



Tuesday, 10 January 2017

AUDIT COMMITTEE

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

Wednesday, 18 January 2017

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 O'Dwyer (Vice-Chair)

Councillor Stocks

Councillor Darling (S)

Councillor Barnby

A prosperous and healthy Torbay

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

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AUDIT COMMITTEE AGENDA

1. **Apologies**
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 4 - 6)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 23 November 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. **Treasury Management Strategy 2017/18 (incorporating the Annual Investment Strategy 2017/18 and the Minimum Revenue Provision Policy 2017/18)** (Pages 7 - 33)
To consider a report that sets out the Treasury Management Strategy.
6. **Internal Audit Half Year Report 2016/17** (Pages 34 - 67)
To consider a report that sets out the current position of the audit service provision.
7. **Performance and Risk Report October and November 2016** (Pages 68 - 89)
To consider a report on the above.

- 8. Decision to opt in to the national scheme for Auditor Appointments with Public Sector Audit Appointment as the 'Appointing Person'** (Pages 90 - 95)
To consider a report that sets out the proposals for appointing the external auditor to the Council.
- 9. Certification work for Torbay Council for year ended 31 March 2016** (Pages 96 - 98)
To consider a paper on the above.
- 10. Audit Committee Update Year ended 31 March 2017** (Pages 99 - 117)
To consider a paper that provides an update on progress in delivering Grant Thornton's responsibilities as the Council's external auditors.



Minutes of the Audit Committee

23 November 2016

-: Present :-

Councillor Tyerman (Chairman)

Councillors Barnby, Bent, Darling (S), O'Dwyer (Vice-Chair) and Stocks

64. Minutes

The Minutes of the meeting of the Audit Committee held on 7 September 2016 were confirmed as a correct record and signed by the Chairman.

65. Follow Up Report on Areas Requiring Improvement

Members of the Audit Committee considered a report that provided an update on progress made in areas that had previously been deemed as requiring improvements. The progress made in some areas meant the previously identified risks are being minimised or mitigated where appropriate. However the lack of progress made in certain action plans had resulted in a number of the risks previously identified and highlighted to management continue to remain. The Head of the Devon Audit Partnership informed Members that there remained three areas where progress had been limited:

- Corporate debt
- ICT Change Control
- ICT Hosted Systems

The Head of the Devon Audit Partnership advised Members, that it was understood that the limited resources in IT affects the ability to deliver some of the recommendations in the audit reports, which indirectly could affect the delivery of IT elements of the Council's Transformation Programme.

Members felt such issues should be considered and highlighted to Members when considering the budget for 2017/2018, and requested the Chairman on behalf of the Audit Committee write a letter raising these issues with the Chairman of the Overview and Scrutiny Board.

66. Update on the Audit of Section 106 and progress on the implementation of the Community Infrastructure Levy

The Audit Committee noted the report and requested a further update in six months on the establishment of the central service that would provide an overarching monitoring process.

67. Senior Leadership Team response to Appendix A: Action Plan of the The Audit Findings for Torbay Council

Members noted the report and that the response to the recommendation was shared by the wider Senior Leadership Team. Mark Bartlett from Grant Thornton advised that as the Council's external auditors he was satisfied that the Council had considered the risk and were entitled to accept the risk regarding the recommendations set out in Appendix A: Action Plan of the Audit Findings for Torbay Council.

68. Performance and Risk Report August and September 2016

The Policy, Performance and Review Manager informed Members that the Senior Leadership Team had requested the Assistant Director of Community and Customer Services to review the 'numbers on the housing waiting list by Band A' and 'numbers on the housing waiting list by Band B' performance indicators as both were recorded as being well above target.

Members were also informed that the Senior Leadership Team were monitoring 'residual household waste per household'. Members queried whether this rise was linked to the problem with TOR2 having to sort waste at the depot rather than at the curb side. The Policy, Performance and Review Manager advised Members that the performance indicators were for the previous quarter with impact of TOR2's difficulties still to filter through.

Members were further informed that the Senior Leadership Team considered it appropriate for the 'reduction of police funding and possible cost shunt to the council' to remain as a high risk as police reductions could still impact upon the Council.

Members referred to the 'Promoting Healthy Lifestyles' performance indicators and how these indicators could assist Members when considering the budget proposals for 2017/18 as the indicators show that Torbay is performing less favourable than national norms. Members requested these performance indicators also be drawn to wider Members attention and included in the letter referred to in Minute 65 above.

Members noted that the 'risk of inadequate maintenance and repairs of our council assets due to reducing budgets', was listed as high on the risk register with an impact score of '4-major' was also an area that would be subject to a budget reduction. Members requested this also be drawn to Members attention and included in the letter referred to in Minute 65 above.

69. The Annual Audit Letter for Torbay Council

Members noted the Annual Audit Letter for Torbay Council, provided by Grant Thornton the Council's external auditors. Members were informed that the Annual Audit Letter summarises the key findings arising from the work that Grant Thornton had carried out at Torbay Council for the year ended 31 March 2016.

Alex Walling, Engagement Lead for Grant Thornton informed Members that following work on the Council's financial statements they provided an unqualified opinion on 28 July 2016, a credit to the Finance Team as the timetable was a week earlier than in 2014/15 enabling an early audit start date of 6 June 2016.

Alex also advised Members that they had issued a qualified value for money conclusion having been satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016 except for the matters reported in the Ofsted report on the Council's Children's Services issued in January 2016. Having concluded that these matters were weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance management information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities. Therefore a qualified value for money conclusion was issued on 28 July 2016.

70. Audit Committee Update for Torbay Council

Members noted the report that detailed progress Grant Thornton had made in delivering their responsibilities as the Council's external auditor.

71. External Audit Appointment Update

Members received a verbal report from the Chief Finance Officer, Members were advised that an invitation to join the Public Sector Audit Appointments Limited (PSAA) had been received. If the PSAA was the preferred method a decision by full council would be required, Members noted that the wider Devon authorities were joining PSAA. If the Council made their own appointment the decision would rest with the Chief Finance Officer following a procurement exercise. The Chief Finance Officer advised that a further report would be presented in January 2017.

Chairman/woman



Meeting: Audit Committee

Date: 18 January 2016

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2017/18 (incorporating the Annual Investment Strategy 2017/18 and the Minimum Revenue Provision Policy 2017/18)

Is the decision a key decision? Yes

Executive Lead Contact Details: Mayor Gordon Oliver, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

1. Proposal and Introduction

- 1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2017/18 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in February 2017.

2. Reason for Proposal

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25 March 2010.
- 2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 2.4 Under Department for Communities and Local Government regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

forward thinking, people orientated, adaptable - always with integrity.

3. Recommendations

3.1 That the Audit Committee provide any comments and/or recommendations on the proposed:

- Treasury Management Strategy for 2017/18 (incorporating the Annual Investment Strategy 2017/18);
- the Prudential and Treasury Indicators 2017/18; and
- the Annual Minimum Revenue Provision Policy Statement for 2017/18 as set out in the Appendix to this report.

4. Treasury Management Strategy

4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.3 Currently the Council's approved capital plan has a borrowing requirement of approx £80 million which will have a significant impact on the Treasury management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult. **It should be noted that this report is based on the Council's approved capital plan as at Quarter Two of 2016/17. The final version of this Treasury Management Strategy to Council in February will be updated to include the position as at Quarter Three plus any significant capital activity by end of January 2017.**

5. Prudential and Treasury Indicators

5.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The proposed indicators for 2017/2018 are set out in Appendix 1 to the Treasury Management Strategy.

6. Minimum Revenue Provision (MRP) policy statement

6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy was updated in the mid year review report presented to Council in September 2016.

6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.

- 6.3 The MRP policy for 2017/18 incorporates the option of not applying an MRP where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future. The capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to assess any reduction in value. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five years.
- 6.4 The recommended MRP Policy for 2016/17 is set out at Appendix 2 to the Treasury Management Strategy.

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February 2017

DRAFT Treasury Management Strategy 2017/18

incorporating the Annual Investment
Strategy and the Minimum Revenue
Provision Policy

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1 Introduction

The Council defines its treasury management activities as:

“The management of the authority’s investments and cash flows, it’s banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Strategy for 2017/18 covers two main areas:

- Treasury management issues
 - the current treasury position;
 - treasury indicators which limit the treasury risk and activities of the Council;
 - prospects for interest rates;
 - the borrowing strategy;
 - the Annual Investment Strategy;
 - policy on use of external service providers;
 - reporting arrangements and management evaluation
 - other matters

- Capital issues
 - the capital plans and the prudential indicators;
 - the minimum revenue provision (MRP) policy.

2 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

The table below includes the impact of the approved capital plan (as at quarter two 2016/17) but makes no assumption at this stage on the timing or level of borrowing required. However the forecast shows that by the end of 2019/20 the Council will need to borrow in excess of £56 million, (assuming £10m of core funds are used to support capital expenditure).

