



Tuesday, 15 March 2016

## **AUDIT COMMITTEE**

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

**Wednesday, 23 March 2016**

commencing at **2.00 pm**

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

### **Members of the Committee**

Councillor Tyerman (Chairman)

Councillor Bent

Councillor Stocks

Councillor Robson

Councillor Stringer

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**Our vision is for a cleaner, safer, prosperous Bay**

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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** (To Follow)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 20 January 2016.
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** (Pages 4 - 23)  
To consider the submitted report on the latest performance and risk information.
6. **Internal Audit Plan 2016-17** (Pages 24 - 39)  
To consider a report that sets out the Internal Audit Plan for 2016-17.
7. **Internal Audit Strategy** (Pages 40 - 45)
8. **Internal Audit Charter** (Pages 46 - 53)  
To note the report.

- 9. The Audit Plan for Torbay Council** (Pages 54 - 75)  
To consider the Audit Plan for Torbay Council which sets out the work that Grant Thornton, the Council's external auditors, would be undertaking in order to provide assurance that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 10. Audit Committee Update for Torbay Council** (Pages 76 - 94)  
To note a report on progress in delivering Grant Thornton's responsibilities as the Council's external auditors.

# Agenda Item 5



**Meeting: Audit Committee**

**Date: 20<sup>th</sup> January 2016**

**Wards Affected: All**

**Report Title: Performance and Risk**

**Is the decision a key decision? No**

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

**Executive Lead Contact Details:**

**Supporting Officer Contact Details:** Anne-Marie Bond, Assistant Director Corporate and Business Services, 01803 207160, [Anne-Marie.Bond@torbay.gov.uk](mailto:Anne-Marie.Bond@torbay.gov.uk)

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## **1. Proposal and Introduction**

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

## **2. Recommendation**

- 2.1 That the Audit Committee agree meetings take place every two months to allow them to consider performance and risk information regularly.
- 2.2 That the Audit Committee meets informally to identify a work programme and presents this at its meeting on 23<sup>rd</sup> March 2015.

# Performance and Risk Report

## January 2016

Key to Performance Status:



### An Attractive and Safe Place

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#### Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Annual Target	Quarter 4 2014/15	Quarter 1 2015/16	Quarter 2 2015/16	Quarter 3 2015/16	Cumulative to date
ASP01	<a href="#">Housing conditions The number of Category 1 hazards identified following household/housing unit visits.</a>	It's better to be low	Well below Target	121	121	15	13	8	17	38
ASP02	<a href="#">Recorded crime</a>	It's better to be low	On Target	8,988	8,988	2041	2,266	2,176	2,093	6,535
ASP03	<a href="#">Violent crime</a>	It's better to be low	Above Target	2,635	2,635	603	718	734	757	2,209
ASP04	<a href="#">Domestic violence incidents</a>	It's better to be low	On Target	3,481	3,481	794	878	842	856	2,576

Code	Title	Polarity	Status	Prev Year End	England Value	Last period value
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Agenda Item 5  
Appendix 1

ASP05	<a href="#">Number of individuals sleeping rough</a>	It's better to be low	Well Above Target	17	5	2015				21
PHOF1.04	<a href="#">First time entrants to the youth justice system</a>	It's better to be low	Well Above Target	416	409	2014				585
PHOF1.17	<a href="#">The percentage of households that experience fuel poverty based on the "Low income, high cost" methodology</a>	It's better to be low	Well Above Target	9.8%	10.4%	2013				12.8%
ASP06	<a href="#">How long people stay in the "in most need" band of the Housing Register</a>									Quarterly
ASP07	<a href="#">MARAC Repeat Referrals</a>									To show referrals and repeat referrals.
Code	Title	Polarity	Status	Prev Year End	Annual Target	Quarter 3 14/15	Quarter 4 14/15	Quarter 1 15/16	Quarter 2 15/16	Last period value
NI191	<a href="#">Residual household waste per household</a>	It's better to be low	Well Above Target	117kg	120kg	115kg	117kg	133kg	133kg	133kg
NI192	<a href="#">Percentage of household waste sent for reuse, recycling and composting (LAA)</a>	It's better to be high	On Target	42.54%	46.00%	42.81%	42.54%	44.24%	44.04%	44.04%
NI193	<a href="#">Percentage of municipal waste land filled (LAA)</a>	It's better to be low	Above Target	59.36%	5.00%	59.09%	59.36%	19.13%	9.56%	9.56%

## Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
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ASPR01	<a href="#">Increased demand on housing services</a>	Medium to high (12)	21/01/16	4 - Likely	3 - Moderate	Fran Hughes	Increased usage of in particular B & B on a spot purchase basis will impact on budget.	Alternative provision is being explored i.e. Public Sector Leasing PSL. Feasibility studies and business case being completed.
ASPR02	<a href="#">Failure to meet statutory thresholds</a>	High (16)	21/01/16	4 - Likely	4 - Major	Fran Hughes	Standards are predominantly with Food Standards also some H & S and Trading standards, report by exception.	Maintain sufficient resilience within teams providing statutory services to meet thresholds
ASPR03	<a href="#">Increasing cost of highways improvements and maintenance</a>	Medium to high (12)	09/02/16	4 - Likely	3 - Moderate	Fran Hughes	If costs increase for highways maintenance and improvements this will impact on the Authority's ability to meet its statutory duties to maintain the highway in a safe condition and leading to further deterioration of the condition of the asset and increased compensation claims against the Authority.	Asset Management Plan in place to ensure that available budget is managed effectively. The Asset Management Plan has a particular priority to preventative maintenance. Preventative maintenance has been increased, however this is under threat in future years due to levels of likely budget cuts.
ASPR04	<a href="#">Cliff and Sea defence failures through storm/ lack of maintenance</a>	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Fran Hughes	If there is a breach failure of the sea defence or rock falls from the cliff this necessitates emergency repair works as there is potential for roads to be closed, properties to be lost, risk of pollution and the loss of life.	Continue maintenance and apply for capital funding from council and grant aid funding from Environment Agency. Oddicombe Cliff is currently being stabilised. A rock fall at Goodrington has recently occurred and as a result further stabilisation works will be required shortly. Investigations are currently being carried out by the Council's Geotechnical Consultant on the cliffs at Freshwater Quarry where stabilisation works will be required once funding is available. A number of coastal defence schemes are on the Environment Agency medium term plan which covers the next 6 years. One of these is at Hollicombe Cliffs and a project appraisal report has recently been submitted to the EA to support an application for £1.2million of grant in aid funding.
ASPR05	<a href="#">Increasing cost of waste disposal.</a>	Medium to high (12)	21/01/16	3 - Possible	4 - Major	Fran Hughes	This presents one of the biggest financial risks to the authority.	Contract review being undertaken
ASPR06	<a href="#">Reduction of Police funding and possible cost shunt to the council</a>	High (20)	21/01/16	4 - Likely	5 - Critical	Fran Hughes	A risk of reduction to police finding resulting in a possible cost shunt to the council	Ensure that a robust Community Safety Partnership remains in place to identify and address escalating issues.

## Promoting healthy lifestyles

**Performance Indicators**

Code	Title	Polarity	Status	Prev Year End	England Value		Last period value
PHOF2.0 6i	<a href="#">Excess weight in 4-5 and 10-11 year olds – 4-5 year olds (Per 100,000)</a>	It's better to be low	Well Above Target	25.3%	21.9%	2014/15	24.1%
PHOF2.1 5i	<a href="#">Successful completion of drug treatment – opiate users</a>	It's better to be high	Below Target	8.4%	7.8%	2014	7.4%
PHOF2.1 8F	<a href="#">Admission episodes for alcohol related conditions –narrow definition (Female) per 100,000</a>	It's better to be low	Well Above Target	594	475	2013/14	642
PHOF2.1 8M	<a href="#">Admission episodes for alcohol related conditions –narrow definition (Male) per 100,000</a>	It's better to be low	Well Above Target	1,070	835	2013/14	1,102
PHOF2.2	<a href="#">Cumulative % of the eligible population aged 40-74 received an NHS Health Check</a>	It's better to be high	Below Target	n/a	18.6%	2013/14 - 2014/15	16.8%
PHOF2.1 4	<a href="#">Smoking Prevalence</a>	It's better to be low	Well Above Target	17.5%	18.0%	2014	19.9%
PHOF2.1 3i	<a href="#">Percentage of physically and inactive adults - active adults</a>	It's better to be high	Below Target	52.8%	57.0%	2014	52.4%
PHOF2.1 3ii	<a href="#">Percentage of physically and inactive adults - inactive adults</a>	It's better to be low	Well Above Target	32.7%	27.7%	2014	34.2%
PHOF2.1 2	<a href="#">Excess weight in adults - Percentage of adults classified as overweight or obese</a>	It's better to be low	Above Target	n/a	64.6%	2012-2014	68.1%
Code	Title	Polarity	Status	Prev Year End	England Value		Last period value

PHOF0.21 VM	<a href="#">The gap between life expectancy at birth in Torbay and life expectancy at birth for England: Male</a>	It's better to be high	Below Target	-0.3	0.0		2012-2014	-0.5
PHOF0.21 VF	<a href="#">The gap between life expectancy at birth in Torbay and life expectancy at birth for England: Female</a>	It's better to be high	Below Target	-0.3	0.0		2012-2014	-0.2

### Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
PHLR01	<a href="#">Pandemic - i.e. Flu/Ebola</a>	Medium to high (12)	09/02/16	3- Possible	4 - Major	Caroline Dimond		Emergency plans
PHLR02	<a href="#">Reduction in the public health grant</a>	Medium to high (12)	09/02/16	4 -Likely	3 - Moderate	Caroline Dimond	Reduction in the public health grant from Public Health England to invest in the commissioning of public health services	Forecast budget planning taking into account potential impact of reduction. Awaiting actual cut, Planning mitigating actions.
PHLR03	<a href="#">Reduction in funding for sport and leisure services</a>	Medium (8)	21/01/16	4 -Likely	2 - Minor	Fran Hughes	In light of reduced funding to local authorities the budget for sport and leisure services has reduced and may reduce further.	

