



Tuesday, 15 March 2011

AUDIT COMMITTEE

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

Wednesday, 23 March 2011

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

Councillor Addis
Councillor Charwood
Councillor Excell

Councillor Mills
Councillor Richards
Councillor Stringer

Our vision is for a cleaner, safer, prosperous Bay

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

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AUDIT COMMITTEE AGENDA

1. **Election of Chairman/woman**
To elect a Chairman/woman of the Committee for the remainder of the municipal year.
2. **Apologies**
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
3. **Minutes** (1 - 4)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 8 December 2010.
4. **Declarations of interests**
 - (a) To receive declarations of personal interests in respect of items on this agenda
For reference: Having declared their personal interest members and officers may remain in the meeting and speak (and, in the case of Members, vote on the matter in question). If the Member's interest only arises because they have been appointed to an outside body by the Council (or if the interest is as a member of another public body) then the interest need only be declared if the Member wishes to speak and/or vote on the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
 - (b) To receive declarations of personal prejudicial interests in respect of items on this agenda.
(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Democratic Services or Legal Services prior to the meeting. Definitions and procedures in relation to interests are set out at the start of the agenda.)
5. **Urgent Items**
To consider any other items that the Chairman decides are urgent.
6. **Audit Progress Summary to 10 March 2011** (5 - 6)
To consider Report 68/2011 that set out work that the Audit Commission was currently undertaking.
7. **Certification of Claims and Returns** (7 - 16)
To consider Report 69/2011 which summarised the findings from the certification of the 2009/10 claims.
8. **Joint Working Protocol - Internal and External Audit** (17 - 28)
To consider Report 70/2011 on the Joint Working Protocol for Internal and External Audit.

9. **Internal Audit Plan 2011/12** (29 - 40)
To consider Report 71/2011 and agree in principle the proposed Audit Plan for 2011/12.
10. **Progress Report on Risk Management** (41 - 62)
To consider Report 72/2011 on the above.

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Minutes of the Audit Committee

8 December 2010

-: Present :-

Councillors Addis, Charwood, Oliver, Richards and Stringer

401. Apology.

An apology for absence was received from Councillor Kerlake.

402. Minutes.

The Minutes of the meeting of the Audit Committee held on 17 September 2010 were confirmed as a correct record and signed by the Chairman.

403. Audit Progress Summary to 29 November 2010.

The Committee noted Report 310/2010 which set out work that the Audit Commission had undertaken since the last meeting of the Audit Committee on 17 September 2010.

The Executive Head of Governance informed the Committee that officers had examined the new finance improvement tool, which was produced by the Audit Commission and was designed to help councils respond to the financial impact of an ageing population. He advised Members that a number of the points that the Audit Commission raised Torbay Council and its partners had already been dealing with.

404. Audit of the Financial Statements

Members noted Report 311/2010 which set out the findings of the Audit Commissions audit of the financial statements and the work undertaken to address the risks identified and reported in the Audit Commissions 2009/10 Interim Audit Report. Steve Brown of the Audit Commission advised that he was able to conclude that following a programme of substantive testing to address the risks arising from the control weaknesses identified and reported during the interim audit he was able to conclude that there was no material misstatement.

405. Annual Audit Letter 2009/2010

The Committee noted and endorsed the action plan in Report 312/2010, Members were advised that the audit was conducted by the Audit Commission and covered two elements, the audit of the Council's financial statements and the Audit Commissions assessment of the Council's arrangements to achieve value for money. Steve Brown of the Audit Commission informed Members that he was able to give an unqualified opinion and thanked the Council for its positive and helpful approach to the Audit Commissions audit.

406. Head of Internal Audit's Six Month Internal Audit Progress Report 2010/2011

Members noted Report 313/2010 which summarised the work undertaken by the Devon Audit Partnership during the first six months of 2010/11. The Report provided a review of the performance and effectiveness of the Internal Audit Service and provides an audit opinion on the adequacy of Torbay's internal control environment.

Members sought clarification as to whether schools gaining academy status would have an impact upon the Audit Plan. Officers advised that schools with academy status had indicated that they would be interested in seeking assistance from the Devon Audit Partnership when implementing their control systems, however ultimately it would be the Governors of the school's responsibility to ensure they have adequate control systems in place.

407. Treasury Management Strategy 2011/12 (incorporating the Annual Investment Strategy 2011/12 and the Annual Minimum Revenue Provision Statement)

The Committee noted Report 309/2010 which outlined the Treasury Management Strategy 2011/12 which aimed to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2011/12 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

Officers advised Members that the suggested strategy for 2011/12 was based upon the Treasury officers' views on interest rates, supported by market forecasts provided by the Council's treasury advisor.

408. Treasury Management Mid-Year Review 2010/11

Members noted Report 208/2010 which provided a mid year review of treasury management activities in 2010/11. The Principal Accountant advised that the CIPFA Code of Practice for Treasury Management required a mid year review of the performance of treasury management to be reported. He further advised that the mid year review covered a number of areas including interest rate update, revenue budget performance and compliance with prudential limits for 2010/11.

409. National Fraud Initiative

The Committee noted Report 316/2010 which provided an update on the National Fraud Initiative. Officers advised that the data from the Audit Commission had enabled the Council to be aware more promptly than otherwise, of a change in circumstances that resulted in the Council being able to take positive corrective action. Members requested officers ascertain if it was standard practice for prosecuting officers to seek court orders for the repayment of the overpayments.

410. Internal Audit Reports: Climate Change, Debtors, General Ledger and Payroll

Members considered exempt Report 314/2010 which set out areas of risk and the equivalent action plans in relation to climate change. Members also received an update on debtors, general ledger and payroll.

(**Note:** Prior to consideration of the item in Minute 410 the press and public were formally excluded from the meeting on the grounds that the item involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).)

Chairman

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Audit Progress Summary to 10 March 2011

Torbay Council

Reports issued by the Audit Commission since last meeting

- Certification of claims and returns annual report 2009/10 (attached)
- Joint working protocol – Internal and external audit 2011/12 (attached)
- Joint working protocol for the financial statements audit
- Summary of the main changes in the audit arising from clarification of the International Standards on Auditing (ISAs)

Work in progress

- Interim audit 2010/11
- Value for money conclusion work, including financial resilience assessment
- Review of authority progress in preparing for IFRS

Audit Commission events and national reports

- December 2010 & January 2011 - The value for money (VFM) profiles for councils have been re-released by the Commission. The updates include new charts covering: Back office services; asset management, income from charging and revenues & benefits. A section on financial resilience covers important aspects of financial health including: Reliance on different sources of income; achievement of efficiencies; and levels of financial reserves. All charts in the VFM profiles have now been updated with 2009/10 data.
- December 2010 to February 2011 - The AC consulted on its proposed work programme and scales of fees for 2011/12. The announcement made on 13 August 2010 proposing the AC's abolition means that 2011/12 will be the AC's final year in its current form and this may be the last time it will publish a work programme and set scales of audit fees. The AC proposed to carry through its existing, pre-August, plans for fees which were part of a three-year programme to deliver cost cuts of about £70 million. These included fee rebates for 2010/11 and lower fees for 2011/12. In relation to 2010/11 fees, the AC will rebate a further 3.5 per cent of the 2010/11 scale fee for unitary authorities (in addition to the 6 per cent already refunded).
The AC received a relatively small number of responses to the fees consultation. Responders welcomed the rebates and the reductions in fees but felt that they should be larger. As a result, the AC has agreed, subject to affordability, to make additional rebates in 2011/12. This means that all audited bodies will see a significant net reduction in fees compared to 2010/11. The AC will notify audited bodies of the amount due to them in the summer. If the abolition timetable requires it, there will be further significant fee reductions of up to 15 per cent in 2012/13.
- 19 January - AC local government workshops for accountants were held in Exeter and representatives from Torbay participated.

The documents referred to above are available from the Audit Commission website:
www.audit-commission.gov.uk

Steve Brown,
Audit Manager
10 March 2011

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Certification of claims and returns

Annual report

Torbay Council

Audit 2009/10



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It also needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims & returns and information on claims that we amended or qualified.

My overall conclusion is that the control environment for managing grant claims at the Council is adequate. However, I identified some areas where the Council should strengthen its claims arrangements.

Certification of claims

1 Torbay Council receives more than £250 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, we certified 5 claims with a total value of £117 million. Of these, we carried out a limited review of two claims and a full review of three claims (paragraph 10 explains the difference).

Significant findings

3 The control environment for managing grant claims at the Council is adequate.

4 We have issued qualification letters on two claims and have summarised the issues contained in these letters in the main body of this report.

5 I did not amend any claims.

Certification fees

6 The fees we charged for grant certification work in 2009/10 were £34,496.

Actions

7 Appendix 2 summarises my recommendations, which have been agreed by relevant officers of the Council.

Acknowledgement

8 Our thanks are due to council staff who helped us with the 2009/10 audit of claims and returns.

Background

9 The Council claims more than £250million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

10 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Torbay Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return. This, in turn, depends upon the checks that the grant paying departments require us to carry out.

11 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

12 The key features of the current arrangements are as follows.

- For claims and returns below £100,000 the Commission does not make certification arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

13 The control environment for managing grant claims at the council is adequate and we have generally been able to rely on this when planning and performing our work.

Specific claims

Housing and council tax benefits scheme

14 We reported two issues to the Department of Works and Pensions (DWP), regarding this claim. These were:

Reconciliations

15 The Council made payments to private landlords for services, some of which were not eligible for benefit under Non-HRA rent rebates. As reported last year, the Council were not able to reconcile the amount of Non-HRA rent rebate granted in cells 011 to 017 to cash paid during the year.

16 The Council have stated that reconciliation of non-HRA rebates is not possible, as the total payment to private landlords includes other elements as well as the benefit payments.

