



Tuesday, 10 March 2015

AUDIT COMMITTEE

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

Wednesday, 18 March 2015

commencing at **2.00 pm**

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

Members of the Committee

Councillor Tyerman (Chairman)

Councillor Addis

Councillor Bent

Councillor Brooksbank

Councillor Parrott

Councillor Pountney

Working for a healthy, prosperous and happy Bay

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

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AUDIT COMMITTEE AGENDA

1. **Apologies**
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 1 - 3)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 21 January 2015.
3. **Declarations of interests**
 - (a) To receive declarations of non pecuniary interests in respect of items on this agenda
For reference: Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
 - (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda
For reference: Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)
4. **Urgent Items**
To consider any other items that the Chairman decides are urgent.
5. **Performance and Risk Framework** (Pages 4 - 14)
To consider a report that outlines the Council's draft Performance and Risk Framework.
6. **Internal Audit Plan 2015-16** (Pages 15 - 30)
To consider a report setting out the Internal Audit Plan for 2105-16.
7. **Internal Audit Strategy** (Pages 31 - 36)
To note the report.
8. **Internal Audit Charter** (Pages 37 - 44)
To note the Internal Audit Charter.

- 9. The Audit Plan for Torbay Council** (Pages 45 - 61)
To note the report.
- 10. Audit Committee Update for Torbay Council** (Pages 62 - 82)
To note a report on progress in delivering Grant Thornton's responsibilities as the Council's external auditors.



Minutes of the Audit Committee

21 January 2015

-: Present :-

Councillor Tyerman (Chairman)

Councillors Addis, Bent, Brooksbank, Parrott and Pountney

22. Minutes

The Minutes of the meeting of the Audit Committee held on 24 September 2014 were confirmed as a correct record and signed by the Chairman.

23. Treasury Management Strategy 2015/16

Members of the Audit Committee considered the Treasury Management Strategy that aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2015/16 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

Members considered the advantages and disadvantages of investing in a Property Fund but felt that the request needed greater understanding and debate. Members requested the Executive Head of Finance brief all councillors and present a separate report for consideration. The Committee also requested a number of changes to the recommendations to Council.

Resolved:

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

Council be recommended:

- i) That the Treasury Management Strategy for 2015/16 (incorporating the Annual Investment Strategy 2015/16) set out at Appendix 1 to the submitted report be approved;
- ii) that the Prudential and Treasury Indicators 2015/16 set out in Annex 1 of the submitted report be approved;
- iii) that in line with the Council's Constitution and Financial Regulations:

- a) the Chief Finance Officer be authorised to take any decisions on borrowing and investments. (Delegations to the Section 151 Officer, paragraph 3.1(a));
 - b) that the Chief Finance Officer be authorised to invest temporarily or utilise surplus monies of the Council; (Financial Regulations, paragraph 14.5); and
 - c) that the provisions outlined above exclude decisions to make loans to external organisations and that these require approval by Council. However loans of less than £50,000 to be approved by the Chief Finance Officer; and
- iv) that the Annual Minimum Revenue Provision Policy Statement for 2015/16 as shown in Annex 2 to the submitted report be approved.

24. Internal Audit Half Year Report 2014/15

The Committee noted Internal Audit's Half Year Report 2014/15. Members were advised of the current position of the audit service provision, reviews work undertaken to date in 2014/15 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

Rob Hutchins, Head of Audit Partnership informed the Committee that overall, and based on work performed during 2014/15 Internal Audit were able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework. Members challenged whether receiving 'reasonable assurance' meant that as an authority standards were beginning to decline. The Head of the Audit Partnership assured Members that the Council's core systems were getting better. However, services that were undergoing transformation pose the greatest threat to the Authorities internal control framework.

25. Strategic Risk Management

Members noted the report and were advised by the Executive Head of Commercial Services that the Policy, Performance and Review Team were currently refreshing the performance and risk management framework for the Council. She explained that the aim was to ensure that there was integration of the risk management framework through the organisation ensuring linkages between operational risk, strategic risks, performance and financial management.

The revised approach to performance and risk management identifies how the Council will meet its priorities, how the Council will monitor how well it is meeting those priorities and what are the risks associated with the priorities. Monthly monitoring reports will be prepared for consideration by the Senior Leadership Team who will review and challenge the Council's performance. Once a quarter, a report including performance, risk and financial management information will be considered by the Audit Committee.

26. Audit Committee Update for Torbay Council

Members noted the update on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The update also included a summary of emerging national issues and developments; and a number of challenge questions in respect of these emerging issues.

27. The Annual Audit Letter for Torbay Council

The Committee noted the Annual Audit Letter that summarised the key findings arising from the work Grant Thornton had carried out at Torbay Council for the year ended 31 March 2014.

28. Certification Report 2013/14 for Torbay Council

The Committee noted a report that summarises the overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims. The key messages from the certification work were set out in the submitted report.

29. Protecting the Public Purse Fraud Briefing 2014

Members noted the report that provided a source of information to support councillors in considering their council's fraud detection activities. Members challenged the value of the data when considering the council's performance against other unitary authorities that may not be statistically similar and would prefer to compare with historical data for Torbay to evaluate the direction of travel.

30. Annual Assurance Letter from Audit South West

The Audit Committee noted the Annual Assurance Letter from Audit South West.

Chairman/woman

Agenda Item 5



Title: **Performance and Risk Framework**

Wards Affected: **All**

To: **Audit Committee** On: **18 March 2015**

Contact Officer: **Anne-Marie Bond**

☎ Telephone: **01803 207160**

✉ E.mail: **anne-marie.bond@torbay.gov.uk**

1. Background

- 1.1 At its meeting on 21 January 2015, the Audit Committee received a report which outlined that the Performance and Risk Framework for the Council was being revised. The framework was being reviewed to address concerns that the risk register had become so strategic that operational detail was lacking, as well as ensuring that performance monitoring becomes more aligned to risk management.
- 1.3 The purpose of this report is to outline the Council's draft Performance and Risk Framework.

2. Introduction

- 2.1 The new approach to strategic risk management was introduced in early 2013 at which point five strategic risks to the Authority were identified together with mitigating actions. Since that time, quarterly reviews of progress against those actions have been undertaken and reported to the Audit Committee.
- 2.2 In March 2014, Devon Audit Partnership undertook a review of the new risk management process. The report acknowledges that the new process was in its infancy and that the assurance opinion of "improvements required" reflected that current status and that it was "evident that there is still work being done to ensure that the Council is operating a fully robust Risk Management methodology".
- 2.3 The Policy, Performance and Review Team have taken on board the findings of the Devon Audit Partnership report and have drafted a Performance and Risk Framework for the Council. The aim of the framework is to ensure that there is integration through the organisation between operational risks, strategic risks alongside performance management.

3. Performance and Risk Framework

- 3.1 The framework sets out how performance measures and risks will be identified, how data will be collected and reported and roles and responsibilities across the organisation.

- 3.2 At a strategic level, performance measures and risks will be identified that align to the priorities the Corporate Plan. At an operational level, business units will continue to monitor operational performance measures and risks. Thresholds for performance measures and risk scores will be set in consultation with directors and executive heads to ensure they are appropriate and evidence based.
- 3.3 Monthly monitoring reports in the form of dashboards will be prepared for consideration by the Senior Leadership Team (SLT). SLT will then be able to review and challenge the council's performance and risks. Operational performance and risks will be monitored and issues of concern will be escalated to SLT for their review and consideration. An example of a draft performance and risk dashboard is included in Appendix 2.
- 3.4 Once a quarter, a composite report including performance, risk and financial management information will be considered by the Overview and Scrutiny Board which will mean that there is open, democratic review and challenge to how well the Council is meeting its priorities.
- 3.5 Attached for your consideration is the draft Performance and Risk Framework along with an example of a monthly dashboard.

Anne-Marie Bond
Executive Head – Commercial Services

Appendices

- | | |
|------------|--|
| Appendix 1 | Draft Performance and Risk Framework |
| Appendix 2 | Example Draft Performance and Risk Dashboard |

Torbay Council

Performance and Risk Management Framework

Draft March 2015

DRAFT

1. Introduction

This document sets out the Council's approach to performance and risk management. It sets out what we mean by performance and risk, the process for identification, monitoring, reporting and escalation as well as the roles and responsibilities of officers across the Council and elected members.

Understanding our performance and managing risk effectively means the organisation is better able to achieve the ambitions set out in the Corporate Plan. At a time of increasing budgetary pressures and demand for services, being able to do this effectively is critical in ensuring the council can not only deliver services within its budget, but deliver services which are fit for purpose and meet the needs of the community.

Definitions

- **Performance Management:** The process of identifying and understanding those things that the council needs to measure in order to know if it is achieving its operational and strategic objectives.
- **Performance Indicator:** A measure which shows a trend or performance against a set target.
- **Strategic Risk:** An event that, should it happen, would impact on our ability to achieve the ambitions identified in the Corporate Plan.
- **Operational Risk:** An event that, should it happen, would impact on a business unit's ability to achieve its objectives.

2. Performance and Risk Management Process

2.1 Identification

At a strategic level a series of performance indicators and risks will be identified which align to the Corporate Plan.

At an operational level, business units will develop their own Performance and Risk Plans (PRP). These will set out the ambitions and objectives of each business unit aligned with the Corporate Plan and list their own performance indicators and risks.

Thresholds for identifying whether a performance indicator should be rated red, amber or green will be developed with business units based on evidence, targets and statutory guidance / measures (where these are set). This will ensure that thresholds and escalation are not based on arbitrary measures. Likewise, the scoring of risks will be developed with business units and based on evidence and existing mitigations. Risks will be scored against the matrix set out below, the criteria for scoring risks is attached in appendix one.

2.2 Risk Matrix

	Critical	5	10	15	20	25
	Major	4	8	12	16	20
Impact	Moderate	3	6	9	12	15
	Minor	2	4	6	8	10
	Insignificant	1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
		Probability				

The Policy, Performance and Review (PPR) Team will assist business units in developing their Performance and Risk Plans to ensure that the thresholds for performance indicators and scoring for risks are appropriate and evidence based.

Performance indicators and risks will be reviewed with business units on an annual basis, these will be amended if required. Officers, managers and executive heads will be required to inform the PPR team of any new risks identified throughout the year which need to be reported, through Senior Leadership Team (SLT) or directly to the PPR Team.