## Prosperous Torbay

### Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Great Britain / Quarter Target	Feb-15	May-15	Aug-15	Nov-15	Last period value
PTPI01	<a href="#">Working age Client Group - Main benefit claimants</a>	It's better to be low	Well Above Target	13.9%	12.0%	14.1%	13.4%	17.5%		17.5% (13,530)

Code	Title	Polarity	Status	Prev Year End	Quarter Target	Quarter 1 2015/16	Quarter 2 2015/16	Quarter 3 2015/16	Quarter 4 2015/16	Last period value
PTPI02	<a href="#">Gross rateable value of Business Rates (NDR)</a>	It's better to be low	On Target	n/a	£99.96m	£98,511,322	£98,422,119	£98,439,809		£98,439,809

Code	Title	Polarity	Status	Prev Year End	Great Britain / Month Target	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Last period value
PTPI03	<a href="#">Total JSA Claimants</a>	It's better to be low	Well Above Target	2.3%	1.5%	2.1%	2.0%	1.9%	1.9%	1.9%	1.8%	1.9%	1.9%	2.0%	2.2%			2.2% (1,688)
PCPI14	<a href="#">% 16 - 18 year olds not in education, employment or training (NEET)</a>	It's better to be low	Well below Target	4.0%	5.0%	4.6%	4.2%	4.5%	5.1%	15.7%	3.2%	3.2%	3.8%	3.7%	3.8%			3.8%

Code	Title	Polarity	Status	Prev Year End	Great Britain Value											Last period value
PTPI05	<a href="#">Earnings by Residence (weekly full time)</a>	It's better to be high	Well Below Target	£433.20	£529.60	2015										£421.60
PTPI06	<a href="#">Earnings by Workplace (weekly full time)</a>	It's better to be high	Well Below Target	£421.90	£529.00	2015										£425.20

### Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
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PTR02	<a href="#">Local Plan not delivered</a>	Medium (8)	09/02/16	2 - Unlikely	4 - Major	Pat Steward	The Local Plan contains targets (eg re employment growth) and policies (e.g. Delivery of development sites) that need to be delivered. Performance on delivery is critical to sustainable growth in Torbay. Work on the delivery of growth within defined growth / masterplan areas ensures the probability is low, but if delivery targets are not achieved (e.g. to secure a 5 year land supply) this could have a major impact on the Bay.	Limited resources in place within Spatial Planning to undertake delivery and monitoring work; prioritised work plan over next 5 years; work with other services including TEDC to deliver; exploring shared services with other Councils.
PTR03	<a href="#">Failure to meet national planning performance targets</a>	Medium to high (12)	09/02/16	3 - Possible	4 - Major	Pat Steward	The Council is required to make high quality and quick planning decisions. Performance is assessed against a) 50% of major applications determined in 13 weeks and b) 50% of minor applications determined in 8 weeks and c) no more than 20% of major decisions overturned on appeal. Performance is reported, on a monthly basis, to Government. Speed, quality and consistency of decision making is key to securing investment and high quality outcomes in Torbay. Failure to deliver against these targets provides opportunity for a) the service to be placed in 'special measures' and lose income b) applicants to ask private contractors to determine planning applications c) reputational risk.	Spatial Planning informs and monitors returns to Government every month; Reports are provided to Development Management Committee every 6 months; Spatial Planning works with applicants to help ensure applications are 'right first time'; Spatial Planning adjusts its resources to deal with workload pressures; Spatial Planning will refuse planning applications, without negotiation, where there has been no pre-application submission by applicants and there are robust reasons for refusal. Spatial Planning is recruiting to a new planning officer post. Spatial Planning is reviewing all quarterly returns to Government, over the last two years, to ensure the returns are 100% accurate.
PTR04	<a href="#">Five year housing land supply</a>	Medium (8)	09/02/16	2 - Unlikely	4 - Major	Pat Steward	The Council is required to maintain a rolling 5 year supply of housing land. A supply of new homes is important in meeting housing needs and securing economic growth.	Spatial Planning maintains a list of sites to be delivered over a rolling 5 year period; this list is refreshed and published every year as part of the Annual Housing Monitoring Review; in order to meet this target the Council needs to enable delivery of around 500 new homes per annum. Performance against this target will be reported, biannually, to the Development Management Committee. In addition, the Council will undertake a major review of the Local Plan every 5 years or more frequently / partial reviews if required. Spatial Planning is being proactive (e.g. masterplans, engagement with landowners etc) to ensure delivery of new homes above the minimum required to hit 5 year land requirements.

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
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PTR05	<a href="#">Further reductions made under welfare reforms</a>	Medium to high (12)	09/02/16	4 -Likely	3 - Moderate	Bob Clark	<p>To ensure the Council is fully prepared for the ongoing changes in the Welfare Reform agenda.</p> <p>One of the proposed changes announced in the 2015 Summer Budget concerning lowering the Benefit Cap from £26k to £20k, has been delayed until 2017 and will be introduced in phases.</p> <p>The £26k cap affects around 50 households in Torbay and is estimated to increase to around 250/300 after the new rate is applied.</p>	<p>The Council recognises that residents are facing wider financial pressures from high energy bills, increasing housing costs as well as welfare reforms, so the ability of lower income households to absorb the impact is restricted. An early and extensive engagement with our customers impacted by these changes will ensure they make informed choices, are offered appropriate support and prevent them from falling into debt.</p> <p>As Torbay's economy continues to grow and unemployment levels fall, longer term strategies that will encourage new employment, skills development and enterprise is the most direct way to mitigate welfare reform. To summarise, the following actions should be undertaken;</p> <ul style="list-style-type: none"> <li>• Support those most affected by welfare reform into jobs</li> <li>• Inform and prepare residents for further welfare reform changes</li> <li>• Inform and prepare staff for further welfare reform changes</li> <li>• Engage, involve and prepare elected members</li> <li>• Internal council activity</li> </ul> <p>Identify wider financial risks where demand for services may increase, for example, Homeless, Customer Services and Children's Services etc.</p>
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## Protecting All Children and Giving Them the Best Start in Life

Code	Title	Polarity	Status	Prev Year End	Annual Target	Quarter 4 2014/15	Quarter 1 2015/16	Quarter 2 2015/16	Quarter 3 2015/16	Last period value
PCPI01	<a href="#">Number of children looked after (quarterly)</a>	It's better to be low	Above Target	n/a	271	304	308	297	290	290
PCPI02	<a href="#">Fostering - In House (quarterly)</a>	It's better to be high	On Target	n/a	70%	70%	74%	71%	70%	70%
PCPI03	<a href="#">Average time from entering care to moving in with adoptive family (days)</a>	It's better to be low	Well below Target	n/a	487	530	329	396	393	393
PCPI04	<a href="#">Reducing the No of children 10+ entering the care System</a>	It's better to be low	Well below Target	n/a	38%	56%	28%	25%	27%	27%
PCPI05	<a href="#">Initial contact to Childrens Services</a>	It's better to be low				1638	1909	1819	1619	1619
PCPI06	<a href="#">Referrals to Childrens Safeguarding Service</a>					519	350	275	394	394
PCPI07	<a href="#">Child Protection numbers</a>					158	156	200	212	212
PCPI08	<a href="#">Vacancy rate - Social work staff</a>	It's better to be low		n/a			30%	26%	23%	23%
Code	Title	Polarity	Status	Prev Year End	England - All Schools					Last period value
PCPI09	<a href="#">KS4 % achieving 5+ A*-C GCSEs (or equivalent) including English and maths GCSEs</a>	It's better to be high		56.6%	53.8%	2015				57.3%
PCPI10	<a href="#">KS2 % achieving level 4 or above in reading, writing and maths</a>	It's better to be high		77%	80%	2015				80.0%

Code	Title	Polarity	Status	Prev Year End	England Value					Last period value

PHOF1.0 2i	<a href="#">School Readiness: All children achieving a good level of development at the end of reception as a percentage of all eligible children.</a>	It's better to be high	On Target	61.30%	66.3%		2014/15	64.4%
PHOF2.0 2ii	<a href="#">Breastfeeding Prevalence at 6-8 weeks after birth</a>	It's better to be high	Well Below Target	n/a	43.8%		2014/15	35.7%
PHOF3.0 3x	<a href="#">Population vaccination coverage - MMR for two doses (5 years old)</a>	It's better to be high	On Target	88.9%	88.6%		2014/15	89.9%
PHOF2.0 3	<a href="#">Smoking status at the time of delivery</a>	It's better to be low	Well Above Target	16.8%	11.4%		2014/15	16.1%
PHOF2.0 9ii	<a href="#">Smoking prevalence at age 15 - regular smokers (WAY survey)</a>	It's better to be low	Well Above Target	n/a	5.5%		2014/15	10.4%

## Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
4 PGR01	<a href="#">Increased demand for services (Troubled Families/Early Help Strategy)</a>	Medium to high (12)	12/02/16	3 - Possible	4 - Major	Richard Williams	A range of external factors can influence demand	Partnership approach being co-ordinated - leading on the understanding of thresholds and the development of Early Help offer (Feb 2016)
PCR02	<a href="#">Delivery of 5 year plan - Stemming The Flow (Including PIP)</a>	Medium to high (12)	12/02/16	3 - Possible	4 - Major	Richard Williams	5 Year Plan in year 1 not meeting targets	Review underway and presented to Council as part of the budget process (Feb 2016)
PCR03	<a href="#">Delivery of TPST and Integrated Care Organisation</a>	Medium to high (12)	12/02/16	3 - Possible	4 - Major	Richard Williams	Integral elements of the SWIFT project	TPST - 1st meeting 21st January 2016. ICO working group to oversee
PCR04	<a href="#">Safeguarding Improvement Programme</a>	Medium to high (12)	12/02/16	3 - Possible	4 - Major	Richard Williams	Outcome of Ofsted Inspection	Integration to be set up. Improvement Board to be set up to manage the different aspects of the journey (Jan 2016)
PCR05	<a href="#">Removal of the Education Service Grant</a>	High (16)	12/02/16	4 - Likely	4 - Major	Richard Williams	The proposed removal of the Education Service Grant will result in less direct services to schools to impact on pupil outcomes.	The funding delegated to Torbay Teaching School to be directed to build capacity outside of the organisation. Strategic planning with Torbay Teaching School Alliance to take a lead on system issues for children and young people within the school community.

