been asked to undertake a review on the Children Services 7 year plan.

Members sought reassurance that the savings plan was being monitored adequately, the Assistant Director of Corporate and Business Services agreed to forward the budget tracker to the Chief Internal Auditor for him to assess whether there would be any added value to include in internal audit reports.

10. Regulation of Investigatory Powers Act 2000

Members considered a report that reminded Members of the amendments to the guidance on the use of RIPA and the 2014 inspection recommendations.

Members acknowledged that the Council had not undertaken a RIPA authorisation since 2008 and requested future updates include information on investigation powers that were below the RIPA level in order for the Council's use of RIPA to be put into context.

Resolved:

- i) that the Audit Committee receives quarterly reports from the RIPA Co-ordinator on the use of RIPA within the Council; and
- ii) that the proposed actions to be taken by the RIPA Co-ordinator in response to the Office of the Surveillance Commissioner's inspection of the Council's RIPA procedures and their recommendations as set out in paragraph 4.15 of the submitted report be noted.

11. Performance and Risk Framework

Members noted the report and were informed that despite the withdrawal of the Corporate Plan officers were continuing to work towards delivery plans along the lines of the themes contained within the plan. Members were advised that a managers working group would be set up in order to review and challenge risks and mitigation. The group would also provide service level managers the opportunity to feed into the strategic risks encouraging greater ownership.

Members welcomed the update and requested the risk dashboards be populated in line with the themes set out in the draft Corporate Plan – plan on a page.

Chairman/woman



Minutes of the Audit Committee

23 September 2015

-: Present :-

Councillor Tyerman (Chairman)

Councillors Bent, Robson, Stocks and Stringer

12. Apologies

An apology for absence was received from Councillor O'Dwyer and Alex Walling.

13. Minutes

The Minutes were deferred to a future meeting.

14. The Annual Audit Letter for Torbay Council

Members noted the 2015/2016 Audit Fee Letter which set out the scale of fee's which were determined by the Audit Commission.

15. Audit Committee Update for Torbay Council

Members noted the submitted report which set out the progress made by Grant Thornton in delivering their responsibilities as the Council's external auditors.

Members paid particular attention to the reports, Spreading their Wings and Welfare Reform: Easing the burden and requested that hardcopies be supplied by Grant Thornton and circulated, via the Clerk.

16. 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 the limited progress made in certain action plans meant a number of risks previously identified and highlighted to management continue to remain.

Members noted that progress in particular areas had been limited, in particular, ICT Continuity and Children's Services.

Members also noted the resourcing issues within Parking Services and the impact on the services ability to fully address the recommendations made. Members had regard to the original report being submitted in June 2014 and questioned whether it was still relevant.

Members were advised that all risks identified in the 2014 Parking Services report remain, but the recommendations may change over time. Members requested that the Executive Head for Business Services revisit the original 2014 document to ensure the recommendations are still relevant.

Members questioned that some risks were not being addressed as quickly as in previous years and questioned whether due to increasing capacity issues within service areas there was a necessity to action risks according to severity, with managers prioritising high and medium risks and having to accept that lower graded risks would not have the appropriate action plans implemented.

Members were advised that if a risk cannot be mitigated then the risk would remain and requested that as part of the reporting process an additional sub-section be added to reflect these know risks.

Resolved:

- (i) that the Executive Head for Business Services revisit the original 2014 Internal Audit Report on Parking Services to ensure the recommendations are still relevant and identify any that require modifying;
- (ii) that Service Managers identify risks that they deem to be low priority and unlikely to be actioned, which they accept as a risk. A report to be submitted to the Senior Leadership Team (SLT) with the reason the recommendation identified is unlikely to be actioned and an evaluation of the risk to the Service Area, requesting that SLT accept the risk; and
- (iii) that a Report from the Service Manager be brought to Audit Committee, if the recommendation to SLT has been agreed for acceptance of the identified risk to remain unactioned. Upon approval from the Audit Committee the identified risk will be moved to a new sub-section as part of the Internal Audit Report – Direction of Travel.

17. Treasury Management Mid-Year Review 2015/16

Members considered a report that provided a mid-year review of Treasury Management activities during the first part of 2015/16. The Treasury function aims to support the provision of all Council Services through management of the Council's cash flow and debt and investment operations.

Members noted that interest rates have remained at historically low levels with current and expected levels of borrowing rates providing no economic opportunity to make any early repayment or borrowing.

Members were advised that the new government is likely to step up the divestment of Lloyds Bank and accordingly have re-classified the Bank as a higher risk within the counterparty policy. The Principal Accountant explained that existing exposure in the Bank will be unwound naturally as deposits mature to comply with the associated lower investment limits

This re-classification will add significant additional pressure on the investment portfolio both in terms of available counterparties and the lower level of returns available.

In response to a request from the Audit Committee Meeting on the 15 January 2015 as part of the Treasury Management Strategy for 2015/16, Officers held a briefing session for all Members with presentations on Peer to Peer lending, Multi Asset Funds and Property Funds to evaluate to enable them to report on the impact of diversifying into new higher risk investments which could enhance the Council's investment portfolio.

The Audit Committee gave feedback on the briefing session and considered the positive and negative risks and benefits associated with each option.

Members noted that the Aberdeen Asset Management – Multi Asset Fund was a new fund and had no performance data available, although figures are anticipated during October. The Council's advisors, Capita Asset Services are due to meet with Aberdeen Asset Management in October, and Members resolved to delay considering this option until advice had been received from Capita Asset Services.

The Audit Committee agreed that there should be a cap set on any investment and that there should be scope for the Section 151 Officer to test that water between now and February 2016 and report back, also for the Section 151 Officer to make a revised recommendation based on the Capita Asset Services Advice.

Members noted that feedback from the Audit Committee would be reflected in the Treasury Strategy which will then go to a Policy Development Group and then Council in October 2015 for approval.

Resolved:

- (i) that the Treasury Management decisions made during 2015/16 the first part of 2015/16 as detailed in the submitted report be noted;
- (ii) that the Prudential and Treasury Indicators as set out in Appendix 2 of the submitted report be noted; and
- (iii) that the Council be recommended to vary the Annual Investment Strategy to allow diversification of the investment portfolio into higher risk investments, initially on an experimental basis, and approve investment in a combination of two or three of the following instruments;
 - peer to peer lending – with overall investment of £100,000; maximum individual loan amount of £1,000; maximum loan term of three years; and a maximum credit rating “B”;

- Multi Asset Fund pending Capita advice; and
- Property Fund.

18. Regulation of Investigatory Powers Act 2000 (RIPA)

Members considered a quarterly report from the RIPA Co-ordinator on the use of RIPA within the Council and noted that the Information Governance Lead is leaving the Council and the role will be altered. Once a new RIPA Co-ordinator has been appointed, the Audit Committee will be informed.

19. Performance and Risk Framework

Members considered a report which outlined the initial Performance and Risk Dashboards, for each of the targeted action areas which will align to the Corporate Plan, which is due to be considered at Council in September 2015.

Subject to approval, the next stage for the Corporate Plan is for the development of longer term Delivery Plans.

The Dashboards still need to be populated with data and mitigating actions and progress. Members indicated that they would like an additional line inserted to allow national benchmarking to be included.

Members were advised that a Risk and Support Group will be set up to meet in late October with a remit to challenge.

Resolved:

- (i) that the Audit Committee considered the performance indicators and risks contained within the Dashboards (as per appendix one of the submitted report) and provided feedback to the Policy, Performance and Review Manager;
- (ii) that the Audit Committee considered the draft Terms of Reference (as per appendix one of the submitted report) and provided feedback to the Policy, Performance and Review Manager;
- (iii) that a Representative from Audit Committee be invited to attend a Risk and Support Group meeting to observe; and
- (iv) that the Policy, Performance and Review Manager provide a briefing/update session for Audit Committee Members and Scrutiny Members after the first two Risk and Support Group Meetings, by mid November 2015.

20. Adult and Children Services Budget Overspend 'Deep Dive'

The Chairman advised Members of the Audit Committee that the Executive Director had requested that the Committee may wish to accept a commission to

investigate and challenge the budget overspend and decision making processes for both Adults and Children's Services as a 'Deep Dive' exercise.

This request has been made in accordance with paragraph 11 of the Audit Committee Terms of Reference. The Audit Committee could establish a Working Party or to refer the matter to the Devon Audit Partnership for internal investigation. A Working Party made up of Committee Members would be required to report its findings to the Audit Committee, and then to the Executive Director by no later than 27 November 2015.

Members requested clarification as to the proposed role of a Working Party to investigate and challenge the budget overspend and decision making processes and Devon Audit Partnership role to audit the Service areas and what the differences would be, to ascertain the appropriateness of this request.

Devon Audit Partnership advised Members that an investigation could be undertaken by a Working Party to consider the budget overspend and decision making that has already occurred in the past along with the overspend and viability of the 5 year plan. The remit of Devon Audit Partnership is to assess and review current practices and identify risks now or in the future.

Members resolved to accept the request to investigate both Adults and Children's Services and to establish a Working Party comprising of Members of the Audit Committee. Meetings will be supported by Governance Support Officers to record the outcomes and assist in the report of findings to come back to Audit Committee.

Members considered draft Terms of Reference for the Working Party.

Resolved:

- (i) To delegate to the Assistant Director – Corporate and Business Services, in consultation with the Chairman of the Audit Committee to establish a Working Party to investigate both Adult and Children's Services, comprising of 3 Members of the Audit Committee (2 Conservative, 1 Liberal Democrat) with it being acceptable for non-Audit Committee Councillors to be co-opted to the Working Party;
- (ii) To delegate to the Assistant Director – Corporate and Business Services, the Executive Director and Internal Audit, in consultation with the Chairman of the Audit Committee to finalise the Terms of Reference; and
- (iii) To delegate to the Assistant Director – Corporate and Business Services, in consultation with the Chairman of the Audit Committee to informally report findings to the Executive Director by 27 November 2015 and report findings back to Members at the January 2016 Audit Committee.

Chairman/woman

Agenda Item 5



**Meeting: Audit Committee
Adjourned Council**

**Date: 20th January 2016
11th February 2016**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2016/17 (incorporating the Annual Investment Strategy 2016/17 and the Minimum Revenue Provision Policy 2016/17)

Is the decision a key decision? No

When does the decision need to be implemented?

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. Proposal 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 2016/17 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. Reason for Proposal

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25th March 2010.
- 2.2 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.

- 2.3 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.
- 2.4 Under CLG regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.
- 2.5 At its meeting on 22nd October 2015 Council approved the diversification of a proportion of the investment portfolio into peer-to-peer lending. On review of the process and returns of the initial period the Chief Finance Officer is recommending a prudent increase to the maximum exposure limit.

3. Recommendation(s) / Proposed Decision

Audit Committee

- 3.1 **That the Treasury Management Strategy for 2016/17 set out in Appendix 1 to the submitted report be endorsed.**

Council

- 3.2 **That an increase to the maximum exposure to Peer to Peer Lending from £100,000 to £200,000 as set out within Appendix 6 of this report be approved.**
- 3.3 **That the Treasury Management Strategy for 2016/17 (incorporating the Annual Investment Strategy 2016/17) be approved;**
- 3.4 **That the Prudential and Treasury Indicators 2016/17 laid out in section 5 and Appendix 1 of the submitted report be approved;**
- 3.5 **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**
- 3.6 **That the Annual Minimum Revenue Provision Policy Statement for 2016/17 as shown in Annex 2 to the submitted report be approved.**
- 3.7 **That the Chief Finance Officer be delegated authority to revise the approved 2015/16 Minimum Revenue Policy if beneficial to the Council.**

4. Background

- 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 2016/17 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 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.
- 4.6 The proposed strategy for 2016/17 covers two main areas:

Capital issues

- Capital expenditure and the Capital Financing Requirement
- the minimum revenue provision (MRP) policy.

Treasury Management issues

- core funds and expected investment balances
- Prudential and Treasury Indicators;
- prospects for interest rates;
- Borrowing;
- 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.

5. Capital expenditure and the Capital Financing Requirement

- 5.1 The Council's capital expenditure plans are the key driver of treasury management activity and provide a guide to the borrowing need of the Council to ensure its capital spending obligations can be met. This long term cash flow management may involve arranging long or short term loans, or using long term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 5.2 The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

- 5.3 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	20.4	29.9	40.0	23.7	5.5

- 5.4 The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	20.4	29.9	40.0	23.7	5.5
Financed by:					
Capital receipts	0.1	0.9	1.8	0	0
Capital grants	13.0	14.2	20.4	11.2	4.2
Capital reserves	1.0	0.1	1.2	0.3	(0.4)
Revenue	0.8	0.9	0.2	0.1	0.1
Contributions	0.6	0.4	0.2	0	0

Net financing need for the year	4.9	13.4	18.7	9.6	1.6
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- 5.5 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

The Capital Financing Requirement

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

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

The CFR includes any other long term liabilities (e.g. PFI schemes, 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 £40M of such schemes within the estimated CFR.

