



Tuesday, 10 January 2012

## **AUDIT COMMITTEE**

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

**Wednesday, 18 January 2012**

commencing at **9.30 am**

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

---

**Our vision is 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:

**Lisa Warrillow, Town Hall, Castle Circus, Torquay, TQ1 3DR**  
**01803 207064**

Email: [democratic.services@torbay.gov.uk](mailto:democratic.services@torbay.gov.uk)



# AUDIT COMMITTEE AGENDA

1. **Apologies**  
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
  
2. **Minutes** (Pages 1 - 2)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 20 September 2011.
  
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 Progress Summary to 29 November 2011** (Pages 3 - 4)  
To consider a report that set out work that the Audit Commission had undertaken.
  
6. **Annual Audit Letter** (Pages 5 - 16)  
To consider a report on the above.
  
7. **Audit of System Controls and Financial Statements (including IFRS)** (Pages 17 - 46)  
To consider a report that sets out the findings of an audit undertaken by the Audit Commission.
  
8. **Protecting the Public Purse Checklist** (Pages 47 - 54)  
To consider a checklist produced by the Audit Commission.

9. **Head of Internal Audit's Six Month Internal Audit Progress Report 2011/2012** (Pages 55 - 74)  
To consider a report which summarises the work undertaken by the Devon Audit Partnership, during the first six months of 2011/12 and reviews the performance and effectiveness of the Internal Audit service.
10. **Treasury Management Strategy 2012/13 (Incorporating the Annual Investment Strategy 2012/13 and the Annual Minimum Revenue Provision Statement)** (To Follow)  
To consider a report on the above.

This page is intentionally left blank



## Minutes of the Audit Committee

20 September 2011

-: Present :-

Councillor Hill (Chairman)

Councillors Addis, Bent, Brooksbank and Doggett

---

### 272. Apologies

An apology for absence was received from Councillors Stringer.

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

### 273. Minutes

The Minutes of the meeting of the Audit Committee held on 22 June 2011 were confirmed as a correct record and signed by the Chairman.

### 274. Audit Progress Summary to 9 September 2011

Members noted the summary report from the Audit Commission detailing reports that they have issued and events that the Audit Commission had undertaken. Member's attention was drawn to the timetable for the outsourcing and procurement of local audit work currently undertaken by the Audit Commission.

### 275. Annual Governance Report

Members considered the Audit Commissions Annual Governance Report which summarised the findings from the 2010/11 audit which was substantially complete. The report included messages arising from the Audit Commissions audit of the Council's financial statements and the results of the work the Audit Commission had undertaken to assess the Council's arrangements to secure value for money in the Council's use of resources. Steve Brown from the Audit Commission explained that subject to satisfactory clearance of outstanding matters he would be issuing an unqualified opinion on the financial statements and the Council's corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.

Resolved:

- i) that the adjustments to the financial statements as set out in Appendix 2 to the report be noted; and
- ii) that the letter of representation be approved.

**276. Annual Statement of Accounts 2010/11**

The Committee received a report which set out the Statement of Accounts for 2010/11. The report explained that the Account and Audit Regulations 2011 required the 2010/11 Statement of Accounts be approved by a committee of the Council before 30 September 2011, for Torbay this would be the full Council.

The Chief Accountant explained that the accounts published at the end of September will be an updated version to include changes identified by both the External Auditor and Council Staff.

Resolved:

That Council be recommended to approve the Statement of Accounts 2010/11.

**277. Local Government Ombudsman Annual Review Letter**

Members noted a letter from the Local Government Ombudsman setting out the annual summary of statistics on the complaints made about Torbay Council for the year ending 31 March 2011.

**278. Expression of Thanks**

Members and Officers thanked Steve Brown, who would be retiring shortly, for all his hard work and support that he had given to staff at Torbay Council.

---

Chairman

## Audit Progress Summary to 29 November 2011



### Torbay Council

#### Reports issued by the Audit Commission since last meeting

- Unqualified opinion on the 2010/11 accounts and unqualified VFM conclusion issued 29/9/11
- Unqualified Whole of Government Accounts return certified 30/9/11
- Annual audit letter 2010/11 (attached)
- Audit of systems controls and financial statements 2010/11 (attached)

#### Work completed since last meeting

- Grant claim audits

#### Work in progress

- Detailed planning and initial work for 2011/12 audit.

#### Audit Commission events and national reports

- October 2011 – The AC has invited tenders from 13 potential bidders to carry out the outsourced audit of local government (including Torbay Council) in 10 lots for a period of 3 or 5 years from 2012/13. The AC's Chief Executive wrote to audited bodies on 10<sup>th</sup> November, updating them on procurement progress.
- October 2011 – The AC confirmed that it intends to deliver final accounts workshops for clients early in 2012. The workshops will be run on a similar basis to previous years and will run from mid-January to the end of February. Invitations will be sent in due course.
- November 2011 – The AC published *Protecting the Public Purse 2011 – Fighting Fraud against Local Government*. This is a summary of what has happened in the field of fraud detection and prevention since 2010, including the findings from our latest fraud survey. The report concludes that:
  - housing tenancy fraud could cost the public purse £900 million each year;
  - councils detected more than £22 million of false claims for student and single person council tax discounts;
  - housing and council tax benefits fraud losses accounted for more than half of the total fraud losses detected by councils;
  - counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils; and
  - councils detected 145 cases of procurement fraud amounting to £14.6 million.

The report contains a checklist for audit committees (attached) and the AC has also provided a comparator tool for single person discount (SPD) that allows local authorities to compare their levels of SPD with predicted levels, based on a national average. Two other briefing documents are available for councillors in parish & town councils and for governors in schools.

- November 2011 – The AC published *Tough Times*, a report drawing on a survey of auditors and a new analysis of councils' budget data. It finds that most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books. Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) this financial year (2011/12), auditors felt nine out of ten councils are well prepared for this and will deliver their budgets.

Documents relating to the above are available from the Audit Commission website.

Steve Brown

Audit Manager

Audit Practice

29 November 2011

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Annual Audit Letter

Torbay Council  
Audit 2010/11



# Contents

---

<b>Key messages</b>	<b>3</b>
Audit opinion and financial statements	3
Value for money	3
<b>Current and future challenges</b>	<b>4</b>
<b>Financial statements and annual governance statement</b>	<b>5</b>
<b>Value for money</b>	<b>6</b>
<b>Closing remarks</b>	<b>8</b>
<b>Appendix 1 – Fees</b>	<b>9</b>
<b>Appendix 2 - Glossary</b>	<b>10</b>

# Key messages

This report summarises the significant findings from my 2010/11 audit.

My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Page 7

## Audit opinion and financial statements

I issued an unqualified audit opinion on the financial statements on 30 September 2011. My audit identified one material error, three material disclosure errors and a number of non-trivial errors in the financial statements. The accounts were adjusted for all the material errors and all of the non-material ones (with some minor exceptions). None had an effect on Council balances.

In addition I identified a significant number of minor errors, omissions and/or inconsistencies in the text, which were all corrected at audit.

Overall, however, this was a good achievement, given the significant additional requirement this year for Local Government bodies to

implement International Financial Reporting Standards – a major project.

## Value for money

I issued an unqualified value for money conclusion for 2010/11.

My VFM conclusion is based on the nationally-set criteria:

- Securing financial resilience – Confirming that the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- Securing and challenging arrangements for economy, efficiency and effectiveness – Confirming that the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

I was satisfied the Council had appropriate arrangements in place to satisfy each of the criteria.

BW symbol key:  Red  Amber  Green

# Current and future challenges

---

## The Council is working in an increasingly demanding environment as funding is restricted.

The Council is facing significant challenges because of the economic downturn. However, it is taking positive action to address these issues.



### Revenue budget outturn projection 2011/12

An overspend of £1.525m is projected for the end of the current year. This has been reduced from the £3m projected at the end of the first quarter.

The Council has agreed a series of savings proposals and other actions to address the projected deficit.

### Economic downturn and budget pressures going forward

The Council faces significant budget gaps over the coming years as a result of reductions in government funding combined with other financial pressures. The budget gap for 2012/13 is challenging at an expected £10.7m, but is then expected to gradually reduce subsequently.

Significant service pressures include

- the additional costs involved in addressing Childrens' Services issues;
- growth in demand for Adult Services; and
- increasing landfill costs, combined with associated Waste Disposal spending.

A revised Medium Term Financial Plan has been prepared and will be presented to Members, along with budget options for 2012/13.

The Council has conducted widespread consultation on where expenditure should be focused and savings should be made.

They will, nevertheless, have difficult decisions to make to balance the 2012/13 budget

# Financial statements and annual governance statement

---

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

I issued an unqualified opinion on the Council's financial statements and annual governance statement on 30 September 2011. Before giving my opinion I reported to those charged with governance (in this case the Audit Committee) on the issues arising from the 2010/11 audit.

The Council prepared its financial statements before the deadline of 30 June 2011. I identified one material error, three material disclosure errors and a number of non-trivial errors in the financial statements. The accounts were adjusted for all the material errors and virtually all of the non-material ones. None had an effect on Council balances. In addition I identified a significant number of minor errors, omissions and/or inconsistencies in the text, which were corrected at audit.

Overall, however, this was a good achievement, given the significant additional requirement this year for Local Government bodies to implement International Financial Reporting Standards – a major project.

