



Tuesday, 20 March 2012

AUDIT COMMITTEE

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

Wednesday, 28 March 2012

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 Hill (Chairman)

Councillor Addis

Councillor Stringer (Vice-Chair)

Councillor Bent

Councillor Brooksbank

Councillor Pentney

Working for a healthy, prosperous and happy Bay

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

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AUDIT COMMITTEE AGENDA

1. **Apologies**
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.

2. **Minutes** (Pages 1 - 4)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 18 January 2012 and adjourned meeting on 25 January 2012.

3. **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.)

4. **Urgent Items**
To consider any other items that the Chairman decides are urgent.

5. **Audit Committee Update** (Pages 5 - 20)
To consider a report which provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

6. **Audit Plan** (Pages 21 - 41)
To consider a report which sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

7. **Certification Claims** (Pages 42 - 52)
To consider a report on how local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments.

8. **Good Governance Review Autumn 2011** (Pages 53 - 62)
To consider a report to inform members and the public of the actions resulting from a review of the Council's Governance arrangements. The resulting action plan will contribute to ensuring the Council's governance arrangements are robust, is part of assurance and the production of the Annual Governance Statement.
9. **Covering Report to Audit Committee** (Pages 63 - 76)
To consider a report on the above.
10. **Future of Public Audit Report to Audit Committee** (Pages 77 - 82)
To consider a report on the Future of Public Audit.
11. **Exclusion of the Press and Public**
To consider passing a resolution to exclude the press and public from the meeting prior to consideration of the following item on the agenda on the grounds that exempt information (as defined in Schedule 12A of the Local Government Act 1972 (as amended)) is likely to be disclosed.
12. **Scale of Fraud & Corruption affecting Torbay Council** (Pages 83 - 100)
To consider an exempt report on the above.



Minutes of the Audit Committee

Wednesday, 18 January 2012

-: Present :-

Councillor Hill (Chairman)

Councillors Addis, Bent, Brooksbank and Pentney

491 Apologies

An apology for absence was received from Councillor Stringer.

492 Minutes

The Minutes of the meeting of the Audit Committee held on 20 September 2011 were confirmed as a correct record and signed by the Chairman.

493 Audit Progress Summary to 29 November 2011

Members noted the summary report from the Audit Commission which set out reports that they have issued since the last meeting, such as their unqualified opinion on the 2010/11 accounts and unqualified value for money conclusion.

494 Annual Audit Letter

Members noted a report which summarised the findings of the 2010/11 audit undertaken by the Audit Commission. Members were advised that the audit comprised two elements firstly the audit of the Council's financial statements and secondly the Audit Commission's assessment of the Council's arrangements to achieve value for money in its use of resources.

Members further noted that the Audit Commission had recently produced a report on the implementation of the International Financial Reporting Standards (IFRS), which had resulted in an increase in adjustments to the statement of accounts across the country a situation which was also reflected by Torbay Council.

495 Audit of System Controls and Financial Statements (including IFRS)

The Audit Committee noted the report which advised Members of the Audit Commission's findings of:

- their review of the Council's key system controls;

- their audit of the financial statements and the Whole of Government Accounts return; and
- their work on the implementation and reporting of the Council's first time adoption of the IFRS.

Members paid particular attention and sought reassurance from officers that payroll reports which were recommended to be sent to department heads on a monthly basis were being sent. The Executive Head of Finance advised Members that they were not being sent on a monthly basis but were being sent quarterly a situation which the Audit Commission felt was reasonable.

496 Protecting the Public Purse Checklist

Alun Williams from the Audit Commission informed Members that the intention of the checklist was to enable those in charge of governance could satisfy themselves that they had in place policies and strategies to prevent fraud.

Members were advised that the greatest areas of fraud were housing benefits, abuse of the Council Tax single person discount and sub letting of council tenancies. Members requested the Head of the Devon Audit Partnership complete the checklist and report his findings at the next meeting of the Audit Committee on 28 March 2012.

497 Head of Internal Audit's Six Month Internal Audit Progress Report 2011/2012

Members noted a report which summarised the work undertaken by the Devon Audit Partnership (DAP) during the first six months of 2011/12. The DAP reviews the performance and effectiveness of the Internal Audit service and had been able to inform Members that overall the DAP were satisfied that there was reasonable assurance to the adequacy and effectiveness of the Authority's internal control environment.

Members were informed that in the first six months of 2011/12 54% of planned audits had commenced. Members paid particular attention to the issue of fraud and noted that work associated with the 2010/11 National Fraud Initiative exercise had continued throughout the first six months of 2011/12, with 808 high priority matches having been investigated. Members were of the view that more action should be taken when it came to highlighting the issue of fraud and suggested activities such as posting leaflets which provided real life examples may cause those who are thinking of committing fraud to think twice.

498 Treasury Management Strategy 2012/13 (Incorporating the Annual Investment Strategy 2012/13 and the Annual Minimum Revenue Provision Statement)

The Chairman advised that this item would be deferred until 25 January 2011.

Chairman



Minutes of the Audit Committee

Wednesday, 25 January 2012

-: Present :-

Councillor Hill (Chairman)

Councillors Addis, Brooksbank and Hytche

504 Apologies

It was reported that, in accordance with the wishes of the Conservative Group, the membership of the Committee had been amended for this meeting by including Councillor Hytche instead of Councillor Bent.

505 Treasury Management Strategy 2012/13 (Incorporating the Annual Investment Strategy 2012/13 and the Annual Minimum Revenue Provision Statement)

Members considered a report which set out the Treasury Management Strategy (TMS). The Chief Accountant advised Members that the CIPFA Code of Practice required the Council to have TMS with the overall objectives of the TMS to:

- Ensure sufficient funding is available for day-to-day activities and capital projects through effective cash flow management;
- Seek to reduce the impact on the revenue account of net interest costs through optimal levels of borrowing and investment levels; and
- Prioritise control of risks in investing cash and to then achieve maximum returns from those investments commensurate with proper levels of security and liquidity.

Members were further advised that following significant changes to the Capital Investment Plan the current level of borrowing was surplus to the capital financing requirements over the medium term. As a result the proposed borrowing strategy was to reduce the level of external borrowing over the next four years by a minimum target of £20 million. The Executive Head Finance advised the Committee that the strategy aimed to be flexible as it was felt the previous strategy had prevented officers from undertaking certain tasks.

Resolved:

- i) The Treasury Management Strategy for 2012/13 be endorsed and that the Council be recommended to:
- ii) that, the Council be recommended in line with the Council's Constitution

and Financial Regulations:

- iii) that the Chief Finance Officer be authorised to take any decisions on borrowing and investments. (Delegations to the Section 151 Officer, paragraph 3.1(a)); and
- iv) that the Chief Finance Officer be authorised to invest temporarily or utilise surplus monies of the Council; (Financial Regulations, paragraph 14.5);
- v) that the Council be recommended to approve the Annual Minimum Revenue Provision Policy Statement for 2012/13 as shown in Annex 7 to this report.

Chairman

Audit Committee update

Torbay Unitary Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Alun Williams

District Auditor

12 March 2012

Progress report

Opinion on the financial statements

5 Each audit year we set out our audit approach in an audit plan. The aim of the plan is to ensure that officers and Members have an appropriate understanding of how we plan to deliver the audit. The audit plan also sets out our evaluation of the significant areas of audit risk facing the Council. These areas will have individual focus during the audit.

6 The audit plan has been agreed with officers and is included as an agenda item for this meeting. We continue to discuss the delivery of the audit with officers on an on-going basis.