The Council is asked to approve the CFR projections below:

£m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement					
Total CFR	135	174	187	191	187
Movement in CFR	(1)	39	13	4	(4)

Movement in CFR represented by					
Net financing need for the year (above)	5	44*	19	10	11
Less MRP/VRP and other financing movements	(6)	(5)	(6)	(7)	(7)
Movement in CFR	(1)	39	13	3	(4)

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

6. Minimum Revenue Provision (MRP) policy statement

- 6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 6.2 The recommended MRP Policy for 2016/17 is set out at Appendix 2 to this report.6.3 The Chief Finance Officer will be fully reviewing this MRP policy in the coming months. The review will consider alternative options, the assessment may result in proposed changes to the above 2016/17 policy. If the 2016/17 policy does need updating the amendments will be presented within the Treasury Management Mid-Year Review report in the autumn of 2016.
- 6.3 The Chief Finance Officer will be fully reviewing this MRP policy in the coming months. The review will consider alternative options, the assessment may result in proposed changes to the above 2016/17 policy. If the 2016/17 policy does need updating the amendments will be presented within the Treasury Management Mid-Year Review report in the autumn of 2016.
- 6.4 Subject to Council approval the Chief Finance Officer will also review the existing approved 2015/16 MRP policy if beneficial to the Council.

7. Core funds and expected investment balances

Year End Resources £m	2014/15 <i>Actual</i>	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Fund balances / reserves	35	29	24	20	20
Capital receipts	3	1	3	3	3
Provisions	2	2	2	2	2
Other	9	10	10	10	10
Total core funds	49	42	39	35	35
Working capital*	11	10	10	10	10

(Under)/over borrowing	11	3	(13)	(23)	(23)
Expected investments	71	55	36	22	13

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

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

8. Prudential and Treasury Indicators

- 8.1 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 2016/17 and future years are set out at Appendix1.

9. Prospects for interest rates

- 9.1 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. The following table gives their central view with a more detailed analysis provided at Appendix 3.

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

- 9.2 An economic commentary provided by Capita Asset Services is provided at Appendix 4 for information.

10. Borrowing

- 10.1 The capital expenditure plans set out in Section 5 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

- 10.2 The Council's borrowing portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2014/15	2015/16	2016/17	2017/18	2018/19
£m	Actual	Estimate	Estimate	Estimate	Estimate
External Debt					
Debt at 1 April	138	138	138	138	134
Expected change in Debt	0	0	0	(4)	(2)
Other long-term liabilities (OLTL)	8	7	39	36	34
Expected change in OLTL	(1)	32	(3)	(2)	(2)
Actual gross debt at 31 March	146	177	174	168	164
The Capital Financing Requirement	135	174	187	191	187
(Under) /over borrowing	11	3	(13)	(23)	(23)

- 10.3 In recent years the Council has been in an over-borrowed position giving rise to a key strategy aim of early repaying existing loans. The situation will reverse in 2016/17 with borrowing levels falling below the requirement and the Council utilising its cash resources (internal borrowing) to fund the balance in the short term.
- 10.4 New Capital schemes will significantly increase the internal borrowing position beyond the level the CFO believes is prudent for the Council to successfully meet its future commitments. The level of external borrowing therefore needs to increase to close the gap to the CFR and the rate forecasts in section 9 indicate the optimum timing for borrowing to be in the short term prior to expected rate rises.
- 10.5 Consequently the borrowing strategy for 2016/17 will focus on taking new borrowing of up to £10million to restrict the projected internal borrowing position to a level of around £10M and retain sufficient cash to back core funds. The CFO will

aim to borrow within a preferred maturity range of 10 to 25 years to lock into affordable rates over the life of new assets.

- 10.6 Consideration will also be given to forward refinancing of existing loans maturing in subsequent years if new rate projections forecast a significant rise in future borrowing levels.
- 10.7 The CFO will also continue to monitor for opportunities (sharp drop in rates) to reschedule existing loans with the aim of achieving revenue savings and/or reducing the average maturity structure of the debt portfolio.
- 10.8 The budget for payment of interest on debt for 2016/17, assuming new borrowing per para 10.5, is based on an overall borrowing rate of 4.34% (4.39% in 2015/16).

11. ANNUAL INVESTMENT STRATEGY

Investment policy

- 11.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice.
- 11.2 The Council's investment priorities, in line with CLG Guidance, are: -
 - the security of capital
 - the liquidity of its investments.
- 11.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- 11.4 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.
- 11.5 Appendix 5 to this report details the creditworthiness policy for selection of counterparties and management of investments to achieve the objectives of the Investment Policy.
- 11.6 A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.
- 11.7 Investment instruments identified for use in the financial year are listed at Appendix 6 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.
- 11.8 The Investment Strategy is based on current projected cash levels. If any significant changes occur to cash levels, then the Investment Strategy will need to be reviewed.

- 11.9 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

- 11.10 Investment returns are likely to remain low in 2016/17 despite forecast rises in Bank rate (see section 9).
- 11.11 Expected investment levels at section 7 are subject to increasing risk. Counterparty pressure (lack of suitable risk institutions) have eased slightly but remains a significant 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.
- 11.12 The perceived risks to the Bank Rate forecasts are to the downside (i.e. rate rises may be later than expected). This scenario justifies the continued use of longer term deposits to lock into higher rates and provide guarantee of return in the short term. A total of £12 million is currently locked out beyond 2016 and this will be increased subject to suitable opportunities and compliance with the Treasury Indicator for prudent amounts to be invested for over 364 days.
- 11.14 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 unexpected events and strategy transactions (eg repayment of loans prior to rescheduling).
- 11.16 The external 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 and the expected reduction in cash balances.
- 11.17 The interest receipts budget for 2016/17 is based on an average investment balance of £55 million and an average investment rate of 1.17% (the estimate for 2015/16 was 0.94%).
- 11.18 The CFO will continue to monitor the market for new opportunities to increase investment return and will report to Council as appropriate.
- 11.19 In October 2015 Council approved the use of peer to peer lending as a new investment vehicle and a review on the early process and returns is included at Appendix 7 to this report. The initial period has been successful but too short a time to be fully confident of the risks at this stage. The CFO is therefore recommending only a limited increase in exposure up to £200,000 for 2016/17.
- 11.20 Council further approved exposure to the Local Authorities Property Fund. Officers have delayed any investment to investigate potential new opportunities from other Funds permitted within the list of approved instruments at Appendix 6. The CFO will aim to invest £5M to £10M in such a fund during 2016/17 in line with Council approval.

12. Treasury Management Consultants

- 12.1 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.
- 12.2 The Council acknowledges that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 12.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

13. Reporting Arrangements and Management Evaluation

- 13.1 Members will receive the following reports for 2016/17 as standard in line with the requirements of the Code of Practice:
- Annual Treasury Management Strategy report (this report)
 - Mid-Year Treasury Review report
 - Annual Treasury Outturn report
- 13.2 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.
- 13.3 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.
- 13.4 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.
- 13.5 The Council's management and evaluation arrangements for Treasury Management will be as follows:
- Monthly monitoring report to the Chief Finance Officer, Executive Lead for Finance, relevant Director and Group Leaders
 - Periodic meeting of the Treasury Manager/Chief Finance Officer 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 Club
 - The Audit Committee is the body responsible for scrutiny of Treasury Management.

14. Other Matters

14.1 **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 01/04/15	Full Term of Loan	Rate
Torbay Economic Development Company*	£575,000	25 years	Linked to Council borrowing Rate
Torbay Economic Development Company*	£1,455,000	25 years	Linked to Council borrowing Rate
Academy Schools	£213,000	3 to 7 years	Linked to Council borrowing Rate
Babbacombe Cliff Railway	£13,000	10 years	Linked to Council Borrowing Rate
Housing Loans	£2,000	No new loans issued. Term linked to individual mortgages	Linked to market mortgage rates
Sports Clubs	£30,000	20 years	Linked to Council Borrowing Rate
Sports Clubs	£5,000	10 years	Linked to Council Borrowing Rate
Suttons Seeds Ltd **	£1,500,000**	3 years	Market rate
Torbay Coast & Country side Trust	£900,000	45 years	Linked to Bank Base Rate

*Not fully drawn down as at 31st December 2015

**Original advance repaid and no further drawdowns on the facility to date

The current overall rate of interest on these loans will be reported at the meeting.

14.2 **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.

14.3 **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.

- 14.4 **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.
- 14.5 **Anti-Money Laundering.** The Council will comply with all relevant regulations.
- 14.6 **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.

Appendices

Appendix 1	Prudential and Treasury Management Indicators
Appendix 2	Policy on Minimum Revenue Provision for 2016/17
Appendix 3	Interest Rate Forecasts 2016 – 2019
Appendix 4	Economic Background
Appendix 5	Creditworthiness Policy
Appendix 6	Specified and Non-specified Investments
Appendix 7	Review of Peer to Peer Lending

Background Documents

Appendix 1

Prudential & Treasury Management Indicators 2016/17 – 2018/19

Affordability prudential indicators

Section 5 of the report covers 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.

	2015/16	2016/17	2017/18	2018/19
%	Estimate	Estimate	Estimate	Estimate
Ratio	9.11	11.55	11.98	12.73

The estimates of financing costs include current commitments and the proposals in this budget report.

Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. 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.

Incremental impact of capital investment decisions on the band D council tax

%	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
Council tax - band D	0.00	1.09	0.81	0.04

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	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	148	167	170	170
Long term liabilities	40	40	38	36
Total	188	207	208	206

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	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	167	194	202	209
Other long term liabilities	40	40	38	36
Total	207	234	240	245

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 2016/17			
	Lower	Upper	Projected 31/03/2017
Up to 10 years	5%	50%	19%
10 to 20 years	5%	50%	19%
20 to 30 years	10%	60%	24%
30 to 40 years	10%	50%	27%
Over 40 years	0%	50%	11%

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 Actual	2015/16	2016/17	2017/18	2018/19
Principal sums invested > 364 days	27	51	28	16	12

Appendix 2

Policy on Minimum Revenue Provision for 2016/17

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. Central Government guidance says:

“the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.”

4. 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.
5. Torbay Council’s Annual Minimum Revenue Provision Policy Statement states that the calculation of the MRP is as follows:
 - 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 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.

For 2016/17 unsupported borrowing will be further classified as either operational or investment, based on the expected use of the underlying asset.

The MRP for each operational asset will be calculated, as in previous years, 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. 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.

The MRP for each investment asset will be calculated on the equal instalment method over the estimated life of the asset up to 50 years. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet ready for service. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes available for rent.

6. Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.
7. The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) and, if an operational asset an annuity calculation or if an investment asset an equal instalment 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.
8. 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.
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. 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).

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 linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. As this is a temporary arrangement and the expectation is that funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position will be reviewed on an annual basis.

- 12 The Chief Finance Officer will be fully reviewing this MRP policy in the coming months. The review will consider alternative options, the assessment may result in proposed changes to the above 2016/17 policy. If the 2016/17 policy does need updating the amendments will be presented within the Treasury Management Mid-Year Review report in the autumn of 2016.

Appendix 3

Interest Rate Forecasts 2016 – 2019

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective for new borrowings of the 1st November 2012.

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.60%	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

Appendix 4

Economic Background (supplied by Capita asset Services, 21/12/2015)

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame

and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 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.

Appendix 5

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, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
 - credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
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, illustrated below which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 2yrs	up to 1yr	up to 6mths	up to 100days	no colour

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. (This band is now effectively limited to the Royal Bank of Scotland Group.)
4. 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.
5. 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.

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

AAA		AA+
Australia	Netherlands	United Kingdom
Canada	Singapore	
Denmark	Sweden	
Finland	Switzerland	
Germany	USA	

6. 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.
7. 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.
8. 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.
9. 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.

Appendix 6

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 criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:

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

	* Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Creditworthiness system colour band green	In-house and Fund Manager
UK part nationalised banks	Creditworthiness system colour band blue	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	* MMF rating AAA	In-house and Fund Managers
2. Money Market Funds	* MMF rating AAA	In-house and Fund Managers
3. Enhanced Money Market Funds with a credit score of 1.25	* MMF/bond fund rating	In-house and Fund Managers
4. Enhanced Money Market Funds with a credit score of 1.5	* MMF/bond fund rating AAA	In-house and Fund Managers
5. Bond Funds	* bond fund rating AAA	In-house and Fund Managers
6. Gilt Funds	* bond fund rating AAA	In-house and Fund Managers

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 investment or % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Sovereign rating AA+	In-house and Fund Manager	50%	2 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 Manager	100%	5 years
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	£10million	5 years

Investment Type	Minimum Credit Criteria	Use	Max investment or % of total investments	Max. maturity period *
Property Fund: <i>not classified as capital expenditure</i>	--	In-house	£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
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
Peer to Peer Lending	Funding Circle rating B or equivalent	In-House	£200,000	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.

Appendix 7

Review of Peer to Peer Lending (as at 23rd December 2015)

At its meeting on 22nd October 2015 Council approved:

“that the Annual Investment Strategy be varied to allow diversification of the investment portfolio into higher risk investments, initially on an experimental basis, and approve investment in one or both of the following instruments:

- peer to peer lending – with overall investment of £100,000; maximum individual loan amount of £1,000; maximum loan term of five years; and limited to credit ratings ‘A+’, ‘A’ and ‘B’; and
- The Local Authorities Property Fund.”

In response Officers have registered the Council with Funding Circle, one of the leading peer to peer providers and to date have applied an investment sum of £60,000 (in tranches of £10,000)

Of this sum:

- £59k has been applied to active loans spread over 105 businesses
- £1k is currently bid on 2 loans yet to be applied.