In my Annual Governance Report I identified two areas for future improvement:

- The operation of a key payroll system control should be strengthened to improve assurance over payroll expenditure.
- Quality improvements are recommended in the following accounts preparation areas: Valuation reports; the setting of council tax and NNDR bad debt provisions; the identification of related parties' transactions; and the need to strengthen quality assurance arrangements and improve working papers.

## Recommendation

I recommend that the Council takes action to address the issues which I have raised in our Annual Governance Report in relation to payroll system controls and accounts preparation quality matters.

Our memo to management (Report on the Audit of System Controls and Financial Statements) contains an action plan which has been agreed by officers.

# Value for money

---

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

### Criterion

#### 1. Financial resilience

**The organisation has proper arrangements in place to secure financial resilience.**

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

### Key messages

**The criterion is met.**

- The Council agreed a well-evidenced and balanced budget for 2011/12 in February 2011, following a rigorous review of spending
- The Medium Term Financial Plan was agreed in December 2011, but officers have updated it subsequently and an updated version will be agreed shortly as part of the 2012/13 budget setting process.
- The Council's reserves have been maintained and are adequate. Their robustness has been confirmed by the Chief Financial Officer.
- Although the first quarter outturn in the current year projected a £3m overspend at the year-end, the latest budget monitoring report projects a significant reduction to £1.5m and the Council is continuing to pursue a series of savings proposals and other actions to address this.

## 2. Securing economy efficiency and effectiveness

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

**The criterion is met.**

- The 2011/12 budget prioritised resources to meet realistic tighter budget constraints. Arrangements are in place to ensure that the Council can continue to drive out inefficiencies.
- The Council's Annual Governance Statement confirms that underlying performance management systems continue to operate effectively.
- The Council has been able to respond with valid reasons for variances identified by the Audit Commission's VFM profiles.
- The management of Adult and Children's services continues to be challenging as demand pushes up costs but the Council is committed to driving up standards in Childrens' Services and delivering priorities in Adult Services and is actively managing these issues.

# Closing remarks

---

I have discussed and agreed this letter with management. I will present this letter at the Audit Committee on 21 December 2011 and will provide copies to members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter (revised to reflect the abolition of CAA and Use of Resources)	July 2010
Opinion audit plan	June 2011
Annual governance report	September 2011
Audit of system controls and financial statements (including IFRS)	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Alun Williams  
District Auditor  
November 2011

# Appendix 1 – Fees

	£ Actual	£ Proposed	£ Variance
Agreed fee *	250,000	250,000	nil
Non-audit work	nil	nil	nil
Audit Commission refund re IFRS 6%	-14,656	-14,656	nil
Audit Commission refund re Use of Resources 1.5%	-8,750	-8,750	nil
<b>Total</b>	<b>226,594</b>	<b>226,594</b>	<b>nil</b>

Page 13

\* The agreed fee reflected extra work required to audit the introduction of International Financial Reporting Standards and new Auditing Standards but, in recognition of the financial pressures facing authorities, the Audit Commission refunded these costs, as shown above.

In addition the Audit Commission refunded a further 1.5% in respect of changes to the Use of Resources audit regime.

# Appendix 2 - Glossary

---

## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.  
Design and production by the Audit Commission Publishing Team.  
Image copyright © Audit Commission.

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.



This page is intentionally left blank

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

Torbay Council

Audit 2010/11



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

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

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

# Contents

<b>Summary report .....</b>	<b>2</b>
Introduction .....	2
Audit approach.....	2
Main conclusions .....	4
<b>Detailed findings .....</b>	<b>5</b>
Pre-Statements Audit.....	5
Post Statements Audit. ....	9
International Standards on Financial Reporting (IFRS) .....	12
<b>Appendix 1 Action Plan .....</b>	<b>13</b>
<b>Appendix 2 – Amendments to the draft financial statements.....</b>	<b>18</b>
<b>Appendix 3 – Unadjusted misstatements to the financial statements.....</b>	<b>22</b>
<b>Appendix 4 - Follow-up of 2009/10 recommendations on systems .....</b>	<b>24</b>

# Summary report

## Introduction

1 Our principal objective as the appointed auditor of Torbay Council is to carry out an audit that meets the Audit Commission's Code of Audit Practice.

2 This report sets out how we have achieved this objective and brings to your attention the findings from

- our review of the Council's key system controls
- our audit of the financial statements and the Whole of Government Accounts return, and
- our work on the implementation and reporting of the Council's first time adoption of the International Financial Reporting Standards (IFRS).

## Audit approach

3 Our audit approach is designed to comply with the requirements of the International Standards on Auditing, as they apply to the United Kingdom and Ireland (ISA UK&I). The approach we take focuses on areas of greatest risk, where errors would lead to material misstatements, and evaluates the adequacy of the Council's own arrangements to address the risk.

4 The audit is divided into two main stages: Pre-statements and post-statements as set out below in Table 1.

5 In 2010/11 local authorities were required to prepare financial statements under International Financial Reporting Standards (IFRS). In response to this we reviewed the Council's arrangements for the first time adoption of the new standards as part of the pre statements audit and substantively tested the Council's reporting against IFRS as part of our post statement audit.

---

Table 1: **Details of work covered at pre and post statements**

The table sets out the work undertaken at the two main stages of this audit

Audit area	Details of work covered
Pre-statement testing	We have undertaken audit procedures to ensure that the Council has adequately designed and operated information systems (including financial systems) to enable it to prepare financial statements free from material misstatement.

---

Audit area	Details of work covered
	<p>We have identified the following information systems as those giving rise to material entries in the Council's financial statements.</p> <ul style="list-style-type: none"> <li>■ Financial ledger</li> <li>■ Payroll</li> <li>■ Debtors</li> <li>■ Creditors</li> <li>■ Cash</li> <li>■ Council Tax</li> <li>■ NNDR</li> <li>■ Housing Benefits</li> <li>■ Treasury Management</li> <li>■ Social Services (Children)</li> <li>■ Asset management</li> <li>■ Schools (SIMS)</li> <li>■ Supporting People</li> </ul> <p>At this stage of the audit our objective has been to ensure that we have assurance over the key controls within each of these systems.</p> <p>Where we identified limited assurances we designed substantive testing to be undertaken at the post statements audit.</p>
Pre Statements IFRS Arrangements	We undertook a review of the Council's arrangements for the implementation of IFRS.
Post-statement testing	<p>We undertook substantive testing of</p> <ul style="list-style-type: none"> <li>■ the material figures in the Financial Statements to ensure that they present fairly the Council's position at the year-end date.</li> <li>■ the systems in which we identified limited assurances at our pre statements audit</li> <li>■ the 2010/11 balances impacted by IFRS and the restated 31/3/10 and 1/4/09 balances.</li> </ul>

6 Our pre-statement testing is designed to comply with the requirements of ISA (UK&I) 315 (Understanding the Entity) and throughout all of the work we are mindful of the requirements of ISA (UK&I) 240 (The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements).

7 This report covers all elements identified in Table 1 above.

## **Main conclusions**

### **Systems**

8 The Council has appropriate systems and controls in place to ensure that materially correct financial statements are produced. Accounting processes and governance arrangements are generally sufficiently robust to safeguard the assets of the Council and support effective production of the financial statements.

9 However, we have identified control weaknesses in a number of systems including Payroll, schools' finance, debtors, creditors, main accounting, adult social care, NNDR and IT.

10 These weaknesses should be addressed, as outlined in our action plan, as a matter of priority.

### **Accounts**

11 We reviewed and agreed the Council's arrangements for the implementation of and reporting of IFRS.

12 Our review of the financial statements was completed satisfactorily and we issued an unqualified audit opinion on 30 September 2011.

13 A higher number of errors and mis-statements than usual were identified in the draft statements - largely attributable to the change to IFRS. Adjusted and unadjusted mis-statements are summarised at Appendices 2 and 3 respectively.

14 Recommendations in the body of this report identify a number of areas which should be strengthened for future years, including the need for better Quality Assurance arrangements.

15 All our recommendations are brought together in the action plan at Appendix 1.

### **Acknowledgement**

16 Our thanks are due to all the officers who assisted us in the course of the audit.

# Detailed findings

## Pre-Statements Audit

**17** Our overall conclusion is that the Council has appropriate systems and controls in place to ensure that materially correct financial statements are produced. Accounting processes and governance arrangements are sufficiently robust to safeguard the assets of the Council and support effective production of the financial statements.

**18** There are a number of areas where further improvements can be made to enhance and develop existing controls and systems. Our key findings are summarised below. We have previously shared these with management following completion of the work earlier in the audit

**19** We note that five of these issues were also reported to you in our 2009/10 interim report. A updated copy of the 2009/10 interim report action plan has been included at appendix 4.

## Payroll

**20** In our 2009/10 audit report we recommended payroll reports should be sent to department heads on a monthly basis for review and agreement. We have identified that this process has not been undertaken monthly in 2010/11, as agreed.

**21** We discussed this again with management in the year, and as a consequence payroll reports were sent to all budget holders at year end. The process, which had a full response rate, identified a number of issues. This included two employees, who had left the Council but still continued to be paid: One being paid salary and the other being paid essential car user allowance. The Council have initiated recovery action against both individuals.

**22** These errors highlighted the requirement for this exercise to be undertaken on a regular basis. This would prevent any future losses or embarrassment to the Council.