Interim Audit

7 Auditing standards require us to make an assessment of the key financial and other information systems which underpin your financial statements. This is in order to assess their reliability as a basis for preparing the accounts.

8 We undertake an interim audit to test these systems and also undertake as much early substantive work as possible to reduce the impact of the audit on the Council's staff later in the year. In addition to this we also undertake a separate IT risk assessment.

9 The interim audit is currently on-going and we will report our findings back to the Audit Committee once our work is completed.

10 As part of the interim audit we seek to rely on the work of Internal Audit where appropriate. This helps avoid duplication of effort and minimises audit fees.

VFM conclusion

11 The Audit Commission introduced a new approach to value for money work in 2010/11. The VFM conclusion is now based on two nationally specified criteria:-

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

12 Our review of the Council's arrangements is currently being undertaken.

Other areas of work

13 We have prepared a grants report which sets out the findings from our reviews of the Council's grant claims during 2010/11. This report is included as an agenda item for this meeting.

Government response to consultation on the future of local public audit

14 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

15 The Audit Commission is currently in the process of awarding contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17. The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

16 Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies;
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term);
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.

- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

17 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Other matters of interest

2010/11 Accounts

18 In December 2011 the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11.

19 The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

20 Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations and this performance compares well with the previous year.

21 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

22 On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

23 This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand.

24 While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating the key information to lay readers.

25 The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;

- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

26 The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

27 This briefing has been shared with relevant officers at the Council.

Managing Workforce Costs

28 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

29 The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

30 As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

31 Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

32 The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and

- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

33 The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.

34 The questions are in two parts:

- the information that should be available to members about the workforce; and
- the savings strategies councils could follow in the light of that information.

Joining up health and social care

35 On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

36 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy.

37 At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

38 The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

39 The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

CIPFA's Prudential Code for Capital Finance

40 CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

41 Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

42 To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

43 The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

44 The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

2011/12 Accounts: CIPFA Guidance Notes for Practitioners

45 CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

46 The key changes to the financial statements in 2011/12 were covered by our final accounts workshops, which the Council attended.

For information: Board Governance Essentials

47 The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

48 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

49 This guide may provide interesting reading for all members.

Local Government Finance Bill

50 In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

51 The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

52 The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

Key considerations

53 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council reviewed the Audit Commission's report on the 2010/11 accounts and, in particular, considered the key challenges facing bodies for 2011/12?
- Has the Council reviewed its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Council reviewed the Audit Commission / Local Government Association joint report on managing workforce costs and is the Audit Committee satisfied that appropriate use has been made of the supporting materials?
- Has the Council circulated the briefing for elected members on the Audit Commission's workforce report to Members? Is the Audit Committee satisfied that the questions within the briefing have been properly considered by the Council?
- Has the Council reviewed the questions included in the Audit Commission's briefing paper on joining up health and social care?
- Has the Council used the Audit Commission's tool to benchmark the performance of its NHS and social care partnership?
- Has the Council reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Council reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?

Contact details

54 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

55 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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- any director/member or officer in their individual capacity; or
- any third party.



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March 2012

Audit plan

Torbay Unitary Council

Audit 2011/12

Agenda Item 6



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

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I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts (WGA)

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Page 24 Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p>Financial Pressures</p> <p>As with all local authorities the continued reduced funding settlement provides a significant challenge in setting and achieving a balanced budget. The Council has identified a number of measures to achieve the required savings, such as restructuring, freeze on recruitment and salary increases.</p> <p>During periods of extreme financial pressure, the external auditor inevitably considers that there is a higher risk with respect to misreporting in the financial statements.</p>	<p>I will evaluate the management controls you have in place to manage the financial reporting risks relating to the wider financial environment.</p> <p>I will also undertake testing to check that the financial statements are materially correctly stated, including testing of accounting estimates; testing that income and expenditure is recognised in the right year; journal entries and reviewing significant one-off transactions.</p>
<p>Group Accounts</p> <p>The Council has interests in other organisations/companies and are expecting to have to produce group accounts for the first time this year.</p>	<p>I will review the Council's assessment and identification of group entities and document my understanding of the group including its legal, management and operating structure.</p> <p>I will evaluate the consolidation process used by the Council to enable group accounts to be produced effectively.</p> <p>I will also undertake transaction testing to check the financial statements are materially correctly stated.</p>

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Housing Benefits General ledger	General ledger	N/A	N/A	Children services transactions Income and Expenditure Statement (including those systems not covered by controls testing) Review of the Council's assessment of group entities Establish progress on producing the annual governance statement Other areas as agreed with the Finance team.

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	N/A	N/A	Social Care – Torbay Care Trust Pensions assets and liabilities – auditor to Devon Pension Fund	Pensions liabilities and assets – Devon County Council and our own consulting actuary Valuation of property, plant and equipment – Chief Internal Valuer	All material accounts balances and amounts All material disclosures Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts (WGA)

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: Significant risks

Risk	Audit response	Separate audit output?
<p>Financial management:</p> <p>Councils face significant cuts in funding from central government, as well as reductions in other sources of income. The Council faces significant challenges in delivering its financial plans over the next few years.</p>	<p>I will review the 2011/12 capital and revenue outcomes against budgets.</p> <p>I will gain an understanding of the 2012/13 budget setting process, including the assumptions made.</p> <p>I will review the Council's current and future savings plans.</p>	<p>No</p>

Risk

There is a risk that financial plans or financial performance are not sufficient to address the increasing financial challenges.

Audit response**Separate audit output?**

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: Proposed timetable and planned outputs

Activity	Date	Output
Audit testing strategy, including significant risks	31 January 2012	Opinion audit plan
Opinion: controls and early substantive testing	29 February 2012	Interim audit report
Opinion: receipt of accounts and supporting working papers	30 June 2012	N/A
Opinion: substantive testing	30 September 2012	N/A
Present Annual Governance Report at the Audit Committee	19 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Alun Williams District Auditor	al-williams@audit-commission.gov.uk 0844 798 5603	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Sue Hick Audit Manager	s-hick@audit-commission.gov.uk 0844 798 1203	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Stuart Holmes Team Leader	s-holmes@audit-commission.gov.uk 0844 798 1254	Responsible for completing the audit work. Key point of contact for the finance team.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £225,000, as set out in my letter of 11 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £225,000 which represents a 10% per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements [and reporting on the Whole of Government Accounts return]; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Head of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual
Audit	£225,000	£250,000
Certification of claims and returns	£ 36,000 (estimate)	£ 30,666
Total	£256,000	£280,666

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors;
 - The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
 - Internal Audit meets professional standards.
 - [Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
 - The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
 - there are no questions asked or objections made by local government electors.
- Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Certification of claims and returns - annual report

Torbay Council

Audit 2010/11

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Agenda Item 7

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Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data. I must undertake testing of eligibility of expenditure every third year regardless of whether I have assessed the control environment as effective.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

1 The Council has continued to make improvements in its preparation of claims and returns. This improvement is illustrated in the following table.

Table 1: Summary of claims qualified - year on year analysis

Audit Year	Number of claims certified	Number of claims certified without qualification letter	Number of claims certified with qualification letter
2008/09	5	2	3
2009/10	5	3	2
2010/11	5	4	1

2 The qualification letter issued in 2010/11 accompanied our certificate on the Housing and Council Tax benefit scheme. The issue reported concerned the Council's inability to reconcile Non HRA expenditure between that disclosed in the claim and that on the general ledger. This was because the Council has made payments through the ledger to private landlords for services, some of which are not eligible for benefit under Non HRA rent rebates within the claim.