The Council’s contributions represent a small element of each overall loan. Loan amounts generally range from £200 to £1000 maximum. This maximum has only been applied to secured loans such as property related loans where investors have a first charge over the assets. The proportion of secure/unsecured loans is:

Secured Loans	37%
Unsecured loans	63%

The maximum exposure to any one business is 1.7% of the overall investment.

The proportion of loans by risk rating is:

A+	75%
A	16%
B	9%

The proportion of loans by duration rating is:

Up to 1 year	19%
1 to 2 years	25%
2 to 3 years	13%
Over 5 years	43%

The **gross return** on active loans stands at **8.9%**

The expected **net yield**, after charges and assumed bad debt, is **6.8%**

Earnings to date are:

	£
Interest	215.66
Promotions	245.20
Less: charges	<u>(25.82)</u>
Net income	435.04

There have been no defaults on any Council backed loan so far.

Loan repayments are received on the month anniversary of each loan part consisting of principal and interest (interest only on property related loans), net of a fee of 1%.

Reliance is placed on the Funding Circle's evaluation of Business's and its risk ratings for loan selection. Officers have viewed individual loan requests during this experimental period but separate assessment will not be practical given the high volume of loan bids and available resources.

While loan selection will therefore be "one-click" process, the CFO has ruled that the use of the automated bidding system is not appropriate for Council funds and Officers will continue to "have sight" of each loan by manual selection.

Internal Audit

Half Year Report 2015/16

Torbay Council
Audit Committee

Page 43
November 2015

Not Protectively Marked



Auditing for achievement

Agenda Item 6

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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 government security classifications. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.</p> <p>This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon.</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 2015/16 was presented to and approved by the Audit Committee in March 2015. The following report and appendices set out the current position of the audit service provision; reviews work undertaken to date in 2015/16 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;

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- assurance statement within this report;
- completion of audit work against the plan;
- scope and ability of audit to complete the audit work;
 - progress impact against strategic aims;
 - audit coverage and findings provided;
 - 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

Overall, based on work performed during 2015/16 and our experience from the current year progress and previous years audit, the Head of Internal Audit’s Opinion is of “Significant Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.

Assurance Statement

This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement.

The Authority’s internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority’s control environment. These reviews have informed the Head of Internal Audit’s Opinion on the internal control framework.

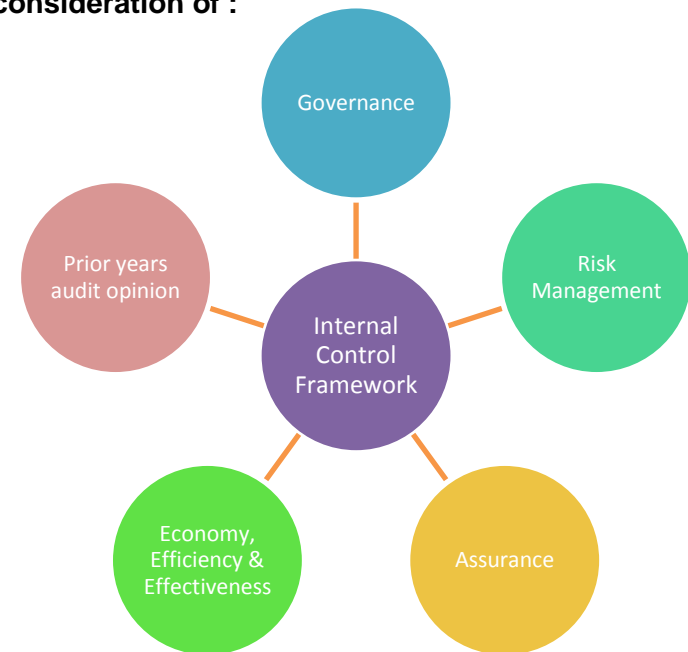
Directors have been provided with details of Internal Audit’s opinion on each audit review carried out in 2015/16. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2015/16.

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 rests with management and are reviewed during subsequent audits or as part of a specific follow-up process.

Generally, our work has not been adversely affected by planned changes during the first six months. There have been no significant changes made to plans to date, although minor alterations have been made to the Children’s Services and Innovation plan and the Adult Services plan.

The 2015/16 level of irregularity work to date is within anticipated levels and has not adversely impacted delivery of the plan. Some of our planned assurance work is necessarily scheduled for completion in the second half of the year and other work involves ongoing project support, however, we feel, based on the work completed and on previous year’s work that the framework of control remains in operation.

This statement of opinion is underpinned by our consideration of :



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

Progress Against Plan

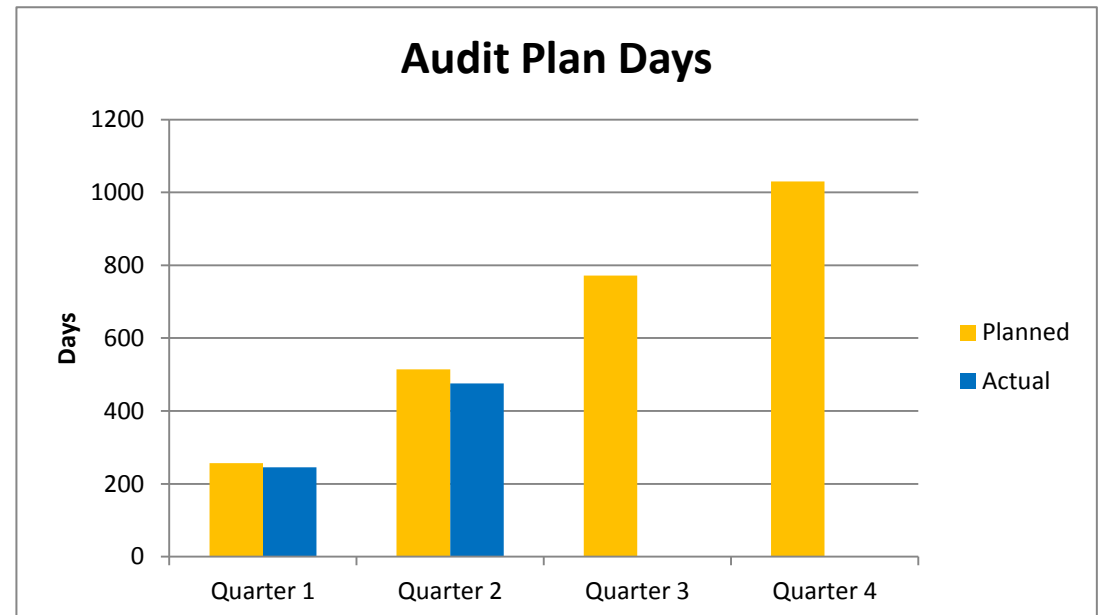
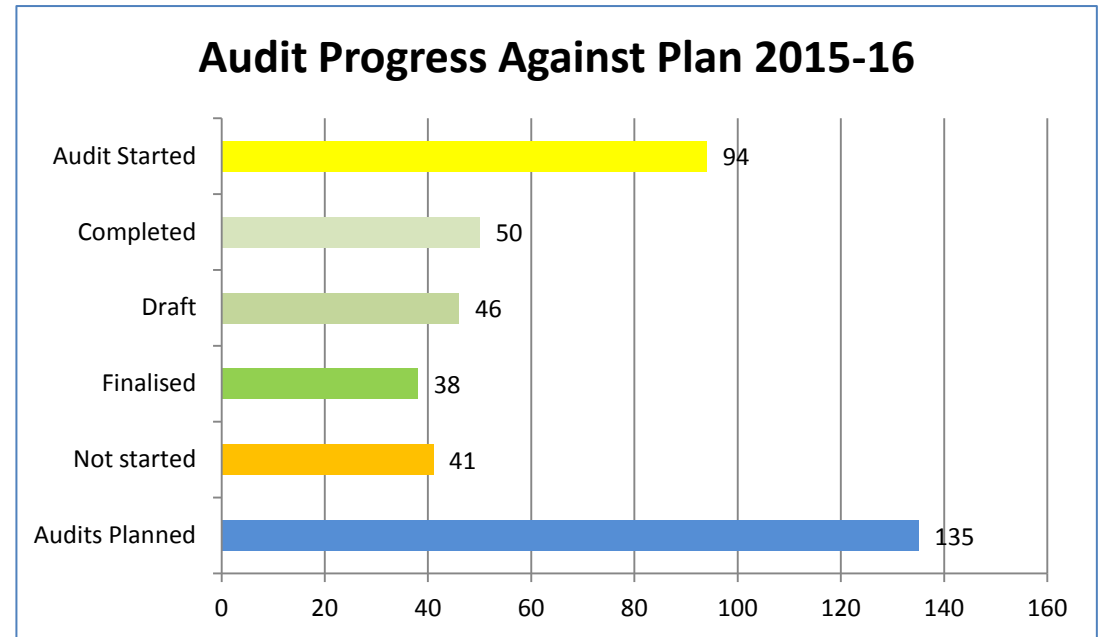
This report compares the work carried out with the work that was planned through risk assessment, presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit 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. Some of our work supports projects and hence completion will be in accordance with project timescales. The level of irregularity work has been in line with anticipated levels and the need for investigation work has not had an adverse impact on the overall completion of the plan.

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

Appendix 2 provides further performance information for the first six months of 2015/16.



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 service area highlighting developmental areas. The overall audit assurance will have to be considered in light of these positions.

Our audit plan spreads work across the financial year periods, and as a consequence assurance progress on a number of 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, robust project management and project benefits realisation, established contract and partnership management, contract and supplier monitoring frameworks, effective management of relationships with linked organisations and service users, a resilient and effective ICT infrastructure, effective demand management, innovative delivery development, and effective delivery of grant funded scheme.

Corporate and Business Services

- Material Systems work for the year is predominantly scheduled for the second half of the year, however finalisation of 2014/15 audits carried over into the current year providing a degree of rolling assurance;
- Similarly the follow up of the 2014/15 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 for the Self Service, Cheque Printing, Fair Decision Making, Risk Management integration and the new Business Improvement District projects provides some assurance regarding project management and progress, 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.

- TOR2 Commissioning / Contract Monitoring, and robust arrangements to achieve service delivery within contract fees remain to be examined;
- Procurement / Contracts, and compliance with new requirements and effective monitoring arrangements have not yet been assessed;
- Operational Arrangements and the Ethics and Culture of the Council since the reorganisation, and the adequacy and fitness of purpose have not yet been reviewed to allow time for arrangements to be developed and become embedded.

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.

Community and Customer Services

- ICT audits, all remaining ICT audits collectively integrate in ensuring a robust ICT infrastructure although previous audit work in these areas and ongoing related client liaison has ensured management awareness of audit concerns regarding existing arrangements;
- the Council's opportunity to meet organisational change is reliant on effectively linking and embedding ICT development with risk management and business continuity; issues we have previously highlighted in these areas remain and reduce the opportunity for achieving the objectives of some change directions.
- Torbay Coast and Countryside Trust, and working arrangements in relation to service delivery in accord with the Council's objectives and maintenance of elements of the natural space and Geopark on behalf of the Council;
- Housing Options, and effective arrangements to reduce homelessness and to protect the vulnerable;
- Sports Facilities, and promoting healthy lifestyles and maximising the use of facilities and the natural space;
- The majority of the material systems work is within Corporate and Business Services, however Revenues and Benefits work encompasses the material system audit reviews of certain functions; this work is predominantly scheduled for the second half of the year;
- Similarly the follow up of the 2014/15 audits this summer provided assurance regarding the direction of travel in mitigation of risks and progress in areas previously reviewed.

Children's Services and Innovation

- The follow up of the 2014/15 audits this summer provided assurance regarding the direction of travel in mitigation of risks and progress in areas previously reviewed;
- Our ongoing work in certification of Children's Services and Innovation grants, particularly in relation to the Troubled Families Programme, provides assurance in terms of conditions associated with funding being met;
- Transition from Children's to Adults, and the maintenance of care to protect the vulnerable is currently being reviewed;
- Fostering, and the achievement of 'value for money' following changes to payment arrangements is still being examined;
- Virtual School, and the achievement of education virtually for children unable to attend school has not yet been examined;
- Integrated Youth Service, and the effectiveness of new arrangements to protect vulnerable young adults and assist in achievement of their goals has not yet been reviewed to allow time for arrangements to be developed and become embedded.

Public Health

- Lifestyle Services, and public health priorities in Torbay require sound consultation to determine service requirements and service change opportunities;
- Public Health / NHS Links, and working arrangements to achieve public health objectives require effective and monitored practices to ensure attainment of service priorities.

Adult Services

Our audit completed this year provides assurance that identified risks are being minimised or mitigated where appropriate. The limited plan of work within Adult Services for 2015/16 and in previous years, and the position that various functions are provided and audited by the National Health Service (NHS) Trust Provider means that we cannot quantify the impact of audit progress on risks within the whole service area.

The Adults Social Care Commissioning Team encompasses Commissioning, Performance Management, Community Engagement, Healthwatch, Housing Strategy, Prevention and NHS Advisory Service, with services provided by the NHS Trust Provider.

The agreed audit plan will consider the following issues in the second half of the year:

- NRS Joint Equipment Store, and the achievement of 'value for money' in relation to contract monitoring and the security of assets is yet to be considered;
- Care Act Implementation and Better Care Fund, and liaison with colleagues at Audit South West regarding effective use of funding.

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.