**23** We also reported in 2009/10 that there was no authorised signatory list in operation in the payroll department. This list would enable payroll staff to check the signatories of officers approving changes to payroll, to confirm that they are authorised to do so. Our audit has identified that this list has still not been established.

## Recommendation

- R1** Payroll reports, detailing employees and salaries paid, should be sent to department heads for review and agreement on a regular basis
- R2** The Council should ensure that an authorised signatory list is established and used in the payroll department when inputting changes to payroll
- 

### Schools Finance

- 24** We have reported in previous year's audits that the schools finance team did not perform regular reconciliations between local payment schools bank balances and the general ledger. Furthermore, we have identified unreconciled amounts in both the 09/10 and 08/09 financial statements audits.
- 25** The schools finance team did not perform regular reconciliations again in 2010/11. However, they have managed to fully reconcile the local payment schools bank balances and the general ledger at the year end.

## Recommendation

- R3** The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.
- 

### Debtors

- 26** In 2009/10 we reported to you that numerous officers can raise debtor invoices within the Council, and these are not subject to review or authorisation. The lack of adequate review could result in inaccurate or inappropriate invoices being raised. The Council accepted this risk, and cited a mitigating control, being a report sent to budget holders for all debts raised over £5k.
- 27** We reviewed this control in 2010/11 but, could not rely upon it as there was no evidence that budget holders actually review and acknowledge these reports.
- 28** To address this risk Internal Audit have substantively tested a sample of income recorded through the sundry debtors system. We reviewed the results of this testing as part of our post statements audit and agreed that debtors had been accurately and appropriately raised.

## Recommendation

**R4** Invoices raised by departmental users should be reviewed and authorised.

**R5** The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.

---

### Creditors

**29** Our review of the creditors system identified the following two issues:

- A BACS and cheque proposed payment listing is generated prior to any creditor payment being made. The officer making the payment checks this list but this is not independently reviewed by a second person.
- We reported in 2009/10 that the authorised signatory list held within the creditors section had not been adequately updated. This prevented the effective checking of the authorisation of manual payments. Our audit has identified that this list has still not been updated.

## Recommendation

**R6** The BACS and cheque proposed payment listing should be independently reviewed by a second person prior to payment.

**R7** The authorised signatory list held within the Creditors section should be updated and all manual payments should be checked against this to ensure that they have been appropriately authorised.

---

### Main Accounting System

**30** Our review of the main accounting system identified that journal controls are weak. Journals can be raised by anyone in the finance team and there are no limits on the value raised. Further to this there is no hierarchical system for reviewing and authorising journals.

**31** To address this we have tested 20 journals during the year and all year-end material journals and have confirmed that all tested were correctly and appropriately raised.

## Recommendation

**R8** The Council should review their journal controls to ensure that all journals are correctly and appropriately raised.

---

### Adult Social Care

**32** The Council has provided £43.5 million of funding to the adult social care pooled budget operated in partnership with Torbay Care Trust. The pooled budget expenditure is classified under three headings:

- Health Commissioned Budgets - with overspends being a 100% Care Trust responsibility
- Pooled Provider Budgets – with overspends being a shared equally between the Care Trust and Council and
- Social Care Commissioned Budgets – with overspends being a 100% Council responsibility

**33** The Care Trust have provided assurance that the financial systems used to record this expenditure have operated effectively in 2010/11. However, the Council has not requested or received assurance that the expenditure has been correctly classified within the pooled budget. This assurance is required to enable the Council to conclude that it is not funding non-council expenditure, and that the host partner is not either intentionally manipulating expenditure to achieve financial targets, or unintentionally misstating expenditure, through error.

### Recommendation

**R9** The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.

---

### NNDR

**34** The NNDR system has been reviewed as part of our systems work and also as part of the NNDR 3 grant claim work. We have identified that:

- the granting of charitable status to ratepayers is not subject to regular review. Charities could change ownership or charitable status which could end entitlement to mandatory relief. A cyclical review programme would address this risk
- the inspection of empty properties to ensure that they were still eligible for Empty Premises Relief was not adequate, or formalised.

**35** Although, the controls over charitable relief and empty properties are not formalised, all properties sampled under these areas were agreed as being eligible for mandatory relief. The NNDR 3 was certified without qualification on 21st September 2011.

### Recommendation

**R10** NNDR properties granted charitable relief should be subject to cyclical review.

**R11** There should be a formalised review of the continuing eligibility of NNDR ratepayers granted empty properties relief.

---

## IT Risk Assessment (ITRA)

**36** We have undertaken a IT risk assessment in 2010/11. Overall we found that the IT controls within the Council operated effectively.

We noted, however, that Internal Audit have reviewed a number of areas as part of their 2009/10 and 2010/11 IT audit plans and have made several recommendations. We understand that ICT is implementing the recommendations and these will be subject to review by Internal Audit.

**37** We also identified that the Council does not have a specific End User Computing Policy. The policy should cover small scale office-system developments by user departments, and should include checking/evidencing arrangements for ensuring the integrity of these systems e.g. spreadsheets used by the Finance Department as part of the financial reporting process.

### Recommendation

**R12** The Council should develop an end user computing policy - including checking/evidencing arrangements for (eg) spreadsheets which are used to prepare material figures in the accounts.

---

## Post Statements Audit.

### Financial Statements

**38** The draft financial statements for 2010/11 were authorised for issue by the S151 Officer on 30 June 2011, and we completed our audit and issued an unqualified audit opinion on 30 September 2011.

**39** We reported our most significant audit findings to the Audit Committee on 20th September 2011 in our Annual Governance Report.

**40** A higher number of errors and mis-statements than usual were identified in the draft statements - largely attributable to the change to IFRS. The more significant adjusted and unadjusted mis-statements are summarised at Appendices 2 and 3 respectively. However, there were also a significant number of changes in wording required and typographical errors corrected.

### Annual Governance Statement

**41** We reviewed the Council's annual governance statement and confirmed it was generally consistent with our knowledge of the Council and compliant with the relevant guidance.

**42** We have identified some areas where this can be strengthened and reported the main issues in our annual governance report. The annual governance statement has been amended for these matters.

## Whole of Government Accounts

43 We completed our audit of the Whole of Government Accounts return on 30 September 2011, agreed amendments with the Council, and submitted this to the Department for Communities and Local Government to meet their deadline. There are no issues to bring to your attention.

### Quality of the draft accounts.

44 A significant number of amendments were agreed and made to the draft accounts. The areas where the main changes occurred were:

- Annual governance statement compliance and consistency issues (as above)
- Foreword and notes to the accounts – minor errors, omissions, non compliance with the Code and inconsistencies
- Typing errors and incorrect cross references etc

### Recommendation

**R13** Quality Assurance arrangements should be put in place to ensure that accounts presented for audit do not contain errors.

---

### Quality of working papers

45 IFRS implementation has been very demanding and this has impacted upon the quality of working papers. A number were only constructed at the audit when requested and others did not agree to figures in the statements.

### Recommendation

**R14** The Council should review the process for completing and providing the working papers required for audit, to ensure that they are fit for purpose.

---

### Related parties transactions

46 The related parties note disclosing the interests of two members and two officers did not contain sufficient information to comply with the Code. This was amended to include a description of the nature of the related party relationships and the amounts involved.

47 Our review of the completeness of related party transactions and, in particular, members' interests identified some member interests that had not been declared.

## Recommendation

**R15** The council should review the process for collecting and disclosing details of members' interests to ensure that it obtains and fully reports all relevant interests.

---

### Valuation reporting

**48** The valuation practice did not accord with the CIPFA code for valuations. The Asset Management Team in Torbay Development Agency undertake valuations of the Council's properties on the basis of instructions issued by the Council. We reviewed the valuation report and identified that it did not meet the requirements of the CIPFA code. The report did not include:

- the valuer's estimate of the remaining useful life of individual properties,
- the valuer's proposed strategy for the rolling programme of valuation reviews,
- the arrangements for implementing the rolling programme, or proposals for carrying out additional ad hoc valuations.

**49** The remaining useful life of individual assets has been identified and entered directly by the asset registrar. These were agreed as part of our sample testing and we concluded that these have been properly recorded on the asset register.

## Recommendation

**R16** Future arrangements should be strengthened to ensure that valuation reports received from the Council valuer meet the requirements of the CIPFA Code.

---

### Bad debt provisions

**50** The process for setting provisions should be more evidence-based. The provision for bad debts for Council Tax and NNDR are set at 75% and 50% of outstanding debt respectively. This is not best practice.

## Recommendation

**R17** The Council should improve the evidence base for its Council Tax and NNDR bad debt provisions, using, for example, aged debt analysis to assess the adequacy of provisions.

---

### Related Companies

**51** The Council have disclosed the profit and loss accounts and balance sheets of their related companies in the financial statements. In each case

the Council have based their share of net expenditure after corporation tax. However, the Council is not subject to any obligation in respect of corporation tax.

**52** Further to this the profit and loss account and balance sheet disclosed for the largest related company, ToR2, was based on the companies draft unaudited statements.

## Recommendation

**R18** The Council should review the treatment of corporation tax when accounting for its related companies.

**R19** Closedown arrangements should be updated to ensure that audited related company accounts are received on a timely basis to ensure inclusion within the Council's accounts.