Information received by the Council's fraud team

17 We identified one claim in which information regarding a claimant's change in incapacity benefit had been received by the Council but had not been used in a revised assessment of the claimant's entitlement.

18 The information was provided to the Council by the claimant and scanned onto the Council's data imaging system for the attention of the fraud team. The fraud team used this information in the course of their work and concluded that no further action was required. The information remained on the system but was not passed to the assessment team for them to update the claimant's entitlement. As a consequence of this error, the subsidy claim was understated by £17.92. While this is a small sum, we have established that this is not an isolated error.

19 The Council have confirmed that information received by the fraud team, which could lead to a change in entitlement, is not automatically referred to the assessment teams for action upon completion. We have not been able to quantify the effect of this procedural error. The Council have implemented revised working practices to ensure that all information which could lead to a change in entitlement received by the fraud team will, in future, be referred to the assessment teams for action.

Recommendation

R1 Ensure that working practices require that relevant information received by the fraud team is referred to the assessment teams for action, where appropriate.

Teachers' Pensions

20 Our certification instruction requires us to carry out testing to provide assurance that entries within the claim have been correctly extracted from the Council's payroll records. The payroll records provided agreed to the claim, but contained handwritten amended totals for contributory salaries and contributions deducted. The Council were unable to provide a full explanation, or an analysis of the amendments made.

21 The Council also did not have documentary evidence to support the opt-in or opt-out elections made for three of the five part time and supply teachers pension contributions sampled.

22 These matters, which were also reported in 2008/09, were included in our report to the Department for Children, Schools and Families.

Recommendation

R2 Ensure that there is a clear audit trail between the payroll records and the claim. The audit trail should include a full explanation, or analysis of any amendments made

R3 Ensure that prime documents supporting entries on the claim are retained and made available for audit

Appendix 1 Summary of 2009/10 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	£73,690,633	Yes	No	Yes
Teachers' pensions return	£7,888,463	Yes	No	Yes
Sure start, early years and childcare	£4,098,310	Yes	No	No
National non-domestic rates return - contribution to pool	£30,390,892	Yes	No	No

Claims between £100,000 and £500,000

Claim	Value £	Amended
Disabled Facilities	£465,000	No

Appendix 2 Action Plan

Recommendations

Recommendation 1 - Housing and council tax benefits scheme

Ensure that working practices require that relevant information received by the fraud team is referred to the assessment teams for action, where appropriate.

Responsibility	Exchequer & Benefits Systems Manager
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Priority	High
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Date	October 2010
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Comments

Recommendation 2 - Teachers' Pensions

Ensure that there is a clear audit trail between the payroll records and the claim. The audit trail should include a full explanation, or analysis of any amendments made

Responsibility	Pensions Officer
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Priority	Medium
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Date	2010/11
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Comments

Recommendation 3 - Teachers Pensions

Ensure that prime documents supporting entries on the claim are retained and made available for audit

Responsibility	Pensions Officer
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Priority	Medium
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Date	2010/11
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Comments

Joint Working Protocol - Internal and external audit

Torbay Council

Audit 2011/12



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Introduction

1 Torbay, in common with other authorities, faces ever increasing pressures on its resources. As external and internal auditors we can assure management and the Audit Committee that audit resources are being applied efficiently and represents good value for money by demonstrating our commitment to work together effectively. This protocol sets out arrangements that support that commitment.

2 The objectives of this protocol are to:

- provide a framework for cooperation in planning and conducting our respective audit work;
- promote effective joint working, within the bounds of our respective roles;
- maximise the benefit from available audit resources, through agreed coordination arrangements; and
- help the Audit Committee to fulfil its responsibility for overseeing effective liaison between us.

3 To achieve these objectives, we need to work together effectively with clear communication throughout the year. This document reflects my commitment to promote productive joint working between my external audit team and your internal audit team.

Planning our respective audits

4 As the appointed auditor for Torbay Council I plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and the audit work focuses on the risks that are relevant to my audit responsibilities under the Code.

5 We both produce annual audit plans based on our own formal risk assessments. To ensure the timing and scope of our work optimises coverage and avoids duplication we liaise during the planning stage.

6 My risk assessment evaluates the control environment in place at the Council, of which you are an important element. As well as testing financial systems, you also complete work on other aspects of the control environment, for example the authority's assurance framework and corporate risk management.

7 We will meet regularly to support a cooperative, professional working relationship, share relevant information and coordinate the overall audit effort. From these arrangements we will specifically seek to:

- gain audit assurance;
- inform our opinions and conclusions;
- help our understanding of the Council; and
- rely on specific pieces of work where suitable.

8 We will tell each other of any significant issues which arise as soon as practicable, and of any changes or delays in agreed areas of reliance. I will also highlight to you promptly if I am unable to place reliance on agreed areas of joint working.

My audit approach

9 To support effective joint working I have outlined below my approach to delivering the audit at Torbay and the timetable that I have agreed with management.

Table 1: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating the control environment including assessing general information technology (IT) controls. Carrying out testing before the year-end on material balances that are expected to be included in the financial statements.	From January to March 2012.
2. Post-statements	Testing the material balances and notes within the financial statements.	From July To September 2012.

10 My team will liaise with you before they start the pre-statements stage of the audit.

Pre-statements audit

Documenting and walking through systems

11 I use the pre-statements stage of the audit to gain an understanding of the information systems the Council uses to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). This understanding enables me to focus my audit on relevant matters. It also enables me to highlight to the Council any significant weaknesses in how these systems produce materially accurate figures for the financial statements. I include a list of the systems that I have determined as 'material', and our cyclical testing programme at Appendix 1.

12 To achieve this I document my understanding of the material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from beginning to end. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and have confirmed there have been no changes to that system I simply walk through the system to confirm my understanding.

13 I expect that in meeting these requirements my team will liaise with you to find out whether the work that you carry out on financial systems can help inform my work.

Identifying and testing key controls

14 Having documented my understanding of the material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these 'key controls'.

15 Testing that these key controls are working effectively provides me with some assurance the financial statements are free from material error. It also enables me to report to the Council deficiencies in the system of internal control.

16 Wherever possible I will seek to rely on the work undertaken by you as part of the assurance framework supporting the s 151 officer and the Annual Governance Statement for these key controls. My team will therefore discuss the scope and timing of our respective audit plans. This will include sharing with you the key controls that I have identified within each material information system.

17 Where you are testing the key controls that I have identified and we have agreed that I will rely on your work, please note my minimum sample sizes. These are included in appendix 2.

18 If I do seek to place reliance on your work, I am required by auditing standards to review and evaluate the work. This will include evaluating the evidence that you have gained to support your conclusions.

Control environment and Information Technology (IT) controls

19 I consider the strength of the Council's control environment and general IT controls in assessing the risk the financial statements are free from material misstatement.

20 As part of the pre-statements audit, I will therefore consider and document the control environment in which the Council operates. For example, I will discuss with management and the Audit Committee the arrangements the Council has in place for issues including fraud, governance and complying with laws and regulations.

21 In addition, I also evaluate and test the general IT controls, such as access controls within material information systems. This may be another area where we can work together to reduce the risk of duplication.

Post-statements audit

22 At the post statements stage of the audit I focus my work on testing the material balances and notes within the financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

23 There may also be occasions where I seek to place reliance on your work, for detailed testing of items within the financial statements. My team will discuss these areas with you and with the s 151 officer when this is the case.

The way forward

24 To promote effective liaison between our two teams, I include at Appendix 4 a list of our key contacts.

25 I am committed to an effective relationship between our respective teams and will share this protocol with management.

Appendix 1 Material systems and Audit Commission Cyclical Testing Plan

ISA 330 requires us to test the key controls once every three periods. This enables us to adopt a cyclical plan of testing controls. The following table details the cyclical plan for each material system.

Information system	2008/09	2009/10	2010/11	2011/12
General ledger	Yes	Yes	Yes	Yes
Payroll	Substantive	Substantive	Yes	No
Debtors	Yes	No	Yes	No
Creditors	Yes	Yes	No	No
Council tax	Yes	Yes	No	Yes
NNDR	Yes	Yes	No	Yes
Housing benefits	Yes	No	Yes	No
Education	Yes	No	Yes	No
Social Services (Children)	Yes	No	No	Yes
Supporting People	Yes	Yes	No	Yes
Treasury management – loans (best tested substantively)	Yes	No	No	No
Treasury management – investments (best tested substantively)	Yes	No	No	No
Fixed assets / capital accounting (best tested substantively)	Yes	No	No	No
Cash and bank (cash receipting, bank rec and car parks)	Yes	No	Yes	No

Appendix 2 Required Sample Sizes

Where you are testing the key controls that I have identified and we have agreed that I will rely on your work, please note my minimum sample sizes.