## Protecting Vulnerable Adults

### Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Last period value
LI404	<a href="#">No. of permanent care home placements</a>	It's better to be low	On Target	654	636	649	652	652	646	645	639	645	630	636	637			637
NI135	<a href="#">Carers receiving needs assessment or review &amp; a specific carer's service, or advice &amp; infor (LAA)</a>	It's better to be high	Well Above Target	41.33%	30.00%	7.02%	11.34%	18.50%	18.38%	24.24%	27.37%	32.09%	35.94%	38.22%	41.17%			41.17%
TCT14b	<a href="#">Safeguarding Adults - % repeat SG referrals in last 12 months</a>	It's better to be low	Well Below Target	n/a	8.00%	8.63%	7.55%	7.11%	6.64%	6.64%	4.98%	4.98%	6.51%	5.45%	4.55%			4.55%

Code	Title	Polarity	Status	Prev Year End	Target													Last period value
PVAPI01	<a href="#">Re-ablement Services (Effectiveness)</a>	It's better to be high	Below Target	n/a	84.0%	2014/15												77.20%

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**Risks**

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation

ASCR01	<a href="#">Increased demand for services</a>	Medium to high (12)	12/01/16	4 - Likely	3 - Moderate	Caroline Taylor	An older population and deprivation will increase demands on services	A new care model and prevention strategy
ASCR02	<a href="#">Financial strain relating to the implementation of the Care Act</a>	Medium (6)	12/01/16	2- Unlikely	3 - Moderate	Caroline Taylor	Implementation complete phase1 phase 2 now 2020	Lobby government and feedback future cost strain
ASCR04	<a href="#">Insufficient and unsustainable care home market in Torbay</a>	Medium to high (12)	12/01/16	4 - Likely	3 - Moderate	Caroline Taylor	The living wage and supply chains have put strain on the national and local market	Work to diversify the market and outcomes based model and regional work on supply
ASCR03	<a href="#">Integrated Care Organisation: Delivery of new model of care at pace and scale</a>	Medium (6)	12/01/16	2- Unlikely	3 - Moderate	Caroline Taylor	Business Plan For ICO and new care model is not delivered in a timely manner and within the financial pool agreed, and CSR impacts adversely on 5 year cost model of ICO. Ambitious model to deliver.	Strong commissioner provider monitoring, overview of overall outcomes via HWBB/JCG, Exe lead Cllr on ICO Board

## Running an Efficient Council

### Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Annual Target	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Cumulative to date

RECPI01	<a href="#">Agency Staff Cost (excluding schools)</a>	It's better to be low	Well Above Target	n/a	£797,000	£75,969	£350,535	£312,481	£275,456	£334,495	£293,165	£234,599	£376,023	£255,466	£210,000				£2,718,190
																			Breakdown Adults £90,000 Childrens £2,426,000 Public Health £12,000 Corp & Commercial Services £129,000 Cust Services & Comm Safety £61,000

Code	Title	Polarity	Status	Prev Year End	Annual Target	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Cumulative to date	
RECPI02	<a href="#">Revenue Budget</a>	It's better to be low	Well Above Target	n/a	£0					£3,682,000				£2,866,000	£2,921,000				£2,921,000

Code	Title	Polarity	Status	Prev Year End	Annual Target	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Last period value
RECPI03	<a href="#">Savings identified for 2017/18, 2018/19 and 2019/20</a>	It's better to be high	Well Below Target	n/a	£19,100,000	0	0	0		0

RECPI05	<a href="#">Stage 1 complaints dealt with on time</a>	It's better to be high	Well Below Target	n/a	90%	61%	74%	74%		74%
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Code	Title	Polarity	Status	Prev Year End	Monthly Target	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Cumulative to Date
RECPI06	<a href="#">Number of stage 1 complaints logged</a>	N/A	No Target (monitoring only)	422	n/a	44	81	132	194	233	266	304	343	383	430			430
RECPI07	<a href="#">Number of Data breaches</a>	It's better to be low	Well Above Target	22	17	3	6	10	12	16	18	22	22	24	31			31
RECPI08	<a href="#">Test of assurance</a>					Reviewed annually - By combining the statutory roles of the Director of Children's Services and the Director of Adult Services (Director of Joint Commissioning) Local Authorities should undertake a local Test of Assurance so that the focus on outcomes for children and young people will not be weakened as a result of adding other responsibilities.												

## Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation

RECR01	<a href="#">Failure to generate income</a>	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Anne-Marie Bond	Delivery against income targets	Monitor income levels - Ensure that income levels across the council are being monitored by the relevant executive heads/directors and that any areas of concern are raised at SLT asap SLT review flash report, and Budget Implementation Tracker on a monthly basis to review progress against income targets.
RECR02	<a href="#">Lack of effective workforce planning - retention of key/relevant skills across the organisation</a>	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Anne-Marie Bond	Lack of effective business continuity in relation to workforce planning Retention of key/relevant skills across the organisation	Ensure that workforce plans are created for each department - Ensure that workforce plans are created for each department, and that these are kept up to date, and actions monitored on a regular basis. Workforce plans are currently being developed by HR in consultation with service areas.
RECR03	<a href="#">Lack of robust and safe decision making</a>	Medium (9)	15/02/16	3 - Possible	3 - Moderate	Anne-Marie Bond		Ensure the application of consultation principals and that EIAs are carried out appropriately - Policy Development Groups (PDGS) have been set up to consider service change, new policy and policy review. PDGs are inclusive of all members to ensure that all members are given the opportunity to see and be involved with discussions around service change / policy development. EIAs are completed against service change / policy development and included in reports for members. This includes proposals in relation to budget setting. Consultation is developed in relation to service change / policy development and supported by the Corporate Support Team to ensure processes are robust.
RECR04	<a href="#">Insufficient infrastructure and support across the Council</a>	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Anne-Marie Bond		Ensure that workforce plans are kept up to date - Significant reductions in budgets across all support services mean that any further reductions could potentially result in a failure of support systems across the Council i.e. IT infrastructure
RECR05	<a href="#">The Council not achieving a balanced budget for 2015/16</a>	Medium to high (15)	15/02/16	3 - Possible	5 - Critical	Anne-Marie Bond		Budget monitoring takes place throughout the year.
RECR06	<a href="#">The Council is not able to set balanced budgets for future years (2016/17, 2017/18, 2018/19)</a>	High (20)	15/02/16	4 - Likely	5 - Critical	Anne-Marie Bond	The council is not able to find the savings required and agree a balanced budget in forthcoming years.	Proposals for future budgets are being developed and will be reviewed through PDGs. - Proposals for 2016/17 have been developed and draft proposals are now subject to EIAs and due to be published for public consultation on 6th November.
RECR07	<a href="#">Budget overspend within armslength organisations, and contracted services</a>	Medium to high (15)	15/02/16	3 - Possible	5 - Critical	Anne-Marie Bond		Ensure effective performance monitoring and contract management is in place

Page 18

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
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RECR08	<a href="#">Cost shunting to the local authority as partners reduce resources.</a>	Medium (9)	15/02/16	3 - Possible	3 - Moderate	Anne-Marie Bond		Maintaining a robust Community Safety Partnership.
RECR09	<a href="#">Failure to deliver the Council's Asset Management Plan</a>	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Anne-Marie Bond	Torbay Council has a considerable number of assets, which are not only essential to service delivery but underpin much of the Bay's economy. Many of these assets are in poor condition and not fit for purpose. There is little prospect of funding the repair or renewal without accompanying enabling redevelopment. If an asset requires significant repair this could result in considerable costs to the Council.	The Asset Management Plan sets out strategies to rationalise the number of assets, replace them where appropriate and improve the condition of those remaining through engagement with the private sector.
RECR10	<a href="#">Risk of inadequate maintenance and repairs of our Council assets due to reducing budgets</a>	High (16)	15/02/16	4 -Likely	4 - Major	Anne-Marie Bond	As a result of reducing resources, ongoing repairs and maintenance of our properties and transport infrastructure assets is a challenge, with inadequate investment being made to maintain our assets. This situation is exacerbated by the number of costly historical buildings that are in the Council's estate and coastal erosion.	Assessment as to current state and options going forward is currently being undertaken.
RECR11	<a href="#">Lack of appropriate and effective business continuity plans in the event of a large scale emergency</a>	Medium to high (15)	26/01/16	3 - Possible	5 - Critical	Fran Hughes	In the event of a large scale emergency / catastrophe, the local authority needs to ensure that effective and appropriate business continuity plans are in place to mitigate against the impact of such an event.	SLT to ensure that Business continuity Plans are in place across the organisation and that future budget decisions take account of the resilience required to respond to emergencies.

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## Arms Length Organisations

### Strategic TOR2 Performance Indicators

A specific dashboard for TOR2 is being developed

### Strategic Torbay Coast and Countryside Trust Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Annual Target		Last period value
TCCT2	<a href="#">Value of grant funding generated against the proportion of the total income revenue</a>	It's better to be high	Well Below Target	0	30%	2014/15	24
TCCT5	<a href="#">Meeting the actions identified in the Annual Business Plan</a>	It's better to be high	On Target	80%	80%	2014/15	80%
TCCT10	<a href="#">Develop and agree a 3 year maintenance plan and maintain the buildings and landholdings in line</a>	It's better to be high	On Target	100%	100%	2014/15	100%

### Strategic Torbay Development Agency Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Quarterly Target	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Last period value
06	<a href="#">Number of inward investment enquiries received</a>	It's better to be high	On Target	51	30	5	21	29		29
EDCPI-001	<a href="#">0% variance from budget</a>	It's better to be low	On Target	0	0	0	0	0		0

Code	Title	Polarity	Status	Prev Year End	Annual Target		Last period value
BUSR018	<a href="#">Total jobs created</a>	It's better to be high	Well Above Target	125	150	2014/15	172
EDCPI-056	<a href="#">Income from Torbay Council let estate</a>	It's better to be high	On Target	3,296,385	£2,700,000	2014/15	£2,708,014
FE7	<a href="#">% Overall customer satisfaction</a>	It's better to be high	On Target	2%	5%	2014/15	5%

### Strategic Torbay Development Agency Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Description	Mitigation
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BURTDA-R-001	<a href="#">Business growth opportunities and diversification</a>	Medium to high (12)	15/01/16	3 - Possible	4-Major	Alan Denby	This is a strategic risk. Where reduced contract fee income from Torbay Council, a failure to secure income targets or other external factors inhibit the TDA's ability to deliver its business plan and/or other plans. This may have an impact not only on delivery of TDA activity but may also translate into other risks for our key client such as higher risk that we will not be able to stimulate business growth or maintain the Council's estates in an optimum condition	<p>Develop support structures for businesses.</p> <ol style="list-style-type: none"> <li>1. Develop Innovation centre programme.</li> <li>2. Work with Business Link and others to increase public sector business support availability and access in Torbay.</li> <li>3. Potential for more innovative solutions</li> </ol> <p>Develop investment programme</p> <ol style="list-style-type: none"> <li>1. Develop Inward investment programme,</li> <li>2. Identify public sector relocation opportunities,</li> <li>3. Develop skills and retraining opportunities</li> </ol> <p>Develop sector networks and links.</p> <p>Identification of business growth &amp; attraction of public money.</p>
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### Recovery Plan Template