---

## International Standards on Financial Reporting (IFRS)

**53** The Council were required to implement new International Financial Reporting Standards in 2010/11.

**54** At the pre-statement stage of the audit we reviewed and agreed the Council's plans for implementing and accounting for the new Standards and liaised with the Council's finance team to review and agree the principles that had been applied in adopting IFRS for the 2010/11 accounts.

**55** At the post statements stage of the audit we carried out audit procedures to agree that the Council have made appropriate and materially correct disclosures. We agreed that these disclosures were in accordance with adopted accounting policies and the requirements of the Code and IFRS.

## Appendix 1 Action Plan

### Recommendations

#### Recommendation 1 - Payroll

Payroll reports, detailing employees and salaries paid, should be sent to department heads for review and agreement on a regular basis

<b>Responsibility</b>	Mark Bennett
-----------------------	--------------

<b>Priority</b>	H
-----------------	---

<b>Date</b>	September 2011
-------------	----------------

<b>Comments</b>	Accepted: Exercise planned to be done on a quarterly basis
-----------------	--

#### Recommendation 2 - Payroll

The Council should ensure that an authorised signatory list is established and used in the payroll department when inputting changes to payroll

<b>Responsibility</b>	Mark Bennett
-----------------------	--------------

<b>Priority</b>	H
-----------------	---

<b>Date</b>	October 2011
-------------	--------------

<b>Comments</b>	Accepted: Review being undertaken
-----------------	-----------------------------------

#### Recommendation 3 - Schools' finances

The schools finance team should ensure that reconciliations between local payment schools bank balances and the general ledger are performed on a regular basis.

<b>Responsibility</b>	Lisa Finn
-----------------------	-----------

<b>Priority</b>	M
-----------------	---

<b>Date</b>	Ongoing
-------------	---------

<b>Comments</b>	Accepted. Frequency of reconciliation depends on resources available
-----------------	--

#### Recommendation 4 - Debtors

Invoices raised by departmental users should be reviewed and authorised.

<b>Responsibility</b>	Lorraine Woolcock
-----------------------	-------------------

<b>Priority</b>	M
-----------------	---

<b>Date</b>	March 2012
-------------	------------

<b>Comments</b>	Management accept the low risk for not having a separate authoriser when raising debtor accounts. Credit notes do have a separate authoriser.
-----------------	---

### Recommendation 5 - Debtors

The report sent to budget holders covering all debts raised over £5k should be reviewed and this review should be evidenced.

<b>Responsibility</b>	Lorraine Woolcock
<b>Priority</b>	H
<b>Date</b>	Ongoing
<b>Comments</b>	Noted: Report sent to budget holders on a weekly basis.

### Recommendation 6 - Creditors

The BACS and cheque proposed payment listing should be independently reviewed by a second person prior to payment.

<b>Responsibility</b>	Lorraine Woolcock
<b>Priority</b>	H
<b>Date</b>	Ongoing
<b>Comments</b>	Council will review this audit point with external auditor to discuss appropriate controls.

### Recommendation 7 - Creditors

The authorised signatory list held within the Creditors section should be updated and all manual payments should be checked against this to ensure that they have been appropriately authorised.

<b>Responsibility</b>	Lorraine Woolcock
<b>Priority</b>	H
<b>Date</b>	Sept 2010
<b>Comments</b>	Accepted: The manual authorised signatory list has been replaced by an automated POP authorisation list which is 'live' on the system.

### Recommendation 8 - Main accounting

The Council should review their journal controls to ensure that all journals are correctly and appropriately raised.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	May 2011
<b>Comments</b>	Journals are now authorised by the relevant finance team, instead of the Systems team.

### Recommendation 9 - Adult social care

The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	H
<b>Date</b>	December 2012
<b>Comments</b>	Accepted: Agreement on Council access to Care Trust Records to be agreed with Care Trust.

### Recommendation 10 - NNDR

NNDR properties granted charitable relief should be subject to cyclical review.

<b>Responsibility</b>	Ian Westwood
<b>Priority</b>	M
<b>Date</b>	September 2011
<b>Comments</b>	Accepted: Review carried out September 2011 will be reviewed on a bi-annual basis

### Recommendation 11 - NNDR

There should be a formalised review of the continuing eligibility of NNDR ratepayers granted empty properties relief.

<b>Responsibility</b>	Ian Westwood
<b>Priority</b>	M
<b>Date</b>	December 2011
<b>Comments</b>	Accepted. There is joint working with Torbay Town Centre Co which reviews 1/3 of the total relief given. A review of the remainder will be actioned when resources are available.

### Recommendation 12 - End user computing policy

The Council should develop an end user computing policy -including checking/evidencing arrangements for (eg) spreadsheets which are used to prepare material figures in the accounts.

<b>Responsibility</b>	Paul Looby
<b>Priority</b>	M
<b>Date</b>	Ongoing
<b>Comments</b>	Process for identifying and reviewing key spreadsheets/databases etc to be established

### Recommendation 13 - Quality assurance

Quality Assurance arrangements should be put in place to ensure that accounts presented for audit do not contain errors.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	June 2012
<b>Comments</b>	Accepted: As identified by the auditor a higher number of mis-statements than usual were attributed to IFRS. QA review included in Statement of Accounts timetable.

### Recommendation 14 - Working papers

The Council should review the process for completing and providing the working papers required for audit, to ensure that they are fit for purpose.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	June 2012
<b>Comments</b>	Accepted: As noted by the auditor IFRS implementation impacted on the quality of working papers. The Council will work with external auditor to identify key working papers.

### Recommendation 15 - Related party transactions

The council should review the process for collecting and disclosing details of members' interests to ensure that it obtains and fully reports all relevant interests.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	November 2011
<b>Comments</b>	Accepted: Meeting to be held with Democratic Services Manager to improve completeness of member declarations

### Recommendation 16 - Valuation reporting

Future arrangements should be strengthened to ensure that valuation reports received from the Council valuer meet the requirements of the CIPFA Code.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	October 2011
<b>Comments</b>	Accepted: Meeting held with valuer to clarify valuation requirements and to enhance report from the valuer.

### Recommendation 17 - Bad debt provisions

The Council should improve the evidence base for its Council Tax and NNDR bad debt provisions, using, for example, aged debt analysis to assess the adequacy of provisions.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	October 2011
<b>Comments</b>	Accepted: Meeting held with Exchequer to consider enhanced reporting on NNDR and Council Tax outstanding debt

### Recommendation 18 - Related companies

The Council should review the treatment of corporation tax when accounting for its related companies.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	M
<b>Date</b>	November 2011
<b>Comments</b>	Council doesn't consider there is an issue here. But will review and clarify this issue during the 2011/12 closedown.

### Recommendation 19 - Related companies

Closedown arrangements should be updated to ensure that audited related company accounts are received on a timely basis to ensure inclusion within the Council's accounts.

<b>Responsibility</b>	Martin Phillips
<b>Priority</b>	H
<b>Date</b>	December 2012
<b>Comments</b>	Accepted – closedown timetable updated to ensure related companies are fully aware of the Council's requirement to include

## Appendix 2 – Amendments to the draft financial statements

We identified the following misstatements during the audit and these have adjusted the financial statements.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Reduction in pension liability (CIES)	The £28 million reduction in pension liability arising from the government's announcement that pension increases will be linked to the (lower) CPI index rather than the RPI should be shown as Exceptional in the CIES. This was originally shown under Non Distributed Costs in the CIES. There is no overall impact on cost of services.	28,000	28,000		

	Comprehensive income and expenditure statement	Balance sheet
Pension liability estimates (Note 4)	A note explaining the estimation uncertainty will be added for clarity	N/A
Property, plant and equipment – Infrastructure (Balance sheet)	De-recognition of £757k of capital expenditure relating to the South Devon Link Road was incorrectly shown within the 'Other Movements in Cost or Valuation' line, rather than under 'De-recognition on Disposal', in Note 12.	Affects note 12 only
Revaluation reserve (Balance sheet and note 26)	The revaluation reserve contains 2 incorrect entries: The surplus/deficit on revaluation included should be (£0.7m), originally, due to typo, shown as £0.7m, and the difference between fair value and historical cost on depreciation should be (£0.7m) rather than £0.7m. The year end value should be £31.4m (£32.8m)	1400                      1400

	Balance sheet	Comprehensive income and expenditure statement
shown in the statements).		
Council tax debtors (Note 21)	Affects Note 21 only	Council tax debtors are misstated: Debtors are described as including Liability orders and are incorrectly shown gross of other precepting authorities £500k. The net effect is £200k and 'Other entities and individuals should be increased by this amount. Total debtors are correct.
Collection fund	Affects collection fund only	The distribution of the 2009/10 surplus has been shown double counted within the collection fund. This has resulted in a £700k misstatement in the year end surplus.
Adjustments between accounting basis and funding basis under regulations 2010/11 (Note 7)	Affects disclosure only	Adjustments involving the Capital Adjustment Account - A new separate line should be included for