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Reserves	29.7	20.2	15.7	14.6	15.0
Capital Funding	4.0	5.0	5.0	5.0	5.0
Provisions	3.0	2.0	2.0	2.0	2.0
Other	2.3	0.0	0.0	0.0	0.0
Total "core" funds	40.0	27.2	22.7	21.6	22.0
Working capital*	7.4	0	0	0	0
(Under)/over borrowing	7.2	(3.9)	(31.7)	(48.3)	(66.3)
Expected investments	54.6	23.3	(9.0)	(26.7)	(44.3)

* Working capital balances shown are estimated year end; these may be higher midyear and assume advance to TOR2 is reoccurring.

3 Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the Bank of England Monetary Policy Committee (MPC) meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

An economic commentary provided by Capita Asset Services is provided at Appendix 3 for information.

4 Borrowing

4.1 The current borrowing position

The Council's treasury portfolio position at 31 March 2016, with forward projections (excluding new borrowing requirements) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	138.1	138.1	138.1	134.1	132.1
Expected change in Debt	-	-	(4.0)	(2.0)	0.0
Other long-term liabilities – School PFI	7.9	7.4	6.8	6.2	5.6
Other long-term liabilities – EFW PFI	12.3	12.2	12.1	11.9	11.7
Actual gross debt at 31 March	158.3	157.7	153.0	150.2	149.4
The Capital Financing Requirement	151.1	161.6	184.7	198.5	215.7
(Under) / over borrowing	7.2	(3.9)	(31.7)	(48.3)	(66.3)

4.2 The Borrowing Strategy

The Council's Capital Investment Plan at quarter 2 is detailed within the Prudential Indicators at Appendix 1. This plan and the impact on core cash, outlined in section 2 indicate the need to borrow £66 million of new funds over next four years to ensure that gross debt is in line with CFR. If the profile of capital spend changes, the in year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

The strategy for 2016/17 anticipated new borrowing of up to £15million to finance capital expenditure in year. Interest rates for borrowing levels have since, post "Brexit" referendum, risen sharply and are forecast to increase slowly later in 2017.

It is proposed to use existing cash resources to initially fund planned capital expenditure in order to delay the additional cost to the General Fund until income streams are realised. Under this strategy new borrowing is not anticipated, based on the 2016/17 quarter two position, until 2017/18 when up to £20 million could be needed to maintain sufficient cash resource.

Consideration will be given to taking up to 50% of the medium term borrowing on an Equal Instalment of Principal (EIP) basis as a "hedge" against a proposed policy of no MRP on Investment Fund acquisitions where the future sale of that asset is planned. Capital repayments of these loans would be met from existing MRP provisions.

The budget for payment of interest on debt for 2017/18, assuming new borrowing provision detailed above, is based on an overall borrowing rate of 4.30% (4.34% in 2016/17).

In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer will vary the strategy outlined above and take a proportion of the borrowing requirement earlier. The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council

can ensure the security of such funds. No borrowing in advance will be made in relation to any capital project funded from borrowing until individual schemes have been approved by Council and there is a high assumption of spend occurring.

Council approved in September 2016 to investigate the option of a council owned housing company with a potential capital investment or loan by the Council up to £60 million based on the outline business case. The impact of a proposed Housing Company on the borrowing requirement will be evaluated separately as and when any future approval for such a company is set by Council and financing details are clearer.

Treasury Indicators for limits to borrowing activity are published within Appendix 1 to this report.

5 Annual Investment Strategy

5.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). **The Council's investment priorities will be security first, liquidity second, and then return.**

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings. The creditworthiness policy adopted is detailed at Appendix 4.

A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

Investment instruments identified for use in the financial year are listed at Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

5.2 Investment strategy

Investment rates are forecast to remain at low levels during 2017/18.

Expected core cash levels are likely to decrease significantly over the period as internal resources are used to initially fund income generating capital schemes.

Previous investment decisions have locked out £12 million of funds beyond 2017/18 to gain higher returns (average 1.07%). A further decision was made to pay £10million to TOR2 in advance of 12 months contracted fees, to earn a significant discount.

Remaining cash will be required in year and as such investments are expected to be limited to short 3 or 6 month durations and instant access instruments to maintain sufficient liquidity. The expected return on these investments is unlikely to exceed 0.3%

The Agreement with the external fund manager is due to be terminated by mutual agreement before the end of 2016/17. The Council will retain direct access to the enhanced money market fund provided by Aberdeen Asset Management which is forecast to return 0.70% - 0.90% during 2017/18.

Consideration will continue to be given to diversifying an element of the fund holding into a Property Fund if forecast rates are advantageous, in particular compared to costs of borrowing and, importantly, if the timing of the expenditure in the capital plan funded from borrowing permits. The current and proposed Investment Strategy has an approved limit in property funds of £10 million. Officers will continue to monitor performance and associated risks and any such investment will be made by the Chief Finance Officer under existing authority.

Officers will continue to expand the Council's exposure to peer to peer lending up to the approved limit. An analysis of the current performance of the Funding Circle holding is produced in the following table.

Funding Circle (peer to peer lending) to December 2016		
Total Investment		£225,000
No. of loan parts		1103
Bad debts written off		£2,445.46
Bad debts as a proportion of principal invested		1.09%
Expected bad debt rate of portfolio		1.73%
	<u>2016/17</u>	<u>Whole Life</u>
Interest earned	£12,125.63	£14,491.43
Average principal	£143,800	£176,400
Gross yield	8.46%	8.38%
Return net of fees and bad debts	6.30%	6.28%
<u>Risk Analysis</u>		
Proportion of secured/unsecured loans		
- Secured		55%
- Unsecured		45%
Proportion of loans by credit rating		
- A+		71%
- A		21%
- B		6%
- Downgraded		2%

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at 0.79%

The limits per counterparty are for the principal value only, therefore at a point in time any interest due would be in addition the limit; however as with fund manager and peer to peer lending, interest is repaid on a regular basis.

Investment treasury indicator and limits are published within Appendix 1 to this report

6 Treasury Management Consultants

Capita Asset Services was reappointed as the Council's external treasury management advisors for three years from February 2016, following a full tender process.

The Council acknowledges that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

7 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2017/18 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing/repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Appendix 1). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Finance Manager-Budget & Technical, Executive Lead for Finance and Group Leaders
- Quarterly meeting of the Treasury Manager/ Finance Manager-Budget & Technical/ Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in the Capita Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

8 Other Matters

8.1 Loans to organisations

The Council has provided loans or loan facilities to the following organisations. These are policy decisions and not part of the treasury management strategy except for identifying any impact on cash balances:

Organisation	Current Value of loan	Full Term of Loan	Rate
Torbay Economic Development Company*	£575,000	25 years	Linked to Council borrowing Rate
Torbay Economic Development Company	£1,480,298	25 years	Linked to Council borrowing Rate
Academy Schools	£130,000	3 to 7 years	Linked to Council borrowing Rate
Babbacombe Cliff Railway	£10,000	10 years	Linked to Council Borrowing Rate
Housing Loans	£1,000	No new loans issued. Term linked to individual mortgages	Linked to market mortgage rates
Sports Clubs	£33,000	10 - 20 years	Linked to Council Borrowing Rate
Suttons Seeds Ltd **	£1,500,000**	3 years	Market rate
Torbay Coast & Country side Trust	£895,000	45 years	Linked to Bank Base Rate

*Not fully drawn down as at 31st December 2016

**Original advance repaid and no further drawdowns on the facility to date (expires 2017)

The current overall rate of interest on these loans is around 4%.

8.2 Advancing cash

If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

8.3 Investing cash for Local Payment Scheme (LPS) Schools

If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

8.4 Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

13.5 Anti-Money Laundering

The Council will comply with all relevant regulations.

Appendix 1

Prudential & Treasury Management Indicators 2017/18 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

The Council's Capital Plan monitoring report for quarter 2 was presented to Council on 8 December 2016 and summarised below for approval are the required prudential indicators for capital expenditure:

Capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	23	32	48	24	23

It should be noted that the timing of capital expenditure financed from borrowing is currently very uncertain which makes planning difficult. There is significant uncertainty over the timing of the expenditure on the £50m Investment Fund and a number of regeneration related projects that have not yet started such as Claylands (£7m), Electronics and Photonics Innovation Centre (EPIS) (£2m) and White Rock (£7m)

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital receipts	2.6	0.8	1.0	0.8	0.0
Capital grants	10.6	15.8	18.8	5.7	2.3
Capital reserves	0.6	0.3	1.2	(0.1)	(0.2)
Capital Contributions	0.2	0.2	0.5	0.0	0.0
Revenue	0.9	0.4	0.1	0.1	0.0
Net financing need for the year	7.7	14.2	26.9	17.7	21.1

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately

borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The Council is asked to approve the CFR projections below:

£m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement				
Total CFR	151.1	161.6	184.7	198.5
Movement in CFR	10.5	23.1	13.8	17.2

Movement in CFR represented by				
Net financing need for the year (above)	14.2	26.9	17.7	21.1
Less MRP, VRP and other financing movements	(3.7)	(3.8)	(3.9)	(3.9)
Movement in CFR	10.5	23.1	13.8	17.2

Affordability prudential indicators

The overall capital and control of borrowing prudential indicators are set out above, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue budget (which is expected to reduce over the next few years).

	2016/17 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
%				
Ratio	8	9	9	9

The estimates of financing costs include current level of borrowing and maturities but no assumption in relation to any new borrowing required.

Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the capital plan budget 2017/18 compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the Band D Council Tax

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
%			
Council Tax Band D	0	0	0

Limits on Borrowing and Long-Term Liabilities

The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	148	161	208	224
Long term liabilities	40	20	20	20
Total	188	181	228	248

The Authorised Limit for external borrowing and long-term liabilities.

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	167	235	285	305
Other long term liabilities	40	20	20	20
Total	207	255	305	325

Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure

This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure

This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

Interest rate Exposures				
	2016/17 Upper %	2017/18 Upper %	2018/19 Upper %	2019/20 Upper %
Limits on fixed interest rates:				
• Debt	100	100	100	100
• Investments	80	80	80	80
Limits on variable interest rates:				
• Debt	30	30	30	30
• Investments	75	75	75	75

Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits

Maturity Structure of fixed interest rate borrowing 2017/18			
	Lower	Upper	Projected 31/03/2017
Up to 10 years	5%	50%	13%
10 to 20 years	5%	50%	21%
20 to 30 years	10%	60%	26%
30 to 40 years	10%	50%	25%
Over 40 years	0%	50%	15%

Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Maximum principal sums invested for over 364 days			
£m	2017/18	2018/19	2019/20
Principal sums invested > 364 days	35	30	25

Appendix 2

Policy on Minimum Revenue Provision for 2017/18

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012, which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for capital expenditure is charged on a prudent basis. Central Government guidance says:

“the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.”

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March 2016 after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value of that the whole debt is repaid after 50 years.

The Council will charge a VRP for the supported borrowing within the adjustment A value that is outstanding as at 31 March 2016 relating to transferred debt from Devon County Council fixed at the same cash value of that the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing, less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table below).

The MRP for each asset will be calculated using the asset life method using an annuity calculation. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes operational.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation (or a straight line basis if asset if no MRP). Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008.

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Asset Life Method linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an Investment Property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to assess any reduction in value. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five to ten years.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.

Each asset life will be considered in relation to the asset being constructed by the Chief Finance Officer; however as a guide the following are typical asset lives that will be used.

Asset Type	Asset Life
Freehold Land (specified in DCLG statutory guidance)	50 years
Buildings	40 years
Investment Properties	40 years
Software	10 years
Vehicles & Equipment	7 years
Highway Network	40 years
Structural Enhancements	25 years
Infrastructure	40 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used (e.g. an assumption that 30% of the value is land results in an asset life of 43 years).

Appendix 3

Economic Commentary (Capita Treasury Services – December 2016)

The Monetary Policy Committee (MPC) cut the Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August.

Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects (i.e. by raising Bank Rate, which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Appendix 4

Creditworthiness Policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands, illustrated below, which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational bands to each of these bands.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 2yrs	up to 1yr	up to 6mths	up to 100days	no colour

The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a monthly basis and for each investment transaction. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on any external support for banks to help support its decision making process.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ and also have banks operating in sterling markets. The exception to this is the United Kingdom which has been exempted from the rating criteria to ensure cash services can continue to operate following a downgrade to AA.

The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Netherlands	Finland Hong Kong U.S.A.
Canada	Norway	
Denmark	Singapore	
Germany	Sweden	
Luxembourg	Switzerland	
Exempted from Sovereign Rating Criteria		
United Kingdom		

Appendix 5

Approved Investment Instruments: Specified and Non-Specified

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

Investment Type	* Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
Term deposits – local authorities	LAs and other public bodies classified as colour band "Yellow"
Term deposits – banks and building societies	Creditworthiness system colour band "Green" and above
UK part nationalised banks	Creditworthiness system colour band blue
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+
1. Government Liquidity Funds	* MMF rating AAA
2. Money Market Funds	* MMF rating AAA
3. Enhanced Money Market Funds with a credit score of 1.25	* MMF/bond fund rating AAA
4. Enhanced Money Market Funds with a credit score of 1.5	* MMF/bond fund rating AAA
5. Bond Funds	* bond fund rating AAA
6. Gilt Funds	* bond fund rating AAA

Non-Specified Investments

These are any investments which do not meet the Specified Investment criteria. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The maturity limits recommended will not be exceeded. Under the delegated powers the Chief Finance Officer can set limits that are lower based on the latest economic conditions and credit ratings.

Investment Type	Minimum Credit Criteria	Max investment or % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Creditworthiness system colour band "Blue"	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	LAs and other public bodies classified as colour band "Yellow"	50%	5 years
Term deposits (over one year) – banks and building societies	Creditworthiness system colour band "Purple"	75%	2 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band "Green" and above	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band "Purple"	50%	1 year
UK Government Gilts/Treasury Bills	Sovereign rating AA+	100%	5 years
Bonds issued by multilateral development banks	AA+	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	50%	5 years
Structured Deposits	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	25%	2 years
Commercial paper issuance by UK banks covered by UK Government guarantee	Sovereign rating AA+	35%	5 years
Commercial paper other	Creditworthiness system colour band "Red" and above	35%	5 years
Floating Rate Notes	Long-term AA	35%	5 years
Property Fund: <i>the use of these investments would normally constitute capital expenditure</i>	--	£10million	5 years
Property Fund: <i>not classified as capital expenditure</i>	--	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1.Bond Funds 2.Gilt Funds	AAA	35%	5 years
Corporate Bonds	AA	35%	5 years
Other debt issuance by UK Banks covered by UK Government guarantee	Sovereign rating AA+	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	£500,000	5 years

Internal Audit

Half Year Report 2016/17

Torbay Council
Audit Committee

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December 2016

Not Protectively Marked



Auditing for achievement

Agenda Item 6

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Devon Audit Partnership	Confidentiality and Disclosure Clause
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk .</p>	<p>This report is protectively marked in accordance with the government security classifications. 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.</p>

Introduction

The Audit Committee, under its Terms of Reference contained in Torbay Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2016/17 was presented to and approved by the Audit Committee in March 2016. The following report and appendices set out the current position of the audit service provision; reviews work undertaken to date in 2016/17 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide a report providing an opinion that can be used by the organisation to inform its governance statement. This report provides a position statement at half year on the progress towards that opinion.

Expectations of the Audit Committee from this half year report

Audit Committee members are requested to consider the:

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- assurance statement within this report;
- completion of audit work against the plan;
- scope and ability of audit to complete the audit work;
- progress impact against strategic aims;
- audit coverage and findings provided;
- overall performance and customer satisfaction on audit delivery.

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

Robert Hutchins
Head of Audit Partnership

Assurance Statement

Overall, based on work performed during 2016/17 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement. The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the internal control framework.

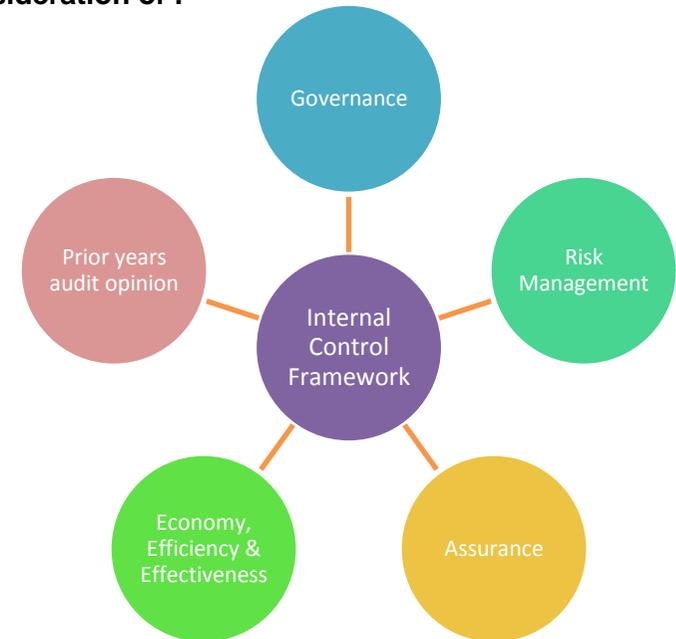
Directors have been provided with details of Internal Audit's opinion on each audit review carried out in 2016/17. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2016/17.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans rests with management and are reviewed during subsequent audits or as part of a specific follow-up process.

Generally, our work has not been adversely affected by planned changes during the first six months. There have been no significant changes made to plans to date, although minor alterations have been made to the Children's Services, Community & Customer Services and Corporate & Business Services plans.

The 2016/17 level of irregularity work to date is within anticipated levels and has not adversely impacted delivery of the plan. Some of our planned assurance work is necessarily scheduled for completion in the second half of the year and other work involves ongoing project support, however, we feel, based on the work completed and on previous year's work that the framework of control remains in operation.