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

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

Corporate and Business Services

- ongoing involvement in Self Service project ensuring that control issues are highlighted and resolved before implementation;
- continuing our involvement in the integration of the risk management methodology;
- using knowledge from previous audit work to assist the Council with the new Business Improvement District;
- advice to the Cheque Printing project to assist them in the removal of payment by cheque to achieve associated cost savings;
- new involvement in the project to develop the Fair Decision Making processes;
- support to Procurement in relation to changes in regulations and resulting amendment to policy and practices;
- identification of the need for grant certification for Autism Innovation and Community Capacity;
- 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.

Adult Services

- notification to the client of the requirement for certification of the Autism Innovation grant as a result of partnership working;
- inclusion of the NRS Joint Equipment Store audit in the planned work post Audit Committee plan approval as a result of a flexible audit plan approach and effective client liaison.
- the development of future years audit plans to cover new and emerging risk.

Public Health

- identifying improvement opportunity in relation to consultations linked to further Public Health commissioning reviews.

Community and Customer Services

- facilitation of ICT Continuity & Disaster Recovery integration into the Risk Management methodology;
- ongoing involvement as an advisory member of the Information Security Group;
- ongoing support to various ICT system developments, for example the harbour mooring system, corporate print project, cheque printing;
- retrospective examination of practices during the close down period of Torre Abbey for Museum Services;
- provision of risk assessments in relation to the consideration of reduction of Closed Circuit Television (CCTV) and changes to the building access control system;
- support to Safer Communities providing advice and guidance in relation to ICT elements of the ‘Prevent’ guidance.

Children’s Services and Innovation

- assistance in maintaining the impetus in management action plans to address previously identified risks through an annual and robust follow up exercise;
- provision of Children’s Services and Innovation financial and demand data to the Audit Committee;
- the development of the current years and future years audit plans to incorporate flexibility to meet changing and developing business demands and to cover existing, and new or emerging risks.

Schools

- Our support has helped all schools comply with the schools financial value standard with all schools completing their self-assessment this year.

Executive Summary - Audit findings

Corporate and Business Services

In our opinion, and based upon our audit work completed during 2015/16, '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.

Significant concerns have been raised in relation to Section 106 arrangements; the risks identified related to a lack of an overarching monitoring process which is now being considered by the organisation.

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.

We have identified opportunities for improvements in terms of the continuing project to implement Payroll / Human Resources Self Service; there remain concerns in relation to project resources and timescales whilst maintaining project impetus and 'business as usual'. Other projects are in earlier stages and we will provide support in line with organisational need.

Although improvements in policy and procedure for the employment of agency staff have been achieved, controls remain insufficient to ensure adherence to the new framework although this is now being addressed.

Other than the areas detailed above, no significant concerns have been identified from the majority of 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 2.

Key Risks / Issues

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

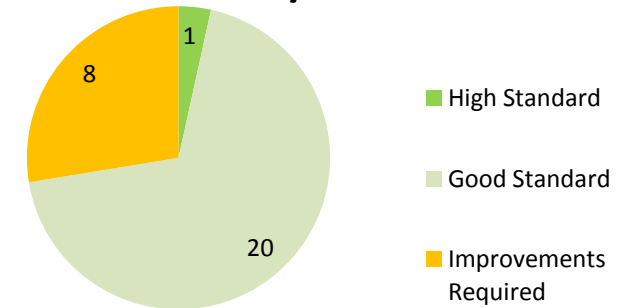
Contract and partnership management arrangements may be a risk to the ongoing provision of service by TOR2 following organisational changes.

Changes to procurement regulations provide for potential improvements to the control framework but will require careful monitoring and management.

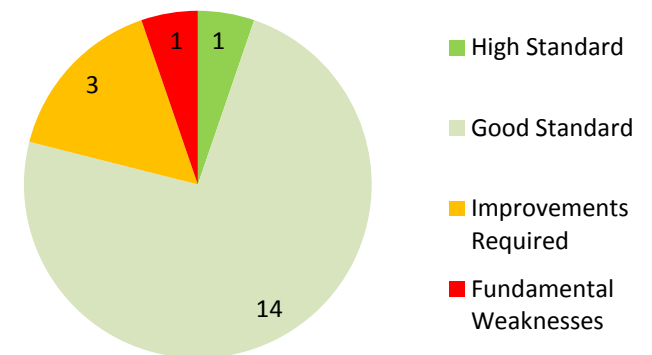
There is a risk of legal challenge and potential loss of income arising from the lack of an overarching monitoring process for Section 106 agreements.

There remains residual risk of unsafe or illegal hiring of agency staff although mitigating controls are being embedded.

Assurance Opinions Operations and Finance 2014/15



Assurance Opinions Apr - Sept 2015/16



It should be noted that the assurance opinion comparison charts above are reflective of the previous and current organisational structure and should therefore be considered as indicative only.

Community and Customer Services

In our opinion, and based upon our audit work completed during 2015/16, '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 majority of the material systems work is within Corporate and Business Services, however material system controls relevant to Community and Customer Services have either been maintained or improvements are being made to address previous identified weaknesses.

We have identified opportunities for improvements in the control and governance framework for the Museum Services and Corporate Security & CCTV. The latter is currently subject to full service review and our findings will inform this project.

We continue to provide support for ICT projects and we have maintained our ongoing involvement with the Information Security Group to assist the organisations with emerging issues affecting both information governance and ICT controls. ICT Change control arrangements require formalising and recording. In addition, we have previously identified the links between ICT Continuity & Disaster Recovery, the Risk Management methodology and Business Continuity Planning, and the need to fully integrate these areas in order to provide a robust and holistic approach to ensure business continuity and the achievement of organisational objectives. We are continuing to support the development of new practices and arrangements for an integrated approach.

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 2.

Key Risks / Issues

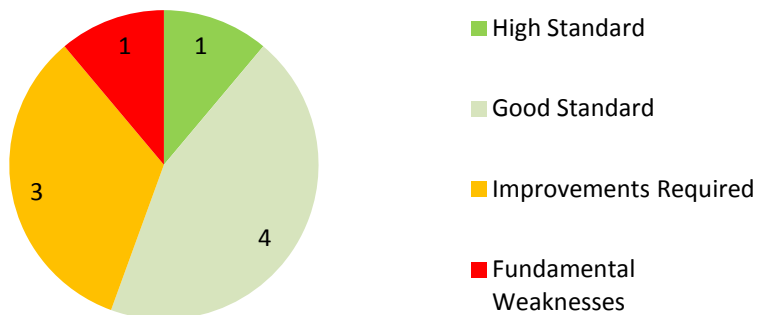
The potential loss of CCTV and changes within the security provision to the Council presents numerous risks which are being examined through a dedicated project.

The ICT Infrastructure faces significant challenges in terms of budget reduction impacts with ICT Change Control Management being key to minimising the risk of ICT change having an adverse impact on other areas of the Council.

The lack of integration of ICT Continuity & Disaster Recovery into Risk Management remains but is being progressed through a working party.

The change of structure in relation to information governance and information compliance presents a potential risk of non-compliance during the bedding in period.

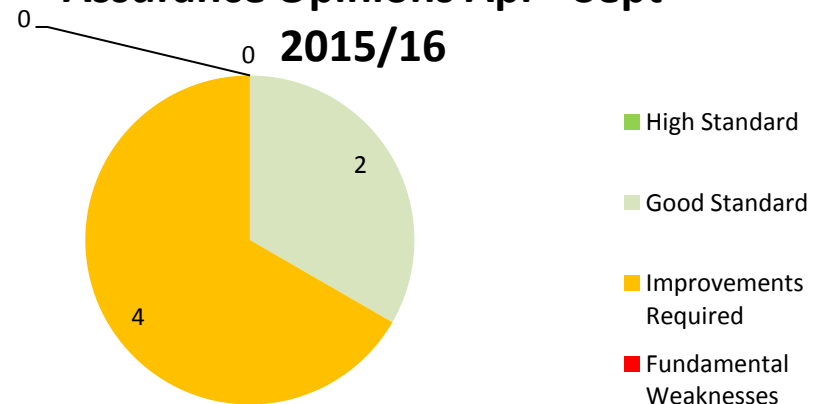
Assurance Opinions Place 2014/15



It should be noted that the assurance opinion comparison charts are reflective of the previous and current organisational structure and should therefore be considered as indicative only.

8

Assurance Opinions Apr - Sept 2015/16



Children’s Services and Innovation

We are unable to provide an opinion at this time due to the majority of work in Children’s Services in the last two years being deferred until future years. We can, however, comment that based upon our audit work completed during 2015/16 and based on earlier year’s work that the 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.

Our work has involved examination of Admissions in Place Planning and Pupil Referral Panel and certification of grant in relation to Early Years. As detailed in Appendix 1, we were able to provide an overall audit opinion of ‘High Standard’ in relation to these functions and the grant was certified without any issues being identified. Our work in relation to Schools Places Planning reported in the Corporate and Business Services report is still currently in progress.

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.

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 2.

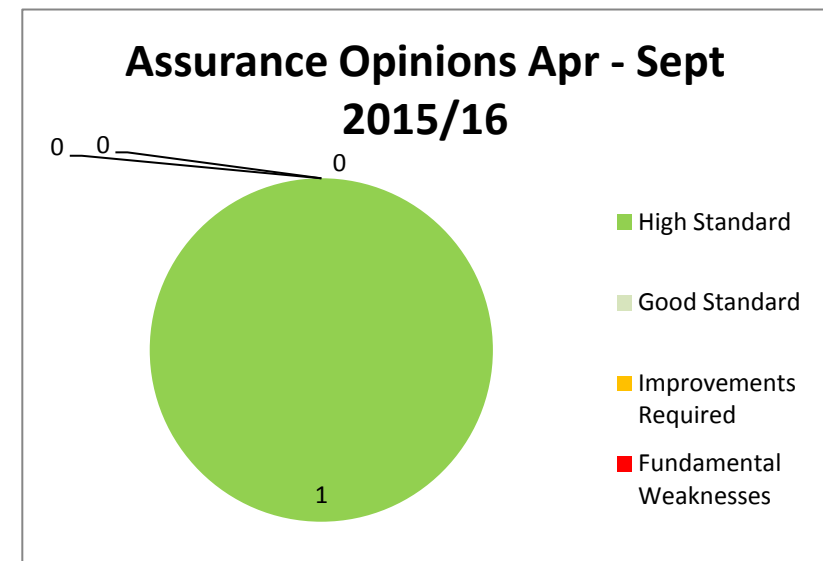
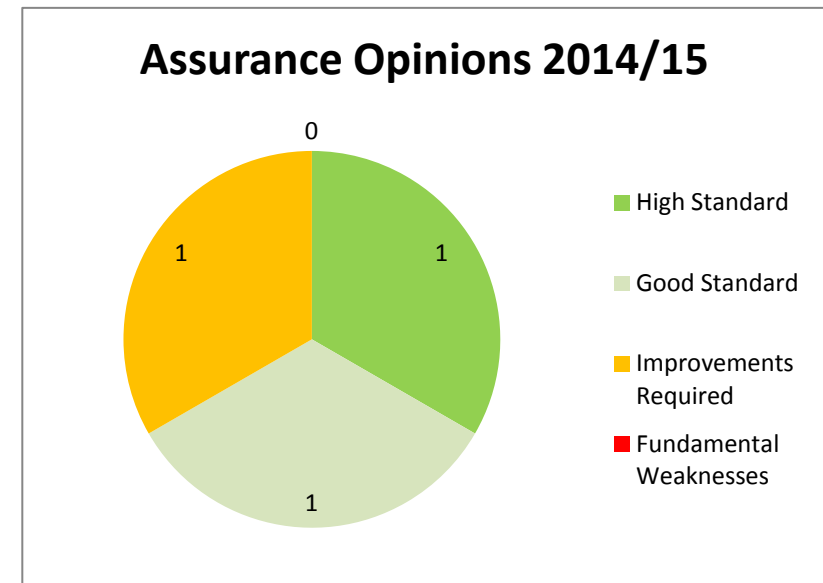
Key Risks / Issues

Risks inevitably exist in the delivery of a service area such as Children’s Services and Innovation, and issues have previously been reported in relation to contract management, performance monitoring and the formalisation of plans and strategy linked to changed practice and budget.

Children’s safeguarding is an identified risk within the organisation’s risk management framework; the risk management methodology is currently being integrated into operational practices and business continuity arrangements of the Council.

The delivery of the financial recovery plan for Children’s Services and Innovation remains a risk; we have been commissioned by the Audit Committee to provide data comparing demand and spend to facilitate their review and challenge of the plan.

Achieving financial savings required at this time of austerity whilst maintaining ‘business as usual’ and the care, education and safeguarding of children presents a risk to the Council.



Public Health

In our opinion, and based upon our audit work completed during 2015/16, 'audit partner support' and as trusted advisor 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.

Our work includes working with management to finalise the audit report and action plan for the Lifestyle Services review. As detailed in Appendix 1, we are currently working with Public Health colleagues to agree the report in relation to this area and management have provided valuable feedback to our work which may result in changes to our initial draft report; the outcomes of this will be reported in our annual monitoring report.

Management have responded positively to any recommendations for improvement in our previous work and are actively engaged in agreeing our current work. The Appendix 1 details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix 2.