3 We concluded that the claim was not overstated as expenditure per the general ledger was £24,370 higher than the subsidy claim. The Council have stated that this reconciliation is not possible, as the total payment to private landlords includes other elements as well as the benefit payments. We have reported this issue to the Department of Work and Pensions in each of the previous two years.

Table 2: Summary of 2010/11 certification work

Number of claims and returns certified	
Total value of claims and returns certified	£125 million
Number of claims and returns amended due to errors	0
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	1
Total cost of certification work	£30,666

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Table 3: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£')	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit	£79,343k	Yes	N/A	Yes – Issue detailed in paragraph 2 above.
Teachers' pensions return	£7,888k	Yes	N/A	No
Sure start, early years and childcare	£5,859k	Yes	N/A	No
National non-domestic rates return contribution to pool	£31,426k	Yes	N/A	No

Table 4: Claims between £125,000 and £500,000

Claim or return	Value of claim or return presented for certification (£'s)	Value of any amendments made	Qualification letter
Disabled facilities	£495k	N/A	No

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

Table 5: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>2009/10 - Recommendation 1 - Housing and council tax benefits scheme</p> <p>Continue revision of working practices to ensure that all relevant information received by the fraud team is referred to the assessment teams for action.</p>	H	October 2010	Exchequer & Benefits Systems Manager	Implemented	<p>The Council have revised their working practices to ensure that all information received is referred to the assessment teams for action. We have reviewed and agreed these amended practices.</p>

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>2009/10 - 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.</p>	M	April 2011	Pensions Officer	Implemented	Our review of the Teachers' Pension claim concluded that pension values per the claim were fully reconcilable to payroll records. The pensions officer and payroll accountant have adopted a new process to achieve this recommendation.
<p>Recommendation 3 - Teachers Pensions - Ensure that prime documents supporting entries on the claim are retained and made available for audit.</p>	Medium	April 2011	Pensions Officer	No longer applicable	The Audit Commission has discussed this issue with Teachers' Pensions. As a result our certification instruction has been updated to require us to agree entries to the Teachers' Pension database and no longer just to prime documents.

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£22,959	£25,439	N/A
National non-domestic rates return	£3,876	£2,975	Due to cyclical testing part A & B testing required in year.
Teachers' pensions return	£2,046	£2,002	N/A
Sure start, early years and childcare grant and aiming high for disabled children grant	£1,190	£850	Due to cyclical testing part A & B testing required in year.
Disabled facilities	£595	£425	Difference equates to 2hrs of time only.
Total	£30,666	£31,816	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



Agenda Item 8



Title: **Good Governance Review Autumn 2011**

Public Agenda Item: **Yes**

Wards Affected: **All wards in Torbay**

To: **Audit Committee** On: **28 March 2012**

Key Decision: **No**

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

Contact Officer: **June Gurry**
Telephone: **(01803) 207012**
E.mail: June.gurry@torbay.gov.uk

1. **What we are trying to achieve and the impact on our customers**

1.1 To inform members and the public of the actions resulting from a review of the Council's Governance arrangements. The resulting action plan will contribute to ensuring the Council's governance arrangements are robust, is part of assurance and the production of the Annual Governance Statement.

2. **Recommendation(s) for decision**

2.1 **That the Good Governance Review Autumn 2011 Action Plan be adopted and its progress monitored by Group Leaders via the Leadership Group.**

3. **Key points and reasons for recommendations**

3.1 To make the Good Governance Review Action Plan available to the public and to ensure the good governance of the Council.

3.2 Following the election in May 2011, the Council undertook a review to assess the strength of the Council's new governance arrangements.

3.3 An action plan has been prepared in response to the results of the review.

For more detailed information on this proposal please refer to the supporting information attached.

Caroline Taylor
Director of Adults Services and Resources

Supporting information

A1. Introduction and history

- A1.1 Good governance arrangements are essential and a council can not have effective service delivery without it. The Audit Commission defines good governance as ensuring that the organisation is going the right things, in the right way, for the right people, in a timely, open, honest, inclusive and timely manner. It is both the means and the ends; the brains and the central nervous system of an organisation.
- A1.2 The Council reviewed its governance workings following the first 5 months of the new administration following the election in May 2011.
- A1.3 A survey was undertaken of all members and senior officers to gather feedback on the following areas:
- Roles and functions;
 - Good governance through constructive relationships;
 - Taking informed and transparent decisions; and
 - Serving Torbay
- A1.4 The results were presented at a governance workshop held in October 2011 attended by members and senior officers. The workshop used the results of the survey to identify what needed to be changed or improved. The resulting action plan is attached at Appendix 1.
- A1.5 It is proposed the delivery of the action plan is monitored by the Group Leaders via the Leadership Group to ensure cross-party involvement in delivering the improvements identified.

A2. Risk assessment of preferred option

A2.1 Outline of significant key risks

- A2.1.1 The risk is lack of focus on improved governance and assurance. This is mitigated by the Audit Committee's overview of the plan. The actions have been prepared on the basis that they can be delivered within existing resources and have cross-party agreement.

A2.2 Remaining risks

- A2.2.1 There are no remaining risks.

A3. Other Options

- A3.1 Not to adopt the action plan – this is not recommended as the action plan has identified measures to improve the Council's governance arrangements.

A4. Summary of resource implications

A4.1 The action plan will be delivered within existing resources namely officer time and the member development budget.

A5. What impact will there be on equalities, environmental sustainability and crime and disorder?

A5.1 The improvements arising from the action plan will support the Council's governance arrangements which in turn will contribute towards strengthening improvements in each of these areas.

A6. Consultation and Customer Focus

A6.1 All members and senior officers played a key role in the review of the Council's governance and the feedback has informed the resulting action plan. The improvements to the Council's governance will ultimately lead to better outcomes for the community.

A7. Are there any implications for other Business Units?

A7.1 Yes, a number of Business Units are involved in delivering the action plan within existing resources.

Appendices

Appendix 1 Good Governance Review Autumn 2011 Action Plan

Background Papers:

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

Audit Commission Good Governance Standard Diagnostic



Good Governance Review Autumn 2011

Action Plan (Version 3 – 15 March 2011)

Purpose:

The Council undertook a review of its governance arrangements following the local elections and the first five months of the new administration. The purpose of the review was to assess the strength of Torbay's new governance arrangements. It focused on the roles and behaviour of elected members and senior officers and how the new decision-making arrangements were performing.

This action plan takes forward the issues raised in the survey and the work of the Governance Away Session held on 19 October 2011.