This statement of opinion is underpinned by our consideration of :



Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and / or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Progress Against Plan

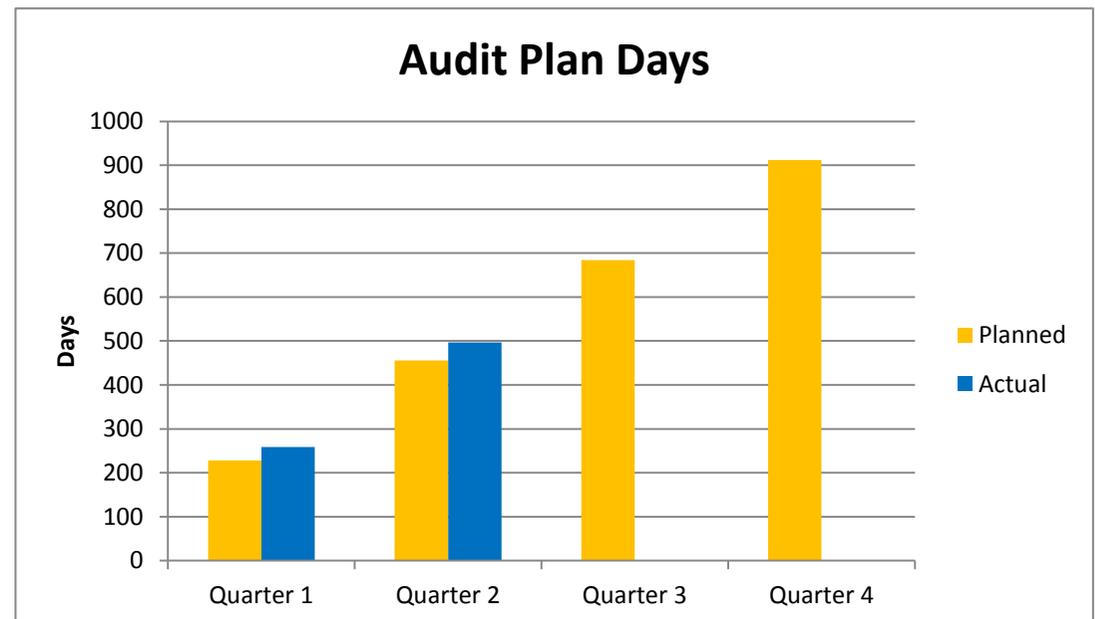
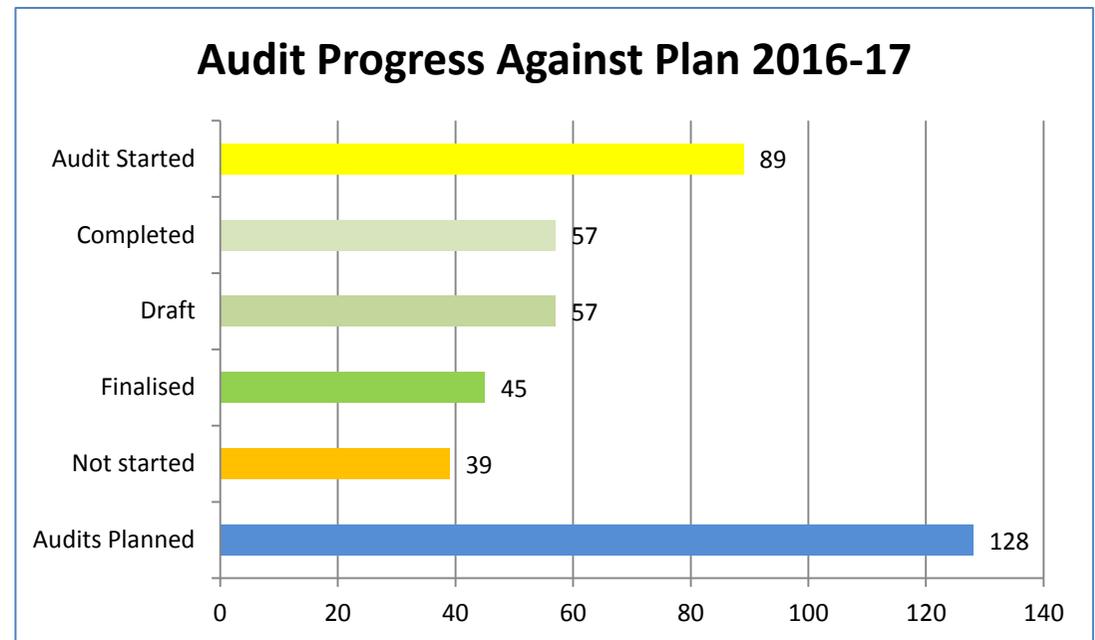
This report compares the work carried out with the work that was planned through risk assessment, presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements; and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

The extent to which our work has been affected by changes to audit plans has not been notable during the first six months of the year. Some of our work supports projects and hence completion will be in accordance with project timescales. The level of irregularity work has been in line with anticipated levels and the need for investigation work has not had an adverse impact on the overall completion of the plan.

The bar charts right show the status of audit progress against plan and audit the days delivered against target planned. The charts demonstrate that progress is largely in line with expectations and that the number of audit days delivered is approximately as that planned.

Appendix 2 provides further performance information for the first six months of 2016/17.



Progress Impact Assessment

Our audits completed to date this year, in the majority of areas, provide assurance that identified risks are being minimised or mitigated where appropriate. Progress impact assessments are detailed below by service area highlighting developmental areas. The overall audit assurance will have to be considered in light of these positions.

Corporate and Business Services

Risk Management and performance monitoring is subject to strategic review, but there remains development opportunity for linkage to service and operational risk.

Full realisation of the benefits of Payroll / HR Self Service remains ongoing due to project timescales.

Implementation of changes to creditor processing to address authorisation control weaknesses and increase automation has been delayed. Similarly, progression in relation to Income Collection system access control improvements remains outstanding resulting in insufficient segregation in operational practices.

Structural and responsibility changes continue in Revenue and Benefits and impact the delivery of the required improvements within the material system functions within this service area including crisis support; we will report on status in our annual monitoring report.

Implementation of the new Harbour Management System has impacted the rate at which improvements in Torbay Harbour Authority income collection has been delivered including recovery of older debt. Difficulties in progressing improvements to fish toll income arrangements with Brixham Trawler Agency (BTA) exist, and improvements are pending to the control over direct landings. Income potential is being affected due to the lack of review of lease agreements on Tor Bay Harbour Estate property which is reliant on working arrangement with the Torbay Development Agency.

Establishing and embedding the ethics and culture of the organisation in its new structure remains ongoing.

The Transformation Programme will affect capacity to deliver improvements and developments whilst maintaining 'business as usual'.

Community and Customer Services

We refer you to our annual follow up report of areas that were found to require improvement where we identified some areas in ICT where progress was limited.

Internal Audit continues to provide advice and support to the development of an ICT Service Strategy. There are elements regarding the structure of the organisation going forward that impact ICT's strategic direction. Further, the IT elements of the Transformation Programme are yet to be fully defined; which once confirmed may also impact upon strategy formulation.

Work to examine ICT processes remains ongoing, relating to corporate IT system projects, Channel Shift and change arrangements. To address current emerging IT risk areas we are undertaking a piece of work on Cyber Security, in line with the Government framework. We acknowledge that the capacity to change may be affected by resource constraints; however the Transformation Programme should assist all areas in times of reducing budget.

Following audit findings in relation to concessionary fares, the Council is working with a consultant to ensure that reimbursement rates are accurate for future years and provide opportunity for future budget savings.

Corporate Security and CCTV continues to be subject to review within the organisation and decisions made could impact organisation and public security.

The lease arrangements for Sports Pitches have been subject to recent discussion and decision by Members and, as such, progression of change was delayed.

Structural and responsibility changes continue in Revenue and Benefits and impact the delivery of the required improvements within the material system functions within this service area including crisis support; we will report on status in our annual monitoring report.

The wider audit work in the Corporate Debt reported last year identified the disjointedness of the Council's approach to debt recovery; steps are being taken to address this and the related links to the Sundry Debtors system and we will be examining the position later in the year.

Children's Services

Our ongoing work with regard grant certification in relation to the Troubled Families Programme provides assurance in terms of conditions associated with funding continuing to be met.

The report upon Fostering and the comments made regarding achievement of 'value for money' may not have been progressed, as a management action plan is yet to be agreed.

Public Health

We have not issued a six monthly monitoring report for Public Health as our work is scheduled for the second half of the financial year.

Adult Services

The limited plan of work within Adult Services for 2016/17 and in previous years, and the position that various functions are provided and audited by the NHS Trust Provider means that we cannot quantify the impact of audit progress on risks within the whole service area.

The Adults Social Care Commissioning Team encompasses Commissioning, Performance Management, Community Engagement, Healthwatch, Housing Strategy, Prevention and NHS Advisory Service, with services provided by the NHS Trust Provider.

The report in relation to NRS Joint Equipment Store and the matters noted in relation to equipment maintenance, collection of legacy equipment and maintenance of the database may not have been progressed, as a management action plan is yet to be agreed.

Our work in the second half of the year will consider the Better Care Fund and Commissioning & Performance Management in the service area.