Control Frequency	Sample Size
Quarterly	2 (including period end)
Monthly	2
Weekly	5
More than weekly	20

Appendix 3 Activity and responsibility

Activity	Responsibility
1 Identify material entries in the financial statements	External Audit
2 Link material accounts entries to feeds	External Audit
3 Agree material systems	Both
4 Document material systems including main accounting system.	Internal Audit
5 Identify key controls and assess risk of material misstatement	Both
6 Test operation of each key control - walkthrough	External Audit
7 Test that key controls being relied on have operated effectively over the whole of the period (sample size of 20)	Internal Audit
8 Review and discuss results	Both
9 Assess the risks/reliance/assurance to determine the approach to accounts opinion audit	External Audit
10 Establish material entries where reliance/assurance will not be sought from internal controls - ie substantive tests	External Audit
11 Undertake substantive testing.	Both
12 Complete the opinion audit placing reliance on and gaining assurance from the above activities.	External Audit

Appendix 4 Key Contacts

External Audit	Internal Audit
Steve Brown - Audit Manager S-Brown@audit-commission.gov.uk 07769 672920	Rob Hutchins
Stuart Holmes - Principal Auditor Stuart-Holmes@audit-commission.gov.uk 07779 331745	Lynda Sharp-Woods



Report No: **71/2011** Public Agenda Item: **Yes**

Title: **Internal Audit Plan 2011/12**

Wards Affected: **All Wards**

To: **Audit Committee** On: **24 March 2011**

Key Decision: **No**

Change to Budget: **No** Change to Policy Framework: **No**

Contact Officer: **Martin Gould or Robert Hutchins**
☎ Telephone: **01803 207320**
✉ E.mail: martin.gould@devonaudit.gov.uk,
robert.hutchins@devonaudit.gov.uk

1. What we are trying to achieve

- 1.1 All local authorities and other relevant bodies subject to the Local Government Act 1972 Section 151 and the Accounts and Audit Regulations 2003 (as amended 2006) must maintain an adequate and effective system of Internal Audit of its accounting records and of its system of Internal Control in accordance with the proper practices in relation to internal control.
- 1.2. As part of Torbay's commissioning model, Internal Audit provision is commissioned from Devon Audit Partnership. The Partnership is a shared service arrangement between Torbay, Plymouth and Devon County Councils and is constituted under Section 20 of the Local Government Act 2000. The Partnership provides audit services to the three Councils under Trading Agreements agreed with each of the clients and reports to the respective Audit Committees in line with previous arrangements. The commissioned service is expected to deliver improved efficiencies, productivity and performance, economies of scale and shared best practice.
- 1.3. Audit Plans are prepared for each of the client authorities using a risk based approach and priority assessment including consultation at both strategic and operational levels to ensure the service provided is aligned to customer needs, goals and objectives and satisfies the statutory assurance requirements. The Audit Days for each customer is based on available resources and previous service levels and the Partnership will operate robust performance management and reporting systems.

- 1.4. The Partnership is governed as a Joint Committee under Section 20 of the Local Government Act 2000 with a partnership agreement commencing April 2009 for a period of three years extendable to 5 years. The Joint Committee has two Members from each of the three Councils and is supported by a Management Board comprising the three Section 151 Officers and the Head of Partnership. The internal client relationship for the commissioned service takes place via quarterly performance review meeting between DAP leads and Section 151/Deputy Chief executive-Corporate support Commissioner.
- 1.5. The Head of the Devon Audit Partnership fulfils the role of Chief Internal Auditor for all three founding client councils. The Audit Plan forms the basis for the annual report to those charged with governance.

2. Recommendation(s) for decision

2.1 The Committee consider and agree in principle the proposed Audit Plan for 2010/2011.

3. Key points and reasons for recommendations

- 3.1 To satisfy the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom and to enable full consideration of the Annual Governance Statement.
- 3.2 To inform Members of the arrangements and work plan for the Internal Audit Service for the financial year 2010/2011.
- 3.3 To ensure key issues are communicated to and actioned by the Council to ensure risks are managed and the Internal Control Framework is sound.
- 3.4 To ask Members to endorse the outline Audit Plan for 2010/11 and advise of any areas of concern they feel would benefit from Audit input.
- 3.5 The Devon Audit partnership undertake audits in accordance with auditing standards contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which is the accepted standard to which the partnership works and against which performance is evaluated. Audits are planned and performed so as to obtain all the information and explanations considered necessary to gain assurance as to the level of control within the Authority. Audit findings and recommendations are however based on restricted samples of transactions / records and discussions with relevant officers.

For more detailed information on this proposal please refer to Appendix A.

Martin Gould
Head of the Devon Audit Partnership

INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2011/12

A1. Introduction

- A1.1 All principal Local Authorities, including Torbay Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006, which require that the Authority should make provision for Internal Audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code).
- A1.2 The Code requires, inter alia, that Internal Audit should prepare an annual risk-based plan for approval by the Audit Committee. In addition the Code requires that the Chief Internal Auditor should provide, annually, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- A1.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

A2. Audit Needs Assessment

- A2.1 The audit plan for 2011/12 plan has been identified by:
- Adopting a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines a schedule of priorities for audit attention.
 - Discussions and liaison with Commissioners and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including the introduction of new systems and corporate initiatives.
 - Taking into account results of previous internal audit reviews.
 - Taking into account Internal Audit's knowledge and experience of the risks facing the Authority
 - Requirements to meet the "managed audit" approach with the external auditors.
 - Consideration of risks identified in the Authority's strategic and operational risk registers.

The resultant Internal Audit Plan for 2011/12 is set out in Appendix 2.

A3. Internal Audit Partnership

- A3.1 Since 1st April 2009 the Internal Audit Service for Torbay Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and is constituted under section 20 of the Local Government Act 2000.
- A3.2 Although delivery of each authority's audit requirements is resourced by DAP, each authority's audit plan for 2011/12 has been prepared individually as

hitherto.

A4. Internal Audit Resources

- A4.1 Based upon our detailed risk assessment process we consider that 1,693 days of internal audit input will be required for Torbay Council in 2011/12.
- A4.2 In order to provide a cost-effective service and good value for money to all of our clients it is important that emphasis is given to minimising costs, particularly overheads, and maximising the efficiency and effectiveness of the audit processes. There is regular monitoring and management review of performance within the team over the year and we participate in the annual CIPFA benchmarking comparisons with other Internal Audit functions to demonstrate that Devon Audit Partnership provides a cost-effective service.

A5. Planned Audit Coverage 2011/12

- A5.1 Appendix B shows a summary of planned audit coverage for 2011/12 totalling 1,693 direct days. It should be borne in mind that, in accordance with CIPFA's Code of Practice for Internal Audit, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority. In this respect the IA Plan includes a contingency to allow for unplanned work.
- A5.2 Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following paragraphs give a brief overview of the focus of proposed audit coverage for the year:-

Cross organisation reviews

- A5.3 Our plan shows 70 days for Corporate initiatives. We are expecting that an element of this time will be used on "cross organisational views" that cover the three major partners of the Partnership. The aim will be to consider how, in a wider context, the three organisation are reacting to challenges facing them and to share learning, risks, opportunities etc to maximise the benefit for residents in the three areas. In 2001/12 one area for consideration along these lines is the Adult social care/health transition. A detailed brief will be agreed between the partners.

Corporate Support

- A5.4 We shall provide input into the People, Place, Productivity and Partnerships programme and the Productivity Improvement Project. We aim to provide input "upfront" to help ensure that the risks identified by the projects are suitably understood and mitigated. We will also provide guidance and assistance on managing the risks associated with the pending transfer of Adult Social care to the Council and the new requirement for Public Health.
- A5.5 A number of reviews are planned looking at how the Council discharges its requirements in respect of Data quality (for example linked to the N3 toolkit), Information Governance, and security arrangements. The focus will be to ensure

that legislation is complied with in an effective and efficient manner.

A5.6 More “operational” type reviews are planned for areas such as Disabled Facilities & Renovation Grants and Supporting People - we shall review managerial arrangements to ensure that risks are suitably identified and controlled and that objectives are achieved.

A5.7 We also aim to work with managers in controlling the risks associated with Housing issues – such as the impact on housing needs and homelessness when benefit reforms take place early in 2012.

People

A5.8 The plan for people’s services includes time to consider and review some of the more volatile spending areas such as School transport and use of agency staff. We shall work with management to ensure that systems and procedures are effective and promote value for money and efficient service delivery.

A5.9 We shall also review spending on supporting children and families by way of Section 17 payments. These payments are generally “one off” low value amounts that help to alleviate immediate problems – however there is a risk that the use of such payments becomes relied upon and that items purchased may not represent best value. We shall review controls in place to ensure spending remains appropriate.

Environment

A5.10 We shall work with the Environment commissioning team to help ensure that new ventures are operating effectively and that public funds are used to best effect. There are many developments taking place within this area, including the development of the Tor2 contract and the further development of the Tourism Development Company.

A5.11 We shall also undertake more operational reviews including work at the new Paignton library and a review of arrangements at the Harbour Authority.

Operational Support

A5.12 As in previous years, the bulk of our audit time will be concentrated in reviewing arrangements within Operational Support. This commissioning area provides most of what are referred to as “material systems” – these are the systems that generate the majority of income and expenditure appearing on the accounts of Torbay and are therefore subject to close scrutiny by our external auditors. Material systems include Payroll, Benefits, Creditors, Income Collection, CTAX & NDR, Bank Reconciliation, Debtors, General Ledger, Treasury Management.

A5.13 We shall also review other areas that are assessed as carrying risk to the Council and these include ICT issues, Data Security, Disaster Recovery arrangements, Personnel Management & Policy and Procurement arrangements.

Carry forward – completion of prior year work

A5.14 At the end of the year there will always be part of our work that is “work in progress” – this may require testing to be completed, the working papers to be reviewed by audit management, or the draft / final report to be agreed with management. 50 days has been allocated to ensure that all planned audits in 2010/11 can be completed to the expected standard.

Anti Fraud and Investigations

A5.15 Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability.

A5.16 Internal Audit will continue to investigate instances of potential fraud and irregularity referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud.

A5.17 The Audit Commission runs a national data matching exercise (National Fraud Initiative) every two years. Data matches were made available to the Authority at the end of January 2011 and Internal Audit will co-ordinate the departmental investigation of potentially fraudulent matches which have been identified by the Audit Commission during the data matching exercise.

Contract Audit

A5.18 We have set aside 30 days for specific contract review work. This work will consider contracts that will be let in 2011/12, monitoring of contracts currently in operation and compliance with EU regulations.

Corporate initiatives

A5.19 An allocation of 70 days has been made to assist with corporate initiatives. The areas that we will assist with will be agreed during the year, but are likely to be the cross cutting issues affecting the Council (for example reaction to budget pressures, changes in legislation etc).