Issue	Response/Action	Target Date	Resources	Update
1. Roles and Functions				
1.1 Ensuring consistent chairing of meetings.	Feedback/mentoring to be offered to Chairs and constructive feedback to be provided by Independent Members of Standards Committee when invited to observe.	April 2012	Member Development and Standards Committee	
1.2 Some members have asked for clarity on the extent of delegated powers and the roles of the Mayor, members with special responsibilities and senior officers.	Good Governance Information Pack to provide overview, with signposting to relevant parts of the Constitution, including job descriptions.	January 2012	Anthony Butler and June Gurry	Complete

Issue	Response/Action	Target Date	Resources	Update
1.3 Some felt that the roles of senior officers and the members needed better defining.	Good Governance Information Pack to be provided to senior officers and included as part of officer induction. Plus 'understanding political perspectives' training for Senior Leadership Team.	'Understanding political perspectives' training – April 2012 Information pack – January 2012	Elizabeth Raikes, Anthony Butler and June Gurry, plus member input	Complete
1.4 Some members requested clarity on scrutiny arrangements in light of emerging legislation.	Review of scrutiny arrangements in light of the Localism Act and NHS reforms (including Health and Wellbeing Boards and Public Health becoming a statutory responsibility for local authorities).	May 2012	Mark Bennett, Anthony Butler, June Gurry and Kate Spencer	
2. Good Governance through Constructive Relationships				
2.1 There are no rules for maintaining confidentiality to allow open and honest discussions at private meetings.	Agreement to be reached with Mayor and Group Leaders that, except where specifically agreed, members and officers should be able to express their views frankly in the expectation that they can debate freely in private. This must be clearly communicated to all members.	December 2011 Leadership Group	Mayor and Group Leaders at Leadership Group	Complete
2.2 Some concerns were raised about Group Leaders role in addressing inappropriate behaviour in light of the emerging changes to the standards regime.	Agreement to be reached across all group leaders as to how to address inappropriate behaviour in light of the new standards regime.	Pending, subject to the introduction of the new standards regime	Group Leaders, Anthony Butler and Chairman of Standards Committee	On hold and awaiting introduction of new standards regime

Issue	Response/Action	Target Date	Resources	Update
<p>2.3A There is a perception by some that members' requests for information are not being adequately responded to by officers.</p>	<p>2.3A Members have a right to information if they have a need to know. Therefore, senior officers to be reminded of their duties to all members. The requirements of the Member/Officer Compact to also be communicated widely.</p>	<p>2.3A 'Understanding political perspectives' training – April 2012</p>	<p>Elizabeth Raikes, Anthony Butler and June Gurry, plus member input</p>	
<p>2.3B It is considered by some that a number of members do not take a strategic overview and become involved in too much detail.</p>	<p>2.3B to be addressed at 'Members and Officers working together' facilitated workshop</p>	<p>2.3B 'Members and Officers working together' facilitated workshop – May 2012</p>		
<p>2.4 Instructions to officers are not always clear.</p>	<p>Officers need to be encouraged to raise these issues with the members concerned or where they feel unable with the appropriate officers who can then raise the issue with the member – include in officer training.</p>	<p>'Understanding political perspectives' training – April 2012</p>	<p>Elizabeth Raikes, Anthony Butler and June Gurry, plus member input</p>	
<p>2.5 Some feel member/member and member/senior officer relations could be stronger.</p>	<p>'Members and Officers working together' facilitated workshop and reinforce Member/Officer Support Compact</p>	<p>Facilitated workshop – May 2012</p>	<p>Elizabeth Raikes, Anthony Butler and June Gurry, plus member input</p>	

Issue	Response/Action	Target Date	Resources	Update
3. Taking Informed and Transparent Decisions				
3.1 With the inclusive style of governance introduced by the Mayor, it should no longer be necessary for officers to brief individual political Groups.	Officers no longer attend individual group meetings and should any group ask for a briefing all members be invited to such. Such an approach (followed where necessary by an e mail confirming the issues from the officer who provided the briefing) will ensure consistency. Member/Officer Support Compact and Local Protocol of Member and Officer Relations to be updated to reflect this practice.	April 2012	Teresa Buckley to update Member/officer compact Anthony Butler to update Constitution	
3.2 Notes of PDGs are not circulated to all members and members need to be aware that they have an open invite to attend any PDG.	Subject to all members accepting that all or some parts of PDGs are to be confidential and members be made aware of this.	January 2012	Agreement on confidentiality at PDGs first, then Governance Support Team	Complete
3.3 It is considered there is a risk of duplication between PDG and O & S and impact on officers' workload.	Clarification of the work plan as expressed in Community Plan in line with capital and revenue resources. Scrutiny Officers to receive PDG documentation.	April 2012	Mark Bennett, Bernard Page, Paul Looby and Kate Spencer	

Issue	Response/Action	Target Date	Resources	Update
<p>3.4 Members consider, even where an urgent decision is required, full information should be provided to them and as much time as possible to is given to consider that information.</p>	<p>Review of report format with input from members.</p> <p>Officers who require urgent decisions to be made provide cross party briefings in addition to the report. Where necessary the briefing sessions to work through the report.</p> <p>Protocol to be developed and adhered to for late reports for report officers – at present officers have to inform the Executive Lead.</p> <p>Member/Officer Support Compact to be updated to reflect this.</p>	<p>May 2012</p>	<p>Teresa Buckley to lead on report format/Senior Leadership Team</p>	
<p>3.5 There was disagreement as to whether PDG meetings should be public or private.</p>	<p>Agreement has been reached with PDG Chairs that elements of PDG meetings should be public when required. It was also agreed that the Monitoring Officer's suggested protocol be adopted for all PDG meetings.</p>	<p>Complete – review in 6 months (June 2012)</p> <p>Item for PDG meeting</p>	<p>Governance Support Team</p>	<p>Complete</p>
<p>3.6 Some members required clarity on the role of PDGs.</p>	<p>Good Governance Pack to include Monitoring Officers' protocol on PDGs for all members which includes the roles of PDGs.</p>	<p>January 2012</p>	<p>Anthony Butler and June Gurry</p>	<p>Complete</p>
<p>3.7 Some consider too many decisions are being made at Council meetings, as it is felt minor decisions could be made by Mayor or officers outside of the Council meeting.</p>	<p>No problems currently being experienced as all business is being considered in a timely manner, but this to be kept under review.</p>	<p>Keep under review</p>		

Issue	Response/Action	Target Date	Resources	Update
3.8 Greater clarification required on the consultation arrangements between Executive Leads and officers on officer decision-making.	Officers to be reminded at Senior Leadership Team and to be picked up at 'Members and Officers working together' facilitated workshop	January 2012 – SLT May 2012 – workshop	Caroline Taylor Elizabeth Raikes	Complete
3.9A Reports prepared by officers should be uniform. 3.9B There is a perception by some members that irrelevant information is provided in reports.	New detailed report templates to be produced with member input. Members to be encouraged to express their dissatisfaction with officer reports before meetings.	May 2012 – new template July 2012 – evaluate new template with members	Teresa Buckley for report template	
4. Serving Torbay				
4.1 Consultees involvement needs to include the private sector as well as the public sector.	a. Implementation of the new and evolving neighbourhood planning process includes private sector representation. b. Increased use of social media to be investigated. c. Council website to be updated to ensure links to Torcom and therefore access to up to date information.	a. 18 month process b. By December 2012 c. May 2012	Pat Steward/ Tracey Brookes Claire Barrow/ Bernard Page/Jenny Rayner Tracey Cabache/ Patsy Mellor	Ongoing Trial with Community Safety due to be held using social media as a consultation and engagement trial. Complete

Issue	Response/Action	Target Date	Resources	Update
4.2 Greater awareness of the role of Community Partnerships and how the Councillors and how the two interact.	Community Partnerships to develop a summary sheet of what they do and don't do. Meetings to be publicised on the Town Hall and Connections notice boards.	April 2012 April 2012	Community Partnerships Management Forum/ Tracey Cabache	
4.3 There is a perception of a lack of joint working between Councillors and officers on community issues at Community Partnership meetings.	Chair of community partnerships steering group to work with Executive Lead for Involved and Healthy Communities to review the operation of community partnerships Governance review of Community Partnerships to be undertaken.	April 2012 Summer 2012	Chair of Community Partnerships and Cllr Hernandez Anthony Butler and June Gurry	
4.4 Some consider that Community Partnership meetings are not sufficiently publicised.	Explore increasing the use of social media to encourage attendance at Community Partnership meetings, including identifying best practice. Review of current use of social media at Council meetings and explore greater use of social media, including identifying best practice with appropriate safeguards.	Ongoing March 2012	Community Partnerships Management Forum Claire Barrow/ June Gurry/ Jenny Rayner	Complete, councillors are actively using social media and guidance has been published on the Council's website.
4.5 Some consider public participation in Council business could be greater.				