All fields must be completed:

<b>Name and Number of Performance Indicator/Risk: RECPI07 Number of Data Breaches</b>	
<b>Definition of indicator/Background information: (Include current performance)</b>	
<p>Data breaches occur in the following instances relating to personal and sensitive information:</p> <ul style="list-style-type: none"> <li>• Loss</li> <li>• Inappropriate / unauthorised disclosure of information</li> <li>• Unauthorised access to information</li> <li>• Unauthorised destruction of information</li> </ul> <p>Examples can include:</p> <ul style="list-style-type: none"> <li>• Leaving a notebook with case notes in a meeting room / cafe / train</li> <li>• Sending a council tax bill to the wrong person</li> <li>• Telling someone who is not authorised to know information about someone else without that person's permission</li> <li>• Allowing a third party or unauthorised person to access information / a database</li> <li>• Looking up details of friends, family, neighbours out of interest</li> <li>• Sending an email to the wrong person, where it contains personal information</li> <li>• Loss of mobile devices such as iphones / ipads / PDAs which contain personal information</li> <li>• Throwing away paper records in a normal bin rather than confidential waste.</li> </ul> <p>The Council holds a significant amount of personal and sensitive information about our customers and staff and the potential impact of data breaches cannot be underestimated. Data breaches can potentially lead to damage and distress to an individual(s) in a number of ways. People can have their identities stolen leading to financial loss and there are areas of service where it is important for safeguarding reasons to ensure we are protecting personal data. The more information being processed by a department the greater the risk.</p> <p>In 2014/15 there were 23 data breach incidents reported across the Council.</p> <p>In the period April 2015 to February 2016 there have been 33 data breaches across the Council.</p>	
<b>Date of Recovery Plan:</b>	March 2016
<b>Why is this indicator/risk underperforming?</b>	
<p>It is difficult to know whether the increase between 2014/15 and 2015/2016 is due to a genuine increase in data breaches or whether it is due to staff being more aware of their responsibilities around data protection and the requirement to report breaches for an investigation to take place.</p> <p>Analysis of the breaches which have occurred over the last 10 months shows they have all been low risk and span across the Council.</p>	
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**What actions are required to put this indicator/risk back on track?**

- There are a number of information security policies already in place to protect information being stored electronically, these need to be reviewed.
- Data protection forms a part of staff induction even training.
- Staff and Councillors need to be reminded of their obligations under Data Protection Act, how to reduce the risk of a data breach and what to do in the event of a breach.
- Targeted training on processing information needs to happen across departments where there are higher risks.
- A regular review of the recommendations from data breach investigations takes place to ensure that they are being implemented.

<b>Key Actions to be taken:</b>	<b>Milestones (Dates):</b>	<b>Officer Responsible:</b>
Review of all 15 information security policies	March 2017	Jo Beer – Information Security Group
Regular staff communication on data protection	On-going	Jo Beer
Deliver training through induction events	On-going	Jo Beer / Information Compliance Team
Identify high risk areas for targeted training	June 2016	Jo Beer / Information Compliance Team
Deliver targeted training for high risk areas	March 2017	Jo Beer / Information Compliance Team
Regularly review recommendations from investigation reports.	On-going	Jo Beer / Information Compliance Team
<b>Approved by Director/Executive Head:</b>	Yes/No	
<b>Approved by SLT</b>	Yes/No	

Internal Audit

Internal Audit Plan 2016 -17

Torbay Council  
Audit Committee

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March 2016



Auditing for achievement

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<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<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 <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a> .</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

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state: “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.  
From April 2013, organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards (the 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.

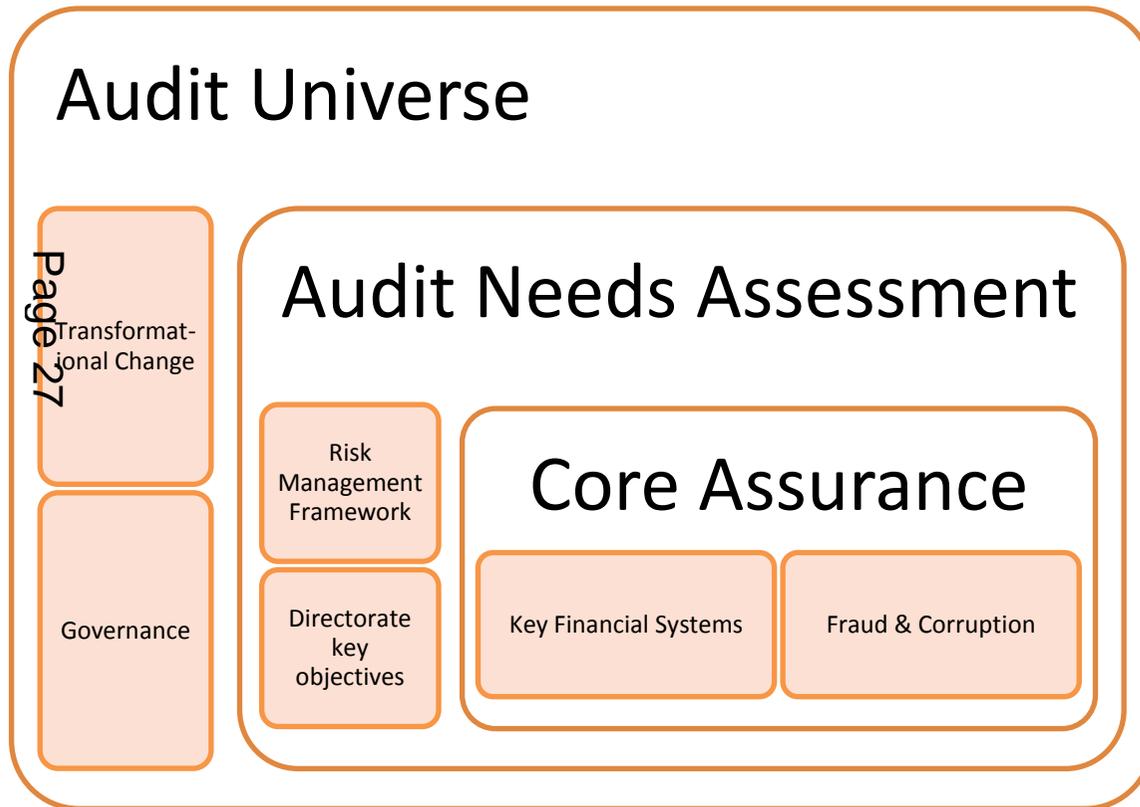
This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.



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 2016/17 is set out in the high level plan and Appendix 1

The audit plan for 2016/17 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

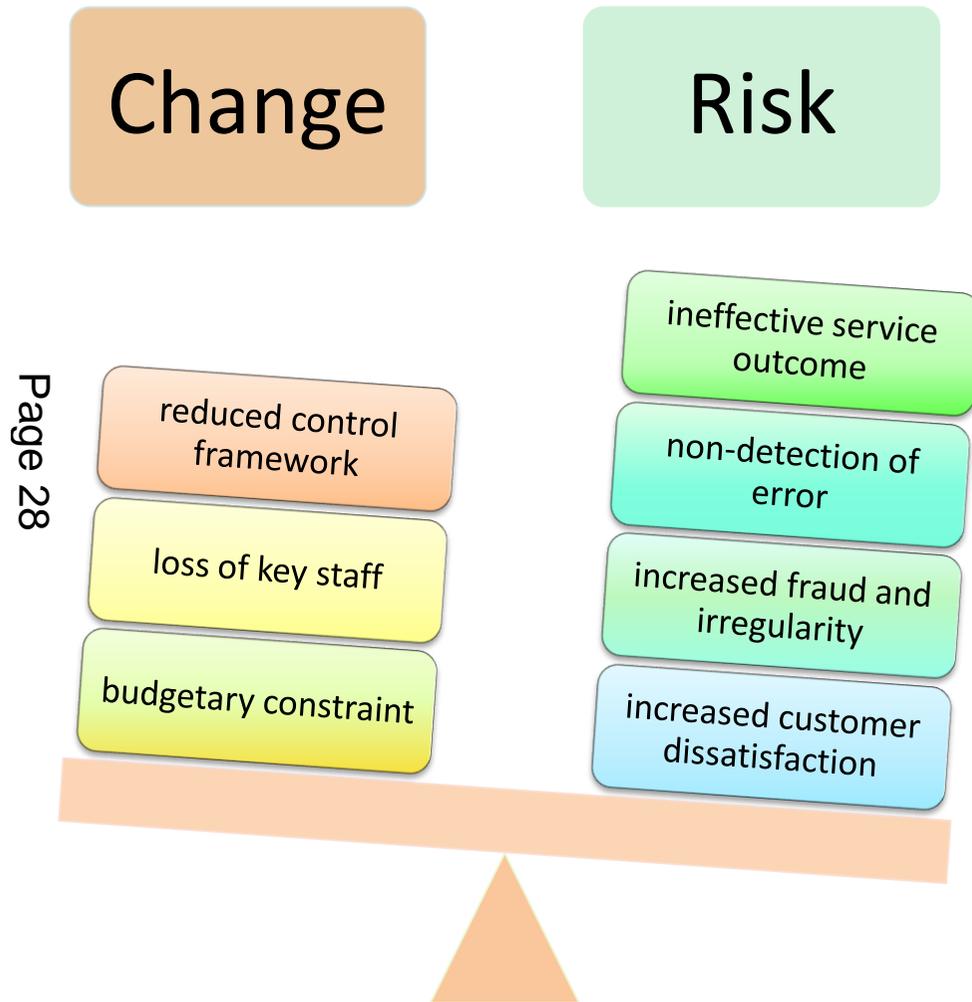
Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives

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



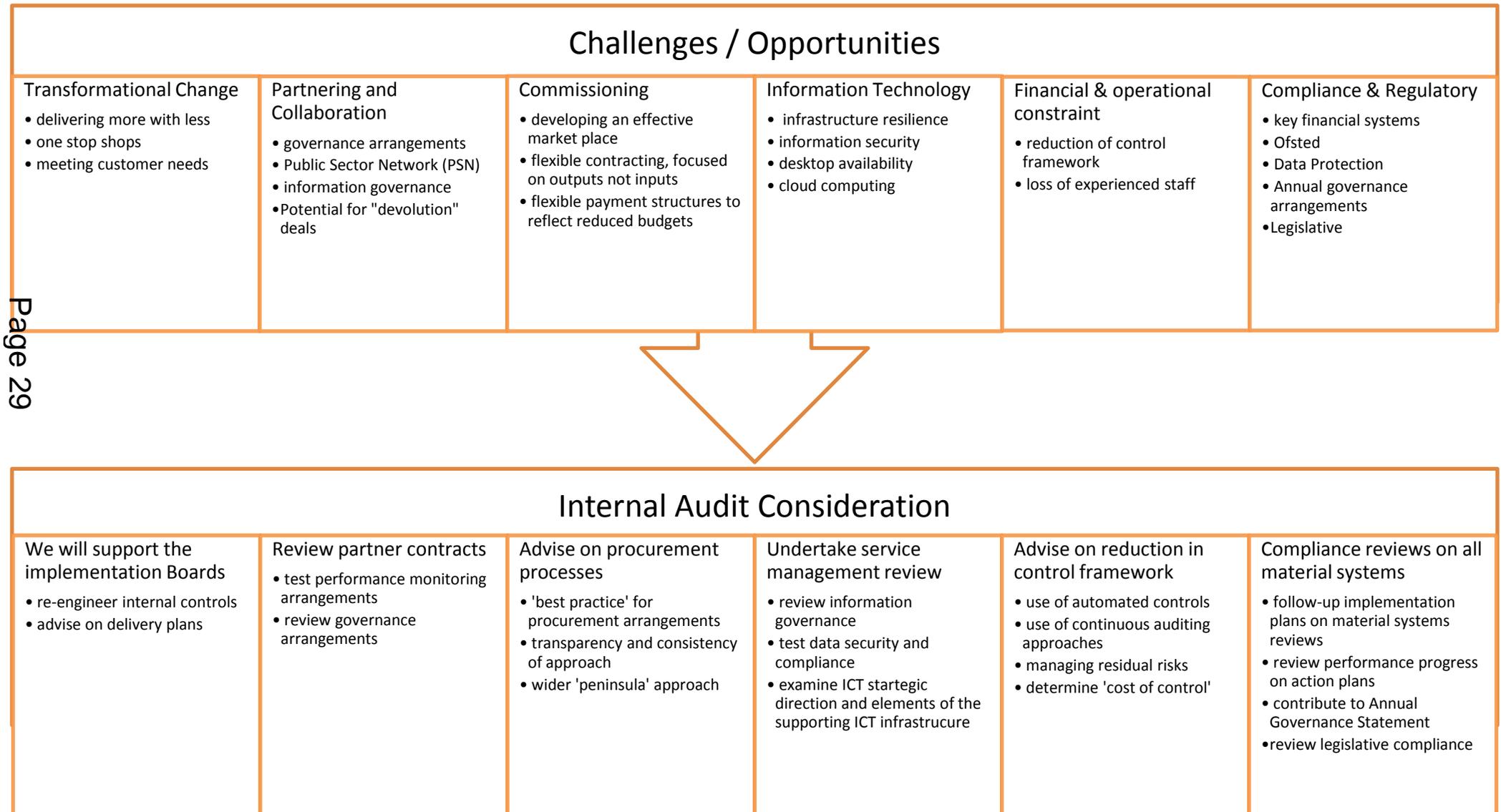
Times are changing; the expectation of the public for services provided by the public sector has never been greater; yet the money that is available for these services needs to be reduced. All public sector organisations are looking at how services can be transformed; what worked in the last decade may 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							Infrastructure / Business Projects	Value Added
Adults	Children's Services	Corporate & Business	Community & Customer	Public Health				
Care Act – Better Care Fund / Section 256 monies  (Adult Social Care audited by Audit South West)	PARIS 5 Year Savings Plan Safeguarding Referrals Care Leavers SEND * Transfer to ICO Schools incl. Financial Value Standard	Asset Management  Beach Services  Coroner Service	Waste & Cleaning Housing Services Concessionary Fares Transport Infrastructure Safer Communities Tor Bay Harbour Authority Velopark Library Service Crisis Support	Commissioned Services management and monitoring  0 -5 Activities (Health Visitors)		Transformation Programme  Payroll System  Corporate Printing  Cheque Printing  Public Toilets	Information Security Group  Fraud Prevention and Investigation National Fraud Initiative  Advice  Audit Follow Up	
<b>Business Processes &amp; Governance</b> – Commissioning & Performance Management, ICO Proposed Transfer, Children's Business System & Processes, Contracts & Contract Monitoring, Procurement, Emergency Planning & Business Continuity, Fair Decision Making, Ethics and Culture, Risk Management, Performance Framework, Corporate Debt, Grant Certification, and Audit Assurance Planning and Reporting.								
<b>Key Financial Systems</b> – 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.								
<b>ICT</b> – Continuity & Disaster Recovery, Service Strategy & Design, Information & Infrastructure Management, Change Management, PCI Compliance.								

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.

\* SEND = Special Education Needs & Disability

## High Level Audit Plan 2016-17

This table shows a summary of planned audit coverage for 2016/17 totalling 882 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.

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Core Activity for internal Audit Review	Coverage in Days
Adults	15
Children's Services	112
Community and Customer Services, including ICT	158
Public Health	20
Corporate and Business Services	138
Key Financial Systems	186
Anti-Fraud and Corruption including NFI	85
Other Chargeable Activities	168
<b>Total internal audit plan for Torbay Council</b>	<b>882</b>
Schools	30

# Service Level Plans

## Adults

Whilst the majority of assurance work is carried out by Health auditors (Audit South West), our work will review the implementation of the Care Act – Better Care Fund and related Section 256 monies. We will also examine arrangements for service commissioning and the associated performance management

## Children's Services

Work within Children's Services has been closely aligned to the outcomes of the recent Ofsted report. Our work will include a review of the 5 year savings plan, and examination of the business processes transition plan and its links to the savings plans and overall invest to save strategy. In addition, we will review the PARIS system and consider its use and suitability for case recording, data quality and performance monitoring. We will examine the Referrals process and its sufficiency to meet Ofsted recommendations, and similarly the arrangements for Care Leavers, along with an overarching examination of Safeguarding arrangements and SEND (special educational needs and disabilities). We will provide a 'critical friend' role in relation to the proposed transfer of Children's Services into the Integrated Care Organisation (ICO). Schools audit activity and compliance with Schools Financial Value Standards will be maintained.

## Public Health

Our work in Public Health will continue by examining the arrangements for contracts management and monitoring of the commissioned services generally. In particular, we will review the new commissioning of the 0 – 5 Activities (Health Visitors).

## Community and Customer Services

We will continue our work in relation to Waste & Cleaning in particular in relation to TOR2 commissioning, the Energy from Waste (EfW) partnership and the associated contract management and payment arrangements. We will follow up our earlier work in relation to Highways, Street Scene, Lighting and Transport Infrastructure and its associated recording in the UKPMS system, and our previous work in relation to the Discretionary Social Fund. The recent Ofsted report linked domestic violence as one cause in relation to children going into care, and we will therefore review arrangements within the Community Safety Partnership, focussing on the area of domestic abuse. We will review arrangements for Emergency Planning and Business Continuity including related project progress. In addition, we will examine service delivery arrangements in Housing Services following recent restructuring, operational functions in Library Services, administration in relation to the Concessionary Fares scheme, review the current position of the Velopark against the business plan, and be a 'critical friend' in relation to the ongoing Public Toilets project.

## Corporate and Business Services

We will support the authority in relation to the recent LGA (Local Gov. Association) Peer Review through a 'critical friend' role in arising projects as a result of the Transformation Programme, and in terms of examining the asset management strategy and the accessibility of budget documentation. We will continue to be involved in the new payroll modules implementation, fair decision making and ethics & culture projects as a 'critical friend'. Work will include the examination of Beach Services in relation to operational practices, and arrangements with the Coroner in terms of the service level agreement for the one coronial area and related charging practices. Work will also include examination of Risk Management and Risk Recording and the Performance Framework. In addition we will consider the Council's Procurement and Contracting arrangements generally, and specifically the Commissioning and Performance Monitoring by the Council of the Torbay Development Agency (TDA). To support the TDA, we will also undertake audit work in relation to their VAT returns and ISO structure.

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

We shall continue work with management to ensure that effective systems and governance arrangements are in place to manage the risks, as shown by our work in areas such as Fair Decision Making, Ethics & Culture, Risk Management, Performance Management, Commissioning, and Contracts Management.

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.

IT Audit activity will examine the strategic direction of ICT service delivery and a number of supporting key technical areas including service design, infrastructure management, information and change management. The resilience of ICT will be considered in a wider context within our ICT continuity and disaster recovery project. Compliance with relevant standards will be considered this year in relation to the authority's technical aspects of PCI (Payment Card Industry).

## Value Added and Infrastructure / Business Projects

The National Fraud Initiative this year will see the uploading of datasets covering a range of areas across the Council. This will result in the receipt of data matches in early 2017 which will then be reviewed. Proactive fraud work will be carried out in areas deemed to be of high risk. We will undertake the annual follow up on all audit areas identified as 'Improvements Required' or 'Fundamental Weaknesses' in 2015/16. A number of projects will be supported ranging from major infrastructure to operational system implementations.

## 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”, 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 Housing Benefit, Council Tax, Housing and Tenancy, Procurement, Insurance, Abuse of Position, Blue Badges, and Direct Payments (Social Care).

The Cabinet Office runs a national data matching exercise (National Fraud Initiative - NFI) every two years. Work to complete the 2015/16 Council Tax matches is planned for the first half of 2016/17. Work on the 2016/17 exercise will commence in the second half of the year, with resulting data matches available from early 2017, with relevant Council departments engaged with, to ensure that the matches are reviewed and action taken as may be necessary.

### Internal Audit Governance

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:-

- 3 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 2016/17
  - 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).