Grant Claims

A5.20 We will review interim and final grant claims before submission to the grant awarding body. Our work will ensure that claims are accurate, complete and that income opportunities to the council are maximised.

Other Chargeable work

A5.21 An element of our work is classified as “other chargeable work” – this is work that ensures that effective and efficient services are provided to the Council and that the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the topics included within this area include:-

- Preparing and monitoring the internal audit plan
- Preparing and presenting monitoring reports to senior management and committee

- Liaison with other inspection bodies (e.g. Audit Commission)
- Annual governance statement
- FMSiS coordination (to be adjusted to reflect changes in the summer)
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2011/12
- Technical and process developments within the Partnership. Investment in these developments is expected to deliver greater efficiencies in the future.

Advice and consultancy

A5.22 Internal Audit will provide advice and guidance to all departments throughout the Authority on many and varied topics including, for example, interpretation of Financial Regulations/Standing Orders, corporate governance, internal controls, legislation (e.g. Data Protection), security, letting of contracts, setting up of new delivery vehicles, PC/network access etc.

External Clients

A5.23 The Devon Audit Partnership is “externally-funded” to undertake audits for Schools in Torbay.

Schools Audits

A5.24 The Financial Management Standard in Schools has now been abolished by the new Government and will be replaced by a simpler less evidentially burdensome scheme in the Summer 2011. Audit of the control and governance arrangements within schools will continue to be carried out on a three year cyclical basis. All of the key elements that were in the FMSiS were formerly audited by us, and will continue to be so, where we give our assurance on matters of governance, school development, budget management and the core financial systems. Our work programmes for 2010-11 were re-written to incorporate elements of FMSiS not formerly reviewed, notably, benchmarking and governor competencies. The DfE consider that benchmarking should still be undertaken as a matter of best practice, and good governance supported through a competency framework is still an area schools require support on, hence we have made only minor amendment to our audit programme dropping non mandatory elements also not required by the LA. When the new standard is issued in the Summer term we will incorporate this into the audit programme for all schools.

A5.25 The Government’s drive to encourage schools to become academies is firmly in place. The opportunities for becoming an academy are clearly appealing to many however, there are significant risks involved in the decisions to be made and in establishing a sound framework of internal control. As we provide internal audit services as a “sold service”, and because there is no requirement for academy schools to have internal audit, this will represent a risk to our business. We are in the process of advertising and bidding for “responsible officer” work with the academies, and already have agreements with two Devon Schools. It is early days in the process and we hope to be successful with more schools across all the Partnership LA’s, and continue to provide assurance services that they have come to respect over many years. Our resources will be re-scheduled to address the changing work commitment.

A5.26 At the time of writing schools are choosing their options for the coming years services and we anticipate, based on previous experience, a high level of take-up from the remaining schools. There has been a change in buy-back of schools during the year where 50% of primaries and all secondary and special schools now take an annual audit review where they feel this is beneficial to maintain improvements in financial control. Formerly, most primaries were on a biennial review.

A5.27 All the above means that there is considerable uncertainty over the amount of input that will be commissioned from Torbay schools from the Devon Audit Partnership. Based on our current understanding we expect that we will provide in the region of 85 days – however this will be subject to ongoing change to meet individual school needs.

A6. Partnership Working With Other Auditors

A6.1 We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices, and often improve the effectiveness and efficiency of the audit process, through avoidance of instances of “re-inventing the wheel” in new areas of work which have been covered in other authorities.

A6.2 The most significant partnership working arrangement with other auditors will continue to be that with the Audit Commission, the Council’s external auditors. This is well established over many years and is formalised in the annual Joint Audit Protocol with Internal Audit issued by the Audit Commission.

A6.3 As well as carrying out work which the external auditors rely on in respect of the Material Systems described earlier, Devon Audit Partnership carries out further work on their behalf in the audits of grant claims. We are committed to continuing to improve the effectiveness of these arrangements, which aim to avoid duplication and minimise the overall cost of audit to the Council.

A7. Risk assessment of preferred option

A7.1 Outline of significant key risks

The report is predominantly for information and therefore there are no risks associated with the recommendations.

A7.2 Remaining risks

Although the plan has been matched to available resources within DAP, there remains a risk that a large fraud or irregularity, or significant levels of sickness or staff turnover could result in audit reviews slipping thereby increasing the future risk to the Council. Such situations will be managed within the overall audit resources available to the partnership with audit resources being moved between client Councils to better manage this risk and to address the issue identified. Conversely the impact of such an event on the other client Councils could necessitate resources being moved away from Torbay but it is hoped that allowing a contingency will help to manage this.

It should be recognised that ultimately it is the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. It does not matter how good the systems of internal control are, it is not possible to guarantee that a fraud will not occur, although it is hoped any irregularity would be quickly identified and resolved. However the work undertaken by Internal Audit should give both the service manager, and the Council, assurance that with the testing undertaken, no fraud was found and that all systems were operating effectively within the limitations reported at the time. Only by constant appliance of the Council's Standing Orders, Financial Regulations and operating instructions can this risk be fully minimised.

A8. Other Options

- A8.1 The issues raised in this report are predominantly for information and as such there is no requirement to consider alternative options.
- A8.2 There is a statutory requirement for a continual internal audit of the Council's processes and internal controls. Whilst there are options surrounding the risk assessments, those being used are the accepted approaches for this style of risk assessment and may vary from those which are applied to the Council's services generally but in certain cases there are no alternative options if the Council is to meet external requirements.
- A8.3 Internal Audit provides one element of the assurance required to enable the Mayor and Chief Executive to sign the Annual Governance Statement required under the Accounts and Audit Regulations 2003 and updated by the 2006 Regulations. Directorate Management provide another source of assurance and should provide evidence to support their view that Internal Controls and wider corporate governance are adequate. External reviews provide another source of assurance. A reduction in Internal Audit coverage will therefore necessitate increased reliance on these other forms of assurance.

A9. Summary of resource implications

- A9.1 The Audit & Efficiency net Budget for 2011/12 in respect of Torbay Council's contribution to the Partnership has been set at £366,000, which is predominantly staff salaries. The audit plan is matched to available resources and delivered within the budget available.
- A9.2 Resource implications are therefore related to staff time both within the service and departments who may be required to make officers available to answer audit queries and provide information in respect of any audit review or investigation.

A10. What impact will there be on equalities, environmental sustainability and crime and disorder?

- A10.1 Members and employees, in their roles and responsibilities, are asked to be vigilant in preventing and detecting fraud, corruption and irregularity. In addition, Members and employees have a responsibility to lead by example in ensuring adherence to legal requirements, Standing Orders, Financial Regulations and all

procedures and policies including both Members and Officers Codes of Conduct.

A10.2. Internal Audit has due regard for section 17 of the Crime and Disorder Act 1998, ensuring that we consider crime and disorder reduction and community safety in the exercise of all of our duties and activities. Part of our role includes being one of the major contacts within the Council's Fraud & Corruption and Whistle-blowing Policies that detail how potential irregularities and frauds will be investigated and reported. Also, as part of the Audit Planning process, we discuss potential audit areas with all departments and undertake work on a cyclical basis in areas such as Community Safety Team, Youth Offending Team, Environmental protection/Street Wardens and Highways.

A10.3 The Internal Audit service will support equality and diversity ensuring inclusion, fairness and equality of access. The key actions for the Partnership in relation to equality and diversity are as follows: -

- Equality Impact assessments of all audit related policies and procedures
- All correspondence etc can be made available in different languages and formats as required – Audit subscribe to the National Interpreting Service
- Equalities is included as a standing agenda item in management team meetings and is included in job descriptions.

A11. Consultation and Customer Focus

A11.1 The draft plan has been subject to consultation with Commissioning Officer Management Teams and External Auditors.

A11.2 Customers are a key area for the service. We have a range of internal and external customers who rely on our service to provide the assurance they require as part of their statutory function and to assist in maintaining the economy, efficiency and effectiveness of their service to their customers. This includes the Fraud & Corruption and Whistle-blowing policies that provide a framework for the investigation and management of Whistle-blowing referrals which will safeguard employees who make a protected disclosure and demonstrates clear standards and guidelines for maintaining probity, accountability and trust within Torbay Council.

A12. Are there any implications for other Business Units?

A12.1 Internal Audit covers all services of the Council and will therefore have linkages and implications for all business units and for Torbay schools.

Appendices

Appendix B Summary Audit Plan 2011/12

Documents available in members' rooms

None

Background Papers:

The following documents/files were used to compile this report:

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Accounts and Audit Regulations 2003
Accounts and Audit (Amendment) (England) Regulations 2006
Internal Audit Partnership Plan Spreadsheet 2010/11
Internal Audit Partnership Agreement
Devon Audit Partnership Business Plan
Internal Audit Code of Practice for Schools
Internal Audit SPAR Reports
Fraud & Corruption Policy December 2008
Whistle-blowing Policy December 2008
Devon Audit Partnership Procedure Manual

Summary of Audit input – by Commissioner and delivery area

	2011/12	2010/11
Corporate Support	175	65
People	160	185
Environment	200	71
Operational Support	425	535
Carry forward – completion of prior year work	50	50
Anti Fraud and Investigations	140	140
Contract Audit	30	30
Corporate Initiatives	70	50
Grants	15	15
Contingency (5%)	85	96
Other Chargeable Activities	168	175
ICT Audits (now within Operational Support)	0	150
Advice & Consultancy	65	50
Follow ups	25	20
Total Input for Torbay Council	1608	1667
Schools	85	115
Total Input for Torbay	1693	1782



Briefing Report No: **72/2011** Public Agenda Item: **Yes**

Title: **Progress Report on Risk Management**

Wards Affected: **All Wards**

To: **Audit Committee** On: **23 March 2011**

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1 Key points and summary

- 1.1.** The purpose of this report is to update members of the Committee on the recent activities and progress being made within the Risk Management Division (Governance), in accordance with the agreed timetable of reports.
- 1.2.** The Risk Management Division comprises the following sections:-
- Insurance Services
 - Corporate Risk Management
 - Emergency Planning
 - Claims Handling
 - Corporate Health & Safety
- 1.3** The Division is responsible for ensuring that the Council meets both its statutory and contractual obligations in relation to:-
- Health & Safety at Work Act 1974
 - Civil Contingencies Act 2004
 - Civil Procedure Rules 1998
 - Contracts of Insurance
 - Fidelity Guarantee Insurance
 - Local Government Act 1972
 - Corporate Manslaughter & Homicide Act 2007
- 1.4** The Corporate Plan 2007-11 included as a key project to implement the Risk Management Strategy and ensure the proper risk assessment of projects and regular review of risks (both corporately and within Business Units) with appropriate mitigation measures.
- 1.5** In 2008/09 the Audit Commission introduced a new way of assessing how well organisations are managing their resources to deliver value for money and better and sustainable outcomes for local people, which is known as the “Organisational

Assessment". The inspectors' terms of reference are known as the "Use of Resources" to measure the Council's performance.