	Comprehensive income and expenditure statement	Balance sheet
	capital grants and contributions applied £4.7m – originally included elsewhere in this note.	
Adjustments between accounting basis and funding basis under regulations 2009/10 (Note 7)	Audit of the 2009/10 material balances in this note identified a £5.4m disclosure error which impacts upon 3 entries in the note.	Affects disclosure only
Cash Flow Statement	£9m of grant income has been included in the investing and financing adjustment lines (following contradictory advice from CIPFA) The opposite entry is in adjustments for non-cash movements. The overall net decrease in cash and cash equivalents is not affected.	Affects cash flow only
Dedicated schools grant (N ote 37)	The total final DSG shown is misstated – it includes £2.1m grant relating to academies. The value should be £71.1m	Affects Note 37 only

## Appendix 3 – Unadjusted misstatements to the financial statements

We identified the following misstatements during the audit, but management has not adjusted the financial statements. Management have provided an explanation of decision not to amend in the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Property, plant and equipment – Land and buildings (Balance sheet)	7 pieces of land and property with a value of £218k have been included in the asset register and balance sheet where the Council does not have title				218
Property, plant and equipment – Land and buildings (Balance sheet)	The ledger balance does not reconcile to the asset register. The former exceeds the latter by £80k				80

	Comprehensive income and expenditure statement	Balance sheet
<p>Ellacombe school (Balance sheet)</p> <p>Ellacombe school has been leased for 99 years at a notional £5 pa since 1932. The school is included in the Council's asset register at a gross value of £2.2m. The lease is disclosed as an operating lease and therefore the school should not be included on the balance sheet.</p> <p>The Council plans to review and sort out this anomaly in 2011/12.</p>		2,000

## Appendix 4 - Follow-up of 2009/10 recommendations on systems

We raised a number of recommendations to improve controls within systems in our 2009/10. These were all agreed or noted by officers. The table below shows the recommendations made, our 2009/10 comments and our conclusion as to whether these risks have been

Recommendation	Priority 1 = Low 2 = Med 3 = High	Agreed	Comments	Cleared
R1 Regular payroll reports should be distributed to budget holders. Budget holders should be asked to review and confirm the accuracy and completeness of the report.	3	Agreed	A regular report has been distributed to commissioners and executive heads	No, see recommendation 1 of this report.
R2 An authorised signatory list should be established for all main systems and used to by Payroll to check to ensure that requests made have been appropriately authorised.	3	Agreed	A signatory list has been developed for schools and 100% of input is being checked. A signatory list for core council (applicable to all main Council systems) is being developed in conjunction with Finance.	No, see recommendation 2 of this report.

Recommendation	Priority 1 = Low 2 = Med 3 = High	Agreed	Comments	Cleared
R3 The input and output checks performed by staff during the processing of the pay run should be subject to independent review.	3	Agreed	The pay run form has been amended to include an overall review and sign off by a senior payroll officer. This ensures all the relevant stages have been completed by the payroll team.	Yes
R4 The authorised signatory list held within the Creditors section should be updated and all manual payments should be checked against this to ensure that they have been appropriately authorised.	3	Agreed	Payments of 10K or more are now always checked for authorised signatories – Management have accepted the risks currently for transactions under this amount but are working on the introduction of an automated process to replace all manual certifications and will include system authorisation.	No, see recommendation 7 of this report.
R5 Controls covering manual invoice payments should be reviewed to ensure that payments are not made until the Council have confirmation that the goods or services have been received.	3	Agreed	The controls covering manual invoice payments include do checks on the authorisation and the goods received/work done box. The example found was Human Error by a temporary member of staff who had been trained to check for this – it has been noted to stress this point when training staff in future.	Yes.
R6 Invoices raised by departmental users should be reviewed and authorised.	3	noted	Accepted risk due to availability of debtor information already available and a	No, see recommendation 4 of this report.

Recommendation	Priority 1 = Low 2 = Med 3 = High	Agreed	Comments	Cleared
			budget, report is sent to budget holders of all debts raised over £5k.	Note - We agreed that reports covering all debts raised over £5k are sent to budget holders. However, there is no evidence that budget holders actually review and acknowledge these reports.
R7 The Council should review the current arrangements for debt monitoring and chasing.	2	Agreed	Now issue best practice emails quarterly and ask departments to contact debtor's directly depending on level & type of debt.	Yes, agreed that this is an ongoing review. We concluded that year end debt was not material in 2010/11.
R8 The Council should implement stronger controls to ensure that new clients are appropriately set up and that provider confirmations for existing clients are checked for accuracy.	2	Agreed	Numbers of Hub referrals by service to be reconciled with numbers entering service reported by provider on client record forms. Housing benefit to check those entering subsidy services are in receipt of housing benefit, & continue to be, on a monthly basis. A sample of service users will be interviewed at annual review	Yes.
R9 The Council should ensure that change control procedures are	3	Agreed by internal IT	The new processes are being developed for the IT01 change form. The system	Yes

Recommendation	Priority 1 = Low 2 = Med 3 = High	Agreed	Comments	Cleared
implemented and that these are supported by a formal request and approval for the change document.		auditor	should be completed 4th Qtr 2010	
R10 The Council should ensure it has adequate assurances over the financial systems that Torbay Care Trust use to process social care expenditure.	3	Agreed	TCT Internal Audit reports on systems are now received and reviewed by EH Finance.	Yes
R11 The Council should ensure it has adequate assurance that expenditure disclosed within the pooled budget is correctly classified.	3	Agreed	In addition to the TCT Internal Audit reports on systems. This issue will continue to be discussed with TCT to ensure suitable assurance.	No, see recommendation 9 of this report.
R12 The Council should ensure that it liaises effectively with the Care Trust to share knowledge on proven and potential cases of fraud and corruption.	3	Agreed	This issue will continue be discussed with TCT to ensure suitable assurance.	Yes
R13 Officers should continue to progress the implementation of IFRS in accordance with the agreed project plan and guidance from CIPFA. Progress should be regularly reported to and reviewed by the Audit Committee..	2	Agreed	As IFRS implementation timetable	Yes



## Protecting the Public Purse 2011

### Appendix 1: Checklist for those responsible for governance

#### Checklist

General		Yes	No
1	Do we have a zero-tolerance policy towards fraud?	<input type="radio"/>	<input type="radio"/>
Comments			
2	Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	<input type="radio"/>	<input type="radio"/>
Comments			
3	Do we have dedicated counter-fraud staff?	<input type="radio"/>	<input type="radio"/>
Comments			
4	Do counter-fraud staff review all the work of our organisation?	<input type="radio"/>	<input type="radio"/>
Comments			
5	Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	<input type="radio"/>	<input type="radio"/>
Comments			

General	Yes	No
6 Have we assessed our management of counter-fraud work against good practice?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
7 Do we raise awareness of fraud risks?		
a. With new staff (including agency staff)?	<input type="radio"/>	<input type="radio"/>
b. With existing staff?	<input type="radio"/>	<input type="radio"/>
c. With elected members?	<input type="radio"/>	<input type="radio"/>
d. With our contractors?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
8 Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
9 Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		

General	Yes	No
<b>10</b> Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
<b>11</b> Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
<b>12</b> Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
<b>13</b> Do we have effective whistleblowing arrangements?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
<b>14</b> Do we have effective fidelity insurance arrangements?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		

Fighting fraud with reduced resources		Yes	No
15	Have we reassessed our fraud risks since the change in the financial climate?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>			
16	Have we amended our counter-fraud action plan as a result?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>			
17	Have we reallocated staff as a result?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>			

Current risks and issues		Yes	No
<b>Housing tenancy</b>			
18	Do we take proper action to ensure that we only allocate social housing to those who are eligible?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>			
19	Do we ensure that social housing is occupied by those to whom it is allocated?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>			

Current risks and issues	Yes	No
<b>Procurement</b>		
20 Are we satisfied our procurement controls are working as intended?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
21 Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		
<b>Recruitment</b>		
22 Are we satisfied our recruitment procedures achieve the following?		
a. Do they prevent us employing people working under false identities?	<input type="radio"/>	<input type="radio"/>
b. Do they confirm employment references effectively?	<input type="radio"/>	<input type="radio"/>
c. Do they ensure applicants are eligible to work in the UK?	<input type="radio"/>	<input type="radio"/>
d. Do they require agencies supplying us with staff to undertake the checks that we require?	<input type="radio"/>	<input type="radio"/>
<b>Comments</b>		

Current risks and issues	Yes	No
<b>Personal budgets</b>		
<p><b>23</b> Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?</p>	<input type="radio"/>	<input type="radio"/>
<p><b>Comments</b></p>		
<p><b>24</b> Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?</p>	<input type="radio"/>	<input type="radio"/>
<p><b>Comments</b></p>		
<b>Council tax</b>		
<p><b>25</b> Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>	<input type="radio"/>	<input type="radio"/>
<p><b>Comments</b></p>		

Current risks and issues	Yes	No
<b>Housing and council tax benefits</b>		
<b>26</b> When we tackle housing and council tax benefit fraud do we make full use of the following?		
a. National Fraud Initiative?	<input type="radio"/>	<input type="radio"/>
b. Department for Work and Pensions Housing Benefit matching service?	<input type="radio"/>	<input type="radio"/>
c. Internal data matching?	<input type="radio"/>	<input type="radio"/>
d. Private sector data matching?	<input type="radio"/>	<input type="radio"/>
<p><b>Comments</b></p>		

This page is intentionally left blank



Public Agenda Item: **Yes**

Title: **Head of Internal Audit's Six Month Internal Audit Progress Report 2011/2012**

Wards Affected: **All Wards**

To: **Audit Committee** On: **18 January 2012**

Contact Officer: **Martin Gould or Robert Hutchins**

☎ Telephone: **01803 207320 / 01392 382437 or 01392 382438**

✉ E.mail: **[Martin.gould@devonaudit.gov.uk](mailto:Martin.gould@devonaudit.gov.uk),  
[Robert.hutchins@devonaudit.gov.uk](mailto:Robert.hutchins@devonaudit.gov.uk)**

---

## **1. What we are trying to achieve**

- 1.1 This report summarises the work undertaken by Devon Audit Partnership during the first six months of 2011/12. It reviews the performance and effectiveness of the Internal Audit service, and provides an audit opinion on the adequacy of Torbay's internal control environment. This report also informs Members of the views of the Head of Internal Audit as to whether there are any matters of concern for Members.
- 1.2 The report forms part of the evidence that will allow the Council to prepare its Annual Governance Statement, and provides the opportunity for the organisation to review its processes, controls and objectives and to provide assurance to Members, Senior Officers and stakeholders as to the reliability of its statement of accounts and the probity of its operations.