Reporting process:
Leadership Group (December 2011)
Overview and Scrutiny Monthly Briefing

Adopted by: Audit Committee – 28 March 2012

Progress monitored by: Leadership Group

Agenda Item 9



Public Agenda Item: **Yes**

Title: **Internal Audit Plan 2012/13**

Wards Affected: **All Wards**

To: **Audit Committee**

On: **28 March 2012**

Key Decision: **No**

Change to Budget: **No**

Change to Policy Framework: **No**

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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 and 2011) 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. 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. 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.

1.4. 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.

2. Recommendation(s) for decision

2.1 The Committee consider and agree in principle the proposed Audit Plan for 2012/2013.

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 2012/2013
- 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 2012/13 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.

4. Risk assessment of preferred option

- 4.1. The report is predominantly for information and therefore there are no risks associated with the recommendations.
- 4.2. 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.

- 4.3. 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.

5. Other Options

- 5.1. The issues raised in this report are predominantly for information and as such there is no requirement to consider alternative options.
- 5.2. 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.
- 5.3. 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.

6. Summary of resource implications

- 6.1 The Audit & Efficiency net Budget for 2012/13 in respect of Torbay Council's contribution to the Partnership has been set at £330,000, which is predominantly staff salaries. The audit plan is matched to available resources and delivered within the budget available.

7. Impact on equalities, environmental sustainability and crime and disorder

- 7.1 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.
- 7.2. 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.

8. Consultation and Customer Focus

- 8.1 The draft plan has been subject to consultation with Commissioning Officer Management Teams and External Auditors.
- 8.2 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.

9. Are there any implications for other Business Units?

- 9.1 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 1 Detailed Report Internal Audit Plan 2012/13

Martin Gould
Head of the Devon Audit Partnership

INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2012/13

1. INTRODUCTION

- 1.1 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 and 2011, 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).
- 1.2 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.
- 1.3 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.

2. AUDIT NEEDS ASSESSMENT

- 2.1 The audit plan for 2012/13 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 an initial schedule of priorities for audit attention;
 - Discussions and liaison with Directors 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, including factors and systems that are key to successful achievement of the Council's delivery plans;
 - 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 2012/13 is set out in Appendices 1 and 2.

3. INTERNAL AUDIT PARTNERSHIP

- 3.1 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.

3.2 Although delivery of each authority's audit requirements is resourced by DAP, each authority's audit plan for 2012/13 has been prepared individually as hitherto, although some cross partner reviews have also been included.

4. INTERNAL AUDIT RESOURCES

4.1 Based upon our detailed risk assessment process we consider that 1,428 days of internal audit input will be required for Torbay Council in 2012/13.

4.2 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.

5. PLANNED AUDIT COVERAGE 2012/13

5.1 Appendix 1 shows a summary of planned audit coverage for 2012/13 totalling 1,428 direct days. A more detailed analysis of proposed audit reviews is provided in Appendix 2. 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 and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in 6 months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the IA Plan includes a contingency to allow for unplanned work.

5.2 We have set out our plan based on the current organisational structure for the Authority. However, as this structure continues to bed down, it is possible that there will be changes to where actual areas of work report and we may need to revise our thinking accordingly. 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:-

Adults & Operations

5.3 Our work for Adults & Operations includes work on what are termed "key financial systems" – these are systems that process the majority of income and expenditure for the Council, and which have a significant impact on the reliability and accuracy of the annual accounts. Our work in the area will include reviews of :-

- Payroll
- Council Tax and Non Domestic Rates
- Benefits
- Finance System
- Ordering & Payments

- Income Collection
- Treasury Management.

- 5.4 Reviews in previous years have confirmed that, generally, sound arrangements are in place for these systems, but we will seek to ensure that previous weaknesses that have been identified have been rectified.
- 5.5 We have agreed with management the key risks that currently affect ICT for the Council. We will undertake reviews of Information Governance arrangements, Data Security, Business Continuity Planning and Disaster Recovery. All of these areas help to ensure that data and business operations are suitably safeguarded against the risks identified.

Place & Environment

- 5.6 We shall continue to work with management of the Economic Development Company, and help to ensure that sound, effective and reliable systems are in place to manage the risks faced by this (relatively) new organization.
- 5.7 We have set aside some time to review the development of the South Devon Link road. This multi-million pound project will bring considerable benefits to the region; we will help to ensure that the project is suitably governed and that the risks identified are effectively addressed.
- 5.8 We have agreed a 3 year plan of visits with the Tor Bay Harbour Authority; our work will be a mixture of finance system reviews (payments etc), and visits to local offices to ensure consistency of operations.

Communities & Local Democracy

- 5.9 Our work in Communities and Local Democracy will include a review of the Safer Communities team. We will be reviewing how objectives and priorities, as set out in the strategic plan, are being delivered and how threats to these objectives are being managed.
- 5.10 Disabled facilities and renovations grants have reduced in recent years but still represent a significant amount of expenditure. Our review will ensure that appropriate checks and balances are maintained to ensure that applications are promptly and effectively processed and that grant conditions are effectively enforced.

Children & Families

- 5.11 We have allowed some time in our plan to assist in the preparation of Public Health duties, which will fully fall onto the Council in 2013/14. We shall also review the arrangements in place for the Health and Well Being board, providing assurance that sound and effective governance arrangements are in place.

- 5.12 We shall review two key information systems SIMS (School Information Management System) and PARIS (Children's Information System). The operation of both systems will face challenges in the year ahead, and we shall help to ensure that data integrity and reliability is maintained and that users can rely upon the information being provided.

Carry forward (completion of previous year work)

- 5.13 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. Time has been allocated to ensure that all planned audits carried over from 2011/12 can be completed to the expected standard.

Fraud prevention, detection & Investigation

- 5.14 Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities 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. In recognition of the guidance expected in the new Fraud Strategy for Local Government and the recent Audit Commission publication "Protecting the Public Purse" greater audit resource will be allocated to this area to allow more focus on identifying and preventing fraud before it happens.
- 5.15 The Audit Commission runs a national data matching exercise (National Fraud Initiative) every two years. The next exercise is due to be undertaken in the coming year and Internal Audit will work with relevant departments to ensure that the required data sets are extracted from the appropriate Council systems as required by the Audit Commission, in accordance with their data specifications. These are due to be uploaded to the NFI web application in October 2012.

Grant Claims

- 5.16 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 Activities

- 5.17 An element of our work is classified as "other chargeable activities" – this is work that ensures effective and efficient services are provided to the Council and 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 areas that this may cover 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
- 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 2012/13
- Technical and process developments within the Partnership. Investment in these developments is expected to deliver greater efficiencies in the future.

Advice / Consultancy

- 5.18 Internal Audit will continue to be consulted by 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, PC/network access etc. The pro-active involvement of Internal Audit in risk and control issues, relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse.
- 5.19 In addition Internal Audit will continue to support major projects throughout the Council providing advice and input into key developments and initiatives such as the revised payroll system and several procurement exercises.