- 1.6 The Commission has produced a number of Key Lines of Enquiry (KLOE) which forms the relevant criteria against which the Council will be judged.
- 1.7 KLOE 2.4 relates to how well the Council manages its risks and maintains a sound system of internal control by:-
 - effective risk management
 - a clear strategy and effective arrangements, including allocation of appropriate resources
 - a sound system of internal control

It should be noted however that the Use of Resources regime is a more holistic approach and the areas under review, although heavily centred on KLOE 2.4 will cover all KLOE's.

2. Introduction

- 2.1 This report demonstrates how the Council is pro-actively managing its risks together with the beneficial outcomes from a corporate and operational stance.

3. Background

- 3.1 The Risk Management Division was set up in 1998 which initially included Claims Handling, Health & Safety and Insurance. In 2005 Emergency Planning joined the Division and then in 2008, the post of the Emergency Planning and Corporate Risk Manager was created.
- 3.2 It was seen that there was a direct link in the management of risk between Health & Safety, Insurance, Claims Handling, Emergency Planning, Business Continuity, and Corporate Risk Management. By bringing these disciplines together it has enabled the Authority to take ownership of the management of risk with the close collaboration of these departments not only in terms of operational risks but by linking in with Business Continuity Management arrangements and strategic risks in the event of an emergency, which has highlighted the need for training of Members, Commissioners and Executive Heads and managers.
- 3.3 The sections in the Risk Management Division, work closely together, are committed to continuous improvement and implementation of effective risk management arrangements across the Council which in turn produces financial benefits through generation of savings, maintaining a good reputation and working more efficiently and effectively.
- 3.4 The Division provides a package of specialist technical advice and assistance to the Council and its community. There is excellent communication and co-operation between the separate elements which yields an all-inclusive service.
- 3.5 The benefits of an internal Risk Management Division provides a collaborative response to the management of Risk both in terms of opportunities and threats

faced by the Council, enabling the Council to respond to an ever changing environment ensuring that it achieves its planned outcomes.

4. Insurance Services

4.1 Introduction

A briefing report 76/2009 was presented to Audit Committee on the 25 March 2009 (Appendix 1) which provided an overview of Torbay Council's Corporate Insurance Function and was followed by an updated report on the 24 March 2010 (83/2010).

The following is a summary of events which have occurred since the last report.

4.2 Insurance Placement

Insurance renewal negotiations were concluded in December 2010 following a protracted negotiation with Insurers who were looking to change the terms (break of the Long term agreement and an increase in premiums for one class of business) of the already existing terms agreed in November 2006 when the overarching terms were set for a period of 5 years. This stance was robustly defended by the Council as the merit for adversely revising terms had no substance for doing so both in terms of risk exposure and claims. A very important point for Torbay Council who are due to tender (to be advertised in the Official Journal of the European Union) all corporate insurances later on this year, the result being that the reputation of Torbay Council still remains an attractive risk to potential Insurers.

The existing Insurer's stance of re-evaluation of their proposal coupled with sound risk management evidence is acknowledgement that Torbay Council is seen as an attractive risk to Insurers in terms of the way our business is conducted, the policies and processes in place to effectively identify and manage risk where possible together with the effective and robust management of claims when they arise.

The main features of the insurance renewal where continued savings were made were:

Examples of the continued benefits for the 2010/11 terms are:

- Motor - reduction in rate per vehicle under the fleet from £579 per vehicle to £515 per vehicle in recognition of the reduced risk following the transfer of the higher risks vehicles to the Joint Venture Company. . A saving of £5,248
- Reduced Aggregated Stop Loss (ASL) from £1,000,000 to £750,000 (casualty). This significant reduction remains in place for the life of the liability policies for any future casualty claims that occur, irrespective of when the claim is brought against the Authority.
- No inflationary increase to deductibles, engineering and motor for 2010/11 renewal.
- Insurance premium tax paid at 5% avoiding the increase to 6% applicable from January 2011. (A saving of £6k).

- Confirmation that the Authority will be released from the Long Term Agreement (set in November 2006) without penalty if we chose to join a Local Authority Mutual.
- Adjustment of premiums mid term to reflect transfer of risks to JVCo – approximate saving £60k.
- Reduced premium rate (30% reduction) and nil deductible applied to Kings Ash Primary School for the fire perils in recognition of sprinkler system installed. Further consideration will be applied in respect of the Sprinkler system installed at Torquay Community College when the official sign off has been approved by the Insurer.
- Insurer to continue to waive Liability claims handling charge which at the outset of the Long Term Agreement was charged at almost £20k per annum.
- Continued benefits of wider cover and competitive terms have been maintained by the Museums policy provider for the very specific nature of this risk.

Taken as a whole these terms continue to represent good value and with the reduced aggregate stop loss on the Liability policies has enhanced the Council's protection.

The Council has been able to continue to "capitalise" upon already good terms and this reflects the present competitive state of the insurance market.

It also demonstrates how Insurance Underwriters rate risk and convincing them of the Authority's commitment to Risk Management using the knowledge gained from the others sections within the Risk Management department (as outlined in this report) as well as other Council departments should not be underestimated. Without such commitment the impact for the cost of risk transfer to the Insurance market could indeed be far more than the favourable rates we enjoy at present. This particular aspect will be a critical part of the forthcoming tender process.

4.3 **Independent Advice**

Independent Broker Marsh Ltd, a leading worldwide specialist in the Public Sector, are retained to provide year round professional advice to the Authority and assist with tender negotiations when required as part of their service contract with the Council.

4.4 **Benchmarking**

The Council again participated in the 2010 Cipfa insurance benchmarking programme along with 65 other Unitary Authorities. The results of the survey continue to support the position that the Authority has achieved the widest scope for the Insurance programme chosen and at highly competitive rates. (See Insurance Section extracts (Appendix 1 – comparison with Unitary Group and Appendix 1a – self comparison, both reports over a 5 year period)

The information will also be used for the forthcoming insurance tender as evidence of the management of risk undertaken by the Authority.

Motor Insurance comment – rate per vehicle – although the rate has been reduced to reflect the transfer of the higher risk vehicles to the JVC, it is anticipated that this rate will be improved at the forthcoming tender as recognition of the fleet vehicles remaining with the Council – providing the claims support this position.

4.5 Insurer's response to policy cover to address emerging changes of risk

Insurers have responded to emerging areas of risk in the insurance market by including additional cover to existing policies for example:-

Terrorism – (PL) increased the limit of indemnity from £5m to £25m

Corporate Manslaughter and Corporate Homicide Act 2007 – Insurers will indemnify Insured against legal costs and expenses incurred in defending any criminal prosecution. Indemnity limit is £50m but excludes any deliberate or intentional criminal act, fines or penalties.

Legionella – cover for outbreaks resulting from premises owned or operated by the Council where there is a discharge resulting in pollution or contamination.
Environmental Liability – £1m indemnity for clean up costs where the incident is sudden, identifiable, unintended and unexpected and where the Council is legally liable to pay arising from environmental damage caused by pollution or contamination where such liability arises under an environmental directive, statute or statutory instrument.

4.6 Insurance Fund

An interim actuarial review of the Council's Insurance fund was undertaken in 2010 to confirm adequate sums were in place to meet the costs of claims (including projected claims) falling within the Council self insurance retention (SIR) and specified earmarked amounts for uninsured and self insured areas of risk.

4.7 Insurance Tender 2011

A strategy for the forthcoming insurance tender has been put in place to ensure that the Council is fit for purpose when seeking the most suitable and advantageous insurance terms available at the time of the tender:-

- Programme Optimisation project – review of the Council's current programme of insurances
- Actuarial review of the insurance Fund – to ascertain the adequacy to meet current and future liabilities
- Risk Management /data collection for compilation of market presentation together with criteria for application by prospective Insurers (i.e. financial rating, capacity, technical ability, pricing sustainability and value added services).
- Advertise the Insurance Contract in the Official Journal of the European Union. The OJEU procedures are designed to ensure open, transparent and a

competitive environment. Insurance is a particular discipline which requires specialist considerations to avoid OJEU procedures having an adverse effect.

- Issue of tender specifications to applicants meeting criteria
- Closing date for tenders followed by contract evaluation in line with required criteria
- Alcatel (standstill period)
- Contract award

In recent years the Insurance market has remained competitively priced for those risks for which it can be demonstrated are performing well. Insurers have become more selective in addressing poor risks and have taken a harder stance on claims. Insurers expect their clients to be pro-active in managing risks.