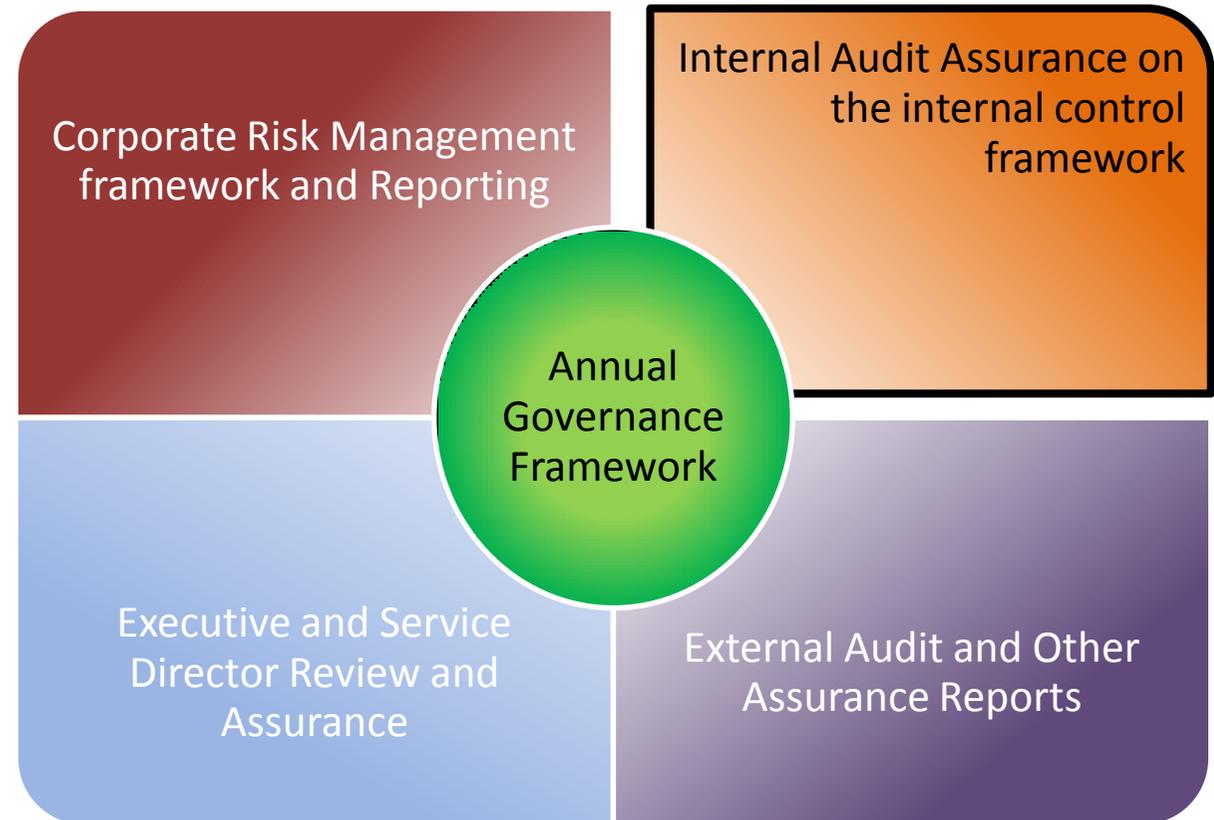
## Annual Governance Framework Assurance

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:-

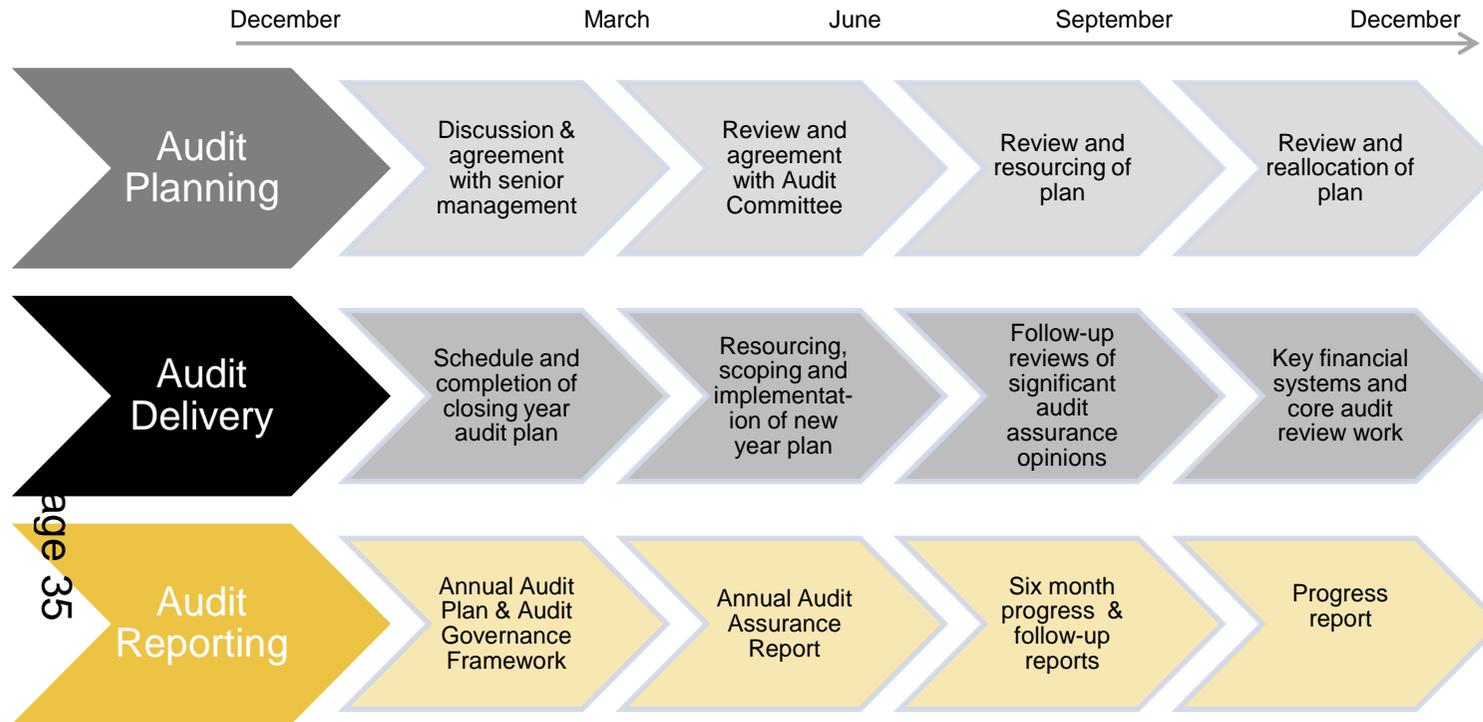
- be prepared by senior management and signed by the Executive Director and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- 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 2016	Directorate planning meetings
March 2016	Internal Audit Plan presented to Audit Committee
	Internal Audit Governance Arrangements reviewed by Audit Committee
	Year end field work completed
Apr / May 2016	Annual Performance reports written
June 2016	Annual Internal Audit Report presented to Audit Committee
	Follow –up work of previous year’s audit work commences
Sept 2016	Progress report to SLT & Audit Committee
Dec 2016	Follow-up and Six month progress reports presented to Audit Committee
	2017 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
<b>Adults</b>			
Care Act – Better Care Fund / Section 256 monies	ANA – critical, client request	5	2
Commissioning and Performance Management	ANA - high	10	2
Integrated Care Organisation (ICO) <ul style="list-style-type: none"> <li>o Care Assessment Process</li> <li>o Domiciliary and Day Care Payments</li> <li>o Transition from Children's Services</li> <li>o Financial Performance of related organisations</li> </ul>	Requested by the Director of Adult Services – to be delivered by Audit South West	n/a	n/a
<b>Children's Services</b>			
Proposed transfer of Children's Services into the Integrated Care Organisation (ICO)– 'critical friend' role	ANA – medium, client request	5	3-4
PARIS - Case Recording / Data Quality / Business Use	ANA – critical, Ofsted report	15	2
5 Year Savings Plan / Budget Strategy / Invest to Save	ANA – high, LGA review, client request	15	1
Business systems and processes and resourcing	ANA – high, client request	15	1
Contracts / Commissioning / Procurement, including Career South West	ANA – medium, client request	10	2
Safeguarding Unit and Board	ANA – critical, Ofsted, client request	10	3
Looked After Children - Referrals	ANA – medium, Ofsted	10	3
Care Leavers – Transition plans	ANA – low, Ofsted, client request	15	4
Special Educational Need – Ofsted framework	ANA – low, client request	10	4
Residual functions in Children's Services after transfer to ICO – organisational fit	ANA – medium, client request	5	4
School Financial Value Standard (SFVS)	n/a	2	1
Schools	Service bought by Schools – summary of findings provided in relation to Authority Controlled Schools	30	n/a

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
<b>Public Health</b>			
Commissioned Services – Contracts Management and Monitoring	ANA – high, client request	10	4
0 - 5 Activities (Health Visitors) Commissioning	ANA – medium, client request	10	3
<b>Community and Customer Services</b>			
Emergency Planning and Business Continuity	ANA - high	10	2
Waste & Cleaning – EFW Partnership payments and contract management, TOR2 commissioning	ANA – critical, client request	15	1
Housing Services	ANA – medium, client request	10	2
Concessionary Fares	ANA – high	8	1
Highways, Street Scene, Lighting and Transport Infrastructure – UK PMS System	ANA - high	15	1-2
Safer Communities – community safety partnership / domestic abuse	ANA – medium, Ofsted	10	3
Culture and Sport - Velopark	ANA – low, client request	5	1
Public Toilets project – ‘critical friend’ role	ANA - medium	5	1-4
Library Services	ANA – medium, client request	10	1
Discretionary Social Fund (Crisis Support)	ANA – high, client request	10	2
<b>Core Assurance – ICT</b>			
ICT Continuity and Disaster Recovery - project ‘critical friend’ role	ANA – critical	10	2
Service Strategy	ANA - critical	10	2
Service Design	ANA - critical	10	3
Corporate Information Management	ANA - critical	10	4
Infrastructure Management	ANA - critical	10	3
Change Management	ANA - high	5	3
PCI (Payment Card Industry) Compliance	ANA - high	5	4