2.3 Data collection and reporting

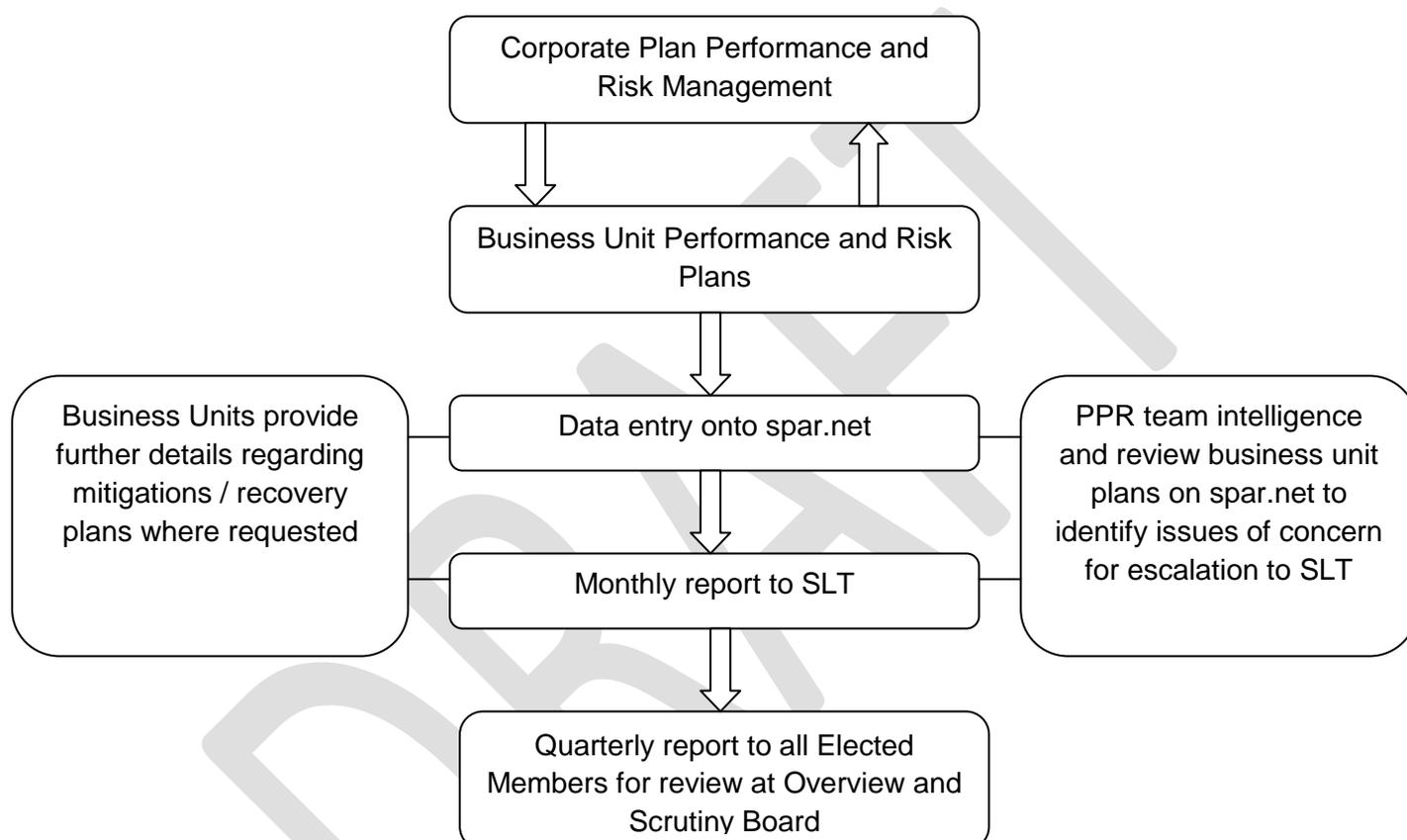
Performance indicators and risks will be collated on the Council's performance management database spar.net. Business Unit Performance and Risk Plans will be uploaded onto spar.net and officers, managers and / or executive heads will be required to update / upload information and / or data on a regular basis. For risk, this will be monthly and for performance indicators this will be determined by the data required for the indicator.

On a monthly basis the PPR team will produce a Performance and Risk Dashboard for each Corporate Plan theme. At the same time, the team will review business unit plans on spar.net to identify whether there are any indicators or risks which need to be escalated to SLT. The PPR team will produce an executive summary to accompany the dashboards which will set out any issues of concern and / or for consideration. In the

case of any risks escalated to SLT, executive heads will be required to set out the mitigations being put in place to reduce the risk.

Dashboards will be reviewed and challenged on a monthly basis at SLT and once a quarter, a composite report including performance, risk and financial management information will be produced for all elected members and considered by the Overview and Scrutiny Board.

Performance Management and Risk Data Collection and Reporting



3. Roles and Responsibilities

- Executive Heads and their management teams to identify business unit level performance indicators and risks and monitor these on a regular basis.
- Executive Heads to ensure that performance and risk information is kept up to date on spar.net on a monthly basis.
- SLT to review and challenge monthly Performance and Risk Dashboards and identify improvement actions or mitigations required.
- Executive Heads (Individually and as SLT) to identify future potential “service” changes (as a result of (for example) over- or under-performance, increased risk, policy and/or budget changes, changes in demand) to enable appropriate engagement and decision making.

- Elected Members Review and challenge quarterly Performance and Risk reports through Overview and Scrutiny.

PPR Team will:

- Assist business units in developing their performance and risk plans to ensure that the thresholds for performance indicators and risk scores are appropriate and evidence based.
- Provide support to business units in maintaining appropriate performance and risk information, ensuring that information adds value rather than bureaucracy.
- Communicate deadlines for performance and risk information to be completed on spar.net
- Provide support to business units in uploading and maintaining information on spar.net.
- Collate information into the dashboard on a monthly basis for SLT, data which has not been supplied by the deadline will be shown as a non return.
- Provide support to the Executive Director in reviewing and challenging the quarterly performance, risk and financial management information in order to escalate issues of concern onto the dashboard as and when they arise.
- Provide support to the Overview and Scrutiny Board in reviewing and challenging the quarterly performance, risk and financial management information

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Appendix One: Criteria for Assessing Risk Score

Category/ Descriptor	Insignificant	Minor	Moderate	Major	Critical
Operational delivery	Service delivery affected but not disrupted	Some disruption to specific service	Disruption to a number of service areas	Shutdown of specific service area/ disruption to a number of service areas	Shutdown of a number of service areas
Strategic Direction	Slight, temporary deviance from one area of strategic direction	Slight, temporary deviance from several areas of strategic direction	Significant deviance from one area of strategic direction	Significant deviance from several areas of strategic direction	Strategic direction totally compromised/ unrecoverable
Council Financial Impact	Loss of less than 0.5% of monthly budget or £5,000	Loss of more than 1% of monthly budget or £50,000	Loss of more than 5% of monthly budget or £100k	Loss of more than 10% of monthly budget or £500k	Loss of more than 15% of monthly budget or £1m
Legal	Sued for small amount of money	Court action – not prolonged	Prolonged court action/tribunal	Court action impeding delivery of Council objective	Protracted high profile legal proceedings
Governance	Individual internal control not effective	Number of internal controls not effective	Loss of confidence in internal controls requires senior officer intervention	Loss of confidence by Council or external audit bodies/suspension of Council officers	External body required to intervene in governance of Council
Reputation	Minor adverse publicity in local media	Significant adverse publicity in local media	Significant adverse publicity in national media	Sustained adverse publicity in national media Member dissatisfaction	Chief Operating Officer and/or Elected Member resignation/ removal
Workplace health & safety	Incident – no lost time & near miss	Less than 3 days lost	More than 3 days absence	Serious injury/ stress resulting in hospitalization	Fatality (not natural causes)
Health	No detrimental impact on health of individuals	Health issues will require treatment at community level	Health issues will require treatment in hospital	Long-term or acute health issues	Fatalities
Security	No notifiable or reportable incident	Localised incident. No effect on operations	Localised incident. Significant effect on operations.	Significant incident involving multiple locations	Extreme incident seriously affecting continuity of operations.
Social & Environmental Factors	No lasting detrimental environmental or social impact	Short-term detrimental environmental or social impact to localised area/ small group	Short-term detrimental environmental or social impact to wider community/ area/groups	Long-term detrimental environmental or social impact to wider community/ area/groups	Extensive detrimental long term impact on the environment and community
Assets	Low level loss or damage to asset; no effect on service or community provision	Short-term loss of asset not critical to service or community provision	Long-term loss of asset not critical to service or community provision	Short-term loss of asset critical to service or community provision	Total long-term loss of asset critical to service or community provision
Other services/ organisations	Service delivery by other services /organisations affected but not interrupted	Some interruption to specific services provided by other services /organisations	Disruption to a number of service areas provided by other services /organisations	Shutdown of specific service areas provided by other services /organisations	Shutdown of a number of service areas provided by other services /organisations
Local economy	Low level economic decline/ rise in unemployment	Significant economic decline affecting under 10% of businesses/rise in unemployment across limited no. of areas of Torbay	Significant economic decline affecting between 10% and 15% of businesses/rise in unemployment across Torbay	Significant economic decline in more than 15% of businesses/rise in unemployment across many areas of Torbay	Economic decline and unemployment is significant across all of Torbay

Corporate Plan Theme

Responsible Director:

Executive Head(s):

Key performance indicators:

Measure	Trend	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Current Target	Previous Year
KPI 1	↑	22.0%	22.0%	21.0%	24.0%	26.0%		30%	25.0%
KPI 2	↑	65.0%	67.0%	67.0%	67.0%	70.0%		70.0%	75.0%
KPI 3	↑	465	472	490	510	515		487	500
KPI 4	↔	190	195	196	198	198		152	
KPI 5	↔	65.0%	64.0%	70.0%	67.0%	70.0%		To show trend	75.0%

Better than target
 On target
 Missed target

Risk(s):
Risk 1

Risks	Mitigating Actions	Progress	Score
Risk 1	Mitigating Actions	Progress to date	2
Risk 2	Mitigating Actions	Progress to date	20
Risk 3	Mitigating Actions	Progress to date	6
Risk 4	Mitigating Actions	Progress to date	12

Page 14
Linked Equality Objective (s):

Objective 2	Objective text
Objective 3	Objective text
Objective 4	Objective text

Internal Audit

Internal Audit Plan 2015 -16

Torbay Council
Audit Committee

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March 2015

Auditing for achievement

Agenda Item 6

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

Audit Framework

All principal Local Authorities, including Torbay Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006 and 2011, which require that the Authority should make provision for Internal Audit. From April 2013, organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards.