It has been muted for sometime now that Insurance terms are going to harden in the Market, therefore it is paramount that the tender specification is both comprehensive in representing the insurable risks for Torbay Council, demonstrates that claims are managed to a high standard and that there is a pro-active risk management culture within the Authority – only by encompassing all of these elements can Torbay Council look to achieve the right insurance placement at the most favourable terms available.

4.8 Summary

The Council has overall enjoyed a good claims history which has enabled the Council to transfer financial risk and obtain a competitively priced insurance program.

The savings made over the past few years when renewing the Corporate insurances reflect ongoing positive risk management and claims performance of the Authority. Insurers have in recent times been more willing to “reward” better managed risks. The insurance market remains stable and competitive a stance supported by Marsh with the outcome of recent tenders. There is no evidence of any major changes to market conditions but there is a degree of volatility given the worldwide catastrophe losses. Therefore, there is still an increasing requirement for Local Authorities to provide full risk information to Insurers who are looking for evidence of a sound and progressive risk management policy. In this regard the early identification of risks (operational and strategic) together with the measures put in place to mitigate risk (whether insurable or not) are required when demonstrating to Insurers the ways in which the Authority proactively manages risk. Part of this action will be in the form of a Risks Management Strategy and a Risk register, a tool which must be regularly reviewed and which responds to new and emerging risks.

Another important factor is the overlap between the remaining Risk Management Sections, Health and Safety (H & S), Emergency Planning, Claims Handling and Insurance each informing the other of potential risks (through H & S incident reporting, trends highlighted in claims made, issues highlighted from emergency planning events (real and staged) and information exchanged/shared with Insurers, Insurance Brokers, Solicitors and other Local Authorities as well as queries raised

through client departments). This information is seen as an important and vital resource which is shared Council wide (and where appropriate with Partner Organisations/Community Groups) to address and implement recognised good practices, thereby mitigating risks and ensuring the best use of resources.

5. Corporate Risk Management

- 5.1 The Corporate Risk Management department is committed to continuous improvement and work is ongoing to further strengthen the links with business planning and performance management.
- 5.2 The risk management strategy and toolkit have been published, supported by an awareness campaign using all-staff emails and Insight. This was followed by a complete review of the risk register which is now published on SPAR.net.
- 5.3 Business unit risk registers are now in place; this new level of risk within the council is a large step forward in risk maturity. Risk is also now included as part of the service managers monthly meetings.
- 5.4 The profile of risk management has risen significantly following a structured programme of corporate risk management training. A set of bespoke training sessions have been conducted with COG, executive heads and service managers.
- 5.5 The SPAR system is now the main tool for managing, reviewing and reporting on risk throughout the council. A SPAR Risk user guide has been created, which was supported by a large scale roll-out of training supported by ICT. We have recently completed a number of minor software developments and the system is now fairly robust in its use for managing risk.
- 5.6 The intranet based risk management training is currently under review. The intention being to replace the existing system with a generic induction package as part of the DLE website.

6. Business Continuity Management

- 6.1 Work is ongoing in reviewing the council's Business Continuity Management Plans. A self-assessment questionnaire is being developed in order to determine the council's current position at business unit and service area levels.

7. Emergency Planning

- 7.1 A number of actions were implemented following the instances of severe weather last year in order to increase our resilience to severe weather events.
- 7.2 The Emergency Planning Team continues to work closely with Torbay Care Trust in order to strengthen existing collaborative working arrangements. A plan for accessing vulnerable people data has been finalised and tested as part of the multi-agency exercise conducted in March.
- 7.3 Since the formation of the joint venture company, TOR2, the Emergency Planning Team has undertaken a large volume of work including reviewing emergency plans, extensive consultation regarding 24hr Control Centre, revision of standard operating

procedures, updating of emergency cascade arrangements, emergency planning training with TOR2 staff.

- 7.4 Working in collaboration with the Local Resilience Forum (LRF), work is ongoing to review the access to and provision of transfer station fuel stocks in the event of a fuel crisis.
- 7.5 Following changes to the Flood Warning service we receive from the Environment Agency the Council's standard operating procedures have been reviewed and updated.
- 7.6 The Council's Bomb Threat Procedures have been reviewed and updated.
- 7.7 The Emergency Planning Team has been involved in extensive consultation in respect of the Parkfield House Development and undertaken a large volume of work to provide meaningful advice on flood evacuation plans.
- 7.8 The Emergency Planning Team has organised and/or taken part in exercises including:
- RAYNET Exercise Watermark
 - Tested the Business Continuity Plan with Waste and Cleaning
 - Attended and assisted at a Torbay United Football Club evacuation exercise
 - Assisted with TCT Rest Centre Exercise
 - Organised a multi-agency flood pollution exercise to involve amongst others: Torbay Council Staff, Elected Members, Harbour Services and Maritime Coast Guard Agency etc.
 - Sent staff on Maritime Coastguard Agency 4 day pollution response Course
 - Sent staff on North Devon Maritime Coastguard Agency Beachmaster Course
- 7.9 The Emergency Planning Team has Responded to the following incidents:
- Snow / Ice
 - Council wide IT / phone failure
 - Brixham Chimney Collapse
 - UXO on Beach
 - Pollution report in Sherwell Valley Watercourse
 - Collision between Super Tanker and Fishing Vessel
 - Collision between Fishing vessel and Brixham Breakwater
 - House Fire – 3 Norman Road
 - Hotel Fire – Palm Court Hotel

8. Claims Handling Section

- 8.1 This section investigates and has conduct of all claims valued within the excess upon the liability insurance policies and handles those over the excess in conjunction with the insurers and external solicitors.
- 8.2 The performance of the section is measured both internally (SPAR) and externally (CIPFA and insurer's audits). Its targets have been met or exceeded upon a regular basis. Please find attached the 2010 audit undertaken by Zurich Municipal which awarded an overall score of 96%. Appendix 9

- 8.3 Overview & Scrutiny reviewed Claims Handling in June 2008 as part of an evaluation of Litigation and Enforcement. (Report OSB/12/2008)
- 8.4 The section has a proven track record of providing high quality, efficient and robust service for over 10 years. As a result of working closely with the Highways Division, a Code of Practice for Highway Safety Inspections was developed and implemented which has had and continues to have a significant impact on the number of successfully defended highway claims.
- 8.5 The section continues to work closely with other departments to ensure that, where practicable, robust defences can be mounted in respect of all claims.
- 8.6 The team works alongside Health & Safety in promoting good working practices together with providing advice and guidance and have contributed to the numbers of Employers' liability claims being reduced year on year.
- 8.7 During 2009/10 the Council received 178 liability claims of which 30 have been settled to date. This only reflects a snapshot of what is happening on the ground during those 12 months. However, the long-term statistics show that the numbers of all claims being received have reduced overall since 1998.
- 8.9 Since 2000 the Council has, on average, succeeded at court with 50% of its cases.

9. Corporate Health & Safety

- 9.1 The Corporate Health and Safety team are an internal cross cutting resource which protects the Councils assets and staff by the provision of legal and technical advice, guidance and best practice on health and safety matters affecting the Council as an employer and owner/occupier of premises. Working within the risk management division provides the opportunity for enhanced communications and assistance (multi-skilling) and support within the individual teams.
- 9.2 Accident incident rates to date this year compared with previous records continue to decrease even with the transfer of personnel to TOR2.
- 9.3 A new accident recording system is currently being developed in house by our IT colleagues with a view to enhanced recording, and electronic reporting throughout the Council increasing efficiencies and cost effectiveness.
- 9.4 Improvements of health, safety and fire training courses developed and implemented by the in house team have increased the take up of training across the Council. Together with increased take up of the online health and safety training systems have resulted in the equivalent saving of £59,000 so far this year.
- 9.5 Benchmarking was carried out with other local authorities through the Regional bench marking club. Results are compared with other to ascertain methods of working, accident/incident rates and costs of providing the service. The results are attached.
- 9.6 Stress cases being monitored with Occupational Health have shown an increase in total number of cases reported in the year to date (70 compared to 68). However the majority of cases are not work related. Each referral results in line managers being

contacted to ensure that procedures and controls are put in place to support the employee's eventual return to work.

- 9.7 Audits of business units were completed in October with results being fed back to the individual Executive Head and action plans being developed and implemented.
- 9.8 Targeted audits of 9 schools within the authority have been undertaken with agreed outcomes and action plans being implemented by the schools management teams.
- 9.9 The Councils revised Health and Safety policy was published in September 2010 following improvements and full consultation.

10. Conclusion

The areas of work of the 5 units, that form the Risk Management Division, are closely interlinked. The aim of the section is to provide a professional and technical function to protect the Council's finances (public purse), its assets (resources), operationally (safely and efficiently) and strategically, maintain a good reputation (businesslike) and provide best value to the Authority to achieve its planned outcomes.

It is important to evidence that the Council's risks are being managed at all levels (strategically and operationally).

The Division strives to provide a high quality, pro-active and comprehensive fully integrated service to both minimise the impact of risk and maximise the potential for opportunities enabling the Council to meet its obligations, priorities effectively and efficiently.

Appendices

Appendix 1 and 1a - Extracts from CIPFA Benchmarking Report 2010 (Insurance Section).

Appendix 2 - Claims Handling Audit Report by Zurich Municipal 2010.