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

### **2.1 That the Committee note**

- i. the satisfactory progress against the agreed internal audit plans for 2011/12 during the first six months of the year;
- ii. the key issues arising from those audits highlighted in this report;

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

- 3.1 The Internal Audit (IA) Service for Torbay Council is a commissioned service delivered by the Devon Audit Partnership.
- 3.2 All local authorities and other relevant bodies subject to the Local Government Act 1972 Section 151 and the Accounts and Audit Regulations 2003 (as amended 2006) must maintain an adequate and effective system of Internal Audit of its accounting records and of its system of Internal Control in accordance with the proper practices in relation to internal control.

3.3 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 which is included in the Council's Statement of Accounts, the Head of Internal Audit must provide a written report to those charged with governance which must: -

- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
- Disclose any qualifications to that opinion, together with the reasons for the qualification
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
- Comment on the compliance with the standards contained in the CIPFA Code of Practice on Internal Audit in Local Government in the United Kingdom and communicate the results of the internal audit quality assurance programme

This report is prepared in line with the above requirements and provides a summary of the internal audit work undertaken in the first six months of 2011-12.

3.4 Based on the audit work undertaken so far during the year, irregularity investigations and any other relevant information, our overall opinion is that we are currently satisfied that there is reasonable assurance as to the adequacy and effectiveness of the Authority's internal control environment.

**For more detailed information please refer to Appendix 1.**

**Martin Gould**  
**Chief Internal Auditor and Head of Devon Audit Partnership**



# **Internal Audit Report**

Torbay Council

**Internal Audit Monitoring – Six Month Report**

*2011 - 2012*

**Restricted**

## **Devon Audit Partnership**

---

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the CIPFA code of practice for Internal Audit and other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [martin.gould@devonaudit.gov.uk](mailto:martin.gould@devonaudit.gov.uk)

## **Confidentiality and Disclosure Clause**

---

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within Torbay Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

## 1 Introduction

---

This report provides a summary of performance in the first six months against the internal audit plan for the 2011 – 12 financial year, highlighting the key areas of work undertaken and summarising our main findings and audit opinions.

The key objectives of the Devon Audit Partnership (DAP) are to provide assurance to the Commissioners, the Chief Executive and Audit Committee on the adequacy and security of the systems and controls operating within the Council.

## 2 Opinion

---

In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in the Council.

Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks. Where management actions have been agreed and as appropriate, we shall undertake follow up work to ensure that the identified risks have been mitigated.

## 3 Performance against the Plan

---

The status of planned audits as at the end of September 2012 and their associated reported executive summaries is contained in the table at Appendix A.

Overall, we have made good progress in the first six months of 2011/12, with 54 % of the planned audits commenced (against expected rate of 50%). However, there has been some turnover in staff and the team has been faced with higher than normal instances of sickness; as a result the number of audits completed is down on that expected, as is the actual number of audit days delivered (please see Appendix B for details). We are aware of these issues and are taking action to ensure that the plan is effectively delivered.

Due to the fluidity of audit delivery some audits relating to the previous year (2010 – 11) have been brought to conclusion in 2011 – 12.

At this stage we remain confident that we will be able to deliver the plan as expected.

## 4 Executive Summary

---

Appendix A details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix B.

**Adults & Operations** - we are able to report that Material Systems controls have been maintained and that improvements have been made to address previously identified weaknesses. The completion of the 2010/11 IT Audit work and related follow up activities has confirmed that a number of ICT control weaknesses still exist, but that ICT are aware of the issues and are taking action to address them.

In addition to these key areas, audits were undertaken of specific functions / elements and also a 'watching brief' was maintained or direct advice provided for a number of ongoing projects.

**Communities and Local Democracy** - we have maintained an oversight of certain critical transformation programmes of the Council and commenced working on the more operational audits planned for 2011/12. A number of instances of direct advice has also been provided when required by this Commissioning area.

**People** – An audit of Youth Offending was undertaken as a joint piece of work looking at both the Youth Offending team at Torquay alongside the three Youth Offending teams within Devon County Council. The main findings were that capacity exists for shared working in certain areas while differences in working practices and resources need to be reviewed and best practice evolved across all teams.

Our review of the Education Management System identified that written protocols and guidance had not been established for the various modules and the EMS as a whole.

**Place & Environment** - Work has commenced on a further review of the monitoring arrangements in place for the TOR2 JVC contract. This is a continuation of DAP's initial review, started in 2010/11, which acknowledged the initial operational "teething" problems experienced by the Council and the on-going development of the monitoring arrangements.

We have been able to certify that the Council has fulfilled its obligations with regard to the submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme. Our reviews did highlight the dependence on the expertise and knowledge of one officer in this area as well as issues with the software package used.

A special exercise on the Tourism Strategy has been carried out at the request of the Environment Commissioner. The findings of this review confirmed that the detailed statistics in the Strategy are in line with reliable industry sources. In addition, an audit of business systems and administration has been completed, indicating that sound business processes are in place.

DAP continues to support the South West Devon Waste Partnership Waste PFI project as it now supports MVV through the planning application stage, following the award of the contract to MVV Umwelt. DAP have been asked to advise on governance and risk issues, in particular the Partnership's contractual responsibilities in respect to Section 106 planning obligations, thus ensuring that the Partnership continues to act appropriately.

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

Based on our work in previous years and in the first six months of 2011/12 our opinion is that the systems and controls in schools generally mitigate the risks

identified. All schools were expected to meet the FMSiS by 31st March 2010, those that did not will have been audited by the end of this year and will have needed to satisfy the requirements of the SFVS through self-assessment by March 2012.

The key matters arising from our audits are the:

- quality of governance arrangements;
- absence or overdue statutory policy approval;
- single central records of CRB checking and;
- inventories and asset management.

**Overall** - We are pleased to report that Council systems continue to be well controlled officers have responded positively to our recommendations for improving control and / or enhancing efficiency.

It should be noted that the Council is facing significant changes in the way it operates. There is pressure on all parts of the organisation to improve efficiency, and this puts pressure on traditional control arrangements. We are working with staff and managers throughout the organisation to ensure that required changes can be made in an effective way that protects the assets and employees of Torbay Council

---

## 5 Irregularities

---

There have been a number of issues reported to us for investigation and resolution. Some of the key issues reviewed are as follows

**National Fraud Initiative (NFI)** - Data matching investigation work associated with the 2010/11 National Fraud Initiative (NFI) exercise has continued throughout the first six months of 2011/12. The Council has now received a total of 5,242 data matches of which the Audit Commission categorised 1,164 as the highest priority. To date, a total of 808 of the high priority matches have been investigated and work remains ongoing to address the other 356 matches.

**People** - Three significant referrals were received by DAP during the first half of the 2011/12 financial year in respect of potential fraud or irregularity within Children, Schools and Families. Brief details relating to the scenarios investigated are shown at Appendix A.

**Place & Environment** - Two significant referrals were received by DAP during the first half of the 2011/12 financial year in respect of potential fraud or irregularity within Place and Environment Services. Brief details relating to the scenarios investigated are shown at Appendix A.

**Schools** - Internal Audit staff have been working alongside the HR Practice in conducting investigations at both schools and centrally. A number of instances of misuse of computers, fraud and / or irregularity have been reported to us during the year. In each of these instances we have assisted in dealing with the matter and, where appropriate, have made recommendations aimed at improving controls and preventing reoccurrence.

## **6 Inherent Limitations**

---

The opinions contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

## **7 Acknowledgements**

---

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of the audits in the first six months of 2011 - 2012.