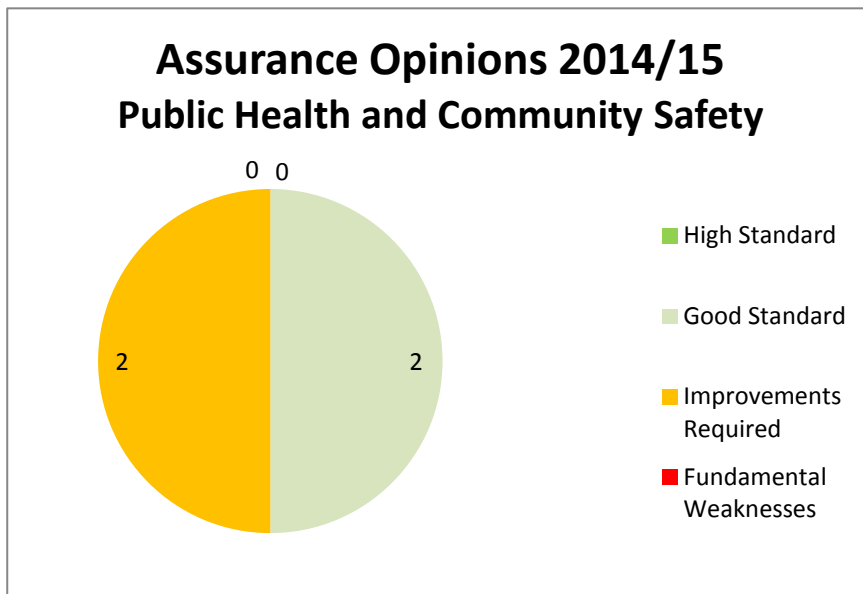
It should be noted that the assurance opinion comparison charts opposite are reflective of the previous and current organisational structure and should therefore be considered as indicative only.

Key Risks / Issues

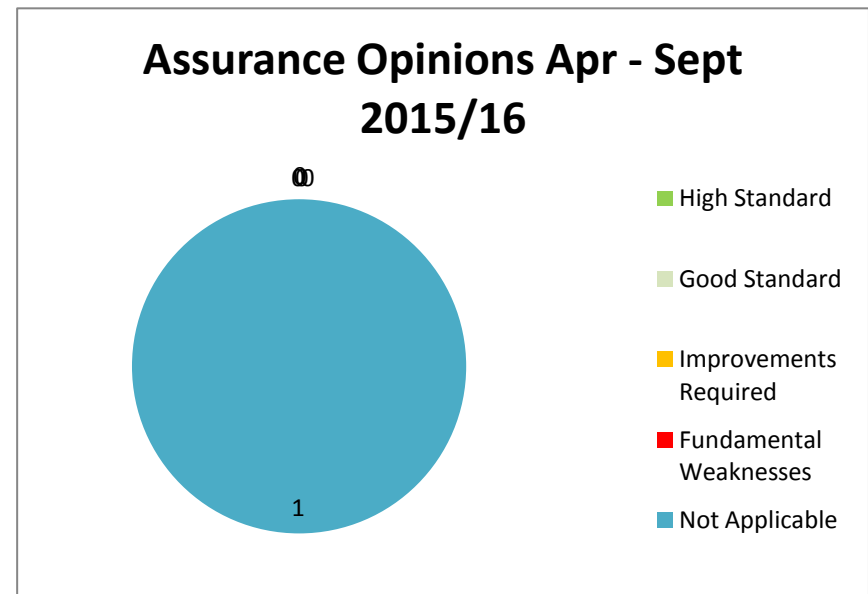
Risks inevitably exist when delivering a service area such as Public Health, and issues have previously been reported in relation to workforce planning, information governance, emergency planning and preventative work.

Consultation processes represent a risk to future service delivery if they are not sufficiently robust; we will be finalising our reporting to management in relation to any identified improvements areas in relation to Lifestyle Service Reviews Consultations.

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It should be noted that the assurance opinion comparison charts are reflective of the previous and current organisational structure and should therefore be considered as indicative only.



Adult Services

We are unable to provide an overall opinion at this time due to the limited work that we undertake within this directorate area.

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

Assurance over arrangements for adult social care is mainly provided by colleagues at Audit South West, the internal audit provider for Health services. Audit South West provides a separate letter of assurance to the Director of Adult Services and the Council's S151 Officer. Devon Audit Partnership provides support and internal audit input on key areas as agreed with the Director of Adult Services. We are working with Audit South West, and colleagues at the Trust, to ensure that the assurance requirements of the Council can be effectively met, which will involve the Council having greater input into the audit planning process for next year.

Our work to date has involved certification of the Autism Innovation grant. As detailed in Appendix 1, we were able to provide certification for this grant ensuring that the Council retained the grant funding to support the operation of this function.

The limited planned audit work in Adult Services is scheduled for the second half of the year. During this time we will also work with management to prepare an audit plan for 2016/17 that addresses new and emerging risks.

The Appendix 1 details the assurance opinions for individual audits for which definitions of the assurance opinion ratings are given in Appendix 2.

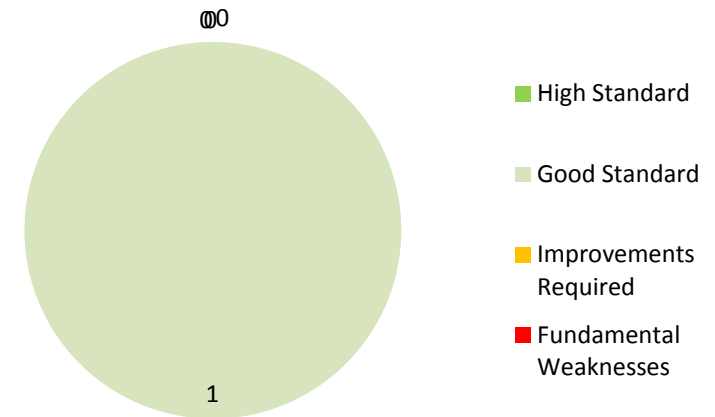
Key Risks / Issues

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

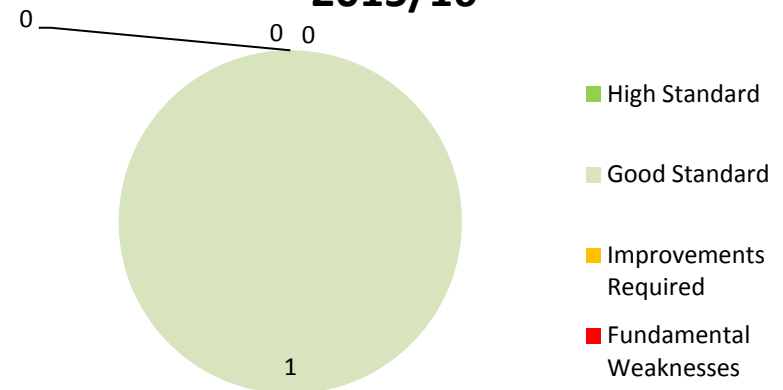
Issues have previously been identified in relation to contract procurement arrangements and performance monitoring in a specific service area; we have worked with management to ensure robust management action plans are established to mitigate the associated risks.

New legislation presents risks in relation to implementation; our work for 2015/16 covers the Care Act – Better Care Fund.

Assurance Opinions 2014/15



Assurance Opinions Apr - Sept 2015/16



Schools

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 Schools Financial Value Standard (SFVS) are significant. We are focusing all of our effort to achieve the targets and support schools to the fullest of our ability.

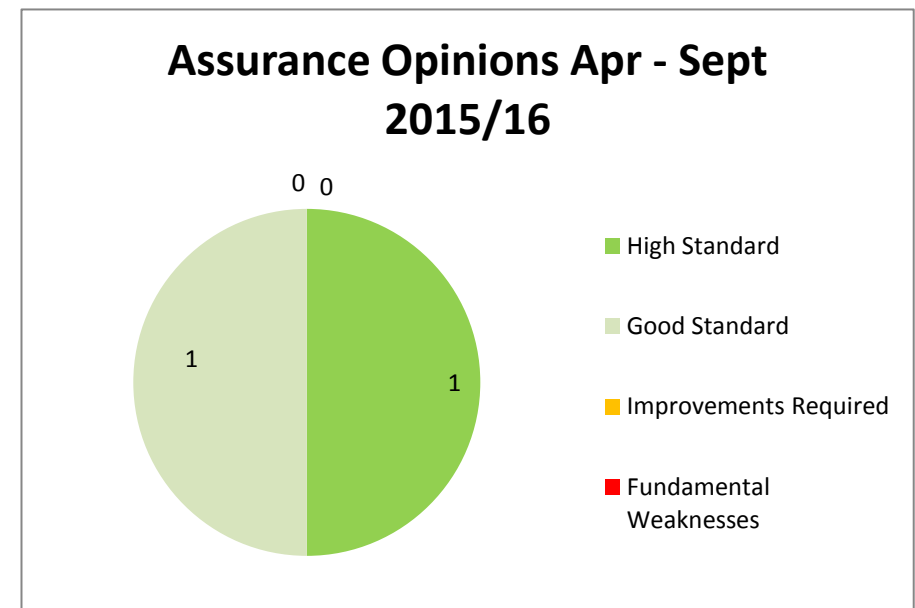
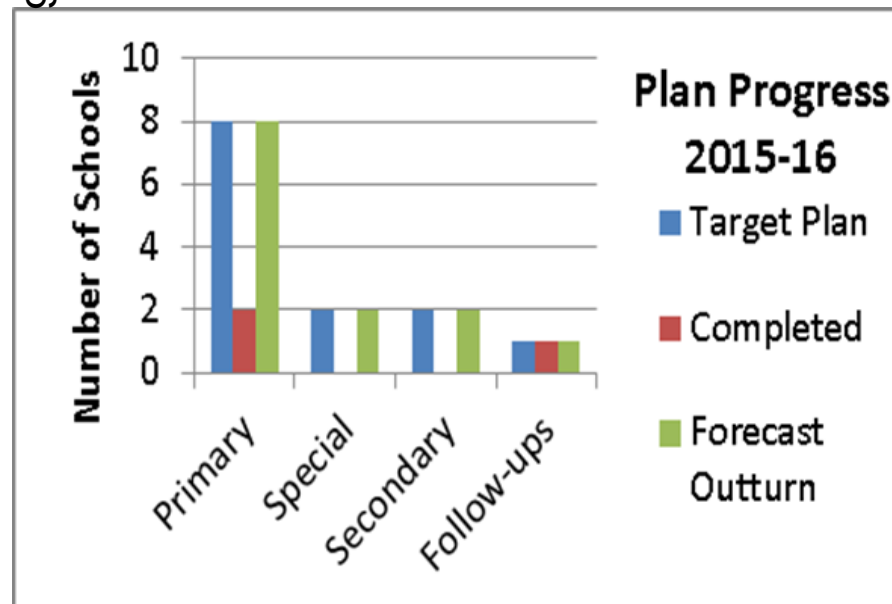
Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. Although specific risks have been identified on the core element of the audit review at some schools, recommendations have been made to reduce risks and in other areas and are made to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

Key Risks / Issues

- understanding of financial management by governors as evidenced by the requirements of the Standard, skills assessment and absence of key business from meetings;
- demonstrable benchmarking & financing of plans for raising standards and attainment;
- business continuity planning;
- inventories and asset management.

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

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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 Cabinet Office has taken over from the Audit Commission in running a major national data matching exercise (National Fraud Initiative – NFI) every two years. Data for the 2014/15 NFI exercise was provided, and the subsequent matching reports were disseminated in January 2015. Devon Audit Partnership (DAP) advised all relevant managers, and assisted departments in undertaking reviews of matches as appropriate throughout 2015; such data sets included payroll, creditors, insurance, concessionary travel passes, blue badges and housing benefits. Additionally, early liaison with relevant departments to facilitate the upload of 2015/16 data for Council Tax Single Person Discount and Rising 18's data matching reports, an exercise now required annually.

Linked to the TEICCAF (The European Institute for Combating Corruption and Fraud - was Audit Commission), and CIPFA (Chartered Institute of Public Finance and Accountancy) requirements, DAP continue to undertake annual 'Protecting the Public Purse', Fraud and Corruption surveys, which feeds into a national overview of fraud within public bodies.

Proactive anti-fraud work has been undertaken during the first six months of 2015/16. A Fraud bulletin has been produced and published on DAP's website. Our previous review of staff internet use identified a level of concern from which management took action on our findings. DAP has continued to undertake a six monthly monitoring of staff internet use and to date found no significant concerns. This provides assurance that action has been effective and such use remains within policy.

Irregularities - In the first six months of 2015/16, Internal Audit has carried out or assisted in 10 investigations across the various services, excluding Public Health and Adult Services, where Internal Audit were not made aware of any issues of irregularity that required investigation. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
Employee Conduct	4
IT-misuse	2
Poor Procedures	2
Tenders and Contracts	1
Financial Irregularities	1

DAP have completed investigations into potential IT mis-use with evidence of inappropriate activity provided to management. These involved personal use of email and internet.

Assistance has been given with the investigation of a number of whistle-blower allegations relating to employee conduct, poor procedures and correct classification of cases, and the outcomes provided to Human Resources and the Financial, Ethical and Probity Group for action. An allegation regarding a safeguarding issue was also examined but no evidence as part of their Council employment was found. Additionally, we examined the potential inappropriate personal use of a business vehicle and provided our findings to Human Resources.