Appendix 3 – H & S Benchmarking data

Background papers:

The following documents/files were used to compile this report:-

CIPFA publication – Risk Management in the Public Services

CIPFA Benchmarking Report 2010 – Exempt document

LACHS database

SPAR database

Audit Commission website

IOSH GUIDELINES

Corporate Plan 2007/11

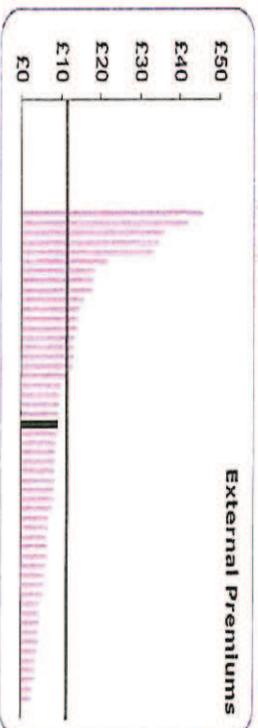
Appendix 1

INSURANCE SECTION

Extract from CIPFA Benchmarking Exercise 2010
Group Unitary Membership = 65

Employers Liability

Employers Liability Premiums over a 5 yr Period 2004/5 - 2008/9
Premiums
£ per Employee

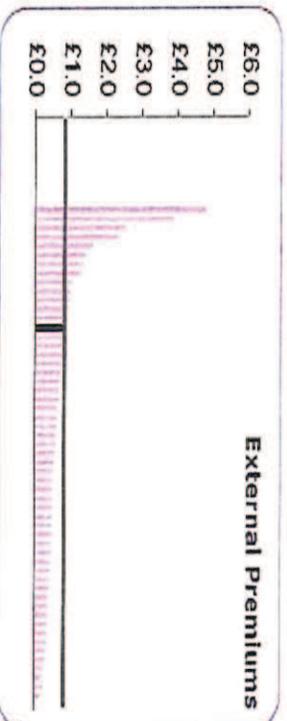


Torbay Council figures in Black

Employers Liability Policy Cost per Torbay Employee =£9.20

Average Cost per Employee for the Group = £11.50

Public Liability

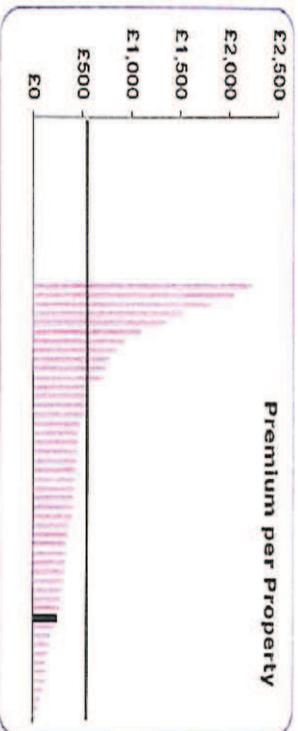


Torbay Council figures in Black

Public Liability Policy Costs per Torbay Population = £0.80

Average Cost per Population within the Group = £0.80

General Property

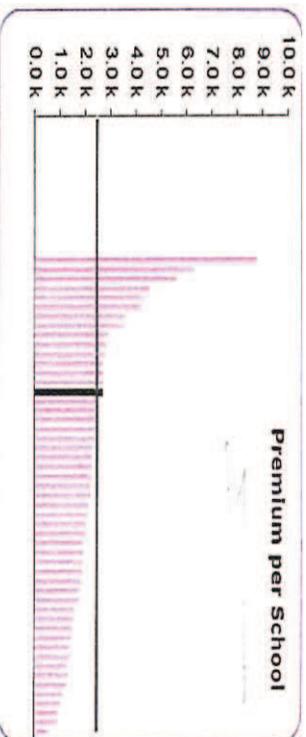


Torbay Council figures in Black

Premium costs per property - Torbay = £244

Average premium cost within the Group = £546

School Property



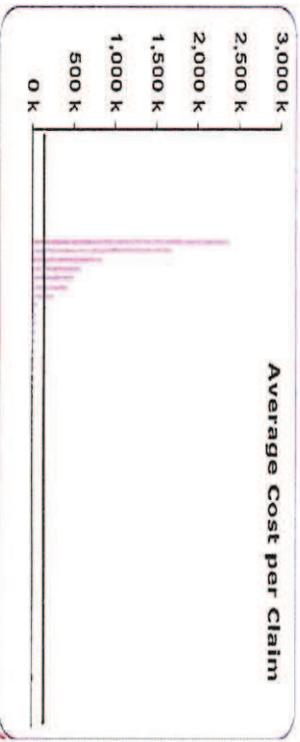
Torbay Council figures in Black

School - Average Cost per Torbay School = £2.7k

Average premium cost within the Group = £2.5k

Claims

Schools - Fire Loss Claims

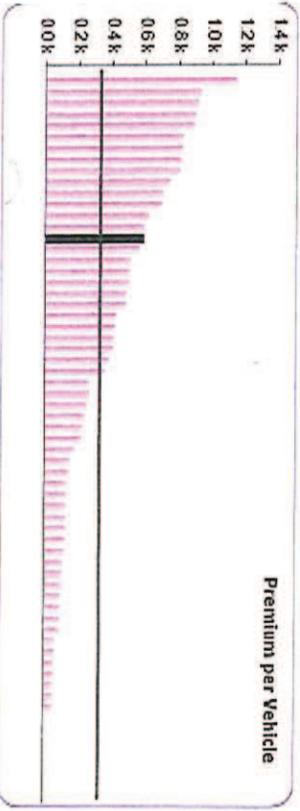


Torbay Council figures in Black

Average Cost per Torbay School Claim - £3k

Group average per school = £1.39k

Motor Premiums



Torbay Council figures in Black

Premium Costs per Torbay Fleet Vehicle = £590

Average premium cost within the group = £330

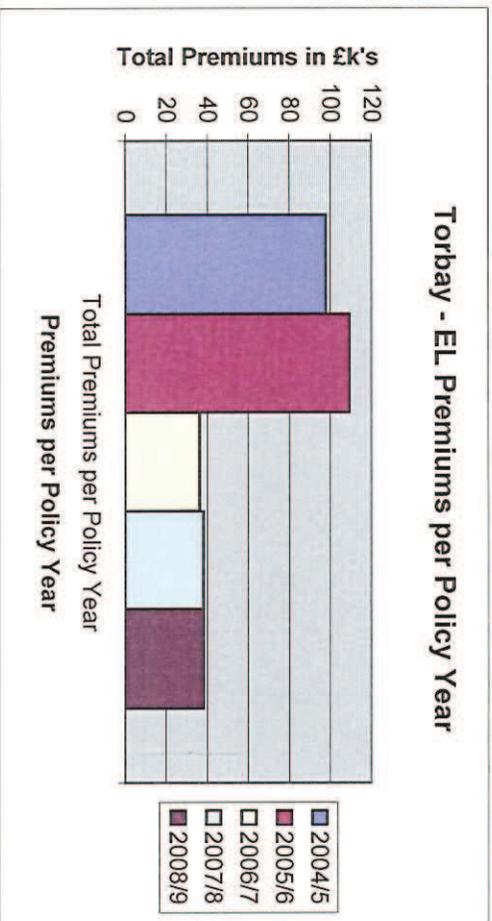
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Insurance Section

Extract from Benchmarking Exercise
Torbay Council / Torbay Council

Employers Liability

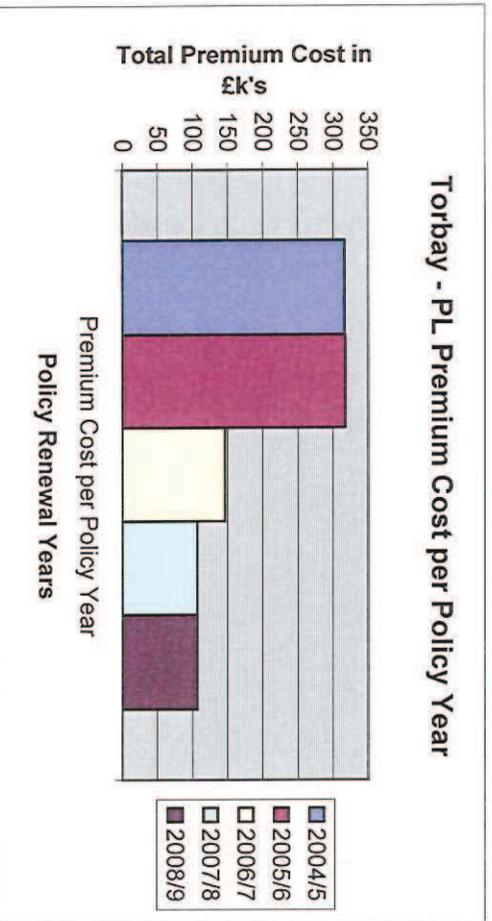
Employers Liability Premiums over 5yr Period 2004/5 - 2008/9



Total Premium Spend per Policy Year

Public Liability

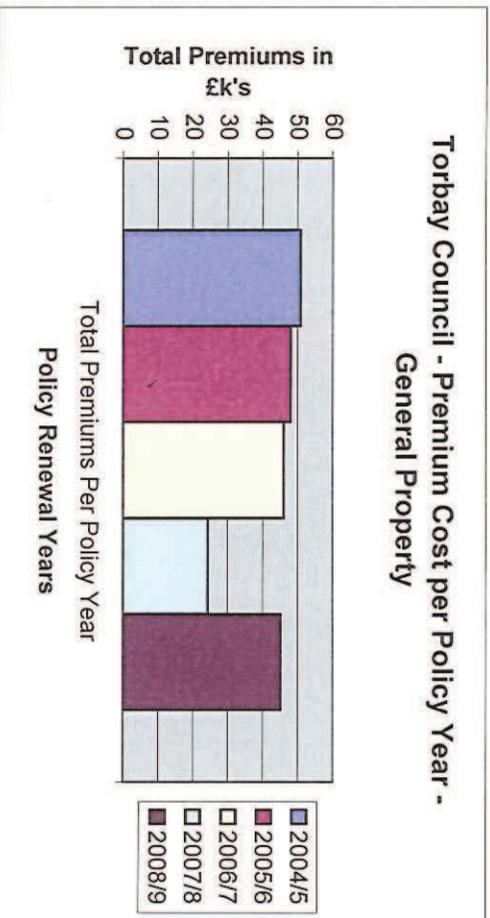
Public Liability Premiums over 5 yr Period 2004/5 - 2008/9