Value Added

Our internal audit activity has added value to the organisation and its stakeholders by:

- providing objective and relevant assurance;
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported in the following areas:

Corporate and Business Services

- continuing our ongoing involvement in Self Service project ensuring that control issues are highlighted and resolved before implementation, and ensuring alignment to Human Resources policies and regulatory requirements;
- advice and support to the development of risk management and its wider integration with other key business areas;
- continued attendance and active participation in the Council's Information Security Group;
- using prior knowledge to assist the Council with developing the agreement for the new Business Improvement District;
- continuing on from last year our ongoing support to the 'Ethics and Culture' project in an advisory / consultative capacity;
- annual review of the Tor Bay Harbour Authority Five Year Rolling Audit Plan and related assistance to the Executive Head in supporting the Harbour Committee;
- ongoing support to the harbour mooring system project
- Current review of Tor2 ICT Integration to support the contract review process and identify potential areas for improvement
- assistance to the implementation of risk based verification;
- review of the wider debt recovery practices across the Council

Public Health

- We intend to add value in relation to our work on commissioning and contracts management in the second half of the year.

Schools

- Our support continues to help all schools comply with the schools financial value standard

Adult Services

- inclusion of the NRS Joint Equipment Store audit in the planned work post Audit Committee plan approval as a result of a flexible audit plan approach and effective client liaison;
- the development of future years audit plans to cover new and emerging risk.

Community and Customer Services

- planned work to support progression of ICT Continuity & Disaster Recovery integration into the Risk Management methodology;
- provision of continued support for the ICT Strategy development in line with the Council's Corporate Plan and Transformation programme;
- Current review of Tor2 ICT Integration to support the contract review process and identify potential areas for improvement;;
- ongoing advisory member of the Information Security Group;
- ongoing support to various ICT system developments in line with project requirements and timescales, for example the harbour mooring system, library system; HR/Payroll MyView projects;
- identification of an error in relation to the use of formula for concessionary fares resulting in a potential substantial saving;
- assistance to the implementation of risk based verification;
- examination of practices at the Velopark in relation to benefits realisation;
- review of the commercial viability in relation to sports pitch leases;
- support to the public toilets review project;
- support to the Corporate Building Security project through involvement as an advisory member of the project team;
- review of the wider debt recovery practices across the Council.

Children's Services

- assistance in maintaining the impetus in management action plans to address previously identified risks through an annual and robust follow up exercise;
- development of the current year's and future years audit plans to incorporate flexibility to meet changing and developing business demands and to cover existing and new or emerging risks.

Executive Summary - Audit findings

Corporate and Business Services

In our opinion, and based upon our audit work completed during 2016/17, and direct advice provided for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

Based on audits completed and on indications from previous and on-going work, we are able to report that material systems controls have either been maintained, or improvements are being made to address previously identified weaknesses. Whilst a number of weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action to address them.

The wider audit work in the Corporate Debt audit reported last year identified the disjointedness of the Council's approach to debt recovery and the this links to our findings for the Sundry Debtor audit; steps are being taken to address this and we will report on status in our annual report.

We continue to provide support to the ongoing Payroll / Human Resources Self Service; live operation of the system has identified some errors that are being resolved.

Risk management still requires linking between strategic and operational levels of the organisation.

The Bay Harbour income processes in relation to a number of specific operational areas require improvement in order to maximise potential income.

Other than the areas detailed above, no significant concerns have been identified from the majority of our work including that on grants and management have responded positively to any recommendations for improvement.

Key Risks / Issues

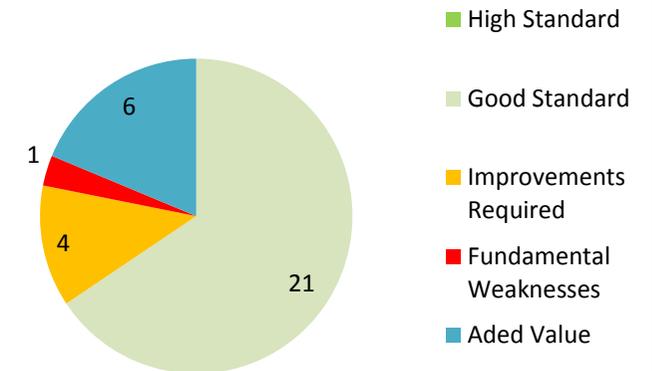
Actual realisation of the intended benefits of Self Service as outlined in the original business case.

The lack of a cohesive approach to debt recovery across the Council represents a risk to the Council's income.

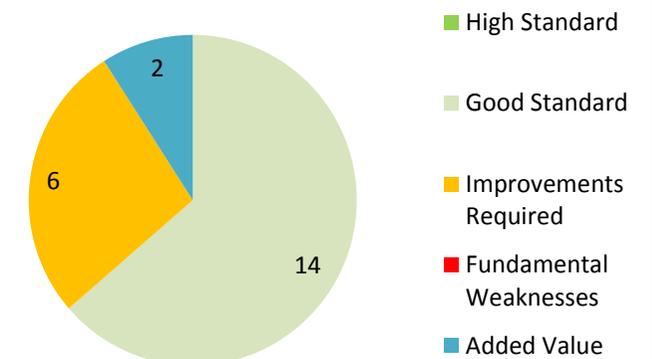
Lack of an integrated risk management methodology covering both strategic and operational risks.

The Transformation Programme may present risks in relation to resourcing associated projects whilst maintaining 'business as usual' and statutory services. Management are aware of the risks and the need to engage staff and stakeholders with the changes.

Assurance Opinions 2015/16



Assurance Opinions Apr - Sept 2016/17



Community and Customer Services

In our opinion, and based upon our audit work completed during 2016/17, and direct advice provided as 'Trusted Advisor' for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management and reported to management where progress against action plans has been limited.

Material system controls relevant to Community and Customer Services have either been maintained or improvements are being made to address previous identified weaknesses. The wider audit work in the Corporate Debt reported last year identified the disjointedness of the Council's approach to debt recovery; steps are being taken to address this and we will report on status in our annual report.

Opportunities exist for improvements in the control and governance framework for the Museum Services, Sports Pitches management, Velopark operation and Concessionary Fares reimbursement levels.

ICT projects are reasonably well managed although balancing project requirements and business as usual will present challenges, in particular resourcing ICT within the Transformation Programme.

ICT Change Control arrangements require formalising and recording. Integration of the approach to ICT Continuity & Disaster Recovery, Risk Management and Business Continuity Planning remains ongoing along with the formulation of an ICT Strategy, however this is dependent on organisational factors.

No other significant concerns have been identified from our work and management have responded positively to any recommendations for improvement.

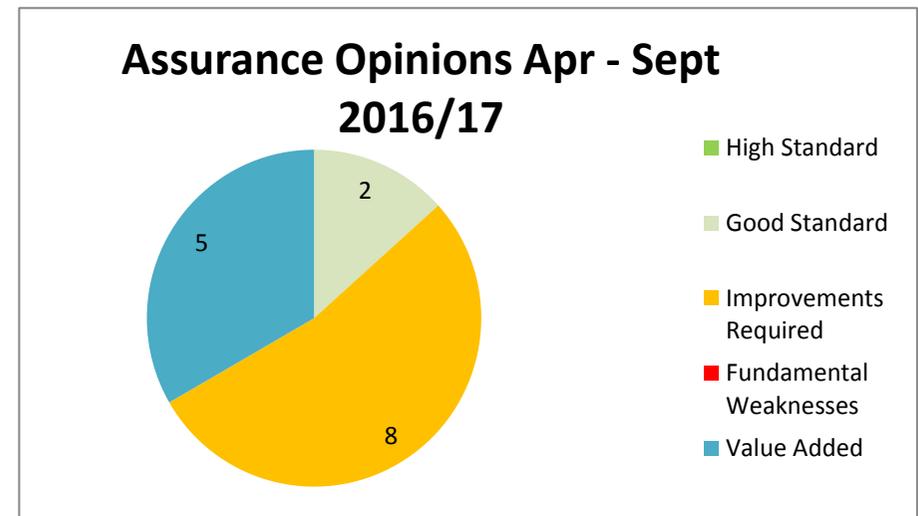
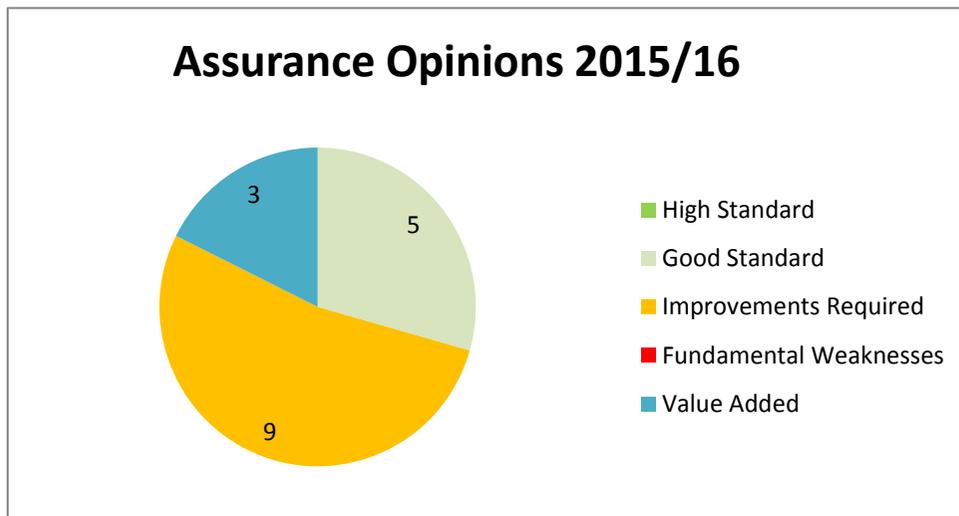
Key Risks / Issues

The changes within the CCTV and security provision to the Council present numerous risks which are being considered in current decision making.