The Standards require that the Head of Internal Audit must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Head of Internal Audit should take account of the organisation’s risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation’s business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

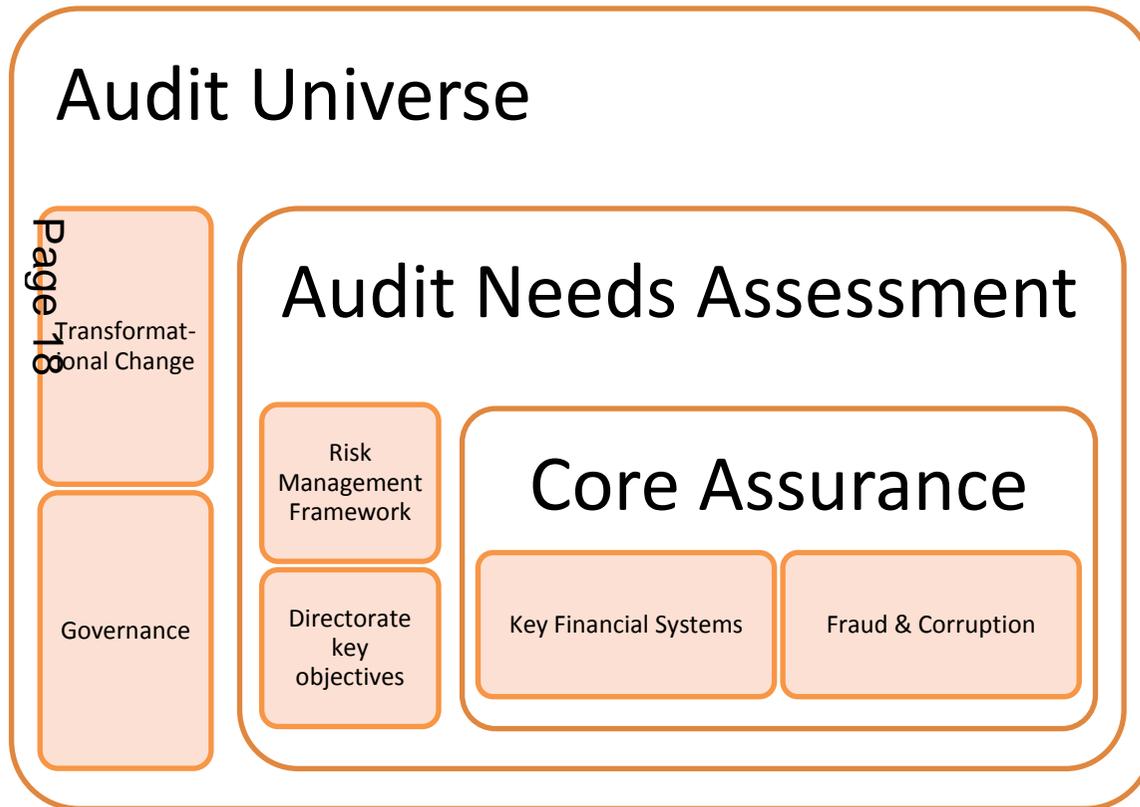
This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.



We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning & best practice, helping each authority develop further to ensure that risk remains suitably managed.

Audit Needs Assessment

We employ a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the “Audit Universe” using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention.



The resultant Internal Audit Plan for 2015/16 is set out in the high level plan and Appendix 1

The audit plan for 2015/16 plan has been created by:

Consideration of risks identified in the Authority's strategic and operational risk registers

Review and update of the audit universe

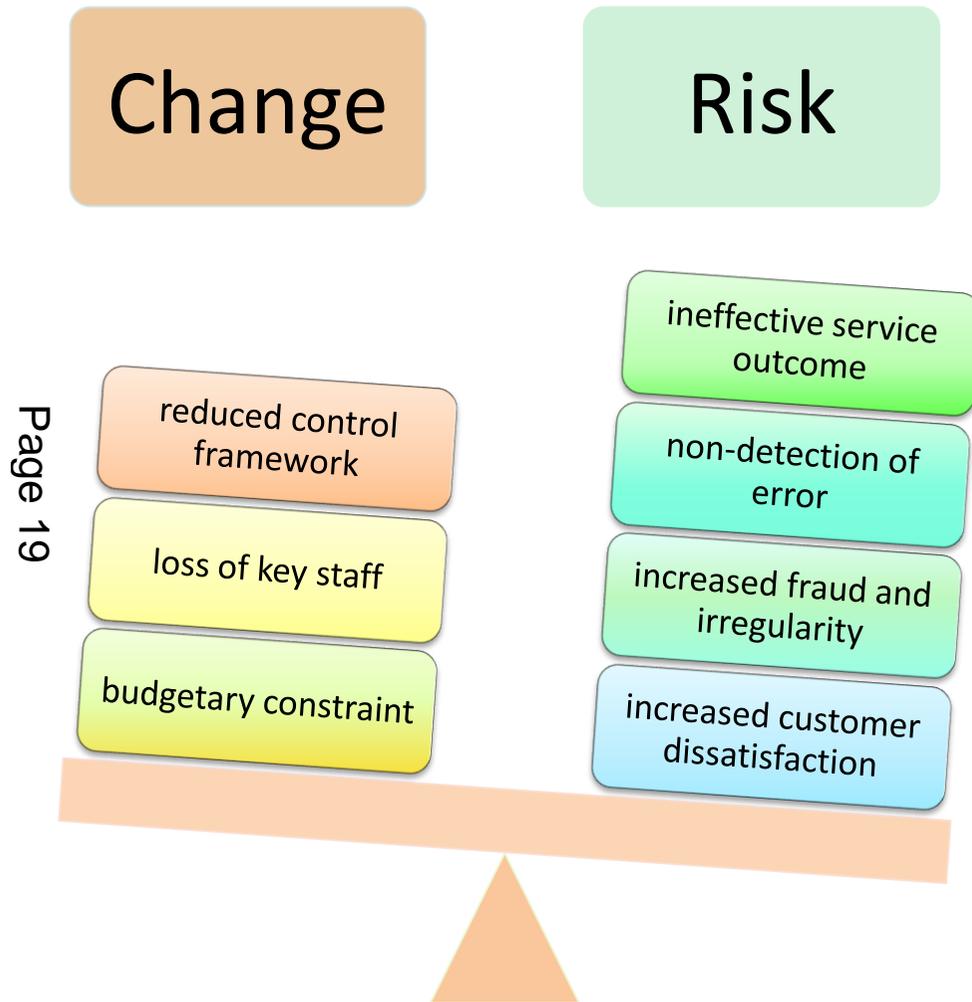
Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives

Taking into account results of previous internal audit reviews

Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans

Requirements to provide a “collaborative audit” approach with the external auditors

Consideration of the consequences of change



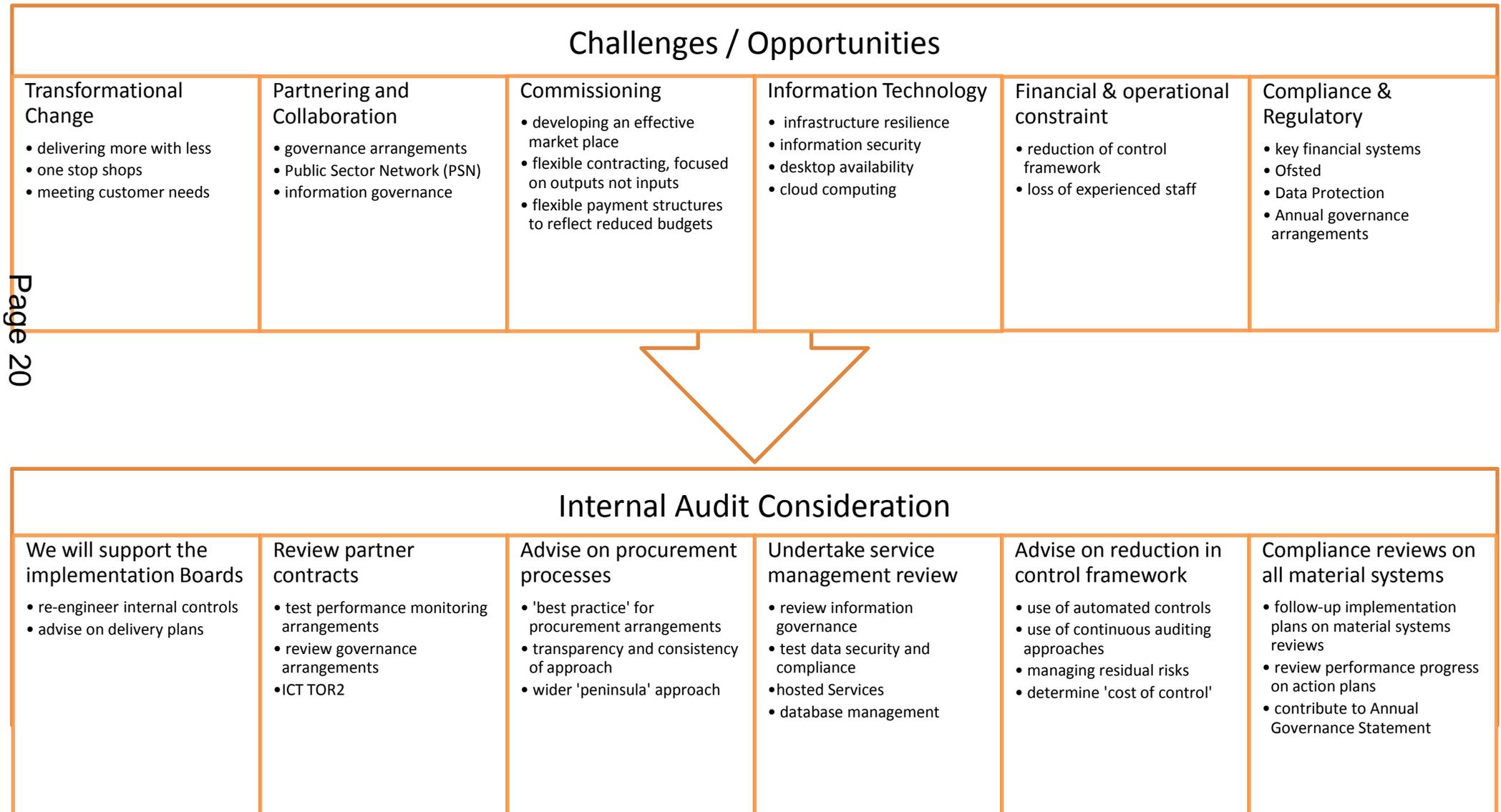
Times are changing; the expectation of the public for services provided by the public sector has never been greater; yet the money that is available for these services needs to be reduced. All public sector organisations are looking at how services can be transformed; what worked in the last decade may not meet new challenges. The use of, and dependency on, IT for service delivery will only increase further; this brings rewards but also carries its own risk.

The Internal Audit function has a key role in helping management fully understand their risks and in designing effective and efficient controls that mitigate these risks to an acceptance level; a consistent application of a quality internal audit opinion assists the organisation to develop alternative and new delivery solutions that will deliver the service required.

We will work with you to understand the changes you are making, the risks you face and help you design and operate effective governance and delivery solutions.

Consideration of your business objectives

From consideration of the corporate goals and strategic risk registers we have discussed the key challenges and opportunities the Authority is facing with senior management. Our consideration and proposed action is set out below.