Schools Audits

- 5.20 The Financial Management Standard in Schools (FMSiS) has now been abolished and replaced by the Schools Financial Value Standard (SFVS). The revised standard was developed by Department for Education (DfE) to replace the FMSiS to help governors, in particular, in self-evaluating the quality of their financial management and to aid in improving schools financial management. The Standard is intended to cover standards and processes that should already be in place in schools, and reduce the bureaucracy of the former FMSiS.
- 5.21 The DfE announced the SFVS at the very end of the Summer Term with an implementation date of 1st September 2011 and have set 2 key deadlines for achievement. All schools that were not accredited to FMSiS will need to submit their SFVS Self-assessment to their LA by the 31st March 2012 and those schools that were accredited will need to submit their SFVS Self-assessment before the 31st March 2013. The purpose of the SFVS is to make the best use of resources in the education system, to achieve the best possible outcomes for children. DfE have made this a mandatory requirement for all schools and are changing the scheme of delegation to fit this requirement.
- 5.22 Audit of the control and governance arrangements within schools will continue to be carried out on a three year cyclical basis and all the key elements that were in FMSiS and now in SFVS, and which were formerly audited by us, will continue to be covered. We were part of the DfE consultation and pilot study on the SFVS and we have incorporated the SFVS into the school audit programme. Our Audit Programme has been tailored to fit with the SFVS standard from the 1st September 2011 in order

to support schools and maintain efficiency. We have also developed support through our webpages with:

- model answers;
- key timelines guidance;
- training programme to be delivered through Autumn and Spring.

5.23 The Government's drive to encourage schools to become academies is firmly in place. Because there is no requirement for academy schools to have internal audit this represents, potentially, lost business to DAP. We have had some success in the process of advertising and bidding for "responsible officer" work with the academies and have agreements in place with some former Torbay Schools. The majority of non-academy schools (still within LA control) currently buy back Internal Audit services from DAP.

6. PARTNERSHIP WORKING WITH OTHER AUDITORS

6.1 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. This often improves 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.

6.2 The most significant partnership working arrangement that we currently have with other auditors continues to be that with the Council's external auditors. The current providers are the Audit Commission and our working with them is well established over many years and is formalised in the annual Joint Audit Protocol. With a change to new external audit providers (Grant Thornton) we shall seek to set up liaison arrangements as soon as practically possible, to ensure smooth transition.

6.3 As well as carrying out work which the external auditors rely on in respect of the Fundamental 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.

7. RECOMMENDATIONS

7.1 It is recommended that:-

- (i) The report be noted
- (ii) The proposed Internal Audit plan for 2012/13 at Appendices 1 and 2 be approved

Appendix 1

Summary of Planned Audit Coverage for 2012/13

Torbay Council	Planned Days
Draft Internal Audit Plan 2012 /2013	
Risk based and priority audits	
Adults & Operations	460
Place & Environment	170
Communities & Local Democracy	65
Children & Families	122
Carry forward (completion of previous year work)	50
Fraud prevention, detection & investigation	135
Contract audit	30
Corporate initiatives	65
Grant claims	15
Contingency	75
Other chargeable activities (audit planning, attendance at audit committee etc)	150
Advice / consultancy	60
File maintenance	6
Follow ups	25
Total Audit for Torbay Council	1428
School visits (purchased directly by schools)	80
Total Audit Plan for Torbay Council including Schools	1508

Detailed analysis of proposed audit reviews 2012/12

Directorate				
Adults & Operations				
Risk Factor	Audit Area	Entity	2012/13	Future Year
8.3	Material Systems	Business services -Payroll Northgate self service project	10	
8.1	IT Audit	Information Services- Information Governance, Data Protection, Records management and Security	15	
7.6	IT Audit	Information Services - IT Asset Management	15	
	Material Systems	Business Services - Payroll	30	
	Strategic Risk	Information Services - TCT New SCCR database implementation	10	
7.5	IT Audit	Information Services - Data Security, BCP, Disaster Recovery	10	
7.3	Operational Risk	Information Services - Data quality audit	15	
7.2	IT Audit	Information Services - Civica inc' Comino & CRM	20	
	Strategic Risk	Business Services - Business Change (including transformation agenda, PIP & PPPP)	20	
7.1	IT Audit	Information Services - Thin Client Planning & Roll Out		15
	Material Systems	ITRA (IT Risk Assessment for AC)	5	
7.0	IT Audit	Information Services - End User Computing	10	
	Operational Risk	Information Services - Information Security Policy Review & Implementation Business services - Human Resources & Organisational Development Commercial Services - Procurement	15	20 15
7.0	Corporate Governance	Business Services - Performance incl Payment by Results		15
	IT Audit	Information Services - PCI Compliance Project Information Services - Exchange	5	10
	Material Systems	Finance - IBS Open sys admin	18	
		Finance - FIMS sys admin	18	
	Strategic Risk	Business Services - Risk Management & Risk Register	10	
6.9	Operational Risk	Commercial Services - Legal Services (litigation and licensing)	10	
		Finance - CTAX support Scheme Finance - Corporate Debt Team	10	15
		Strategic Risk	Business Services - Partnerships	
6.8	IT Audit	Information Services - ICT resilience Information Services - E Commerce		20 10
		Material Systems	Finance - Benefits Finance - POP	36 18
	Operational Risk	Commercial Services - Information compliance		15
6.7	IT Audit	Information Services - WebSense & SurfControl Information Services - IT IS Strategy Information Services - Active Directory		10 20 15
		Material Systems	Finance - Asset Register	10
		Operational Risk	Finance - Business Improvement Districts (Bid) Information Services - Councils Web (Management and security)	10
	6.6	Material Systems	Finance - Creditors Finance - Income Collection	23 18
6.5			IT Audit	Information Services - Organisational Controls
	Material Systems	Finance - CTAX & NDR	28	
		Strategic Risk	Finance - Capital Programme	
6.4	Establishment	Information Services - Print & Post Room		20
	Material Systems	Finance - Bank Rec	10	
	Operational Risk	Business Services - Overview & Scrutiny		10
6.3	IT Audit	Information Services - Oracle		20
6.3	IT Audit	Information Services - Change Control		10
		Material Systems	Finance - Debtors Finance - General Ledger	23 23
	Operational Risk	Business Services - Pensions		15
6.2	Corporate Governance	Information Services - Communications		10
	IT Audit	Information Services - Email Archiving Project		10
	Operational Risk	Information Services - Customer Services		15
6.1	Material Systems	Finance - Treasury Management	15	
6.0	Establishment	Commercial Services - Coroner		10
	IT Audit	Information Services - Voice Network		10
	Operational Risk	Commercial Services - Land Charges		10
5.9	Operational Risk	Finance - Riviera International Centre		5
5.7	Establishment	Commercial Services - Registration of Births, Marriages & Deaths		10
5.0	Strategic Risk	Commercial Services - Claims Handling & Insurance		10
			460	405