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
<b>Corporate and Business Services</b>			
Fair Decision Making Process – project ‘critical friend’ role	ANA - high, client request	5	1-4
Ethics and Culture – project ‘critical friend’ role	ANA – medium, client request	5	1-4
Payroll System – New modules implementation project ‘critical friend’ role	ANA – critical, client request	8	1
Procurement and Contracting Arrangements	ANA – high, client request	10	2
Commissioning and Performance Monitoring by the Council of the Torbay Development Agency (TDA)	ANA – high, client request	10	2
Risk Management and Risk Recording	ANA – high, client request	5	1
Performance Framework, Consultation and Business Development	ANA – medium, client request	10	1
Beach Services	ANA – high, client request	10	2
Coroner Service	ANA – low, client request	5	1
Transformation Programme - project ‘critical friend’ role	ANA – critical, client request	45	1-4
Asset management strategy/plan	ANA – high, client request	10	3
Accessibility of budget documentation	ANA – medium, client request	5	1
<b>Torbay Development Agency (TDA)</b>			
<ul style="list-style-type: none"> <li>○ ISO structure</li> <li>○ VAT returns</li> </ul>	ANA – low, client request	10	1
<b>Core Assurance – Key Financial Systems</b>			
General Ledger (Main Accounting System)	ANA – medium	13	3
Creditors & Electronic Ordering (POP)	ANA – high	20	3
Debtors	ANA – high	15	4
Corporate Debt	ANA – medium	10	3
Bank Reconciliation	ANA – medium	7	4
FIMS Sys Admin	ANA – high	12	2

Risk Area / Audit Entity	Audit Needs Assessment	Proposed Timing	
		Days	Quarter
Asset Register	ANA – medium	7	1
Treasury Management	ANA – low	10	2
Payroll	ANA – critical	28	3
Benefits	ANA – medium	20	4
Council Tax and Non Domestic Rates	ANA – medium	20	4
IBS Open Sys Admin	ANA – high	12	2
Income Collection	ANA – medium	12	4
* From 2016-17 onwards, a slightly different rolling programme of audits will be adopted for material systems. Although the number of planned days for individual audits is likely to remain stable each year, the work programmes may differ, with each audit having varying amounts of system review, testing or a combination of the two. 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.			
<b>Value Added</b>			
Information Security Group	client request	5	n/a
Fraud Prevention and Investigation including National Fraud Initiative	client request	85	n/a
Grant Certification	client request	13	n/a
Advice	client request	18	n/a
Audit Follow Up	client request	14	2
<b>Other Activities (not incorporated above)</b>			
Carry forward (completion of previous year work)		48	n/a
Other activities (audit planning, support for audit committee, internal audit standards, customer service excellence, etc.)		70	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 2016)

#### 1 INTRODUCTION

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance.

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 The Council, the Chief Accountant 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 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 The 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 The 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 County Council - Internal Audit Performance Monitoring Targets 2016/17.

<b>Performance Indicator</b>	<b>Full year target 2016/17</b>
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.

<b>Task</b>	<b>Performance measure</b>
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'.*

The PSIAS require that an external assessment is carried out at least once every 5 years. We plan to have a further external assessment completed in November 2016

## **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 2016) includes:-

- 3 x CCAB qualified
- 6 x qualified IIA (including QICA – computer audit)
- 4 x studying for IIA
- 11 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 2016**

**Auditing for achievement**

## **TORBAY COUNCIL**

### **INTERNAL AUDIT CHARTER (March 2016)**

#### **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**

Accounts and Audit Regulations 2015 - section 2 (5) states:

"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

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 Chief Accountant 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.

These standards are further supported by the Local Government Application Note (LGAN) as issued by the Chartered Institute of Public Finance & Accountancy (CIPFA).

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 2015 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 Chief Accountant '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 Chief Accountant '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. These set 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 2016**

**Auditing for achievement**

# The Audit Plan for Torbay Council

Year ending 31 March 2016

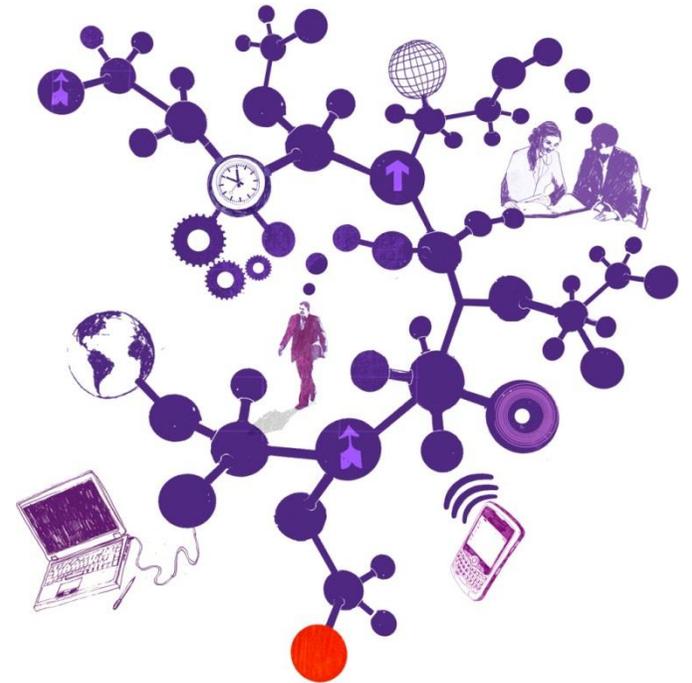
March 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect 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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March 2016

Dear Members of the Audit Committee

**Audit Plan for Torbay Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Torbay Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Alex Walling  
Engagement Lead

**Chartered Accountants**

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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.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- Despite identifying savings of £10m in the 2016/17 budget process, a further £20m of savings need to be identified over the next four years

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- The Council is part of the Devolution for the Heart of the South West, which submitted a devolution statement of intent in September 2015 and its Devolution Prospectus in February 2016.

### 3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.

### 4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- The Council are in partnership with South Devon and Torbay CCG to commission services from Torbay and South Devon NHS FT, which is an Integrated Care Organisation following the merger of the community and acute provider Trusts.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other councils are responding to these changes.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements.

- The Council has a good track record of producing its accounts early and an early audit start date in June has been agreed with officers.
- We aim to complete all substantive work in our audit of your financial statements, report our findings to the Audit Committee on 27 July 2016 and issue our audit opinion by 31 July 2016.

# Developments and other requirements relevant to your 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 and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

### 4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- The Council commission services in partnership with South Devon and Torbay CCG from Torbay and South Devon NHS FT.

## Our response

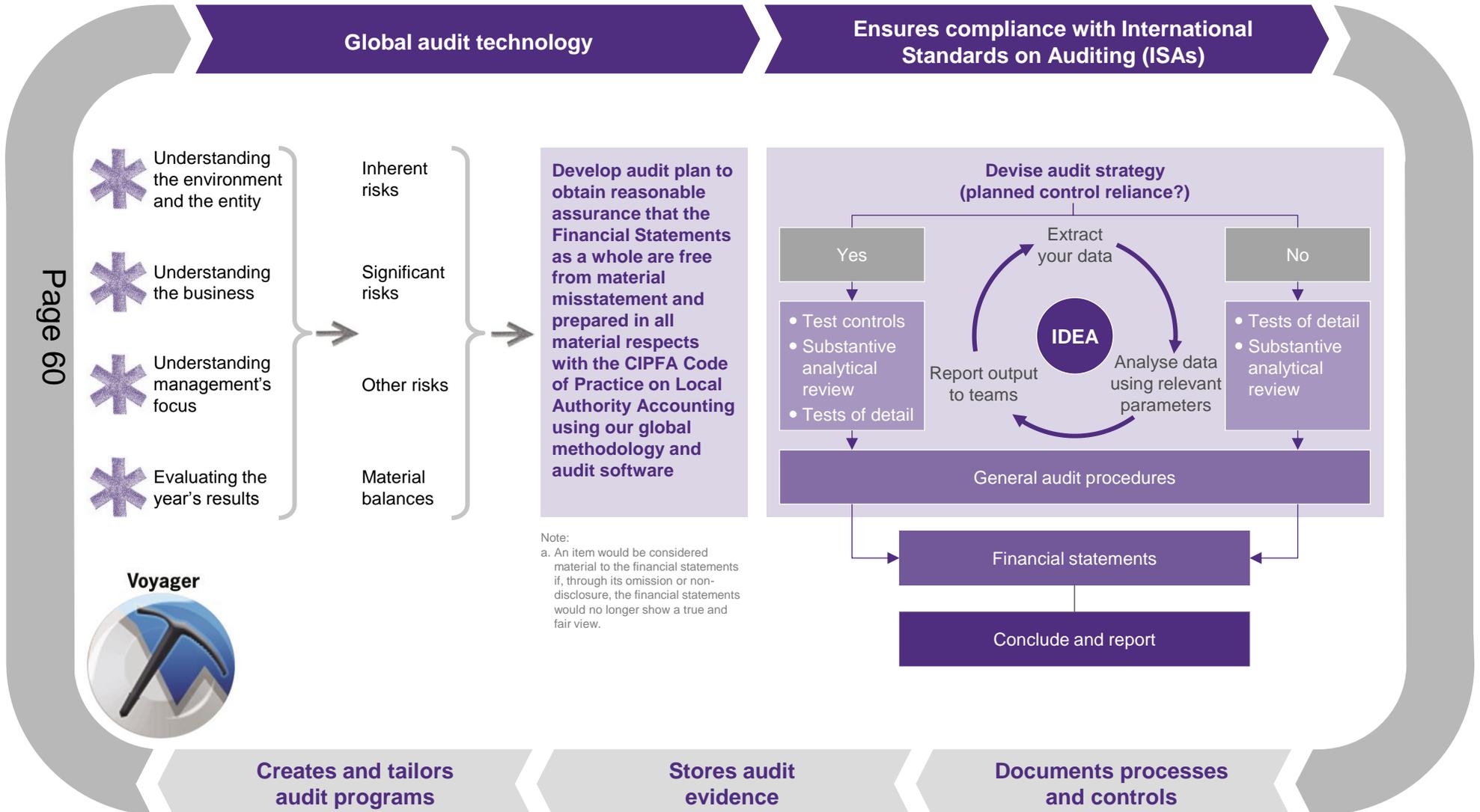
- We will continue to keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will continue to have early discussions with you, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

# Our audit approach



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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £5,675k (being 1.95% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £284k.