Proposed audit coverage

Directorate Overview of Audit Coverage

Adults	Children's Services	Operations and Finance	Place	Public Health	Infrastructure / Business Projects	Value Added
Care Act Implementation – Better Care Fund (Adult Social Care audited by Audit South West)	Virtual School PARIS Fostering Transition from Children's to Adults Admissions in Place Planning Pupil Referral Panel Integrated Youth Service Schools' inc. Financial Value Standard	Demand Management including Financial Planning	Tor Bay Harbour Authority Sports Facilities	Public Health / NHS Links Corporate Security & CCTV Housing Options	New Operational Arrangements TOR2 Future State Project South Devon Link Road / Waste PFI Business Improvement Districts Payroll System Channel Shift Corporate Printing Harbour Mooring Replacement System	Information Security Group Fraud Prevention and Investigation National Fraud Initiative Advice Audit Follow Up
Core Assurance						
Business Processes & Governance – Torbay Development Agency, Torbay Coast & Countryside Trust, Fair Decision Making, Ethics and Culture, Elections, Capital Programme, Corporate Debt, Procurement / Contracts, Grant Certification, and Audit Assurance Planning and Reporting.						
Key Financial Systems – Payroll, IBS Sys Admin, Creditors, FIMS Sys Admin, Debtors, Benefits, Electronic Ordering, Income Collection, Asset Register, Council Tax & Non Domestic Rating, General Ledger, Bank Reconciliation, Treasury Management.						
ICT – infrastructure management, hosted services, service strategy, database administration, partnership working, access management						

The elements proposed for audit for the coming year are those identified through risk assessment and discussion with Senior Management. This overview is supported by the detailed plans by area in appendix 1.

High Level Audit Plan 2015-16

This table shows a summary of planned audit coverage for 2015/16 totalling 985 direct days. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the IA Plan includes a contingency to allow for unplanned work.

We have set out our plan based on the current organisational structure for the Authority. Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following pages give a brief overview of the focus of proposed audit coverage for the year.

A detailed analysis of proposed audit reviews is provided in Appendix 1.

Core Activity for internal Audit Review	Coverage in Days
Adults	18
Children's Services	115
Place	85
Public Health	40
Operations and Finance	423
Anti-Fraud and Corruption including NFI	90
Other Chargeable Activities	214
Total internal audit plan for Torbay Council	985
Schools	45

Service Level Plans

Adults

Work will cover the Care Act Implementation – Better Care Fund primarily providing a consultancy, advisory and support function to facilitate an effective implementation of this new legislation.

Children's Services

Work will include a technical IT audit review of the PARIS system. In addition our work will encompass reviews of Fostering, Virtual School, Admissions in Place Planning, Pupil Referral Panel and the Integrated Youth Service, and an examination of the arrangements for the Transition from Children's to Adults. Schools audit activity and compliance with Schools Financial Value Standards will be maintained.

Public Health

Work in Public Health will continue by examining the Public Health / NHS Links. Additionally in 2015/16 our reviews of functions within Community Safety will examine the Corporate Security & CCTV and Housing Options.

Place

The planned structural changes have been taken into account when preparing the plan for 2015/16 resulting in reduced coverage to allow for these changes to embed. The plan for Infrastructure / Business Projects incorporates a review of the new Operational Arrangements. Work will still include examination of the Tor Bay Harbour Authority in line with the rolling plan of visits and will also examine Sports Facilities in relation to leases, grants and the recently developed Velopark.

Operations and Finance

Our work will include an audit review of Demand Management including Financial Planning which is identified as a strategic risk of the Council.

Core Assurance – Business Processes & Governance, Key Financial Systems, ICT

We shall continue work with management of the TDA and TCCT to ensure that effective systems and governance arrangements are in place to manage the risks faced by these organisations. Our work will include involvement in developments in relation to Fair Decision Making identified as a strategic risk of the Council, and also a high level examination of the Ethics & Culture of the Council along with other reviews such as the Capital Programme, Corporate Debt arrangements and Procurement / Contracts. IT Audit activity will examine key technical areas including infrastructure management, service strategy, hosted services and database administration alongside examination of arrangements for partnership working and service operation. Assurance work will be undertaken on areas termed as material systems that process the majority of income and expenditure of the Authority, and which have a significant impact on the reliability and accuracy of the annual accounts.

Value Added

The National Fraud Initiative this year will cover all areas from Council Tax, Electoral Registration, through to Personal Budgets, and Concessionary Travel. Work has commenced on the data matches, and will continue throughout 2015/16. Proactive fraud work has been commissioned in relation to Blue Badges and Internet Usage Monitoring. We will undertake the annual follow up on all audit areas identified as 'Improvements Required' or 'Fundamental Weaknesses' in 2014/15 and report to Audit Committee in the Summer.

Infrastructure / Business Projects

A number of projects will be supported ranging from major infrastructure to operational system implementations. We will examine the impact of the planned Council structural changes. Our IT Auditors will work with the Council in terms of the ongoing Payroll Self Service implementation and in addition will provide support to the Channel Shift, Corporate Printing and Harbour Mooring Replacement System projects. In connection with other partner authorities, the Devon Audit Partnership will continue to undertake work in relation to the Waste PFI and the South Devon Link Road. We will continue to support the TOR2 Future State Project.

Fraud Prevention and Detection and Internal Audit Governance

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance in the Fraud Strategy for Local Government “Fighting Fraud Locally” and the Audit Commission publication “Protecting the Public Purse” internal audit resource will be allocated to allow a focus on identifying and preventing fraud before it happens. Additionally, new guidance recently introduced by CIPFA, in their ‘Code of practice on managing the risk of fraud and corruption’, and also the new Home Office ‘UK Anti-Corruption Plan’, will further inform the direction of counter-fraud arrangements going forwards.

Nationally, the notable areas of fraud include Procurement, Housing Benefit and Council Tax, Business Rates, Payroll, Blue Badges, and Direct Payments.

The Audit Commission runs a national data matching exercise (National Fraud Initiative - NFI) every two years. The 2014/15 exercise has now provided the Council with the resulting data matches, and work has begun (and will continue throughout 2015), with Council departments, to ensure that the matches are reviewed and action taken as may be necessary.

Internal Audit Governance

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

- 24 Preparing the internal audit plan and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. Grant Thornton);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2015/16
- On-going development within the Partnership to realise greater efficiencies in the future.

Partnership working with other auditors

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

The most significant partnership working arrangement that we currently have with other auditors continues to be that with the Council’s external auditors (Grant Thornton) and Audit South West (Internal Audit for NHS).

Annual Governance Framework Assurance

The Annual Governance Statement provides assurance that

- The Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

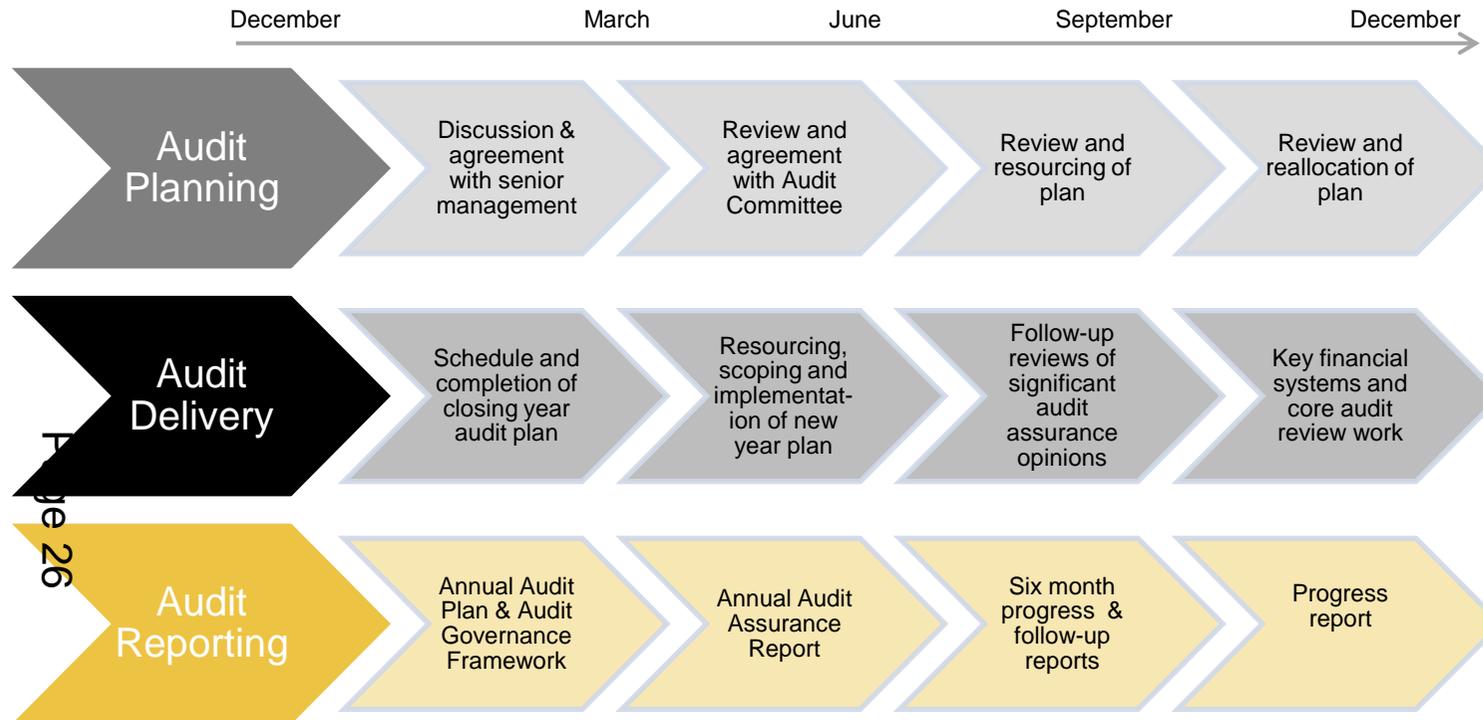
- be prepared by senior management and signed by the Executive Director and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that has been followed to ensure that the governance arrangements remain effective. This will include comment upon;
 - The Authority;
 - Audit Committee;
 - Risk Management;
 - Internal Audit
 - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance.



The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by risk management, the Executive and Internal Audit that the statement meets statutory requirements.