Customer Value

Performance Indicators - Resources

Overall, performance against the indicators has been very good (see appendix 2). We are aware that some of our draft and final reports were not issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final 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)

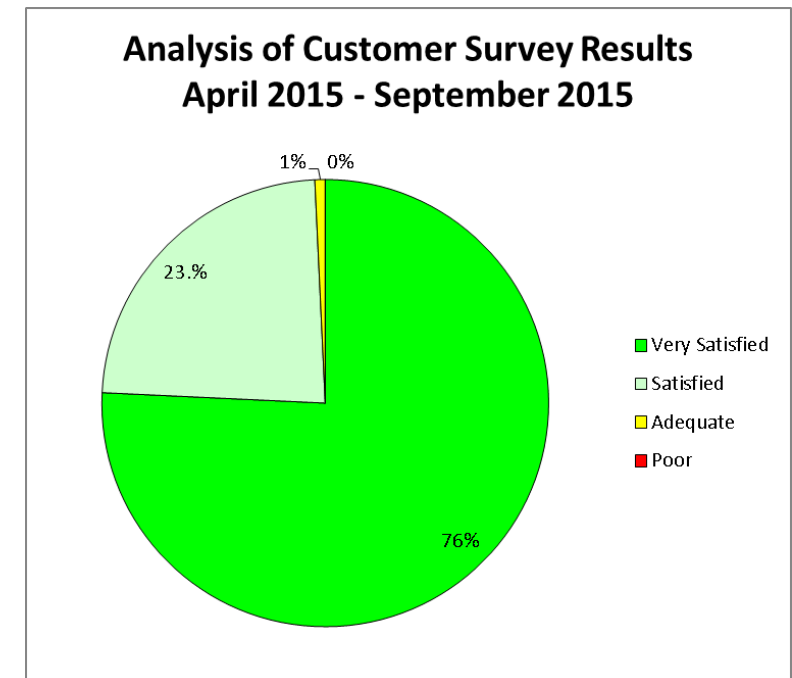
DAP continues to be maintain accreditation by G4S Assessment Services of the CSE standard. We highly value customer comments on our service and how we can improve our work.

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:-

- 'Auditor showed flexibility and willingness to be responsive in drawing up the terms of reference to ensure that appropriate areas were covered for audit to be of maximum value';
- 'Very professional service delivery, I felt fully informed at all times and colleagues within the team were happy with interactions with auditors';
- 'It's nice to have some positive feedback and for the hard work and commitment of staff in the team to be recognised. It's also good to have objective feedback so that we can be sure we are providing a good service to parents, children and young people in Torbay'.



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 2015/16 include:-

"extended the audit brief to include our requirements which supported the service in knowing how embedded practices are."

"may I express my appreciation to you for your excellent professional contribution to the recent very successful special schools conference"

"actions provided are achievable and will enhance the service."

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 2015/16





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.




CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Material Systems (includes all material systems for reporting completeness purposes, however direct responsibility for certain areas is within Community and Customer Services)					
Income Collection	ANA - Medium	Final	Good Standard	Assurance was reported in last year's annual report; please refer to that report for details.	
Crisis Support Follow-up	ANA – Low	Final	Good Standard	Assurance was reported in last year's annual report; please refer to that report for details.	
Creditors	ANA – High	Final	Improvements Required	Assurance was reported in last year's annual report; please refer to that report for details.	
Purchase Order Processing (POP)	ANA – Medium	Final	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>A number of previous recommendations remain outstanding; however the majority of these should be resolved with the release of version e5.5 software in 2016.</p>	



CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Bank Reconciliation	ANA – Medium	Final	Good Standard	<p>Sample testing of a number of bank reconciliations found that all have been accurately undertaken and had been independently reviewed, though clarity is required in term of completion deadlines, and interest should be promptly posted to the ledger at the end of the financial year.</p> <p>Although local payment schools are responsible for reconciling their own bank accounts to the schools' financial system, SIMS, a review of the reconciliation between SIMS and FIMS found that this had been effectively performed in a timely manner.</p> <p>We have no concerns in relation to user access management of the online banking system (Bankline), and all users reviewed were found to have appropriate access levels.</p> <p>Risks remain in relation to the lack of segregation of duties within the FIMS Sys Admin team, but these have previously been acknowledged, and accepted by management as unavoidable, due to the operational need and small size of the team.</p>	
Main Accounting System	ANA - Medium	Final	Good Standard	<p>A well established and robust control framework for the maintenance of councils Financial Information Management System (FIMS) Main Accounting System ensures that budgetary and transactional data is effectively recorded. This enables reporting of accurate financial information across service areas.</p> <p>The functionality within FIMS and the operation of manual controls provides further assurance of the integrity of the accounting data which is subsequently used to produce the Statement of Accounts and inform the Council's budgetary requirements. This includes data transferred from the Authority's various feeder systems.</p> <p>Segregation of duty remains an issue which is accepted by management as a factor prevalent in small finance teams, and a number of other minor issues have been identified for improvement.</p>	

CORPORATE AND BUSINESS SERVICES


Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Treasury Management	ANA - Low	Final	High Standard	<p>A comprehensive Treasury Management (TM) Strategy is in place and complies with the current CIPFA Code of Practice. The TM team continues to have a strong working relationship with its chosen advisor, Capita Asset Services, and many good practices have evolved as a result of this association.</p> <p>As in previous years, high operational standards continue to be maintained, with only minor issues being identified.</p> <p>Recommendations have been made to further strengthen existing controls, including, ensuring that all relevant documentation is completed and retained, and that outstanding training is undertaken.</p>	
Payroll (Northgate)	ANA - Critical	Final	Good Standard	<p>We are pleased to report that this year's assurance opinion remains as 'Good Standard'. This is partly due to the smaller audit programme being undertaken, and hence fewer recommendations; but also due to continuing progress in addressing prior year issues.</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.</p> <p>As was the case last year, only a small number of issues were identified this year in terms of the accuracy of data entry, and the majority of system amendments tested were found to have been appropriately authorised.</p>	
Asset Register	ANA - Medium	Final	Good Standard	<p>Assurance was reported in last year's annual report; please refer to that report for details.</p>	

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Debtors	ANA – Medium	Final	Good Standard	<p>The Debtors system continues to be well managed centrally and users are adequately supported by comprehensive procedures and training manuals. 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 greater emphasis to be placed on debt recovery performance monitoring and reporting outcomes at senior management / member level in the current economic climate continues to be reported.</p>	
				<p>Overall there has been little progress in making the intended improvements to the control environment, and as a result recommendations have once again been made to properly embed and utilise the new processes, to complete on-going development of procedural documentation, and to make further enhancements to existing processes and controls.</p> <p>The review and confirmation of the ongoing appropriateness of bill reductions is not consistent or undertaken at a regular frequency, and changes to property valuation is not always timely, both resulting in a risk of unnecessary loss of income. Performance targets do not sufficiently cover review of all discounts and</p>	
Council Tax & Non Domestic Rates (NDR)	ANA – medium	Draft	Improvements Required	<p>Overall there has been little progress in making the intended improvements to the control environment, and as a result recommendations have once again been made to properly embed and utilise the new processes, to complete on-going development of procedural documentation, and to make further enhancements to existing processes and controls.</p> <p>The review and confirmation of the ongoing appropriateness of bill reductions is not consistent or undertaken at a regular frequency, and changes to property valuation is not always timely, both resulting in a risk of unnecessary loss of income. Performance targets do not sufficiently cover review of all discounts and</p>	


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CORPORATE AND BUSINESS SERVICES




Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				exemptions, and generally performance targets are not being met. The team have continued to maintain accuracy and control over property valuations with amendments to billing adequately supported.	
Benefits	ANA – Medium	Draft	Good Standard	<p>The benefits department is generally performing effectively. A number of input / processing errors were identified, however although these were not deemed to be significant, or indicative of more serious underlying control weaknesses, there is a potential risk in relation to the accuracy of the Authority’s subsidy claim.</p> <p>A potential system issue in relation to the treatment of ‘unreported’ change notifications was also identified, and we have recommended that further investigation is undertaken to determine any resulting impact.</p> <p>Specific testing of overpayment recoveries or write-offs did not identify any issues.</p> <p>As was the case last year, the Quality Assurance process is generally robust; and benefit payments themselves are well controlled.</p> <p>Performance in terms of processing speed and accuracy is below target; however we understand this is due to a number of officers having been recently recruited, who are still in the process of being trained.</p>	
Cheque Printing Project	Client Request	Ongoing	N/A	Support and advice is provided as required by the project. A proposal has been put forward following a decision by the project group; this is currently awaiting a formal response, following which a secondary element to the project will be instigated to implement the agreed outcomes.	N/A

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CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Northgate Self Service	ANA – Critical	Ongoing	N/A	<p>Support continues to be provided to the project in line with the agreed project plan. The project framework is in place and operating reasonably effectively, however the project has been impacted by resource issues which continue to be managed.</p> <p>The supplier has been commissioned to undertake the ‘build’ of the system against agreed design documents. As expected the formulation of the design documents is very resource intensive. However the content and delivery timescale of these build documents is critical in ensuring that the system build is as required and the project timescales are achieved. The timescales for the project are considered to be ‘tight’, however are still currently considered to be achievable by the project board and supporting project team.</p>	N/A
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> • POP (Electronic Ordering) (ANA – Medium) • FIMS System Admin (ANA – High) • Asset Register (ANA – Medium) • Treasury Management (ANA – Low) 		<ul style="list-style-type: none"> • IBS Open System Admin (ANA – High) • Capital Programme (ANA – Medium) <p>It is anticipated that the reports will be issued & agreed in the third quarter of 2015/16. No issues of major concern have been identified from our fieldwork to date.</p>			
<p>The following audits have not yet been started as they are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> • Main Accounting System (ANA – Medium) • Creditors (ANA - High) • Debtors (ANA – High) • Bank Reconciliation (ANA – Medium) 		<ul style="list-style-type: none"> • Payroll (ANA – Critical) • Benefits (ANA – Medium) • Council Tax & NDR (ANA – Medium) • Income Collection (ANA – Medium) • Corporate Debt (ANA – Medium) 			
Grants					
Early Years – 2 year old nursery education	Client Request	Completed	Certified	No issued identified	

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Highways Capital Funding x 3	Client Request	Completed	Certified	No issues identified	
Autism Innovation	Client Request	Completed	Certified	No issues identified	
Community Capacity	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 2015/16. 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:

- Local Sustainable Transport Fund


Other

Section 106	ANA – Medium	Final	Fundamental Weaknesses	<p>Planning applications are subject to review and authorisation by the Development Management Committee.</p> <p>Section 106 payments are detailed in agreements drawn up by the Legal Team in liaison with the planning department; however the basis for the agreements is not consistently reviewed or evidenced within Planning resulting in risks of allegations against planning officers and legal challenge.</p> <p>The agreed payments as defined within the s106 agreements, are due once trigger points have been reached. Weaknesses have been identified in the lack of information flowing between departments to ultimately advise Finance to instigate billing, leading to a risk of income not being billed as required. This could result in contributions not being collected and a reduction in potential income to the Authority. In one instance identified during the audit a</p>	
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CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Page 66				<p>significant payment had not been collected.</p> <p>Contributions received are recorded in the Financial Management Systems under the relevant schemes however issues have been identified and reported relating to the expenditure of these contributions at Service Area level. There is currently no effective end to end process monitoring method in place to ensure spending of the contributions is in line with the s106 agreements. This leaves the Authority open to legal challenge and potentially financial loss were the contractor(s) to request repayment under the terms of the agreement.</p> <p>It is evident from the findings that an overarching monitoring process needs to be implemented to provide a more efficient and effective means for managing Section 106 payments as an end to end process. It is understood that there may be some scope to utilise an element of Section 106 / Community Infrastructure Levies (CIL) monies to fund such an implementation</p>	
Tor Bay Harbour Authority – Risk Management	ANA – Medium	Final	Good Standard	<p>Processes are established to identify and manage risks, and the Tor Bay Harbour Authority has been separately assessed as compliant with the Port Marine Safety Code. A specific Tor Bay Harbour Authority Emergency Plan is established and has been subject to testing through desk top exercises and a multi-agency exercise. In terms of business continuity, a plan exists but was not current at the time of the audit.</p> <p>Recommendations have been made to ensure that risk areas identified in the emergency plan are risk assessed, to complete the standard operating procedures that support risk mitigation and to maintain the currency of risk assessments through ensuring that there are sufficient trained risk assessors, and that appropriate H&S training is completed by all staff in order to minimise the risk to personal and public health. The need for consistent recording of incidents / accidents was also identified along with the need to test the business continuity arrangements.</p>	

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Human Resources	ANA - High	Final	Improvements Required	<p>Comprehensive published policies exist in relation to recruitment of staff and the hiring of agency workers. These policies are supported by procedures, toolkits and forms, and the provision of recruitment training via i-learn and guidance from HR Advisors, in order that service areas are appropriately supported when recruiting and hiring staff.</p> <p>Contractual arrangements are in place with approved agencies to ensure appropriate procurement practices and pre-employment checking; a waiver facility allows deviation from this arrangement but is not adequately controlled to enforce the same checks applied to the approved agencies or require the same terms and conditions to reduce any liability by the Council.</p> <p>Recruitment training has now been established but completion of training is not enforced or monitored; understanding and awareness by responsible managers would increase the likelihood of consistent compliance with expectations.</p> <p>Since the last audit an improved control framework has been established, however it was found that controls are insufficient to ensure adherence to the policies and procedures in particular in relation to the hiring of agency staff. Hence the risks of unsafe or illegal recruitment and hiring are not fully mitigated.</p> <p>Recommendations have been made to strengthen the control framework and reduce the risks through ensuring greater HR monitoring / involvement.</p>	
Business Improvement Districts (BID)	ANA – High	Ongoing	N/A	Ongoing support and advice is being provided to the project to establish a new BID company and BID area. We are using knowledge gained from our previous audit examination of the existing BID formations and their ongoing management of the arrangements between the BID companies and the Council.	N/A