The lack of a cohesive approach to debt recovery across the Council represents a risk to the Council's income.

A formal ICT Strategy requires formulation to demonstrate linkage to the Corporate Objectives and Transformation Programme and compliance with Government regulations, although strategy components are being delivered.

The number of reported data breach incidents and cyber-attacks which are generally attributed to human error, which is not fully eliminated by the control framework and training provision.



Children’s Services and Schools

We can comment that based upon our audit work completed to date and based on earlier years’ work that the framework of control remains in operation, and where recommendations have been made, action plans have been agreed with management.

The Children’s Services directorate incorporates both the Safeguarding & Wellbeing functions and those for Schools.

The audit work upon Fostering still remains in draft format; this will be expedited as soon as practical. Work is near completion with regard Contracts, Commissioning, Procurement and the draft report will be issued once the necessary work review has been completed.

No concerns have been identified from our work upon Troubled Families Phase 2.

The overall assurance from schools audit is of good standard. Based on the schools visited, the majority areas have been effectively managed, with only one of the schools (Sherwell Valley Primary School) causing concern in that one area was given an opinion of ‘improvements required’. Comprehensive recommendations were provided during the audit to improve controls in the income collection and banking processes. Generally there continues to be an improvement in these areas with few recommendations being made.

No significant concerns have been identified from our work including that on grants and management have responded positively to any recommendations for improvement.

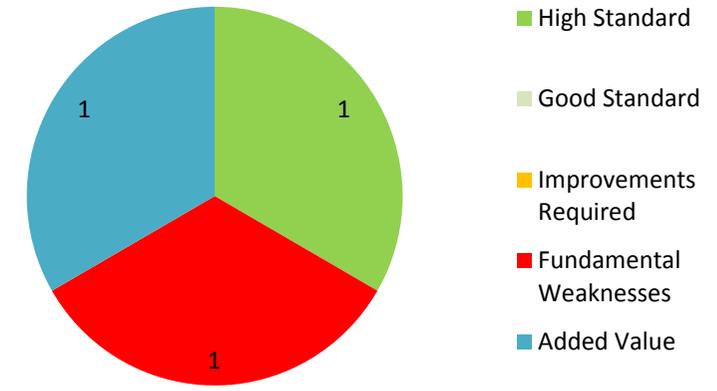
Key Risks / Issues

Risks inevitably exist in the delivery of a service area such as Children’s Services and issues have previously been reported in relation to contract management, performance monitoring and the formalisation of plans and strategy linked to changed practice and budget.

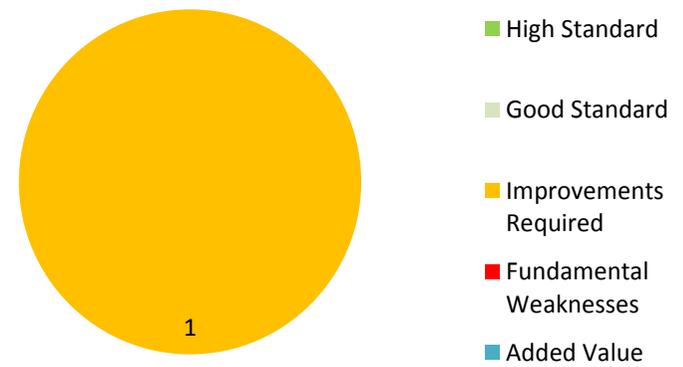
The Safeguarding Improvement Programme is an identified risk within the Performance & Risk Report presented to SLT. Ofsted and the DfE appointed Commissioner have reported on progress and a revised improvement plan has been developed to provide a greater degree of focus on completion of improvement tasks underpinned by a revised performance management framework to detect impact.

A recent report by the new Director of Children’s Services highlights that achievement of the Children’s Services Financial Plan remains a significant risk.

Assurance Opinions 2015/16



Assurance Opinions Apr - Sept 2016/17



Schools

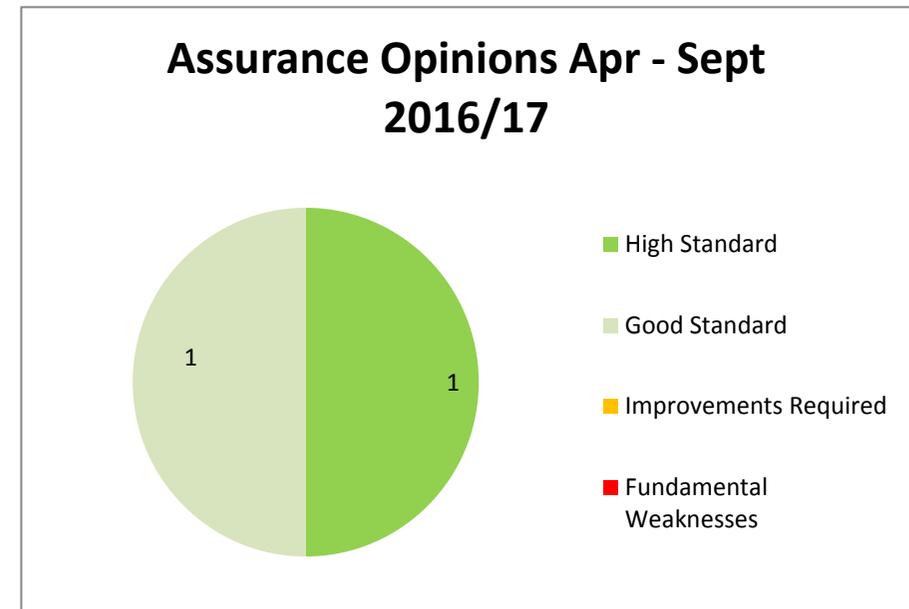
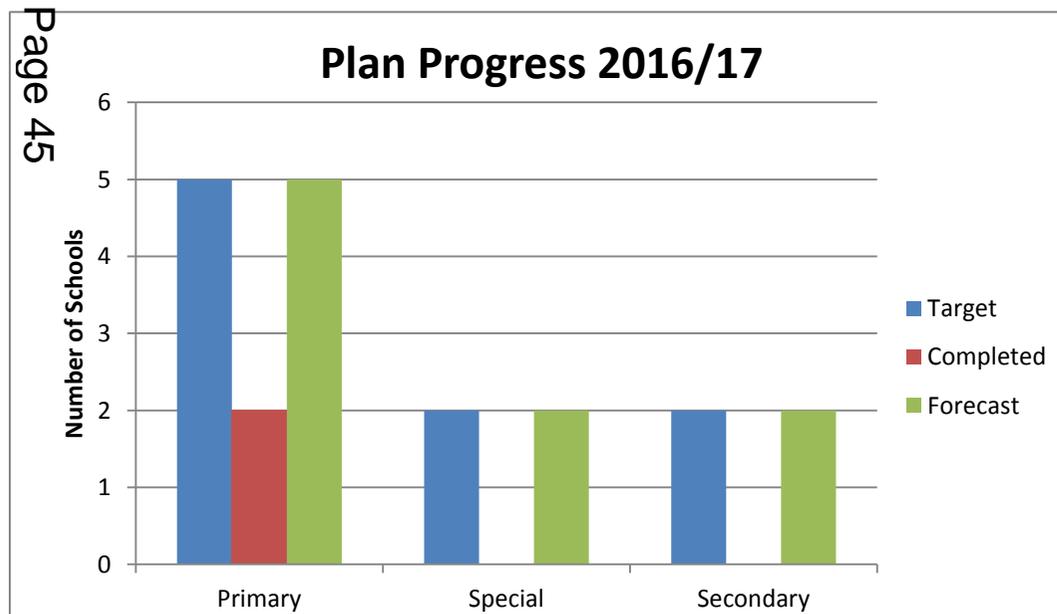
Progress is being made against plan and the chart shows that we forecast completion of the plan by year end subject to further schools converting to academies. Visit arrangements continue to be made with the schools to complete the plan by 31st March 2017.

Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. Although specific risks have been identified on the core element of the audit review at some schools, recommendations have been made to reduce risks and in other areas and are made to strengthen what are reliable procedures.

Key Risks / Issues

- Governing Body and School Staff - Concerns still remain on the publication of governance information on school websites in a readily accessible format.
- Setting the budget - Schools are expected to link their development plans to the budget to confirm the affordability of school improvement. We are continuing to make recommendations in this area.
- Our recommendations on protecting public money are still focused on the absence of specific business continuity plans / incorporating more business continuity into existing emergency plans and management of assets with reference to inventory records.

Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.



Adult Services

We are unable to provide an overall opinion at this time due to the limited work undertaken within this directorate area. We can, however, comment that in terms of our audit work completed during 2016/17 and where recommendations have been made, action plans have been agreed with management.

The Adult Services Directorate incorporates both the Joint Commissioning Team functions and those functions provided and audited by the NHS Trust Provider. Assurance over arrangements for adult social care is mainly provided by colleagues at Audit South West, the internal audit provider for Health services. Audit South West provides a separate letter of assurance to the Director of Adult Services and the Council's S151 Officer. Devon Audit Partnership provides support and internal audit input on key areas as agreed with the Director of Adult Services.