Our Audit Team and the Audit Delivery Cycle



Date	Activity
Dec / Jan 2015	Directorate planning meetings
March 2015	Internal Audit Plan presented to Audit Committee
	Internal Audit Governance Arrangements reviewed by Audit Committee
	Year end field work completed
Apr / May 2015	Annual Performance reports written
June 2015	Annual Internal Audit Report presented to Audit Committee
	Follow –up work of previous year’s audit work commences
Sept 2015	Follow-up and progress reports presented to Audit Committee
Dec 2015	Six month progress reports presented to Audit Committee
	2016 Internal Audit Plan preparation commences

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Appendix 1 – Proposed audit reviews and associated risks

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
Adults			
Care Act Implementation – Better Care Fund	ANA – high	18	2
Children’s Services			
PARIS	ANA – critical	15	1
Virtual School	ANA – high	15	3
Fostering	ANA – high	15	1
Transition from Children’s to Adults	ANA - medium	15	2
Admissions in Place Planning	ANA - medium	15	1
Pupil Referral Panel	ANA - medium	15	3
Integrated Youth Services	ANA - medium	15	4
School Financial Value Standard (SFVS)	n/a	10	1
Schools	n/a	45	n/a
Operations and Finance			
Demand Management including Financial Planning	LARR – strategic risk	20	4
Place			
Tor Bay Harbour Authority	ANA – medium	15	3
Sports Facilities	ANA – medium, client request	10	1
Public Health			
Public Health / NHS Links	ANA – high	15	2
Corporate Security and CCTV	ANA - medium	15	1
Housing Options	ANA – low, client request	10	2

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
Infrastructure / Business Projects			
New Operational Arrangements	client request	10	1
TOR2 Future State Project	ANA – high, client request	15	n/a
BID (Business Improvement Districts)	ANA - high	15	2
South Devon Link Road / Waste PFI	ANA – high	10	n/a
Self Service Implementation	ANA – critical	15	n/a
Channel Shift	ANA – high	5	n/a
Corporate Printing	ANA – medium	5	1
Harbour Mooring Replacement System	ANA – medium	5	1
Value Added			
Information Security Group	client request	10	n/a
Fraud Prevention and Investigation including National Fraud Initiative	client request	90	n/a
Advice	client request	20	n/a
Audit Follow Up	client request	20	2
Core Assurance – Business Processes & Governance			
Torbay Development Agency	ANA – high	15	2-3
Torbay Coast & Countryside Trust	ANA – medium	5	2-3
Fair Decision Making	LARR – strategic risk	15	1
Ethics and Culture	ANA – medium	10	3
Elections	ANA - medium	10	4
Capital Programme	ANA – medium	15	3
Corporate Debt	ANA – medium	10	3
Procurement / Contract	ANA - medium	15	n/a
Grant Certification	client request - grant	19	n/a

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
Core Assurance – Key Financial Systems			
Main Accounting System (GL)	ANA – medium	13	3
Creditors	ANA – medium	23	3
Debtors	ANA – high	15	4
Electronic Ordering (POP)	ANA – medium	18	3
Bank Reconciliation	ANA – medium	7	4
FIMS Sys Admin	ANA – high	12	2
Asset Register	ANA – medium	7	1
Treasury Management	ANA – low	15	2
Payroll	ANA – critical	28	4
Benefits	ANA – medium	30	4
Council Tax and NDR	ANA – medium	30	3
IBS Open Sys Admin	ANA – high	12	2
Income Collection	ANA – medium	12	4
<p>* From 2014-15 onwards, a rolling programme of audits was adopted for material systems, with each year having varying amounts of system review, testing or a combination of the two. Although this will mean the number of planned days for individual audits each year is likely to fluctuate, over a three year period, the total days remain stable. This approach will enable us to deliver a more cost-effective service, whilst providing sufficient assurance as to the adequacy of the Authority's material system control environment.</p>			
Core Assurance – ICT			
Infrastructure Management - review of technical fit with ICT Roadmap	ANA - critical	10	2
Hosted Services - Checklist for "Cloud Services"	ANA - high	5	2
Service Strategy - review following organisational change - benchmarking of service delivery	ANA - high	15	2
Database Administration	ANA – high	8	3
Partnership Working (ICT systems) - TOR2	ANA - high	10	3
Service Operation - Corporate access management	ANA – high	8	4

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
Other Chargeable Activities (not incorporated above)			
Carry forward (completion of previous year work)		50	n/a
Corporate Initiatives		5	n/a
Other Chargeable (audit planning, support for audit committee, internal audit standards, customer service excellence, etc.)		80	n/a
Contingency		20	n/a

Risk Assessment Key

LARR – Local Authority Risk Register score Impact x Likelihood = Total and Level

ANA - Audit Needs Assessment risk level as agreed with Client Senior Management

Client Request – additional audit at request of Client Senior Management; no risk assessment information available

TORBAY COUNCIL

INTERNAL AUDIT STRATEGY (March 2015)

1 INTRODUCTION

The Accounts and Audit Regulations 2011 state that:

"A relevant body shall 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."

For the purposes of the Regulations, proper practice is that contained in the Public Sector Internal Audit Standards (PSIAS).

The PSIAS refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For Torbay Council, the role of Chief Internal Auditor is provided by the Head of Devon Audit Partnership.

The PSIAS require the Head of Devon Audit Partnership to produce an Audit Strategy, which:

- is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
- will communicate the contribution that Internal Audit makes to the organisation and should include:
 - Internal Audit objectives and outcomes;
 - how the Head of Devon Audit Partnership will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
 - how Internal Audit's work will identify and address significant local and national issues and risks;
 - how the service will be provided, and
 - the resources and skills required to deliver the Strategy.
- should be approved, but not directed, by the Audit Committee.

The Strategy should be kept up to date with the organisation and its changing priorities.

2 INTERNAL AUDIT OBJECTIVES AND OUTCOMES

The primary objective of Internal Audit is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Head of Devon Audit Partnership aims to fulfil the statutory responsibilities for Internal Audit by:

- identifying all of the systems, both financial and non-financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- providing managers with an opinion on, and recommendations to improve, the effectiveness of risk management, control and governance processes;
- providing managers with advice and consultancy on risk management, control and governance processes;
- liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- providing the Council, through the Audit Committee, with an opinion on governance, risk and control framework as a contribution to the Annual Governance Statement.

3 OPINION ON THE GOVERNANCE, RISK AND CONTROL FRAMEWORK

As stated above, one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. Regular formal meetings should also be held to discuss issues arising and other matters.

The Head of Devon Audit Partnership will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee.

The Head of Devon Audit Partnership will also provide a written annual report to the Audit Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Head of Devon Audit Partnership's annual report to the Audit Committee will:

- (a) Include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) Draw attention to any issues the Head of Devon Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement;
- (e) Compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- (f) Comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

4 PLANNING, INCLUDING LOCAL AND NATIONAL ISSUES AND RISKS

The audit planning process includes the creation of and ongoing revision of an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

Assignment planning

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

5 PROVISION OF INTERNAL AUDIT

The Internal Audit for Torbay Council is provided by Devon Audit Partnership

The Head of Devon Audit Partnership has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. The manual is reviewed and updated to reflect changes in working practices and standards.

Internal Audit Performance Management and Quality Assurance

The PSIAS state that the Head of Devon Audit Partnership should have in place an internal performance management and quality assurance framework; this framework must include:

- A comprehensive set of *targets to measure performance*. These should be regularly monitored and the progress against these targets reported appropriately;
- Seeking *user feedback* for each individual audit and periodically for the whole service;
- A periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self assessment); and
- An action plan to implement improvements.

Performance Measures and targets

The Head of Devon Audit Partnership will closely monitor the performance of the team to ensure agreed targets are achieved. A series of performance indicators have been developed for this purpose (please see over).

Torbay Council - Internal Audit Performance Monitoring Targets 2015/16.

Performance Indicator	Full year target 2015/16
Percentage of Audit Plan completed	90%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%
Draft reports produced with target number of days (currently 15 days)	90%
Final reports produced within target number of days (currently 10 days)	90%

There are a number of other indicators that are measured as part of the audit process that will be captured and reported to senior management.

Task	Performance measure
Agreement of Annual audit plan	Agreed by Executive Director, SLT and Audit Committee prior to start of financial year
Agreement of assignment brief	Assignment briefs are agreed with and provided to auditee at least two weeks before planned commencement date.
Undertake audit fieldwork	Fieldwork commenced at agreed time
Verbal debrief	Confirm this took place as expected; was a useful summary of the key issues; reflects the findings in the draft report.
Draft report	Promptly issued within 15 days of finishing our fieldwork. Report is "accurate" and recommendations are both workable and useful.
Draft report meeting (if required)	Such a meeting was useful in understanding the audit issues
Annual internal audit report	Prepared promptly and ready for senior management consideration by end of May. Report accurately reflects the key issues identified during the year.
Presentation of internal audit report to management and audit committee.	Presentation was clear and concise. Presented was knowledgeable in subject area and able to answer questions posed by management / members.
Contact with the audit team outside of assignment work.	You were successfully able to contact the person you needed, or our staff directed you correctly to the appropriate person. Emails, letters, telephone calls are dealt with promptly and effectively.

Once collated the indicators will be reported to the S.151 Officer on a regular basis, and will be summarised in an annual report. Performance indicator information will also be presented to the Audit Committee for information and consideration.

The Head of Devon Audit Partnership is expected to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

Customer (user) feedback

The PSIAS and the Internal Audit Manual state that internal audit performance, quality and effectiveness should be assessed at two levels:

- For each individual audit; and
- For the Internal Audit service as a whole.

Customer feedback is also used to define and refine the audit approach. Devon Audit Partnership will seek feedback from:-

- Auditees;
- Senior leadership; and
- executive management.

The results from our feedback will be reported to Senior Management and the Audit Committee in the half year and annual reports.

Internal quality reviews

Devon Audit Partnership management have completed a self-assessment checklist against the PSIAS and have identified that there are no omissions in our practices. We consider that we fully meet over 92% of the elements; partially meet 5.5%; and are not required to or do not meet 2% (seven) of the elements. The self-assessment will be updated annually, and, if management identify areas where we could further strengthen our approaches, these will be added to the Quality Action Improvement Plan.

In October 2012, Helen Maneuf, Head of Assurance for Hertfordshire Shared Internal Audit Service, completed an external validation of the Partnership. Helen concluded that;

DAP is considered to be operating in conformance with the IIA standards.

'The service has established a strong reputation with its clients and recent structural changes are proving beneficial. There are opportunities to further develop the business to ensure DAP is strongly placed to progress and to deliver its vision'.

6 RESOURCES AND SKILLS

Resources

The PSIAS and the Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Chief Internal Auditor (Head of Devon Audit Partnership) should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

Devon Audit Partnership currently has c.36 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter). The Partnership employs a number of specialists in areas such as Computer Audit and Contracts Audit as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff (as at January 2015) includes:-

- 3 x CCAB qualified
- 5 x qualified IIA (including QICA – computer audit)
- 4 x studying for IIA
- 10 x AAT qualified
- 4 x ILM (Institute of Leadership & Management) level 5 or above

Devon Audit Partnership uses MorganKai Insight (MKi) as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

Staff Development and Training

Devon Audit Partnership management assess the skills of staff to ensure the right people are available to undertake the work required.

Staff keep up to date with developments within internal audit by attending seminars, taking part in webinars and conferences, attending training events and keeping up to date on topics via websites and professional bodies. Learning from these events helps management to ensure they know what skills will be required of our team in the coming years, and to plan accordingly.

Devon Audit Partnership follows formal appraisal processes that identify how employees are developing and create training and development plans to address needs.

Devon Audit Partnership

March 2015

Auditing for achievement

TORBAY COUNCIL

INTERNAL AUDIT CHARTER (March 2015)

TERMS OF REFERENCE

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP), and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

DEFINITIONS

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

The PSIAS set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within Torbay Council the role of the Board within the Standards is taken by the Council's Audit Committee and senior management is the Council's Senior Leadership Team.