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
TOR2 Commissioning / Contract Monitoring	ANA – High	Ongoing	N/A	We have previously provided support to the Future State Project, following its cessation we are now working with management to determine areas where we can provide support or added value in relation to TOR2 contract monitoring.	N/A
Procurement / Contracts	ANA – Medium	Ongoing	N/A	We have provided advice in relation to development of the new Procurement Strategy and the redrafting of Contract Standing Orders as a result of the Procurement Regulations 2015, and are now working with management to determine an audit approach to examine these changes in practice and build on previous work in relation to contracts compliance.	N/A
South Devon Link Road / Waste Public Finance Initiative (PFI)	ANA – High	Ongoing	N/A	Devon Audit Partnership has kept a watching brief of progress with the schemes.	N/A
Fair Decision Making	Client Request	Ongoing	N/A	Work has commenced in this area, however the client has requested that this be a project support approach as opposed to auditing the existing arrangements. The current project is to review the current operational practices in relation to the Fair Decision Making process, and our work will support and challenge this review process alongside considering the project management practices. The timing of our involvement is dependent on the project timetable.	N/A

The following audit is currently in progress:

- Torbay Development Agency - School Places Planning (ANA – High)

It is anticipated that the report will be issued & agreed in the third quarter of 2015/16. 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:

- New Operational Arrangements (Client Request)
- Elections (ANA – Medium)
- Demand Management including Financial Planning (Strategic Risk)
- Ethics and Culture (ANA – Medium)
- Tor Bay Harbour Authority (ANA – Medium)

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Community and Customer					
Corporate Security and CCTV	ANA - Medium	Draft	Improvements Required	<p>The Corporate Security and CCTV services face significant challenges in terms of budget reduction impacts. In addition, the existing building access security system is aged and no longer supported. Projects have commenced to consider future service delivery and alternative means of investment in light of these austerity measures and the need to replace the building access security system.</p> <p>Although the Council has no legal obligation to provide a CCTV service, the full or partial loss of it would present significant risks to the organisation and its stakeholders. Maintenance of sufficient security to keep assets safe is essential in relation to property and information management.</p> <p>Recent reorganisation within the Council has resulted in the transfer of these functions between departments and identified that the governance framework for these services is inadequate. Significant work is required to bring business plans, policy and procedures to an acceptable standard and to ensure compliance with legislative requirements, along with establishing and maintaining a project management framework to support the current service reviews and ensure that project objectives are met.</p>	*
Museum Services	ANA – Low	Draft	Improvements Required	<p>A comprehensive paper inventory maintains an effective record of the Torre Abbey collection of arts and social memorabilia. This is gradually being replaced by the electronic MODES system and supplemented by other electronic documents; however the delayed completion of this process could adversely affect the accuracy of the resulting electronic record.</p> <p>Examination of records did identify inaccuracies with the accession register and the asset location details recorded on the inventory. It was also noted that a copy of the accession register is not maintained off site</p>	*

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COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Page 70				<p>to support Torre Abbey's legal ownership rights to collection items in the event of a total loss.</p> <p>The Abbey Project Board utilise admissions data to maximise income opportunity, although performance indicators have not been established to assist with monitoring.</p> <p>Collection of admissions and other income through the cash tills is effectively controlled, although arrangements for cashing up and the transit of monies could be improved, the insurance for the safe needs addressing and the pricing policy for souvenirs should be formalised.</p> <p>Income from the hire of rooms and grounds provides an increasing important source of revenue; whilst adequate processes exist to manage these arrangements and associated income, they are not consistently applied. Income from property related sources is controlled through the centralised systems and generally effectively managed through the Torbay Development Agency, although the rent reviews have been delayed, the turnover rent for the leased café is not being billed and rental from land for car parking is not being received.</p> <p>Overall, despite the arrangements and practices in place and improvements since the last audit, the risks of loss of assets and loss of income remain.</p> <p>Review of expenditure arrangements demonstrated generally sound controls, however one instance of non-compliance with Financial Regulations in relation to a contract was noted, and accordingly, a recommendation has been made to prevent a similar recurrence.</p>	

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

- Sports Facilities (ANA – Medium)
- Housing Options (ANA – Low)
- Torbay Coast and Countryside Trust (ANA – Medium)

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
IT Audit					
Mobile Device Management	ANA - Critical	Final	Good Standard	Assurance was reported in last year's report; please refer to that report for details.	
File Storage	ANA-High	Draft	Improvements Required	Assurance was reported in last year's report; please refer to that report for details.	
Corporate Printing	ANA – Medium	Final	Good Standard	<p>The project is a reasonably small scale project intended to identify and realise efficiency / financial savings through rationalisation of the print solutions. The project is well managed and well supported through engaging an external supplier to undertake the status review and identify potential savings. The project has appropriate staff members engaged.</p> <p>There is some linkage with the current Corporate Security project in relation to use of swipe cards linked to the multi-function devices. The project is also intended to enhance the cross charging process through the use of a centralised print budget linked to a print management system. There are also cultural issues in terms of engaging staff in the printer rationalisation project as there is already some reluctance to release printers from specific areas. These issues are known issues and are being considered throughout the project. Although the timing of the project was initially somewhat protracted due to reliance on the external supplier, it is now progressing reasonably well with an intended implementation date of December 2015.</p>	
Change Control (Follow up)	ANA – High	Final	Improvements Required	Some progress against the agreed recommendations has taken place. We note that a number of recommendations remain to be completed and in some cases revised recommendations have been made. Timescales for some original outstanding recommendations have slipped in some instances and revised timescales have been detailed in the updated action plan.	

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				The primary issue originally identified was in relation to the need for implementation of a Change Management Tracking System. This was originally piloted but the decision has subsequently been taken to no longer pursue this system; a weekly meeting has been instigated with attendance from various IT Teams to mitigate / minimise the associated risks, however this meeting is not formally documented or minuted and therefore Audit is unable to establish its effectiveness.	
Information Security Group	Client Request	Ongoing	N/A	<p>Support continues to be provided in the form of attendance and active participation in the Information Security Group. This includes the review and update of the Information Security Policy Framework, and supporting policies such as the End User Computing policy and PCI compliance, which has recently been adopted.</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>	N/A

The following audits are currently in progress.

- Hosted Services - Checklist for Cloud Services (ANA – High)
- Database Administration (ANA – High)
- Harbour Mooring Replacement System (ANA – Medium)

It is anticipated that the reports will be issued & agreed in the third quarter of 2015/16. 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:

- Infrastructure Management - review of technical fit with ICT Roadmap (ANA – Critical)
- Service Strategy - review following organisational change; and benchmarking of service delivery (ANA – High)
- Partnership Working (ICT systems) TOR2 (ANA – High)
- Service Operation - Corporate Access Management (ANA – High)
- Channel Shift (ANA – High)

COMMUNITY AND CUSTOMER SERVICES

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

Material Systems (within Community and Customer Services, also shown in Corporate and Business Services)

Crisis Support Follow-up	ANA – Low	Final	Good Standard	Assurance was reported in last year’s annual report; please refer to that report for details.	
Benefits	ANA – Medium	Draft	Good Standard	<p>The benefits department is generally performing effectively. A number of input / processing errors were identified, however although these were not deemed to be significant, or indicative of more serious underlying control weaknesses, there is a potential risk in relation to the accuracy of the Authority’s subsidy claim.</p> <p>A potential system issue in relation to the treatment of ‘unreported’ change notifications was also identified, and we have recommended that further investigation is undertaken to determine any resulting impact.</p> <p>Specific testing of overpayment recoveries or write-offs did not identify any issues.</p> <p>As was the case last year, the Quality Assurance process is generally robust; and benefit payments themselves are well controlled.</p> <p>Performance in terms of processing speed and accuracy is below target; however we understand this is due to a number of officers having been recently recruited, who are still in the process of being trained.</p> <p>A ‘high standard’ opinion has been given in relation to the risk, ‘Inappropriate or inaccurate payments made or not recovered’, however this year’s approach has been to sample test the controls in place, and our opinion is based on the findings from this work.</p>	
Council Tax & NDR	ANA – medium	Draft	Improvements Required	<p>Overall there has been little progress in making the intended improvements to the control environment, and as a result recommendations have once again been made to properly embed and utilise the new processes, to complete on-going development of procedural documentation, and to make further enhancements to existing processes and controls.</p> <p>The review and confirmation of the ongoing appropriateness of bill</p>	

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COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				<p>reductions is not consistent or undertaken at a regular frequency, and changes to property valuation is not always timely, both resulting in a risk of unnecessary loss of income. Performance targets do not sufficiently cover review of all discounts and exemptions, and generally performance targets are not being met.</p> <p>The team have continued to maintain accuracy and control over property valuations with amendments to billing adequately supported.</p>	

The following audits are currently in progress:


- IBS Open System Admin (ANA – High)

It is anticipated that the reports will be issued & agreed in the third quarter of 2015/16. 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:

- Benefits (ANA – Medium)
- Council Tax & NDR (ANA – Medium)
- Corporate Debt (ANA – Medium)

CHILDREN'S SERVICES AND INNOVATION

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Admissions in Place Planning and Pupil Referral Panel	ANA - Medium	Final	High Standard	<p>Audit has assessed that Torbay Schools Admission Team have been fully compliant with the Dept. for Education (DfE) Schools' Admission Code.</p> <p>The admission arrangements were easily found on the internet and show clearly the admission arrangements and policies for all schools. Audit found that all relevant documentation was up to date and covered all relevant areas. Parental applications were dealt with within a clear timetable. Relevant checks by the Team were made to ensure compliance with the DfE School Admission Code and the relevant individual school policy.</p> <p>The work undertaken by the Senior Officer - Schools Services on the pupil referral panel was found to be excellent. The referrals from schools were dealt with in a timely manner and decisions made were found to be robust and based on good evidence and professional opinion. There was evidence of joint working with all agencies and professionals and the outcomes and actions for the child were tailored to their needs.</p> <p>A recommendation has been put in place for increased IT support.</p>	

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The following audits are currently in progress:

- Transition from Children's to Adults (ANA – Medium)
- Fostering (ANA – High)

It is anticipated that the reports will be issued & agreed in the third quarter of 2015/16. 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:

- Virtual School (ANA - High)
- Integrated Youth Service (ANA - Medium)


The following audit has been cancelled as it is no longer required:

- PARIS (ANA – Critical)

CHILDREN'S SERVICES AND INNOVATION

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

Grants



Early Years – 2 year old nursery education	Client Request	Completed	Certified	No issued identified	
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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 2015/16. No major concerns have been identified from our fieldwork to date.

Maintained Schools

Schools Financial Value Standards (SFVS)	ANA – Low Mandatory for LA / Schools	Final	Good Standard	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2014/15 submitted to the Department for Education.	
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.	

Maintained Schools Summary Data

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.

Assurance Opinion

Good Standard


PUBLIC HEALTH

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Lifestyle Service Review – Consultations	ANA - Medium	Draft	Work is currently on going with Public Health colleagues to agree the assurance opinion and report including the executive summary.		