**Martin Gould**  
**Head of Audit Partnership**

2011–2012 Assurance Opinion and Executive Summaries for completed audits as at Month 6 (September)

Commissioning Area: Adults & Operations				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Main Accounting System	2010/11	Final	Good Standard	An established and robust control framework for the maintenance of the General Ledger ensures that budgetary and transactional data is accurately recorded enabling reporting of accurate financial information. The functionality within FIMS and the operation of manual controls provides further assurance of the integrity of the accounting data which is subsequently used to produce the Statement of Accounts and inform the Council's budgetary requirements.
Payroll	2010/11	Final	Improvements Required	<p>Although the individual and overall assurance opinions remain as 'Improvements Required', this is due to the breadth of the audit scope and it should be noted that Internal Audit found that the progress continues to be made in addressing audit recommendations and improving the payroll control environment.</p> <p>No new control issues were identified during the audit and recommendations have been made to assist in progressing points previously raised that remain outstanding or require embedding / enhancing to make fully effective.</p>
Debtors	2010/11	Final	Improvements Required	<p>Since the establishment of the dedicated Debtors Administration role, there has been ongoing improvement in the operation of the Debtors function and progress made against previous recommendations. The system is well managed centrally and users are effectively supported by comprehensive procedural and training provision. The lack of adequate segregation of duty continues with the associated risks accepted by management as acceptable given operational / business need.</p> <p>Recommendations have been made to assist with improving the effectiveness of liaison between Debtors Admin, the Corporate Debt Team and Legal Services in order to prevent debts becoming aged and aid recovery.</p>

CTAX & NDR	2010/11	Final	Improvements Required	Despite considerable change within Customer Contact, the Revenues Team has maintained accuracy and control over property valuations with amendments to billing adequately supported. The effective systems in place for recording payments have been maintained and the requirements of the External Auditor's key controls have been met. Although liability is accurately recorded, there remains a lack of consistent and comprehensive review of ongoing entitlement to reductions in liability.
Asset Register	2010/11	Final	Good Standard	Significant progress has been made on the recommendations contained in the previous report and in achieving compliance with IFRS reporting standards relating to the information contained in TOAD. Notably, componentisation of assets for depreciation purposes has now been completed in line with IFRS requirements.
POP (electronic ordering)	2010/11	Final	Good Standard	The ordering functionality within POP is highly effective and provides all expected controls of an electronic ordering system including robust authorisation controls. It provides for accurate recording of all the key information and the automated transfer (and reversal) of commitment data to the general ledger. Weaknesses continue to exist in the goods receipting functionality, however steps have been taken to establish mitigating processes and the residual associated risks continue to be accepted by management.
Benefits	2010/11	Final	Improvements Required	The audit confirmed that benefit claims are verified in line with guidance and evidence is appropriately retained to support the assessment of the claim. Although the testing of claims input during the audit was found to be generally accurate, the level (Performance Indicator EB079a - accuracy of processing) is below target.
FIMS System Admin	2010/11	Final	Good Standard	FIMS is effectively managed with robust processes and controls including comprehensive and effective system reconciliation. The processes are fully supported with complete and disseminated policies and procedures for both the Systems Admin (SA) team and the system users. Training is provided and data quality expectations stated to support correct use of the system and accurate data.
IBS Open System Admin	2010/11	Final	Improvements Required	Progress continues to be made in improving the system management arrangements for Open Revenues. The system has been kept current and fit for purpose and the team show a willingness to address the remaining weaknesses identified, however issues relating to segregation of duty impact the overall assurance opinion that can be provided.

Creditors	2010/11	Final	Improvements Required	<p>The processing procedures and practices are robust and a high degree of accuracy continues to be achieved leading to data quality and correct payments being made; this is despite reductions in resource necessitating informed and risk assessed decisions regarding permanent changes in practices. It is therefore pleasing to acknowledge that these changes have not resulted in the audit identifying any processing errors or any new control issues.</p> <p>Although outside the direct control of payments weaknesses in the cheque printing control environment have impacted the assurance opinion than can be provided in relation to the generation of output.</p>
Executive Head Payroll Verification Process	2011/12	Final	Good Standard	The Quarter 4 process to verify the accuracy of payroll for core Council was found to be effectively undertaken. A number of recommendations have been made to enhance the process and ensure that all elements of the process are appropriately evidenced.
Debtors Substantive Testing	2011/12	Final	Good Standard	The substantive testing on debtor invoices raised in 2010/11 has confirmed that invoices are being raised and coded correctly. Some exceptions were identified, however these related to functions that have now transferred from the Council.
JE Back pay	2011/12	Final	Not Applicable	This was not issued as a standard report and no overall assurance opinion was given. Detailed findings on the sample testing undertaken was provided to the Project Team enabling them to determine the appropriateness of payment of the various groups processed in the period.
E Commerce	2010/11	Draft	Good Standard	The FIMS systems team has worked hard over a number of years to generate and evolve a highly efficient and sophisticated integrated seamless and paperless procurement system that uses a process of single sign on at the FIMS level to cover the entire / complete end to end process. This work has generated a very efficient and cost effective vehicle for e-procurement within the Council, and in our opinion this should continue to be further developed and resourced to allow the already significant benefits to be further exploited through the addition of further suppliers and systems integration.
ITRA	2010/11	Final	Improvements Required	Work has been carried out jointly with the Audit Commission in connection with the IT Risk Assessment for 2010/11 culminating in a visit by the Audit Commission to evaluate the present status of controls within the IT department. The outcome of this visit was to confirm that the internal audit recommendations made as part of this year's audit plan should be implemented. As recommended, a separate SPAR based IT Risk Register has now been established by IT.

Irregularity Tor 1102 – Internet & Email abuse	2011/12	Final	N/A	We were asked to undertake an investigation into possible abuse of the Council's internet and e-mail by staff. Reports were provided to the management highlighting two members of staff where further management investigation may be required.
--	---------	-------	-----	--

<b>Commissioning Area: Communities &amp; Local Democracy</b>				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Community Protection	2011/12	In progress		The audit work is nearly complete and it is anticipated that the report will be issued and agreed by the end of December 2011.
People, Place, Productivity & Partnerships (Transformation)	2011/12	In progress		Ongoing oversight being maintained throughout 2011/12. Audit reviewed the progress of the PPP&P Programme to date. It has become apparent that due to the recent ongoing structure changes and budget pressures, work in this area including support at Corporate level is currently on hold with further review and guidance awaited.
Commissioning	2011/12	In progress		Ongoing oversight being maintained throughout 2011/12. EDC and ERTC Commissioning projects are summarised within the Place and Environment Report.

Commissioning Area: People				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Permanency Planning Team	2010/11	Draft	Good Standard	<p>Generally the procedures for procuring Independent Sector placements for looked after children are in order and the needs of each young person are taken into account.</p> <p>The cost of a young person being in care is budgeted for and monitored. However, when a young person's behaviour becomes too challenging and/ or their needs become too complex for in-house foster care, alternative suitable care can only be found in Independent Sector Placements which offer provision for a range of psychological, emotional and behavioural difficulties. The cost of these Independent Sector places increases with a young person's complexity of need.</p>
Education Management System (EMS)	2011/12	Final	Improvements Required	The Education Management System comprises of approximately fourteen modules. Written protocols and guidance for the EMS as a whole and the individual modules have not been established. Therefore it could not be determined as to whether the correct procedures and processes are being followed.
Youth Offending Team (YOT)	2011/12	Draft	Improvements Required	<p>The provision of Appropriate Adults by Devon Appropriate Adult Volunteer Services was found to be delivered generally to the satisfaction of YOTs and Police. The main weakness is in the lack of cover at night and the insufficient cover available from the Emergency Duty Service. Concern regarding this may arise if the age provision is raised to seventeen without appropriate additional volunteer resources in place by that time.</p> <p>The review into the co-location of the South Devon and Torbay teams did not reveal any cost effective / easy answers without further in-depth analysis of many more cost and qualitative issues.</p>
Irregularity Tor 1105 – Paris database records	2011/12	Final	Not Applicable	An investigation was undertaken into a whistleblowing referral involving the practice of the recording of records on the Paris database. The investigation has been concluded and a response provided to the whistleblower in accordance with the Whistleblowing Policy.

Irregularity Tor 1103 – CRB check	2011/12	Final	Not Applicable	As a result of the NFI data matching exercise, DAP undertook an investigation into the address history records of a Council Worker. This included the incorrect completion of previous CRB forms with regard to the Worker's address history over the last five years. DAP liaised with the Council's HR dept to investigate concerns that the incorrect address history may have invalidated the CRB checking process. HR undertook a subsequent CRB check having discussed the issue with the Worker and this was processed satisfactorily.
Irregularity Tor 1101 – Theft from 'The Nest'	2011/12	Final	Not Applicable	DAP were asked to investigate the theft of £110 from a safe at a nursery centre, Brixham. The police were initially advised although this was not fully logged as a crime. The Centre Manager and Audit subsequently agreed that further police involvement would not be effective. The perpetrator could not be discovered or the cash recovered. However, Audit made recommendations for improvements to controls regarding the security of cash at the Centre. Action was subsequently taken to implement improvements.