The PSIAS make reference to the role of “Chief Internal Auditor”. For Torbay Council this role is fulfilled by the Head of Devon Audit Partnership.

STATUTORY REQUIREMENTS

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2011, which state:

6.—(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In Torbay Council, the Head of Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

THE PURPOSE AND AIM OF INTERNAL AUDIT

The role of Internal Audit is to understand the key risks of the Council; to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge his / her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for Torbay Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of Torbay Council, adding value whenever possible.

PROFESSIONALISM, ETHICS AND INDEPENDENCE

Being Professional

We (Devon Audit Partnership) will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to Torbay Council's relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

Our Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

Being Independent

Internal Audit should be independent of the activities that it audits.

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Head of Devon Audit Partnership should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Executive Director, the S.151 Officer and the Chair of the Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Head of Devon Audit Partnership should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent. They;

- Must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment by the Partnership / Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- Must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

AUTHORITY

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2011 section 6(2) that state that:

'Any officer or member of a relevant body must, if the body requires:

- (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and

- (b) supply the body with such information and explanation as that body considers necessary for that purpose’.

In addition, Internal Audit, through the Head of Devon Audit Partnership, where deemed necessary, will have unrestricted access to:

- the Executive Director
- Members
- individual Directors and Executive Heads
- Section 151 Officer
- Monitoring Officer
- all authority employees
- all authority premises.

ACCOUNTABILITY

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The Head of Devon Audit Partnership fulfils the role of Chief Auditor at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Head of Finance ‘Section 151 Officer’ will liaise with the Head of Devon Audit Partnership and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Devon Audit Partnership reports functionally to the Audit Committee on items such as:

- Approving the internal audit charter
- Approving the risk based Internal Audit plan
- Receiving reports from the Head of Devon Audit Partnership on the section’s performance against the plan and other matters
- Approving the Head of Devon Audit Partnership’s annual report
- Approve the review of the effectiveness of the system of internal audit

The Head of Devon Audit Partnership has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

RESPONSIBILITIES

The Executive Director, Directors and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Head of Devon Audit Partnership will provide assurance to the Head of Finance 'Section 151 Officer' regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The Head of Devon Audit Partnership will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping her meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. He will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management.
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests.
- Advising on internal control implications of new systems
- Providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation
- Being responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues.

INTERNAL AUDIT MANAGEMENT

The PSIAS describe the requirement for the management of the internal audit function. This sets out various criteria that the Head of Devon Audit Partnership (as Chief Internal Auditor) must meet, and includes:-:

- Be appropriately qualified;
- Determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- Produce a Strategy to explain how the service will be delivered and reflect the resources and skills required;
- Regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- Include in the plan the approach to using other sources of assurance if appropriate;

- Be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- Monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Head of Devon Audit Partnership is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Head of Devon Audit Partnership should also have the opportunity for free and unfettered access to the Executive Director and meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

INTERNAL AUDIT PLAN AND RESOURCES

At least annually, the Head of Devon Audit Partnership will submit to the Audit Committee a risk-based internal audit plan for review and approval. The Head of the Devon Audit Partnership will:

- develop, in consultation with Service Directors, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- submit the plan to the Audit Committee for review and agreement;
- implement the agreed audit plan;
- maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- maintain a programme of quality assurance and a culture of continuous improvement;

The internal audit plan will include timings as well as budget and resource requirements for the next fiscal year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

It is a requirement of the Council's Anti-Fraud and Corruption Strategy that the Head of Devon Audit Partnership be notified of all suspected or detected fraud, corruption or impropriety. All reported irregularities will be investigated in line with established strategies and policies. The audit plan will also include sufficient resource to carry out proactive anti-fraud work.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Head of the Devon Audit Partnership to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

REPORTING

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the

control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be:

- To give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- To recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Head of Devon Audit Partnership is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Head of the Devon Audit Partnership will

- submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken.
- submit on an annual basis an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

RELATIONSHIP WITH THE AUDIT COMMITTEE

The Council's Audit Committee will act as the Board as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Responsibility for Functions).

The Head of Devon Audit Partnership will assist the Committee in being effective and in meeting its obligations. To facilitate this, the Head of Devon Audit Partnership will:

- Attend meetings, and contribute to the agenda;
- Ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);

- Report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- Present an annual report on the effectiveness of the system of internal audit; and
- Present an annual internal audit report including an overall opinion on the governance, risk and control framework

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor. (Please note that the previous external assessment of Devon Audit Partnership was completed in October 2012).

The results will be reported to the Audit Committee in the Head of Devon Audit Partnership's annual report, as well as progress against any improvement plan.

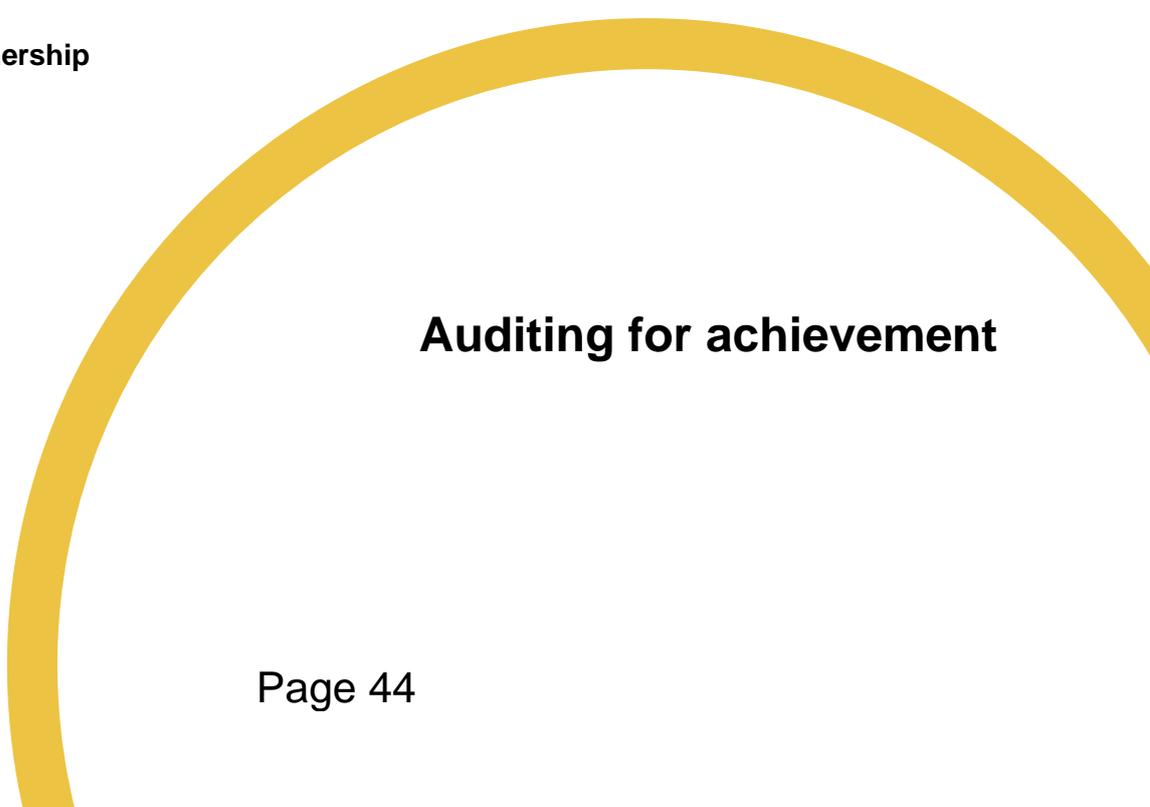
CHARTER – NON CONFORMANCE AND REVIEW

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Head of Devon Audit Partnership will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.