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

- Public Health / NHS Links (ANA - High)

ADULT SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Grants					
Autism Innovation	Client Request	Completed	Certified	No issued identified	

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

- NRS Joint Equipment (Client Request)
- Care Act Implementation – Better Care Fund (ANA – High)

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:

<i>Annual Local Performance Indicators (LPI)</i>	2012/13	2012/13	2013/14	2013/14	2014/15	2014/15	2015/16	2015/16
	Target	Actual	Target	Actual	Target	Actual	Full Year Target	Six month Actual
Percentage of Audit plan Commenced (Inc. Schools)	95%	99%	100%	100%	100%	100%	100%	67.1%
Percentage of Audit plan Completed (Inc. Schools)	90%	93.1%	93%	90.4%	93%	91.7%	93%	36.2%
Actual Audit Days as percentage of planned (Inc. Schools)	90%	95%	95%	105.9%	95%	99%	95%	46.2%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	100%	100%	On target
Percentage of chargeable time	65%	66.1%	65%	69.3%	65%	67.8%	65%	67.3%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	98%	90%	99%	90%	99%
Draft Reports produced within target number of days (currently 15 days)	90%	98%	90%	83.2%	90%	77.7%	90%	60%
Final reports produced within target number of days (currently 10 days)	90%	99%	90%	88.6%	90%	96.6%	90%	94.7%
Average level of sickness absence (DAP as a whole)	2%	2.9%	2%	3%	2%	5.5%	2%	2.1%
Percentage of staff turnover (DAP as a whole)	5%	8.5%	5%	3%	5%	16.6%	5%	6%*
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes	Yes	On target

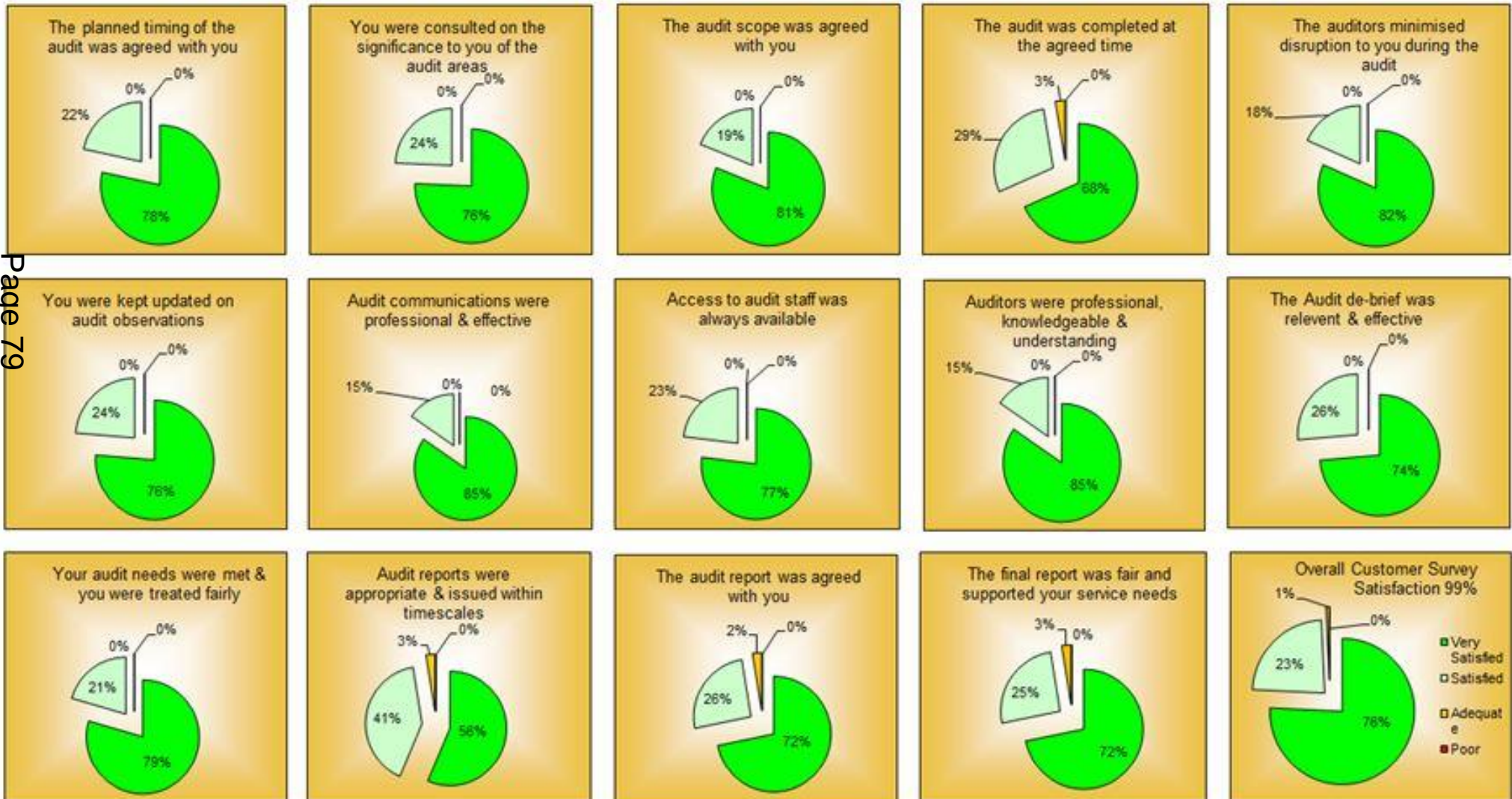
Overall, performance against the indicators has been very good. We are aware that some of our draft and final reports were not issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We are reviewing areas where performance has been poor, and are working with our staff to ensure improvement is achieved.

Note * - 2 staff on secondment to other services.

Appendix 3 - Customer Service Excellence

Customer Survey Results April 2015 - Sept 2015

The charts below show a summary of 39 responses received.



Appendix 4 – Definitions

Definitions of Audit Assurance Opinion Levels

Confidentiality under the Government Security Classifications

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.	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.
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.	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.
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.	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.
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.		



Grant Thornton

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9 December 2015

Dear Martin

Certification work for Torbay Council for year ended 31 March 2015

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.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified one claim for the financial year 2014/15 relating to expenditure of £68 million. Further details of the claim certified are set out in Appendix A.

There are no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 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 under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £12,840. This is set out in more detail in Appendix B.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Alex Walling'.

Alex Walling
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	68,019,443	Yes	5,609	No	--

Appendix B: Fees for 2014/15 certification work

Claim or return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	10,605	12,840	12,840	2,235	Fees for 2014/15 were set by the Audit Commission based on the outturn in 2012/13.
Total	10,605	12,840	12,840	2,235	

Audit Committee Update for Torbay Council

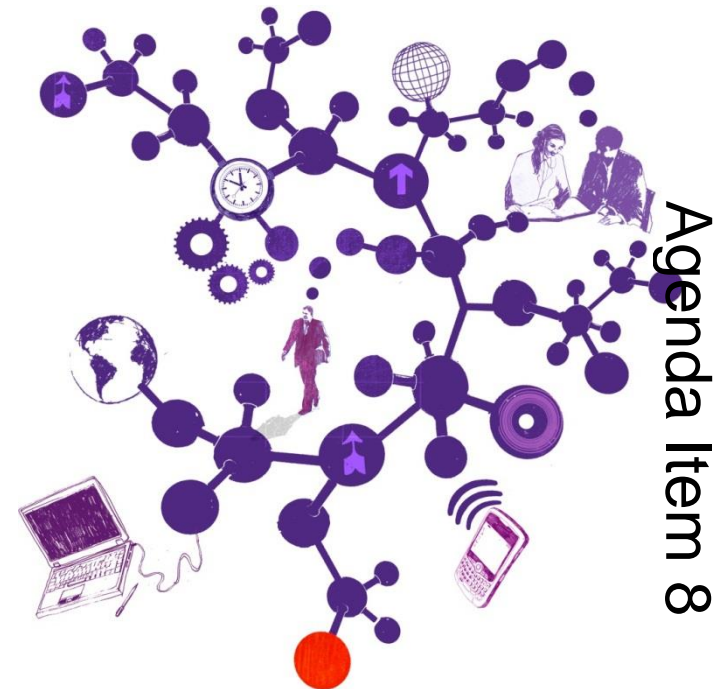
Year ended 31 March 2016

20 January 2016

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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.

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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:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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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Mark Bartlett Audit Manager T 0117 305 7896 M 07880 456123 mark.bartlett@uk.gt.com

Progress at 8 January 2016

Work	Planned date	Complete?	Comments
<p>2015-16 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 2015-16 financial statements.</p>	March 2016	Not yet due	We will present our Audit Plan to the March meeting of the Audit Committee.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <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. 	Jan – March 2016	In progress	Our interim audit started on site on 5 January 2016. The result of the interim audit will be reported in the Audit Plan to your March meeting.
<p>2015-16 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion. 	June – July 2016	Not yet due	<p>We have agreed with officers that the audit will start in mid-June 2016 and we will bring our Audit Findings Report to your meeting on 27 July 2016.</p> <p>We will continue to have regular discussions with officers on emerging financial issues</p>

Progress at 8 January 2016

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2015-16 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>This is different to the criteria considered in previous years and reflects the fact that the NAO are now responsible for issuing VfM guidance.</p>	Jan – March 2016	Not yet due	We will carry out a risk assessment of the Authority's arrangements against the 2015/16 criteria. The results of the risk assessment will be reported in the Audit Plan to the March meeting of the Audit Committee.
<p>Annual Audit Letter</p> <p>A summary of all work completed as part of the 2015/16 audit.</p>	October 2016	Not yet due	
<p>Other areas of work – Certification of claims and returns 2014/15</p> <ul style="list-style-type: none"> • Housing Benefits Subsidy Claim • Teachers' Pension return 	November 2015	Yes	<ul style="list-style-type: none"> • We certified the Housing Benefits Subsidy claim on 26 November 2015. A qualification letter was not required. The Certification Letter in respect of this work is included on the agenda of this meeting. • We also provided an unqualified conclusion in our reasonable assurance report on the Teachers' Pension return on 26 November 2015.
<p>Other activities</p> <p>Our annual financial statements workshops, run in conjunction with CIPFA are being held in February. The Exeter event is on 17 February 2016 at the Abode Hotel and Torbay officers have been invited.</p>			

Reforging local government

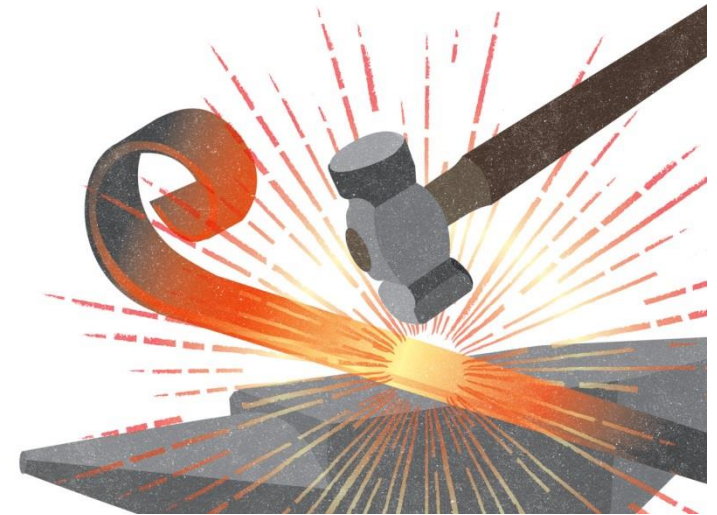
Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

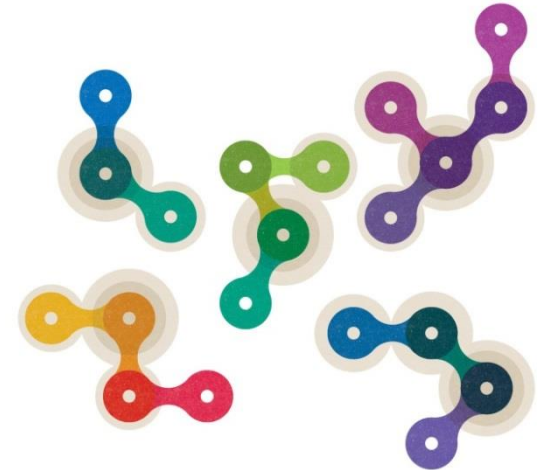
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

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



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

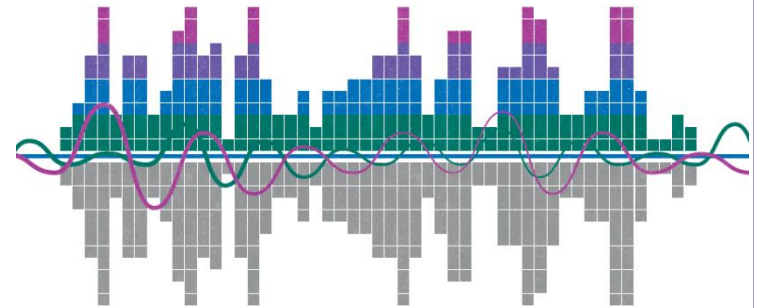
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

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



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

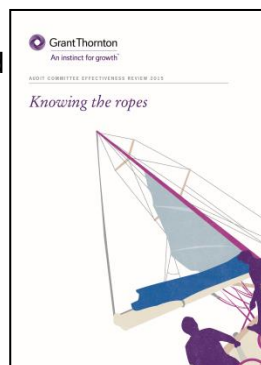
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Size: 3-5 members is an ideal size for an audit committee

Frequency: meetings should be regular and the length should adapt to content

Relevance: audit committee members should be selected based on the skills and experience they bring

Clarity: the role of the audit committee and its relationship with other committees, should be clearly defined

Communication: papers should strike the balance between detail and length

Ability: training should be provided for audit committee members

Evolution: audit committees should continually develop

The two key things that audit committee members should be asking are:

- 1 What is expected of the audit committee and does it reflect the specific nature of the industry in which the organisation sits?
- 2 Does the audit committee have clear terms of reference in place? Audit committees should set themselves targets for what they want to achieve and define how these will be measured to ensure they are operating effectively.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

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Agenda Item 9



Meeting: Audit Committee

Date: 20th January 2016

Wards Affected: All

Report Title: Performance and Risk

Is the decision a key decision? No

When does the decision need to be implemented? N/A

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1. Update

- 1.1 Further to the performance and risk framework being presented to the Audit Committee and as agreed by this committee, the chairs of both the Overview and Scrutiny Board and the Audit Committee have met to discuss how and where performance and risk information should be reviewed and challenged.
- 1.2 Historically, performance information has been presented to the Overview and Scrutiny Board for them to review and challenge. However, by bringing performance and risk information together into one report the chairs of each committee agreed that these reports should be considered by the Audit Committee.
- 1.3 It is also considered appropriate at this time to consider the regularity of the Audit Committee to ensure they receive performance and risk information in a timely manner. Therefore it is recommended that the Audit Committee meet every two months. The Audit Committee will receive an informal briefing two weeks before the committee meets to review performance and risk and identify areas which they would like to understand and / or challenge further at the committee itself and identify relevant Executive Leads and Officers who will need to be invited.
- 1.4 In light of the proposal for Audit Committee to meet every two months, it is also proposed that the committee meet informally to discuss the way forward for the committee and to identify a work programme.