Our Adult Services audit work remains ongoing with a further two reviews to complete in the second half of the year. During this time we will also work with management to prepare an audit plan for 2017/18 that addresses new and emerging risks.

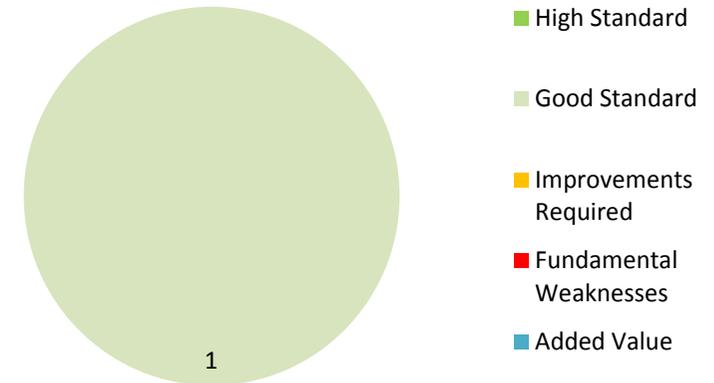
Page 4

Key Risks / Issues

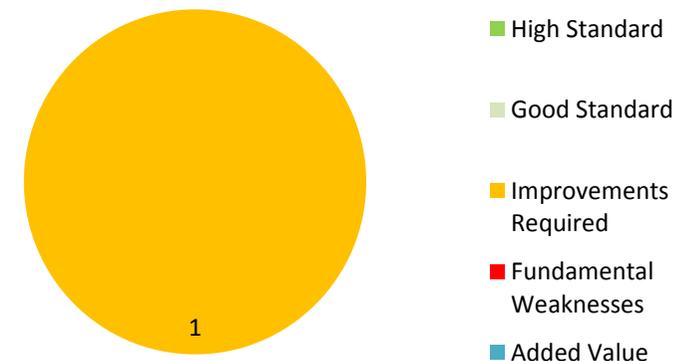
Risks inevitably exist in the delivery of a service area such as Adult Services, as a result of the vulnerability of the clients and where delivery of the service is commissioned to other service providers.

Only this month the Care Quality Commission (CQC) has published an inspection report upon a major domiciliary care provider in South Devon rating them as 'inadequate'.

Assurance Opinions 2015/16



Assurance Opinions Apr - Sept 2016/17



Fraud Prevention and Detection

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.

Devon Audit Partnership (DAP) have taken on a liaison role with the recently appointed corporate fraud officer; the key outcomes of this role are the identification and investigation of external frauds.

The Cabinet Office now run the national data matching exercise (National Fraud Initiative – NFI) every two years. The majority of data matching for this involves the investigation of potential external fraud committed against the Authority, i.e. individuals or bodies external to the Council. This area of NFI has now been taken on by the corporate fraud officer, with advice from DAP as required.

Matching Reports for the following data sets are relevant to the Council;

- Payroll
- Creditors
- Insurance
- Residents Parking Permits
- Council Tax Single Person Discounts, and Rising 18's
- Housing Benefits and Council Tax Reduction Scheme
- Housing Waiting Lists
- Concessionary Travel Passes
- Market Traders, Personal Alcohol Licences, Taxi Drivers
- Blue Badge Permits
- Personal Budgets
- Private Residential Care Homes

Linked to the CIPFA requirements, DAP once again completed the CIPFA Fraud and Corruption Tracker (CFaCT), as part of the annual 'Protecting the Public Purse', Fraud and Corruption survey, which feeds into a national overview of fraud within public bodies.

DAP has continued to undertake an annual monitoring of staff internet use and to date found no significant concerns. This provides assurance that action has been effective and such use remains within policy. Periodic fraud bulletins are also produced and published on DAP's website.

Irregularities - During 16/17, Internal Audit have carried out, or assisted in eleven new irregularity investigations across the Council's Directorates. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
Employee Conduct	4
Poor Procedures	4
IT Misuse	1
Financial Irregularity	1
Tenders and Contracts	1

Employee conduct included assistance with HR investigations of bullying and timesheet falsification, as well as two whistleblower concerns.

Poor procedures included investigation of contracting procedures, employee exit packages, and commissioning arrangements.

Other areas reviewed involved, internet usage, alleged abuse of public office, and assistance with a Council Monitoring Officer investigation.

Customer Value

Performance Indicators - Resources

Overall, performance against the indicators has been very good (see appendix 2). We have improved timeliness of draft issue and final reports were issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We are working on LEAN approaches which we hope will further improve report efficiency and timeliness.

Customer Service Excellence (CSE)

DAP maintains accreditation by G4S Assessment Services of the CSE standard during the year.

During the period we issued client survey forms with our final reports. The results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with over 97% being "satisfied" or better across our services. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

What Our Customers Said

We have had some very complimentary feedback in the last six months. More details can be found on our website www.devonaudit.gov.uk but some of the more relevant comments include:-

"the auditor ensured that we received plenty of positive feedback where appropriate as well as suggestions for improving systems".

"The audit was delivered with complete professionalism backed by a high level of subject knowledge and an evident passion and commitment to improving our information governance resilience. Very much a partnership effort and the auditors understanding of our agenda and the key areas for improvement that will elicit maximum added value was very welcome and constructive at all times."

Added Value

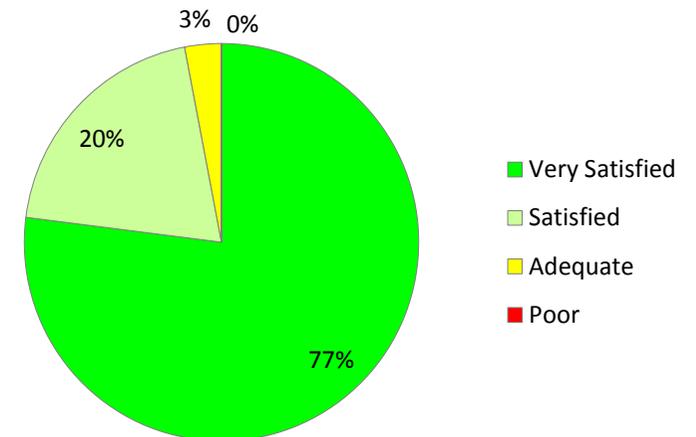
We aim to provide a cost effective, efficient and professional internal audit service that takes the opportunity to add value whenever possible. Some of the specific examples of where our team have been able to add value to the Council in the first six months of 2016/17 include:-

"On governance and risk management "I always find DAP staff most engaging and helpful, in particular as a sounding board for ad-hoc issues. The audit was able to add value by providing both challenges and also suggestions".

"On creditors "to receive input and advice on control methods & areas of potential risk when looking to introduce change"

We continue to develop and train our staff so that they can add value to the organisation as it faces the difficult challenges ahead.

Analysis of Customer Survey Results 2016/17



Appendix 1 - Summary of audit reports and findings for 2016/17

Risk Assessment Key

LARR – Local Authority Risk Register score Impact x Likelihood = Total & 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.

Assurance Progress Key

Green – action plan agreed with client for delivery over an appropriate timescale;
 Amber – agreement of action plan delayed or we are aware progress is hindered;
 Red – action plan not agreed or we are aware progress on key risks is not being made.
 * report recently issued, assurance progress is of managers feedback at debrief meeting.

CORPORATE AND BUSINESS SERVICES					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Material Systems (excludes those material systems that are the direct responsibility of Community and Customer Services)					
Creditors	ANA - High	Final	Improvements Required	Assurance was reported in last year's annual report; please refer to that report for details.	
Treasury Management	ANA - Low	Final	Good Standard	Assurance was reported in last year's annual report; please refer to that report for details.	
Payroll	ANA - Critical	Final	Good Standard	This year's assurance opinion remains as 'Good Standard'; however, we note that action to address a number of prior year issues is ongoing.	
Income Collection	ANA - Medium	Final	Improvements Required	<p>The Income Collection team continues to maintain effective procedures and systems for receiving, recording, allocating and processing income, albeit that these are heavily reliant on manual paper based processes.</p> <p>There has been minimal progress made against previous recommendations and as such this year has seen a significant level of actions re-reported. However, we understand that this is primarily due to the transfer of Income Collection responsibility to Finance and as such associated recommendations will also require re-assigning to appropriate Service Heads and relevant staff.</p> <p>The key control weaknesses identified relate to the hosted Web Pay system access controls; and the lack of segregation within the</p>	