Directorate				
Place & Environment				
Risk Factor	Audit Area	Entity	2012/13	Future Year
7.6	Operational Risk	Economic Development Company	25	
7.5	Strategic Risk	South Devon Link Road	10	
7.2	Operational Risk	TOR2 Contract monitoring	10	
		English Riviera Tourism Company.	20	
7.0	Operational Risk	Spatial Planning - Transport (Strategic and Operational)	15	
7.0	Operational Risk	Coast & Countryside Trust		10
6.9	Operational Risk	Environment project involvement	40	
6.8	Material Systems	Residents & Visitor Services - Highways (Transport infrastructure - UK PMS system)	10	
	Operational Risk	Residents & Visitor Services - Parking Services	15	
		Spatial Planning - Section 106	10	
6.7	Establishment	Tor Bay Harbour Authority	15	
6.5	Establishment	Residents & Visitor Services - Library Services		10
6.4	Operational Risk	Spatial Planning - Concessionary Fares		10
		Residents & Visitor Services - Sport		15
	Strategic Risk	Spatial Planning - Carbon Management		15
6.3	Establishment	Residents & Visitor Services - Theatres & Public Entertainment		10
6.3	Operational Risk	Residents & Visitor Services - Public Toilets		10
		Spatial Planning - Environmental Policy		15
6.2	Establishment	Residents & Visitors Services - Beach Services		15
	Operational Risk	Spatial Planning - Development & Conservation Planning		15
6.1	Operational Risk	Residents & Visitor Services - Natural Environment		15
6.0	Operational Risk	Residents & Visitor Services - Corporate Security & CCTV		15
		Spatial Planning - Building Control		10
		Residents & Visitor Services - Transport Co-ordination		10
5.9	Establishment	Residents & Visitor Services - Museum Services		15
5.6	Operational Risk	Residents & Visitor Services - Arts & Development Support		15
			170	205

Directorate				
Communities and Local Democracy				
Risk Factor	Audit Area	Entity	2012/13	Future Year
7.1	Strategic Risk	Commissioning		10
7.0	Operational Risk	Community safety - Safer Communities	10	
6.9	Operational Risk	Community Safety - Housing standards inc' disabled facilities and renovation grants	20	
6.7	Operational Risk	Community Safety - Food Safety, H&S, Licensing & Trading Standards	15	
		Community Safety - Community Development		10
6.6	Corporate Governance	Community Engagement - Elections	10	
	Operational Risk	Community Safety - Community & Environmental Protection		15
6.5	Corporate Governance	Community Engagement - Democratic representation and management	10	
6.3	Strategic Risk	Community Safety - Emergency planning and business continuity		10
6.3	Operational Risk	Community Safety -H&S		10
		Community Engagement - Members support services and allowances		5
5.8	Operational Risk	Community Safety - Bereavement Services		5
			65	65

Directorate				
Children, Schools & Families				
Risk Factor	Audit Area	Entity	2012/13	Future Year
7.6	Strategic Risk	Public health -transfer of service	10	
7.5	Operational Risk	Implementation of Recommendations from external reports	15	
7.3	Strategic Risk	Health and Well Being Board	10	
7.1	IT Audit	Schools IT		20
	Operational Risk	Specialist Services - Accommodation Services	10	
7.0	Material Systems	Supporting People	10	
	Operational Risk	Specialist Services - Safeguarding Service Discretionary Social Fund	5	10
7.0	Operational Risk	Specialist Services - Special Education Needs Services		10
6.8	Operational Risk	Early Intervention - Early Year Services Permanency Planning - Care to Community School Organisation & Policy Specialist Services – Children's Disability Team Early intervention - family support service	10	15 10 15 10
6.7	Material Systems	SIMS (Schools Information Management System)	10	
	Operational Risk	Learning & Standards - School Standards Specialist Services - Children In Need Services Use of agency staff		15 15 10
	Strategic Risk	Voluntary sector development	10	
6.6	Operational Risk	Specialist Services - Permanency Planning Team Learning & Standards - Learning Access Services EOTAS School Transport		15 10 10
6.5	Operational Risk	Education management system		15
6.4	Operational Risk	Resources Services Specialist Services - Senior Mgmt & Overhead Costs for Specialist Services & Grants		10 10
6.3	Material Systems	PARIS (Children's Information System)	10	
	Operational Risk	Early Intervention - Connexions		5
6.3	Operational Risk	Early Intervention - Torbay Youth Service SFDS Coordination	10 12	
6.2	Establishment	Permanency Planning - Hillside Family Centre		10
6.0	Operational Risk	Early Intervention - Youth Offending Team		10
5.9	Operational Risk	Housing		10
			122	235

Agenda Item 10



Report No: Public Agenda Item: **Yes**

Title: **Future of Public Audit**

Wards Affected: **All Wards**

To: **Audit Committee** On: **28 March 2012**

Key Decision: **No**

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

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1 INTRODUCTION

1.1 On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and refocus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.

1.2 Following this announcement the Secretary of State proposed that in future local authorities would be able to appoint their own external auditors and in March 2011 launched a consultation document on the Future of Public Audit. However it was recognised that such a framework could not be introduced immediately so the Audit Commission were asked to run a procurement exercise to appoint new external auditors with effect from 2012/13. Following an EU Procurement Exercise a number of private sector providers and the previous in-house Audit Practice were invited to tender for 10 contracts spread over 4 geographical regions.

2 RECOMMENDATION:

2.1 **Members Note the proposed appointment of Grant Thornton LLP as External Auditors of Torbay Council from 2012/13**

2.2 **Note the DCLG proposals for the Future of Public Audit**

3. BACKGROUND

3.1 Since 1983, the Audit Commission has acted in roles of regulator, commissioner and provider of local public audit services. The current system is governed by the provisions of the Audit Commission Act 1998.

3.2 Following the announcement of its decision to abolish the Audit Commission in August 2010, the Government consulted on its proposals for a new local public audit framework from 31 March to 30 June 2011. Those proposals were designed to deliver the Government's objective for a new local public audit framework that places responsibility firmly in the hands of local bodies, giving them the freedom to appoint their own auditors, with appropriate safeguards for auditor independence, from an open and competitive market for local public audit services. They were also designed with the fundamental principle of accountability in mind – providing a system of local public audit that allows local bodies to be held to account for the public money at their disposal, locally to residents and service users, and also as part of a framework of accountability that provides assurance to Parliament about the public money it votes to Government departments and which is in turn devolved to the local level.

3.3 The proposals in the consultation paper covered all local public bodies except health bodies and probation trusts.

3.4. Following the end of the Consultation process in June, the Department for Communities and Local Government (DCLG) have been considering the feedback received and have now published their response. A total of 453 responses to the consultation were received, the majority from local government. The Government response sets out the key themes and views which were raised during the consultation and what the Government now proposes for the new arrangements for audit of principal public bodies. This report outlines the key features of the DCLG response and the implications for local authorities,

3.5. The Audit Commission has recently announced the results of the process of outsourcing all the audit work of its in-house practice. The outsource contracts that the Commission will put in place will start from 2012-13 and will run for five years giving local councils and other public bodies the time to plan for appointing their own auditors. As a result of the outsourcing, a single provider will be responsible for undertaking the external audit of all public bodies in the south west. Once the audits have been outsourced the Commission will be radically reduced in size to become a small residuary body responsible for overseeing the contracts and making any necessary changes to the individual audit appointments during the life of the contracts.

4. APPOINTMENT OF AUDITOR FOR 2012/13 – 2016/17

4.1. As a result of the outsourcing referred to above Grant Thornton LLP have been chosen as the provider of External Audit services to public bodies within the South West region. This includes Torbay Council.

4.2. Following the end of the procurement process, there will be a consultation period with audited bodies on the appointment of their new auditors. The appointments will be formally approved by the Commission's Board in July. Appointments for 2012/13 will commence on 1 September, with Audit Commission staff transferring to the new suppliers on 31 October 2012. It is expected that changes to the appointments will only be necessary where there are conflict of interest issues with the proposed appointment such as a firm having a prior or current

business relationship with an audited body – such as providing consultancy services directly relevant to auditors' responsibilities (for example in relation to a PFI scheme or the provision of internal audit services) – which would preclude the Commission appointing the firm, or the firm accepting appointment, as the auditor to that body

4.3. Where an audited body objects to the proposed appointment, it should set out in writing good reasons why the proposed appointment should not be made. The following grounds may amount to good reasons.