ISA 430 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k

# 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Torbay Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for months 1 to 9.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for month 10 onwards.</li> <li>• Review of unusual significant transactions</li> </ul>

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## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Valuation of property, plant and equipment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 63</p>	<p>The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<p>New PFI Scheme</p>	<p>The Council is in partnership with Devon County Council and Plymouth City Council in an Energy from Waste (EfW) PFI scheme.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will gain an understanding of the transactions including a review of supporting documentation to form a view on the proposed accounting treatment for the scheme.</li> <li>• We will ensure that accounting entries in the financial statements are consistent with our understanding of supporting documentation and with the requirements of the CIPFA Code of Practice.</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

# 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 (UK & Ireland) 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
<p>Operating expenses</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 65</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for operating expenses.</li> <li>• Completion of a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• Documentation of the processes in place for year end accruals.</li> <li>• Early substantive testing on a sample of operating expenses up to December 2015</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Completion testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period.</li> <li>• Cut off testing of expenditure, including a review of payments made after the year end to identify unrecorded liabilities.</li> <li>• Review of estimates, judgements and decisions made by management for unusual and large accruals.</li> </ul>
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for Employee Remuneration.</li> <li>• Completion of a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• Review of monthly trend analysis of employee costs from April 2015 to December 2015 to identify any unusual or irregular movements.</li> <li>• Early substantive testing on a sample of employees covering the period April 2015 to December 2015.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Completion of our substantive testing of employees for accuracy of payment and the agreement of employee remuneration disclosures to supporting documentation.</li> <li>• Review of the year end payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements.</li> <li>• Review of monthly trend analysis of employee costs from January 2016 to March 2016 to identify any unusual or irregular movements.</li> </ul>

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# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include :

- Property, plant and equipment
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Resalable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Value for Money

## Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*Page 66*  
*For all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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# Value for Money (continued)

## **Risk assessment**

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

*A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Ofsted inspection of children's services</b> Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>We will review the action being taken by the Council in response to the issues in the Ofsted report. We will review update reports from Ofsted as they become available and take these into account in forming our conclusion.</p>
<p><b>Medium term financial planning</b> The Council's Medium Term Resource Plan (MTRP) shows that the Council needs to identify further savings in the region of £20m over the next four years. This is after finding £10m of savings in the 2016/17 budget.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review the Council's latest MTRP and the 2016/17 budget, considering the assumptions that underpin the figures within them. We will also review the 2015/16 savings achieved against those originally planned.</p>
<p><b>Partnerships</b> The Corporate Peer Challenge (CPC) by the Local Government Association (LGA) in late 2015 noted that there are a range of progressive and inspiring partnerships, but also that many partners were disillusioned by the lack of common purpose and felt constrained. The Council is working with partners from different organisations and service areas with potentially conflicting priorities.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring its partnerships. We will also review actions being taken by the Council in response to the CPC report.</p>
<p><b>Informed decision making</b> The CPC report raised issues around the Council's decision making and recommended that more effective working practices are implemented in respect of transparency and political decision making.</p>	<p>This links to the Council's arrangements for a properly constituted and documented governance structure.</p>	<p>We will review the Council's response to the CPC report, discuss the findings with senior management and consider any actions being planned.</p>

## Reporting

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

We will include our conclusion as part of our report on your financial statements which we will give by 30 July 2016.

# 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	Conclusion
<b>Internal audit</b>	We have also reviewed internal audit's findings on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work findings have not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
<b>Review of information technology controls</b>	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 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.
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's 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 by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

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## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	<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 nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work to date has not identified any weaknesses which are likely to adversely impact on the Council's control environment or financial statements. We will complete our detailed testing on journal transactions recorded for the remaining months of the financial year as part of our financial statements audit.</p>
<b>Early substantive testing</b>	<p>We have undertaken early substantive testing of employee remuneration, operating expenses and welfare benefits.</p>	<p>Our work to date have not identified any issues which we wish to bring to the Council's attention. We will complete our sample testing and ensure that related disclosures are appropriate as part of our financial statements audit.</p>

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# Key dates



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<b>Date</b>	<b>Activity</b>
January 2016	Planning
January & March 2016	Interim site visit
23 March 2016	Presentation of audit plan to Audit Committee
June 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with Chief Finance Officer
27 July 2016	Report audit findings to those charged with governance (Audit Committee)
July 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	102,053
Grant certification	7,954
<b>Total audit fees (excluding VAT)</b>	<b>110,007</b>

## 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
- 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.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- 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 £
<b>None</b>	<b>Nil</b>

## 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 requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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

The plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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 issues 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		✓

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# Audit Committee Update

## Torbay Council

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Year ended 31 March 2016  
23 March 2016

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

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you; and

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

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- Aboard? our local government governance review 2015
- Knowing the ropes: Audit Committee effectiveness review
- Reforging local Government: financial health and governance review 2015

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

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# Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<p><b>2015-16 Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p>	March 2016	Yes	The Audit Plan is on the agenda of this meeting.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	Jan – March 2016	In progress	The first stage of our interim audit was in January 2016. The results of that work are reported in the Audit Plan. The second stage of our interim audit is in progress and any significant findings will be reported in the next Audit Committee update report.
<p><b>2015-16 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June – July 2016	Not yet due	<p>Our final accounts audit is due to start on 6 June 2016 and we will bring our Audit Findings Report to your meeting on 27 July 2016.</p> <p>We will continue to have regular discussions with officers on emerging financial issues</p>

# Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion: <i>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties.</li> </ul> <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p>	<p>March - July 2016</p>	<p>In progress</p>	<p>We have carried out an initial risk assessment to determine our approach and this is reported in our Audit Plan.</p> <p>Our work will be reported in the Audit Findings Report to the July meeting of the Audit Committee.</p>

# Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<b>Annual Audit Letter</b> A summary of all work completed as part of the 2015/16 audit.	September 2016	Not yet due	
<b>Other areas of work</b> <ul style="list-style-type: none"><li>Housing Benefits Subsidy Claim</li><li>Teachers' Pension return</li></ul>	Sept – Nov 2016	Not yet due	
<b>Other activities</b> <ul style="list-style-type: none"><li>Our annual financial statements workshops, run in conjunction with CIPFA were held in February and March. Torbay officers attended the Exeter event on 17 February 2016.</li><li>We held a half day seminar in Taunton on 11 February 2016 on building a successful local authority company. Torbay officers were invited to the event but were unable to attend on the day.</li></ul>			

# CFO Insights– driving performance improvement

## Grant Thornton and CIPFA Market insight

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

We are happy to organise a demonstration of the tool if you want to know more.

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# Innovation in public financial management

## Grant Thornton Insight

In December 2015 we issued our report *'Innovation in public financial management'* which can be found On our website at:

<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

This report draws on a survey of almost 300 practitioners worldwide and includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

**Changing practices.** Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

**The right PPP formula.** 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

**Transparency with technology.** Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

**The new normal.** Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.



# Accounting for the Better Care Fund and Pooled Budgets

## Grant Thornton

As the Government's service integration and devolution agenda's progress, the level of joint working between NHS bodies and councils, including the use of pooled budgets is increasing. One example of this is the Better Care Fund (BCF) which became operational on April 1 2015 with a baseline allocation to CCGs for 2015/16 of £3.46bn.

In many areas, including the South West, the value of funds committed to pooled budgets is highly material so it is important that both CCGs and councils get the accounting right.

Our sector intelligence indicated that practitioners across both the health and Local Government sector wanted further guidance on accounting for pooled budgets, including the BCF.

Grant Thornton ran a free seminar on 13 January 2016 considering the accounting issues around the BCF and Pooled Budgets. It was attended by 35 finance officers from councils and CCGs in the South West (including officers from Torbay Council). By bring representatives from both sectors together it was possible to facilitate a consistent approach to accounting. If the accounting is not consistent it could lead to material errors within accounts and also between bodies which would create difficulties with the NHS agreement of balances exercise and whole of government accounts.

The actual accounting approach is dependent on the detail of the local agreements and the operation of the funds. The seminar considered:

- relevant accounting standards
- the nature of controls and the impact on the accounting treatment
- accounts disclosure requirements; and
- the approach to auditing the funds

The seminar ended with a session on action planning.



# Website re-launch

## Grant Thornton

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below -  
<http://www.grantthornton.co.uk/en/insights/?tags=local-gov&q=sustainable+communities>



# CIPFA reports and publications

## Local Government Issues

### Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1<sup>st</sup> April 2017 and larger local government bodies a year later, on 1<sup>st</sup> April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31<sup>st</sup> December 2016 and larger principal authorities by 31<sup>st</sup> December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

### Better Care Fund

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA) have issued a joint report examining the progress that has been made six months into the implementation of the government's £5.3bn Better Care Fund (BCF) arrangements. While the report points out that the fund has already begun to produce improved working relationships between NHS bodies and local public services, it highlights that more needs to be done to ensure the success of the BCF. The report is based on the results of a CIPFA and HFMA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites, and is available from the CIPFA website - <http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape>.

# Accounts - public rights of inspection and challenge

## Local Government issues: National Audit Office

### Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

### Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15<sup>th</sup> July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

# The Care Act and New Burdens

## Local Government Issues: Public Accounts Committee Report

Further to the NAO reports on *Care Act first-phase reforms* and *Local government new burdens* both published in June 2015, and the hearing of the Public Accounts Committee (PAC) in October 2015 on the combined topics, the PAC has now published its report on the matter. The PAC report considers the additional cost burdens on, and uncertainty for, local councils. It also considers the government's ability to identify and respond to councils that are struggling.

Its main findings are as follows:

- following the decision to delay the second phase of the Care Act, there are concerns that people will have to pay more for their care for longer before the cap on care costs is implemented. However, as the government have announced that they will not claw back the £146m of funding that it provided to councils in 2015/16 to prepare for the second phase, local authorities will not have the financial burden that was anticipated
- the DCLG have failed to adequately identify and assess new burdens on local authorities and consider their impact, creating significant uncertainty for local authorities. Councils are faced with 'unfunded pressures' which are making it 'more difficult for them to meet their statutory duties and will increase pressure on council tax'
- The report calls for the Spending Review and annual finance settlements for local authorities to 'take full account of the many cost pressures local authorities face, whether or not they meet the government's definition of a new burden'. Funding must be monitored to ensure that vulnerable people do not lose out

The full report can be found at <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/publications/>

# Results of auditors' work 2014/15

## Public Sector Audit Appointments

Following the closure of the Audit Commission on 31<sup>st</sup> March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services. The Audit Commission previously published Auditing the Accounts reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies. This is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principle bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*.

- for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30<sup>th</sup> September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30<sup>th</sup> September 2015.
- for the second year in a row there have been no qualified opinions issued to date to principal bodies.
- the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

# IFRS 13 'Fair value measurement'

## Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

# Highways Network Asset

## Accounting and audit issues

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset from 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available.

# Unlodged non-domestic rate appeals

## Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.



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