Devon Audit Partnership

March 2015



Auditing for achievement

The Audit Plan for Torbay Council

Year ended 31 March 2015

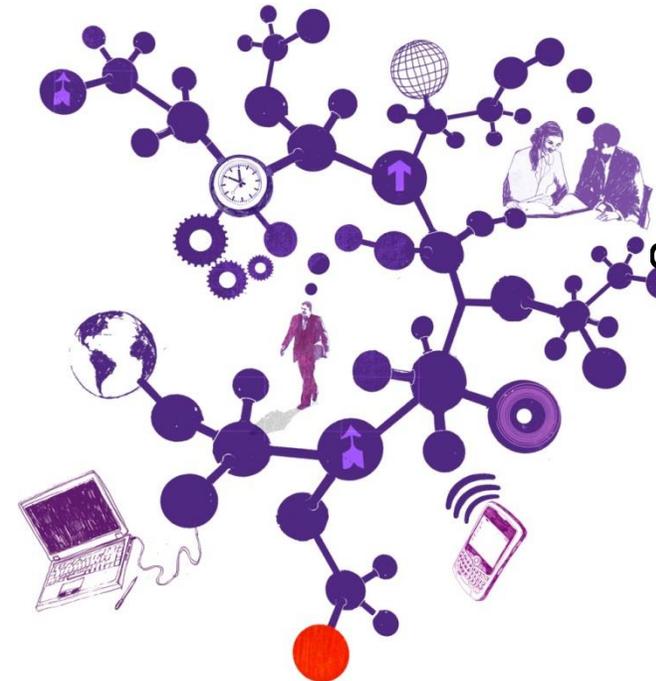
18 March 2015

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Agenda Item 9

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

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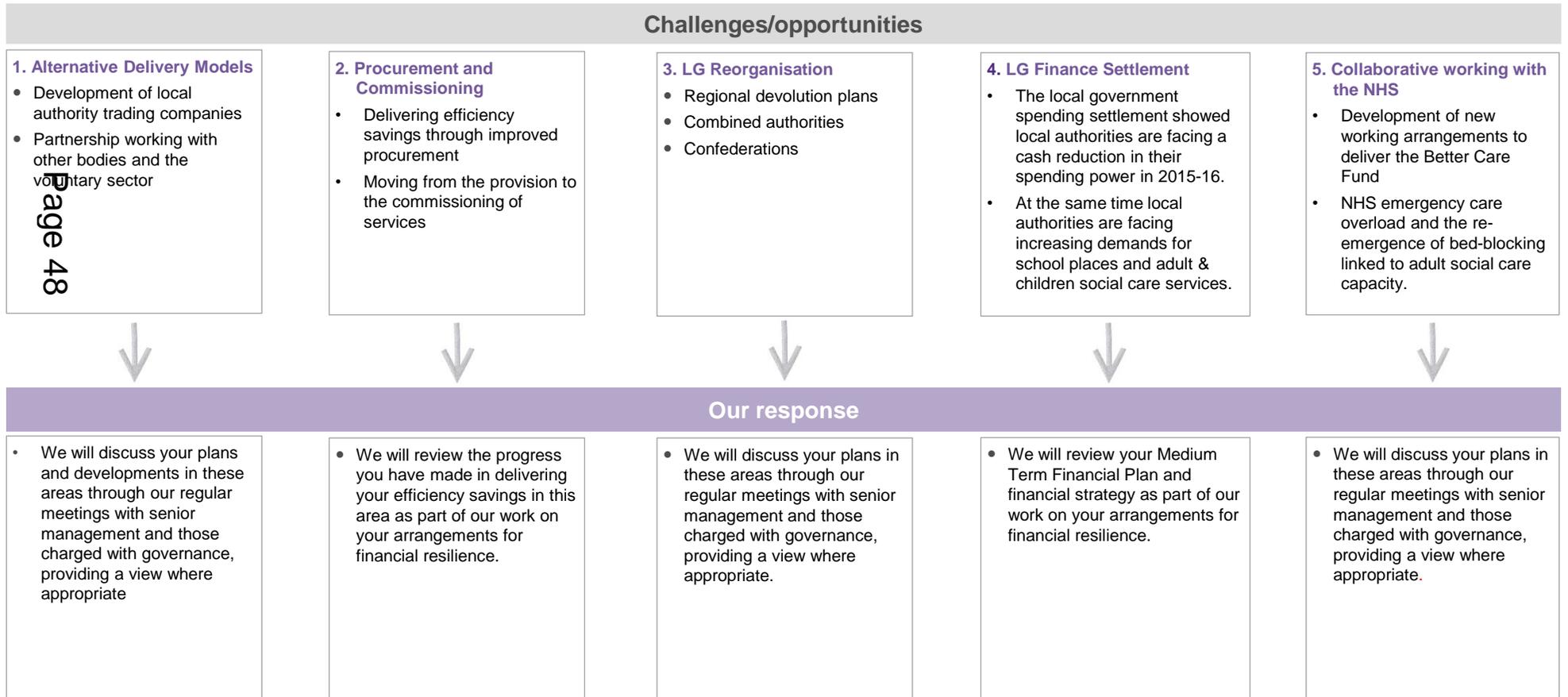
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Appendices

A. Action plan	
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

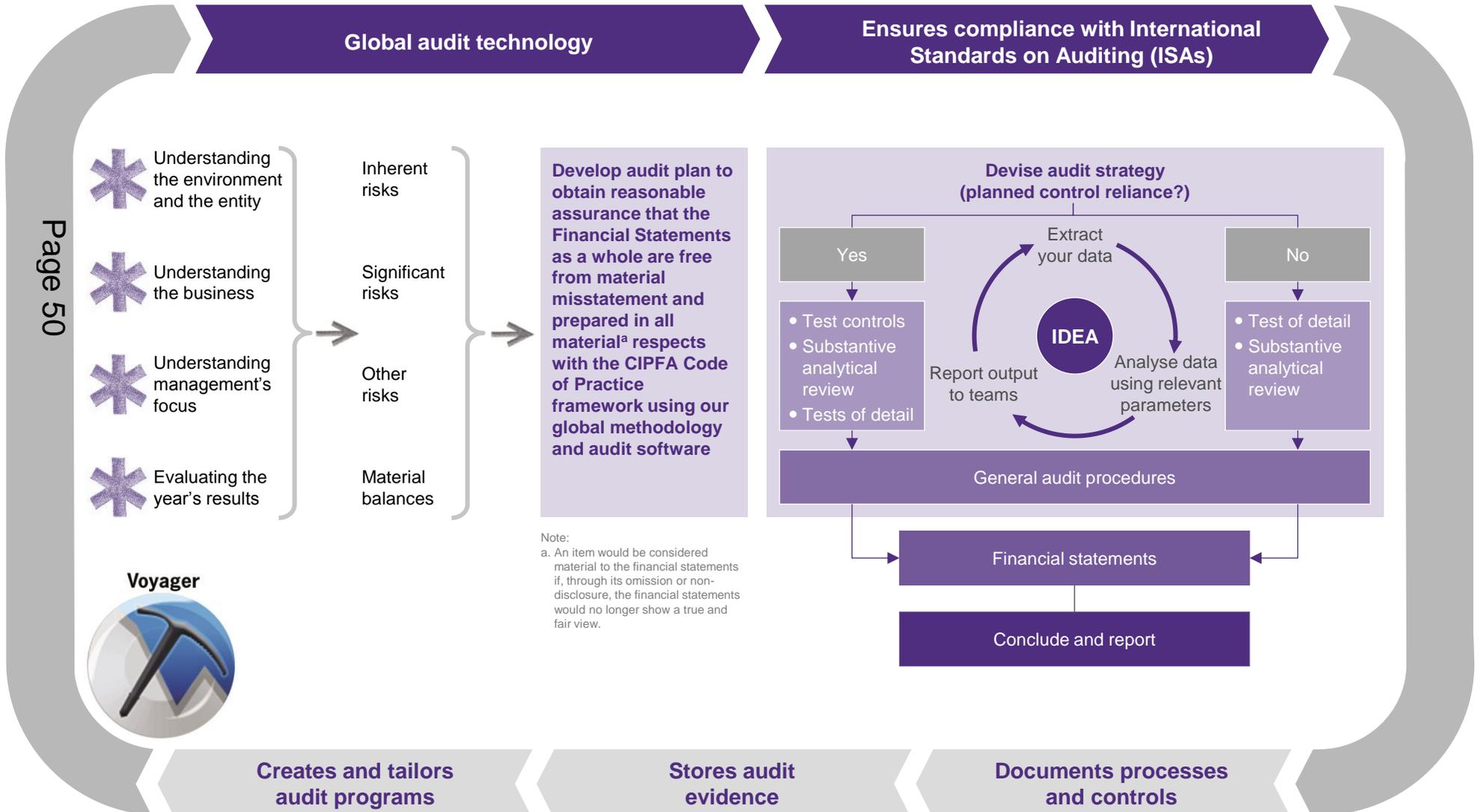
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Changes to the recognition of school land and buildings on local authority balance sheets • Adoption of new group accounting standards (IFRS 10,11 and 12) 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Care Act 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Better Care Fund</p> <ul style="list-style-type: none"> • Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance • the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VfM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify the housing benefit subsidy claim in accordance with the requirements specified by the Audit Commission. Public Sector Audit Appointments Ltd will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.
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Our audit approach



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Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Torbay Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Testing of journal entries • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

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Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses Page 52	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction Substantively tested a sample of operating expenses Further work planned: <ul style="list-style-type: none"> Substantively test a sample of expense transactions in month 12, and year end adjustments/reconciliations. Testing for unrecorded liabilities by review of post year end payments and review of goods received not invoiced notes at year-end. Review of estimates, judgements and decisions made by management for unusual and large accruals.
Employee remuneration	Employee remuneration, benefit obligations and expenses understated (Remuneration expenses not correct)	Work completed to date: <ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction Substantively tested a sample of remuneration transactions Further work planned: <ul style="list-style-type: none"> Substantively test a sample of remuneration transactions in months 11 and 12 to underlying evidence Analytical procedures over the payroll figures throughout the year to ensure that they are reasonable and complete. Review the year end reconciliation of the payroll system to the HMRC return and the ledger

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

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As in 2013/14, the financial resilience of the Council will form the focus of our work.

We will look at the key indicators of the Council's financial performance and update our reviews of strategic financial planning, financial governance and financial control using our 2013/14 assessment as the baseline.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

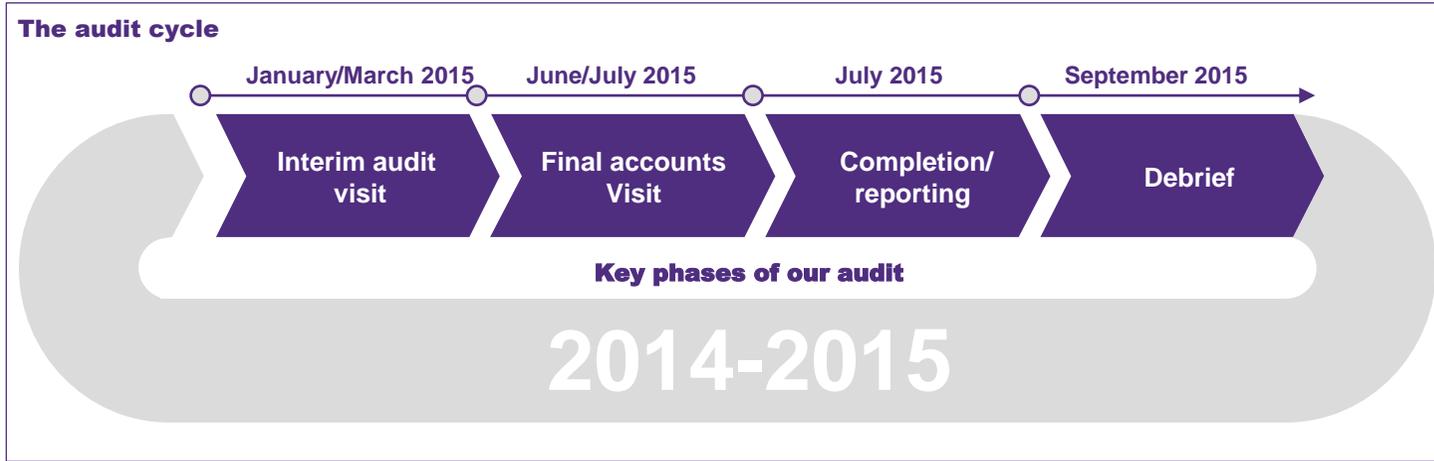
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit Page 54	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work (cont'd)

	Work performed	Conclusion
Review of information technology controls	Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.	We have yet to conclude our review and will report the results to management and summarise any issues for those charged with governance before the financial statements are approved.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first eleven months of the financial year, by extracting 'unusual' entries for further review.</p> <p>We identified that the Section 151 officer has the ability to create, but not approve, journals on the ledger. There have not been any journals created by the Section 151 officer in the first eleven months of the year.</p>	<p>We will undertake further testing of journal entries as part of our final accounts audit fieldwork.</p> <p>We will report to management any issues we find during the course of our audit and summarise them in our report to those charged with governance, before the financial statements are approved.</p> <p>We have made a recommendation that the Section 151 officer should not have the ability to create journals.</p>
Early substantive testing	<p>We have tested a sample of employees to confirm they have valid appointment documentation and are being paid at the appropriate scale.</p> <p>We have tested a sample of operating expenses to confirm that they are supported by appropriate documentation.</p>	<p>This work will be concluded during the final accounts audit.</p> <p>We have no issues to bring to your attention from the testing carried out to date.</p>

Key dates



Date	Activity
January 2015	Planning
12 January & 23 February 2015	Interim site visit
18 March 2015	Presentation of audit plan to Audit Committee
15 June 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Section 151 officer
29 July 2015	Report audit findings to those charged with governance (Audit Committee)
August 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	136,070*
Grant certification	12,840
Total fees (excluding VAT)	148,910

* In 2013/14, the Audit Commission increased the audit fee for all unitary councils by £1,070 to reflect the additional work required on material business rates balances as auditors were no longer required to carry out work to certify the NNDR3 returns. The Audit Commission has included this additional amount in all audit fees for 2014/15.