- There is an independence issue, of which the Commission and/or the firm was previously unaware, which would preclude the Commission appointing the firm – or the firm accepting appointment – as the auditor to a particular body.
- The audited body is involved in formal and on-going joint working arrangements (for example, joint management team or shared back office functions or joint provision of major services with neighbouring bodies), which means it would be more appropriate for those bodies to have the same auditor.
- There is another specific good reason – for example, a body can demonstrate a history of inadequate services from a particular firm.

3.4. The 2012/13 audit fees will be approved by the Commission Board and announced in April 2012. The procurement has been the result of a rigorous assessment of each bidder against published cost and quality criteria, and according to the Audit Commission will mean significant audit fee savings of up to 40% for local councils, NHS trusts and other local bodies. Public bodies are expected to save over £30 million a year for the length of the contracts. Together with additional savings of £19 million a year achieved through the Commission's own internal efficiencies, the result will be an expected £250 million (or 40 per cent) fall in audit fees for most local public bodies over five years. The Audit Commission have stated that the outcome of the procurement will promote a skilled, well-resourced and diverse public audit market.

3.5. As part of the transition arrangements and to support the consultation process, the Audit Commission are arranging a series of introductory meetings in each contract area between 30 April and 16 May. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits. The date for the South West region (which includes Avon, Cornwall, Devon, Dorset, Gloucestershire, Somerset and Wiltshire) is expected to be 11th May 2012.

5 KEY ELEMENTS OF THE NEW LOCAL PUBLIC AUDIT FRAMEWORK APRIL 2017 ONWARDS

5.1. Following the completion of the outsourced contracts up to 2016/17 financial year, assuming appropriate legislation is in place, the proposed new framework will allow public bodies to appoint their own Auditors. Such appointments would need to be made in December 2016 for the 2017/18 financial year. The design principles of the new framework for local public audit are that it should be localist and transparent, achieve a reduction in the overall cost of audit, and uphold high standards of auditing, ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit. The key elements within the DCLG response are referred to below:

REGULATION

5.2. The **National Audit Office** will produce the Code of Practice and supporting guidance for audit of local public bodies, subject to Parliamentary approval. The National Audit Office will be required to consult key partners in developing the Code

5.3. The **Financial Reporting Council** will be the overall regulator, mirroring its role under the Companies Act 2006. The Financial Reporting Council will be responsible for recognition and supervision of **Recognised Supervisory Bodies** (professional accountancy bodies responsible for supervising the work of auditors, and for putting rules and arrangements in place which their members must fulfil before they can be registered auditors) and for **Recognised Qualifying Bodies** (professional accountancy bodies responsible for awarding audit qualifications).

5.4. Mirroring the Companies Act 2006, Recognised Supervisory Bodies will have the roles of registration, monitoring and discipline for local public audit, put in place rules and practices covering eligibility of firms to undertake local public audit; and keep a register of firms eligible to undertake local public audit. As under the Companies Act 2006, Recognised Supervisory Bodies will monitor the quality of audits undertaken by their member firms, and investigate complaints, disciplinary cases and issues identified during the monitoring of firms on the register of local public auditors.

COMMISSIONING LOCAL PUBLIC AUDIT SERVICES

Auditor Appointment

5.5. Local public bodies will have a duty to appoint an auditor from the register of local public auditors, on the advice of an Independent Auditor Appointment Panel. The Independent Audit Appointment Panel will have an independent chair and a majority of independent members. Local public bodies will be able to share appointment panels (and therefore independent members) to ease admin burdens and reduce costs.

5.6. The appointment process will be transparent. Local public bodies will be required to publish details of the auditor appointment on their website within 28 days of making the appointment, together with the Independent Audit Appointment Panel's advice and, if they did not follow that advice, a statement explaining why.

Role of Independent Auditor Appointment Panels

5.7. Government intends to prescribe specific functions to the Independent Audit Appointment Panel limited to the external audit, including advising on auditor appointment, independence, removal and resignation, and in relation to public interest reports. The arrangements will allow local public bodies to share Independent Audit Appointment Panels, and to expand on the remit of their Panel if they wish, choosing a model which best suits their circumstances. The Government will work with the public sector to produce guidance as to how the responsibilities of the Independent Auditor Appointment Panels might interface with those of the traditional Audit Committee.

Failure to Appoint an Auditor

5.8. Local public bodies will be required to appoint an auditor by 31 December in

the year preceding the financial year to be audited, and notify the Secretary of State if they have not done so. The Secretary of State will be able to direct the local public body to appoint an auditor or make the auditor appointment directly. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.

Rotation of Audit firms and Audit staff

5.9. Local public bodies will be required to run a procurement competition for its audit services at least every five years. Auditors will have to comply with the standards and rules set by the regulator. Applying the current standards means the audit engagement partner will be able to undertake audit for a local public body for an initial five years and be reappointed for a further two years. The audit manager will be able to be appointed for a maximum of ten years. After these periods, these key audit staff will not be able to work with the local public body for a further five years.

Resignation or Removal of an Auditor

5.10. There will be rigorous, transparent processes for auditor resignation or removal, designed to protect auditor independence, quality of audit, and accountability to the electorate. These broadly mirror those in the Companies Act, but are adapted to reflect the principles of public audit.

Auditor liability

5.11. Auditor liability should be an issue to be dealt with in the contractual negotiations between the auditor and audited body.

Scope of Local Public Audit and Auditors' work

5.12. The scope of local public audit will remain broadly similar. As now, auditors of local public bodies will be required to satisfy themselves that the accounts have been prepared in accordance with the necessary directions; proper practices have been observed in the compilation of the accounts; and the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The detail of how auditors should fulfil these requirements will, as now, be set out in a code of audit practice. The value for money component should be more risk based and proportionate, with auditors basing their assessment of risk on evidence of the local public body's arrangements for securing value for money provided by the local public body, possibly in the Annual Governance Statement and other documents.

5.13. The duty for auditors of local public bodies to undertake Public Interest Reporting will be retained, as will their ability to charge audited bodies for reasonable work.. A new duty will be placed on audited bodies to publish the Public Interest Report.

5.14. Auditors will be permitted to provide non-audit services to the audited body, subject to adhering to the Auditing Practices Board's ethical standards and the Independent Auditor Appointment Panel's approval.

5.15.. The local public auditor and the Independent Auditor Appointment Panel will be defined as designated persons under the Public Interest Disclosure Act, to enable individuals to make disclosures under the Act.

5.16. The new framework will retain the rights of local electors to make formal objections to the accounts, but give auditors greater discretion regarding whether to pursue an objection.

6. IMPLEMENTATION AND NEXT STEPS

6.1. The Government plans do some further work with smaller bodies and their representatives on regarding audit arrangements for smaller bodies, to explore options for these bodies before firming up proposals, and setting out a preferred approach in Spring 2012;

6.2. The Government will hold further discussions with local authorities, other local public bodies and the audit sector to flesh out the underlying detail of the framework, and how it might be implemented;

6.3. The Government intends to publish a draft Bill for pre-legislative scrutiny in Spring 2012, which allows for examination and amendments to be made before formal introduction to Parliament; and in advance of introduction of an Audit Bill as soon as Parliamentary time allows.

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By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

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