Commissioning Area: Place and Environment				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
TOR2 JVCo	2010/11	Final	Improvements Required	<p>Contracts covering the three service areas have been drawn up to comprehensively and robustly cover all expected areas, and ensure that both the Council and TOR2's interests have reference to a legally enforceable framework.</p> <p>The Contracts are described as 'self monitoring' which requires the Council to have in place arrangements to assure itself that the performance data provided by TOR2 is accurate. These arrangements have developed over the first six months and it is accepted that some areas are better covered than others. A review of the effectiveness of these self monitoring arrangements is necessary to ensure that service provision is maintained in accordance with the Contracts and payments to TOR2 correctly reflect this.</p> <p>Periodic inspection of the Council's transferred assets to TOR2 has not been allocated to a senior responsible officer and as these assets remain the property of the Council it is essential that ownership of this function is allocated as soon as possible.</p>
Natural Environment	2011/12	Draft	Improvements Required	<p>Natural Environment with its current functions is newly formed, the arrangements with the Joint Venture Company are still being embedded and in addition the various functions have not been subject to a recent internal audit. These factors have inevitably resulted in a number of findings from this audit, however Natural Environment intend to use the report to develop and improve the control environment within their new department from the outset.</p> <p>Contracts are in place for the maintenance of green space, recreation areas, grounds and play / skate parks that incorporate inspection requirements to ensure that they are maintained to a good and safe condition. However, weaknesses exist in the contract monitoring arrangements and inspection regime undertaken by the Park Wardens.</p>
Tourism Development Company	2011/12	In Progress		<p>An Internal Audit Plan for the work to be carried out during 2011/12 for the new company has been agreed, and two audit reviews carried out. The first, an audit of business systems and administration has been completed, indicating that sound business processes are in place. After discussions with senior management, a second audit review has now been commenced on Material systems.</p>

				<p>Additionally a special exercise on the Tourism Strategy has been carried out at the request of the Environment Commissioner. The findings of this review confirmed that the detailed statistics in the Strategy are in line with reliable industry sources.</p>
Carbon Management	2011/12	In Progress		<p>Responsibility for fulfilment of the requirements for the CRC scheme within the Council lies with Corporate Energy Manager. The authority completed the necessary work for submission prior to the 29th July 2011 deadline.</p> <p>There are potential risks to non-compliance with the scheme, namely with the gathering of data from schools which are not part of the corporate energy contract and the potential difficulty in recouping the costs of purchasing carbon allowances from Academy schools. The latter is due to an anomaly in the CRC scheme which holds local authorities responsible for emissions and subsequently purchase of carbon allowances for schools regardless of whether they are under local authority control.</p>
Irregularity Tor 1104 – Salary overpayment	2011/12	Draft Report	N/a	<p>We were asked to undertake an investigation into an alleged fraudulent overpayment of salary within Library Services. Although the overpayment was confirmed, fraudulent intent was not proven. Weaknesses in controls at various levels were identified, and recommendations for improvements are in the process of being agreed. The overpayment has been set up as a Council debt and is currently being repaid under a Payment Arrangement Plan.</p>
Irregularity Tor 1106 – Bribery / corruption	2011/12	Final Report	N/a	<p>We were asked to undertake an investigation into an alleged case of bribery / corruption. The source of the allegation was interviewed under caution (in line with PACE requirements) but the suggestion of bribery not found to be substantiated. Subsequent management / HR investigation into other related matters will now be undertaken.</p>

School Audit Results 2011-12  
Risk Assessment Summary of Audit Opinion

High Std = 3 Good Std = 2 Improvements Req. = 1 Fundamentally Weak = 0 Not Tested or Not Applicable = Space

School	D/E No.	Auditor	Date of Last Audit	Met FMSIS Y = Yes - External Assmt N = No	Leadership and Governance	People Management	Policy and Strategy	Partnership and Resources	Processes	Mandatory Policies	Requisitions, Orders and Payments	Attendance Registers and Payments	Pupil Census	Personnel Payroll and Annual Teacher Payments	Single Central CRB Record	Income Collection and Banking	Imprest (Petty Cash)	Lettings	Security	Computer Security	Inventory	Voluntary Unofficial Fund	School Trips	Education Maintenance Allowance	Minibus	Local Payments Scheme	Total	Areas	%	
Ellacombe	2454	AS	19/05/11	Y	1	1	2	1	1	0	1	3	2	0	3	2			3		1		1				22	15	49	
Preston	2464	CT	13/08/11	Y						3	3	3		3					3		3		3				21	7	100	
St Marychurch	3616	CT	07/08/11	Y						3	3	3		3					2		2	2	3				21	8	88	
Watcombe	2460	CT	22/08/11	Y						3	3	3		3					3		3	3	2				23	8	96	
Curledge Street	2434	CT	20/08/11	Y	2	1	2	1	1																		7	5	47	
St Margaret Clitherow	3601	CT	10/08/11	Y	1	3	2	3	3	1	3	3	2	1	3	3				2		3		2			35	15	78	
White Rock	2439	CT	05/07/11	Y	2	3	2	2	3	2	3	3	3	3	3	2				2		2	3	3			41	16	85	
All Saints, Babbacombe	3615	RT	14/08/11	Y						2	2	3		2		2			2		1		2				16	8	67	
Oldway	2438	RT	13/07/11	Y	2		2	3	3	3	2	3	2	2	3	3	3	3	2		3		3		3	3	45	17	88	
Sacred Heart	3613	RT	05/07/11	N	2		2	2	2	1	2	3	2	3	3	2				2		2		2				30	14	71
Torquay Special School	7046	CM	20/07/11		2	2	3	3	3	2		3		3					2		2		3				28	11	85	

2011/12 Results to date

Total Score	12	10	15	15	16	20	22	30	11	23	15	14	3	23	0	22	8	24	0	3	3	Average Score 78				
No. of Schools	7	5	7	7	7	10	9	10	5	10	5	6	1	10	0	10	3	10	0	1	1					
% of Max achievable score	57	67	71	71	76	67	81	100	73	77	100	76	100	77	#DIV/0!	73	89	80	#DIV/0!	100	100					
Total less than good standard	2	2	0	2	2	3	1	0	0	2	0	0	0	0	0	2	0	1	0	0	0					
% less than good standard	29%	40%	0%	29%	29%	30%	11%	0%	0%	20%	0%	0%	0%	0%	#DIV/0!	20%	0%	10%	#DIV/0!	0%	0%					

Torbay Council - Internal Audit Plan 2011-12 and Progress to date as at 30 September 2011 (month 6) Appendix B

				Status									
Area	Audit Assignments	Planned days	Actual days	Audit started	Audit fieldwork completed	Draft report issued	Responses Redd	Final Report issued	Draft report issued in target days	Final report issued in target days	Customer satisfaction response red'd	Satisfied	Overall assurance opinion
People	13	180	67.94	8	4	4	1	1	5	1	1	1	2
Operational Support	35	475	176.15	16	13	12	10	11	12	11	10	10	0
Environment	13	200	108.09	8	2	2	2	2	2	2	0	0	0
Corporate Support	12	160	7.5	1	0	0	0	0	0	0	0	0	0
School Visits	24	85	53.06	11	11	11	0	11	10	4	1	0	0
Fraud Prevention & Investigation	15	140	97.12	15	8	5	0	5	4	4	0	0	0
Contract Audit	2	30	1.87	0	0	0	0	0	0	0	0	0	0
Corporate initiatives	1	70	21.09	1	1	1	1	1	1	1	0	0	0
Grant Claims	0	15	0	0	0	0	0	0	0	0	0	0	0
Other Chargeable activities	0	168	64.15	0	0	0	0	0	0	0	0	0	0
Advice/Consultancy	0	65	27.71	0	0	0	0	0	0	0	0	0	0
Followups		25	0	0	0	0	0	0	0	0	0	0	0
Carry forward	0	0	0	0	0	0	0	0	0	0	0	0	0
Contingency	0	85											
<b>TOTAL</b>	<b>115</b>	<b>1698</b>	<b>624.68</b>	<b>60</b>	<b>39</b>	<b>35</b>	<b>14</b>	<b>31</b>	<b>34</b>	<b>23</b>	<b>12</b>	<b>11</b>	<b>2</b>

Page 72

Performance stats for Torbay (exc. Schools)	Annual Target	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual
Percentage of audit plan started	100	25%	40%	50%	54%	75		100	
Percentage of audit plan completed (field work)	94	18%	17%	45%	31%	71		94	
Percentage of planned days delivered	95	24%	19%	48%	35%	72		95	
Draft reports issued in target days	90	90%	80%	90%	100%	90		90	
Final reports issued in targets days	90	90%	63%	90%	95%	90		90	
Customer satisfaction.	90	90%		90%		90		90	

Performance stats for Torbay (Inc Schools)	Annual Target	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual
Percentage of audit plan started	100	25%	39%	50%	52%	75		100	
Percentage of audit plan completed (field work)	94	18%	20%	45%	34%	71		94	
Percentage of planned days delivered	95	24%	20%	48%	37%	72		95	
Draft reports issued in target days	90	90%	82%	90%	97%	90		90	
Final reports issued in targets days	90	90%	80%	90%	74%	90		90	
Customer satisfaction.	90	90%		90%		90		90	

## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

## Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Protect	Any material that may cause distress to individuals, breach proper undertakings to maintain the confidence of information provided by third parties, breach statutory restrictions on the disclosure of information, cause financial loss or loss of earning potential, or to facilitate improper gain, give unfair advantage for individuals or companies, prejudice the investigation or facilitate the commission of crime, disadvantage government in commercial or policy negotiations with others should be marked PROTECT.
Restricted	Information or data or documents that should only be shared between a specific group of work staff who have to demonstrate a need to know, because of the sensitive content, then the document must be marked RESTRICTED.
Confidential	Material that is so sensitive that only specific named staff should have access. Special handling rules apply and so CONFIDENTIAL must only be applied to highly sensitive data.
Secret and Top Secret	Information with this sensitivity is unlikely to be available to the Partnership and the Chief Executive of the relevant organisation must make the decision to apply either of these protective markings. These markings are only to be used with information that can only be shared on a strict must know basis, with each party having signed a specific confidentiality agreement.