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

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Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Section 151 officer should not have the ability to create journals on the ledger.	Medium	Agreed.	31 March 2015 – Lorraine Woolcock, System Manager.

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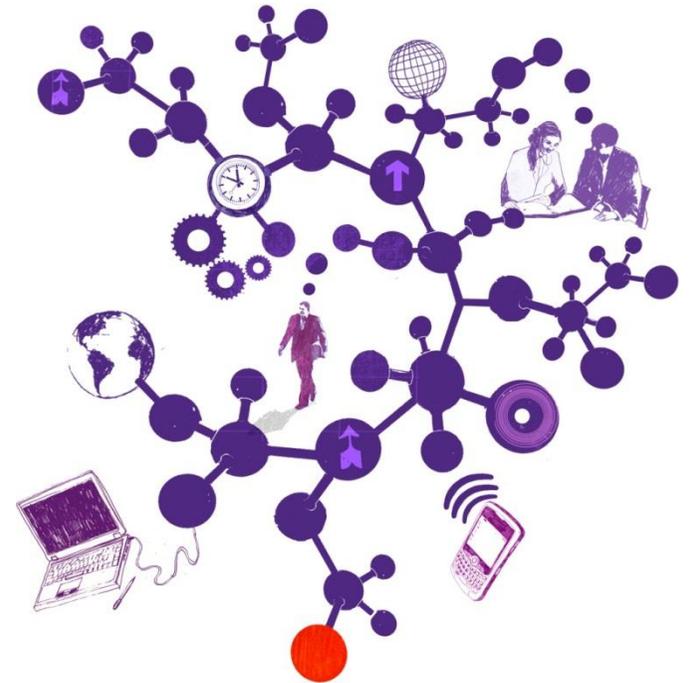
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Year ended 31 March 2015
18 March 2015

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

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

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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

Progress at 5 March 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Audit Fee External Audit fees are determined by the Audit Commission after a period of consultation with the audited bodies.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 66</p>	28 February 2015	Yes	<p>In 2013/14, the Audit Commission increased the audit fee for all Unitary Councils by £1,070 to reflect the fact additional audit work was required on material business rates balances.</p> <p>This additional work was necessary as auditors were no longer required to carry out work to certify NNDR3 returns. The additional fee was 50% of the average fee previously charged for NNDR3 certifications for Unitary Councils.</p> <p>The Audit Commission has included this additional amount in all audit fees for 2014/15. The audit fee is now £136,070 for Torbay Council.</p> <p>The indicative certification fee for 2014/15 has been set at £12,840.</p>
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	31 March 2015	No	<p>We undertook our initial planning work in January 2015 and will complete our work in March 2015 in line with the timetable agreed with the Council.</p> <p>We will aim to complete as much testing as possible to reduce the peak over the summer months.</p> <p>We have reported the findings to date in the Audit Plan which is on the agenda of this meeting. Any further findings will be reported to the July audit committee meeting in the Audit Findings Report.</p>

Progress at 5 March 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	March 2015	Yes	The Audit Plan is included on the agenda of this meeting.
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion. 	30 September 2015 (Statutory deadline)	No	The final accounts audit starts on 15 June 2015. The Audit Findings Report will be brought to your meeting on 29 July 2015. We plan to issue the opinion as soon as possible after the July Audit Committee.
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • securing financial resilience; and • challenging how it secures economy, efficiency and effectiveness. 	30 September 2015 (Statutory deadline)	No	Our Value for Money work will focus in the Council's financial resilience. The findings from this work will be reported in the Audit Findings Report to your July meeting. We plan to issue the opinion as soon as possible after the July Audit Committee.
<p>2014/15 Annual Audit Letter</p>	31 October 2015	No	Our Annual Audit Letter summarises the findings of our audit work in the year.

Progress at 5 March 2015

Work	Planned date	Complete?	Comments
Certification work <ul style="list-style-type: none">Housing benefit subsidy for 2014/15Teachers Pension Return	30 November 2015	No	<p>We plan to make an early start on our housing benefit certification work in 2014/15. Dates are being agreed with officers currently.</p> <p>The Teachers Pension Return is not carried as part of the Audit Commission certification work and would be agreed with the Council.</p>
Other activities <ul style="list-style-type: none">Our annual financial statements workshops, in conjunction with CIPFA, are taking place in February and March 2015. Torbay Council was represented at the event in Exeter on 11 February.The Executive Director is attending Grant Thornton's CEO Room, a session held in a dedicated room in our Bristol office focused on key strategic, financial and leadership issues for Torbay Council.The audit team have regular discussions and meetings with key finance officers to discuss emerging issues and share information as it becomes available.			

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Emerging issues and developments

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All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through many other agencies. This implies a greater role for scrutiny and a need to make sure local public sector bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report have been provided to officers and will be available for members at the meeting.



Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

- there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;
- implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and
- there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

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



Stronger futures:
development of the LGPS

Improving governance in local government pension schemes
February 2015



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Inspection into the governance of Rotherham Council

Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#) . Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

Issues to consider

Have Members been briefed on:

- the headline messages from the inspection of aspects of Rotherham MBC's governance arrangements?
- whether there are any lessons to be learned by the authority and actions that need to be taken to strengthen its overall governance arrangements in response to the risk of child sexual abuse, including the robustness of member oversight, challenge and scrutiny?

Councils fear school place tipping point

Local government issues

Just ahead of the 15 January 2015 deadline for parents to apply for primary school places for their child for September 2015 the LGA warned that the £12 billion cost of creating places for the 900,000 extra pupils expected at England's schools over the next decade could push schools to breaking point. Whilst the government has committed £7.35 billion to create extra school places the LGA claims that this still creates a backlog.

The LGA is calling on the Government to fully-fund the cost of all school places, now and in the future, and to give councils the powers to open new schools without bureaucratic burdens so they can be delivered according to local need. The LGA's 'Investing in our nation's future' campaign outlines measures which it claims would save the public purse £11 billion, tackle the country's housing crisis, ensure every child had a place at a good school, reduce long-term unemployment, address the pothole backlog and improve the nation's health.

Issue to consider

Have members received adequate assurances that locally the Authority has a robust and adequately funded schools programme in place to ensure that school places are created on time and in the right places?

Care services for people with learning disabilities and challenging behaviour

Local government issues

The National Audit Office (NAO) published its report, [Care services for people with learning disabilities and challenging behaviour](#) on 4 February 2015. It concludes that the Government has not met its central goal of moving people with learning disabilities and challenging behaviour out of hospital by 1 June 2014, because it underestimated the complexity and level of challenge in meeting the commitments in its action plan.

Following the exposure in May 2011 of abuse of patients at the Winterbourne View Hospital, the Department of Health set out its action plan in the 'Winterbourne View Concordat' for moving people with learning disabilities and challenging behaviour out of hospital and into community care. At September 2014 however there were still 2,600 inpatients with learning disabilities in mental health hospitals, although NHS England's stated ambition is to discharge 50% of these into "more appropriate care settings" by 31 March 2015.

As the NAO also report that there is no financial incentive for local commissioners to bring such patients home. They have to bear the additional costs of expanding local community services to meet the patients' needs, following discharge from hospital, when NHS England had centrally funded patients' care in mental health hospitals

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion [Build to Rent scheme](#), which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a [How to rent](#) guide, so tenants and landlords know their rights and what to expect when renting privately
- published a [model tenancy agreement](#), so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Accounting for schools – Code update and LAAP Bulletin 101

Accounting and audit issues

Non-current assets

In December 2014, CIPFA issued an Update to Appendix E of the 2014/15 Code which states "The recognition of non-current assets used by schools shall be determined in accordance with the relevant standards adopted by Chapter Four Non-Current Assets of this Code as appropriate to the arrangements for the assets. These assets shall be recognised in a local authority's balance sheet if they meet either the appropriate recognition criteria (see Chapter Four) for the local authority or for a school within the local authority area".

CIPFA also issued in December LAAP Bulletin 101 Accounting for Non-Current Assets Used by Local Authority Maintained Schools. The Bulletin provides application, clarification and interpretation but is secondary to the Code and accounting standards.

Due to the varied and sometimes complex arrangements for use of school land and buildings, the accounting treatment for these non-current assets will require the chief finance officer to make significant judgements in the preparation of the statement of accounts. These judgements should be based on the circumstances for individual schools and will involve consideration of the rights of the school as an entity and any rights held by the local authority. Judgements should be robust and well documented as auditors will be required to consider whether these are reasonable and supported by appropriate evidence. Local authorities should discuss and agree these judgements with Those Charged With Governance.

Other matters

The work required to identify and consider the arrangements over the use of schools may be significant and progress to date has been variable. Local authorities need to consider the resources required to identify and review arrangements and to undertake any necessary valuations. Good project management arrangements also need to be in place to ensure the requirements of the Code are met.

Treating a school as an entity means that local authorities are satisfied that, for each school, they have captured all the financial information relating to the school as an entity. This means all income and expenditure (including voluntary donations and related expenditure), cash flows and all assets and liabilities.

Accounting for schools – Code update and LAAP Bulletin 101

Accounting and audit issues

As part of their accounts preparations local authorities should ensure transactions between the local authority and schools are eliminated, all required disclosures are made and any appropriate governance matters are disclosed in the Annual Governance Statement.

A more detailed summary of the issues arising from the Code Update and LAAP Bulletin 101 has been provided to the Council's finance team.

Grant Thornton held workshops on this issue in December 2014 and January 2015 that were attended by Torbay finance staff, and the audit team have continued to liaise with Council officers over the developments in this area. The Council is making good progress in its judgements on the accounting treatment of schools non-current assets on a case by case basis and further update meetings on this issue are planned.

Provision for Business Rates Appeals

Accounting and audit issues

Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

Early payment of pension contributions

Accounting and audit issues

During 2014/15 some local authorities paid pension fund deficit contributions covering three years (2014/15 to 2016/17). By doing this the local authority benefits from a discount on the total amount payable resulting in a lower overall charge.

Due to the amounts involved, some authorities are seeking to spread the impact of the payment over the three-year period. In doing so, they must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year as defined by regulation 30 of [The Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003](#).

We expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. The accounting judgements and treatment should reflect the advice received and should be documented accordingly.

Where an authority has received legal advice that the up-front payment can be recognised in the general fund over three years, based on our understanding of the arrangement we would expect the total amount to be reflected in the pension fund liability. This means that the pension reserve will not equal the pension liability. We expect the background to the transactions and the reason for the difference to be disclosed in a note to the accounts.

This issue has been discussed with Finance staff, who have confirmed that the Council did not pay a three year contribution.

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Issue to consider

- Has your Authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?



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