Total Premium Spend per Policy Year

General Property

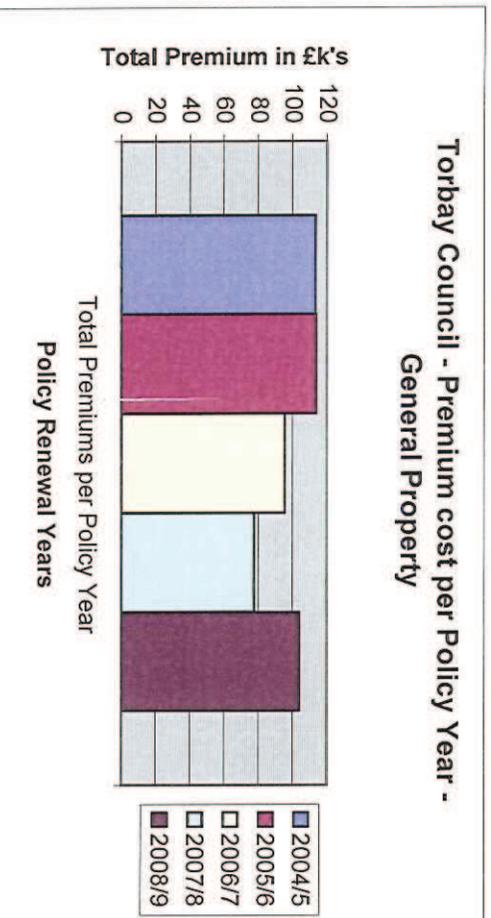
General Property Premiums over a 5 yr Period 2004/5 - 2008/9



Following Sir Michael Pitt's Review in 2007/8 it was recommended to Councils to provide sufficient resources for Storm and Flood damage in line with a local authority duty under Accounts and Audit Regulations 2003 to ensure that they have a sound system of internal control for the management of risk (regulation 4) together with CIPFA guidance to ensure the adequacy of the Authorities Insurance arrangements to cover major unforeseen risks. Therefore Flood and Storm perils were added to the cover for the authorities own properties at that time.

School Property

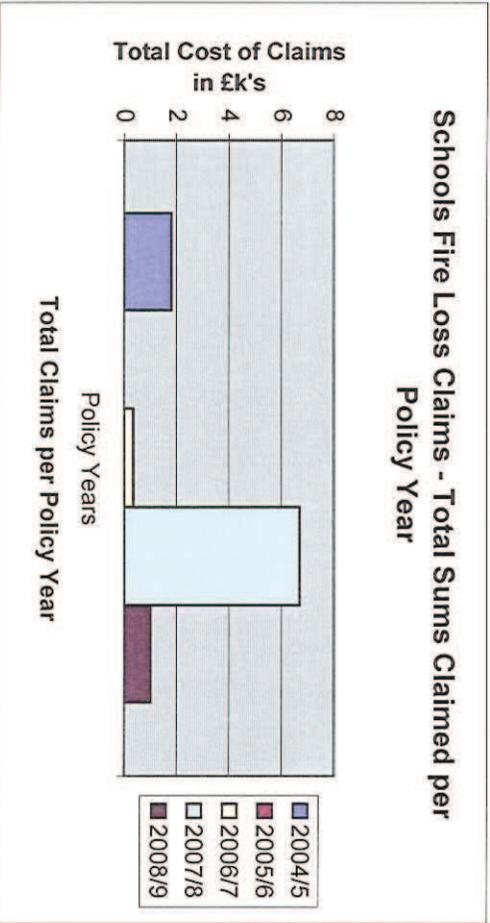
School Property Premiums over a 5 yr Period 2004/5 - 2008/9



The increase in premiums for year 2008/09 was due to all the revaluation of all education properties being revalued and the portfolio increasing by £100k

Schools - Fire Loss Claims

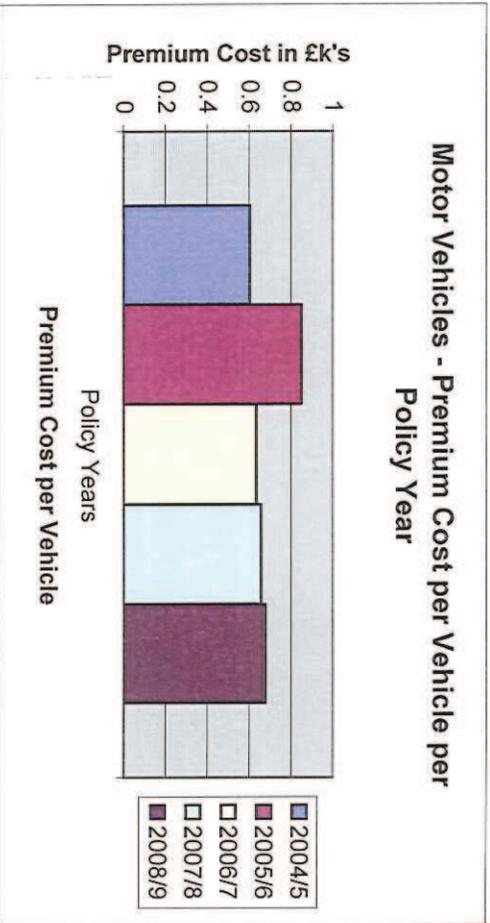
School Fire Loss claims over a 5 yr period 2004/5 - 2008/9



Please note that were no claims for the policy year 2005/6

Motor Premiums

Motor Premiums per vehicle over a 5 yr Period 2004/5 - 2005/6



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Torbay Council – Claims Handling (Appendix 2 to Report ??/2010)

On the 1 October 2010 an audit of Public and Employer Liability Claims handled by Torbay Council was conducted by Nigel Gliddon, Claims Inspector of Zurich Insurance at the Town Hall Torquay. A similar audit was conducted by Greg Jones, Claims Service Manager and Nigel Gliddon on the 1 July 2009.

Introduction

In accordance with an agreement between Torbay Council and Zurich Insurance the Council's Legal Services Department handle in full all Employer and Public Liability claims involving personal injury and property damage that have a value up to £25000. The level of authority corresponds with the £25000 policy excess attached to Torbay Council's policy with Zurich Insurance.

Public and Employer Liability claims brought against Torbay Council that fall within the agreed handling authority are investigated, considered and dealt with by Jayne Wills (Solicitor), Samantha Goodwin (Senior Legal Officer) and Carole Hardy (Risk Management Officer).

A monthly report is submitted to Zurich Insurance which contains detail of all cases received by the Council, the status of each claim and the reserve allocated.

Audit of Cases

Fifteen files were audited. The cases subject to audit were selected from the monthly report submitted by the Council and a selection of Employer Liability and Public Liability cases were seen. Both open and closed cases were selected.

The cases seen were selected prior to attendance on the Council and all the selected cases were made available.

The cases examined provided a good representation of the nature of claims brought against Torbay Council and the number of files was proportionate to the number of claims received by the Council.

In previous audit reports the auditors have commented on how impressed they have been with the way in which cases have been handled. From examination of the selected files it can be seen that claims continue to be handled in a very competent manner.

Accurate and justifiable decisions following an appropriate and sufficiently detailed investigation continue to be made and where the rejection of a claim is warranted succinct letters of denial which contain reference to salient case law and statutory provisions are issued. The manner in which the rejection of a claim is put forward is impressive and such that claimant's and their solicitors have little room in retort.

However, the claims handlers adopt a flexible attitude and in the event that there is a justifiable retort to the rejection of a case the handlers will adapt a pragmatic approach and recognise when it is right to reverse their decision.

The Council handles cases in accordance with the relevant pre action protocols. A decision is conveyed to solicitors and claimants in person within the prescribed timescales and the files audited contain action sheets which prompt the handler to consider matters such as report of the claim to the Department of Work & Pensions. There is evidence of good management of the case through diarised actions.

As commented above cases are handled in accordance with the pre action protocols and there is no evidence within the files seen of financial 'leakage' as a result of the issue of pre action applications against the Council for the disclosure of documentation.

The Council's claims handlers conduct their own investigations of cases, but are assisted by suitable reports supplied by relevant departments. In particular the Highway's Section will supply a report which contains a post incident investigation and detail of the Council's maintenance regime. Appropriate documentation is supplied with the report.

The Council has educated its departments in terms of what is required in the event of a claim being received and the department against whom the claim is registered receives feedback from Legal Services during the course of and at the conclusion of the claim in order that future risk management can be considered.

Case reserves are noted on file. There is a breakdown of the reserve on file although the Council may wish to consider marking a file appropriately each time it is out for handling to show that the reserve has been considered and remains accurate. The closed files seen show that the Council's reserving is reasonably accurate as the payments made do not exceed the initial reserve placed on the case.

In terms of file closure in the event of a declinature of liability the Council closes; small claims 6 months after denial of liability, or the last contact with the claimant; Fast track public liability claims 9 months after denial, or last contact; Fast track Employer Liability claims 12 months after denial, or last contact.

The Council can justifiably be pleased with the expertise and competency displayed by its claims handlers. The Council continues to benefit from the partnership arrangement it has with Veitch Penny Solicitors who can be called upon to provide technical support and physical assistance.

A summary of the claims seen is appended to this report.

Conclusions & Recommendations

At the conclusion of the audit the exercise was discussed with Jayne Wills (Solicitor).

The Council's claim handling continues to be of a high standard. The expertise and competency of the claims handlers is such that an increase in the Council's claims handling authority would be justified. Indeed our claims department have been content to allow the Council to continue to handle cases that exceed the policy excess.

Overall we would score the claims handling undertaken by the Council as 96%

Nigel Gliddon,
Claims Inspector.

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