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				teams due to a restructuring of the teams for operational needs that has brought the Income Collection team into Finance and specifically part of the FIMS System Admin team.	
FIMS System Administration	ANA – High	Final	Good Standard	With the exception of the lack of segregation of duty, we have no significant concerns in relation to the operation of controls within the system administration of the FIMS system. We note that the 2017 upgrade will resolve the outstanding issue in relation to complexity of passwords in the system.	
Debtors	ANA – Medium	Final	Improvements Required	<p>The Debtor system is managed effectively, and supported by comprehensive procedures and training manuals. Whilst the overall debt management framework is reasonably robust, a number of issues remain which weaken the associated controls. Progress in implementing the recommendations made previously has been slow; although management accept the risk of some control weaknesses for operational reasons.</p> <p>Greater emphasis is required on debt recovery performance monitoring and reporting outcomes at senior management / member level continues to be reported. This expectation links to the findings and recommendations made in the wider Corporate Debt audit report and the need to address the aged sundry debtor debt along with improved engagement and subsequent responsibility at departmental level. This position has affected the audit opinion.</p>	
Capital Programme	ANA – Medium	Draft	Good Standard	<p>The capital programme in place is robust, and there are generally adequate procedures in place for approving projects.</p> <p>Capital expenditure is, in the main, effectively monitored throughout the year, and we have made only a small number of recommendations in this regard. Related funding is appropriately monitored with changes being identified, recorded and reported in a timely fashion.</p> <p>Although there is an appropriate project management methodology</p>	 *

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				in place, sample testing found that not all projects were being monitored in line with expectations.	
Payroll System – New modules implementation project	Client Request	Ongoing	Added Value	Support and advice was provided throughout stage one of the project which has now been successfully implemented. A QA support role continues to be provided for stage 2 of the project as required by the project team and board.	N/A
The following audits are currently in progress: <ul style="list-style-type: none"> • Asset Register (ANA – Medium) • Payroll System – New modules implementation project ‘critical friend’ role (Client Request) 				It is anticipated that the reports will be issued and agreed in the third quarter of 2016/17. No issues of major concern have been identified from our fieldwork to date.	
The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> • MIAAS (ANA – Medium) • Creditors & POP (ANA – High) • Debtors & Corporate Debt (ANA – Medium) • Bank Reconciliation (ANA – Medium) 				<ul style="list-style-type: none"> • Treasury Management (ANA – Low) • Payroll (ANA – Critical) • Income Collection (ANA – Medium) 	
Grants					
Social Care	Client Request	Completed	Certified	Non-standard declaration made	N/A
Rogue Landlords	Client Request	Completed	Certified	Non-standard declaration made due to a change in terms and conditions.	N/A
Local Transport Capital Block Funding	Client Request	Completed	Certified	No issues identified	N/A
Troubled Families (first claim)	Client Request	Completed	Certified	No issues identified	N/A

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
<p>The following audits are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> Local Growth Fund Troubled Families (second claim) 					
Other					
TDA - VAT returns	ANA – Low	Final	Good Standard	The process for completing the quarterly VAT Returns is generally robust, and sample testing of two quarters claims for 2015/16 found good controls in place and returns balanced to financial data. Recommendations have been made to improve management review and authorisation processes, review the application of VAT classifications, and other minor process controls.	
TDA – ISO Structure	ANA – Low	Final	Good Standard	Those areas of the Quality Management System (QMS) reviewed were found to be well maintained overall and effectively contributing to the organisations ability to comply with the Standard. Some non-conformance/opportunities for improvement were however identified and recommendations made in order to improve what is already considered to be good QMS.	
Tor Bay Harbour Authority – Income	ANA – Medium	Final	Improvements Required	Opportunities exist to improve the arrangements for income billing, collection and recovery and the associated record management expectations. Recovery practices and monitoring arrangements are employed; however further steps are now required to address the older debt. The arrangement with the Brixham Trawler Agency (BTA) for fish toll does not provide a formal robust structure within which both the Torbay Harbour Authority and BTA can operate effectively. Further, direct fish landing is not adequately controlled. As such, fish toll from both sources may not be complete and accurate.	

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				Income may not be being maximised in relation to rental and leasing on Tor Bay Harbour estate property because agreements are not being reviewed to ensure they remain appropriate. Income improvement opportunities are also evident in relation to utility recharging to reduce the cost borne by the Tor Bay Harbour Authority	
Elections	ANA – Medium	Draft	Good Standard	<p>Electoral Services maintain a comprehensive and robust set of procedures ensuring that electoral registration and elections are managed in accordance with Electoral Commission requirements.</p> <p>Budget reductions may affect the quality of service provided to electors, candidates and the Council's Returning Officer.</p> <p>Expenditure on goods and services is generally well managed, but it is recommended that in-house provision of printing services are formalised and reviewed for best value.</p>	
Risk Management and Risk Recording	ANA - High	Draft	Added Value	<p>The Performance and Risk Management Framework was reviewed as part of the Corporate LGA Peer Challenge and an associated recommendation made within the action plan. The Internal Audit review of the Framework has identified areas which would strengthen the existing Risk Management processes and supports the LGA action in greater integration of the framework throughout the organisation.</p> <p>The Framework itself, as a methodology, appears to be effective and well structured, and it is pleasing to note the integration with Performance Monitoring. The current practice focuses on the strategic side of Risk Management along with the monitoring of associated performance measures.</p> <p>Current risk registers do not make the link between the strategic risks and service / operational risk. Strategic and Operational level should be fully understood so as to aid decision making and to help ensure that limited resources are effectively targeted.</p>	

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CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Page 54				<p>It is almost impossible to encapsulate risk profiles and appetites for the whole Council due to the diversity of services, so it may be that risk management arrangements could be further strengthened through adapting the Risk Management Framework locally at Directorate/Service level.</p> <p>The two key barriers to Risk Management integration in our opinion are cultural and resource focussed. The cultural issue is the way in which Risk Management is perceived within the organisation. It is often seen as a function that is undertaken by a Risk Management Team / Officer, rather than it being a wider organisational responsibility. This compounds the issue of establishing the framework at both Strategic and Operational level. Secondly, the continued reduction in Central Government settlement is clearly impacting available resource within the organisation and functions such as Risk Management and Performance Monitoring are seen as secondary in terms of priorities.</p>	
	Beach Services	ANA - High	Draft	Good Standard	<p>Water quality standards are being met and adequate steps are planned to address known causes of contamination at one beach; greater involvement in monitoring beach cleaning by the contractor and mini resort licensees would further reduce the risk of pollution at all sites.</p> <p>Monitoring of compliance with license conditions for the mini resorts is not sufficient.</p> <p>Arrangements are in place to protect beaches assets including those temporarily transferred to mini resorts.</p> <p>Charges for services are determined appropriately, although a new service charge requires formalising. Arrangements are established for the reconciliation and collection of income from sites, although we note that management have accepted the risk in relation to cashing up with only one attendant present.</p>

CORPORATE AND BUSINESS SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
The following audits are currently in progress: <ul style="list-style-type: none"> • Transformation Programme - project 'critical friend' role (ANA – Critical) • Fair Decision Making Process – project 'critical friend' role (ANA – High) • Ethics and Culture – project 'critical friend' role (ANA – Medium) • Port Marine Safety Code (Client Request) 				It is anticipated that the reports will be issued and agreed in the third quarter of 2016/17 or as project timescales require. No issues of major concern have been identified from our fieldwork to date.	
The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> • Asset Management Strategy / Plan (ANA – High) • Performance Framework, Consultation and Business Development (ANA – Medium) 				<ul style="list-style-type: none"> • Commissioning and Performance Monitoring by the Council of the Torbay Development Agency (TDA) (ANA – High) • Procurement and Contracting Arrangements (ANA – High) 	
The following audits has been deferred or cancelled at the request of the client:				<ul style="list-style-type: none"> - Accessibility of budget documentation (Client Request) - Coroner Service (ANA – Low) 	

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Community and Customer Services					
Velopark	ANA – Low	Final	Improvements Required	<p>The Velopark is reasonably well managed and operated, with initial income figures exceeding expected levels. An initial business plan supported by a risk analysis and procedural framework was developed at inception. However, the business plan and objectives related to the proposed development of both a Velodrome and the Velopark. Due to arising issues, the decision was made to only proceed with the Velopark and therefore the plan and supporting framework now requires update and review to ensure that current objectives are clearly defined and the delivery of the service is designed around the achievement of these.</p> <p>The security in place is reasonably sound, with lockable racks and CCTV provision; however there are some concerns raised by staff regarding working practices and these need addressing to ensure that staff feel safe in performing their roles.</p> <p>Generally equipment is well maintained, and track inspections are undertaken to minimise risk to the users. Some formalisation of additional supporting policies such a track closure policy, would enhance the existing policy and guidance framework. Risk assessments were undertaken when the facility opened and these will require regular review and update.</p>	
Sports Pitches	ANA – Medium	Final	Improvements Required	<p>The audit review of sports pitch leases identified an inconsistency to rents being charged, rent reviews, lease lengths, monitoring arrangements, and other related contract issues. Income generated did not meet budget expectations, albeit without the benefit of the current Corporate Asset Management Plan (CAMP).</p> <p>Since the conclusion of this audit, we understand that progress has been made through identifying an asset management lead role who has intervened in many of the sports pitch leases reviewed during the audit and clarified instruction arrangements with the TDA; as such, the issues and associated risks identified are now better mitigated. In</p>	

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				addition, a review of the CAMP is currently underway to ensure that it meets the intentions of the Corporate Plan. This direction of travel is reflected in our assurance opinion, and we will follow up the position in the summer and provide an update to Audit Committee then.	
Public Toilets project – ‘critical friend’ role	ANA – Medium	Complete	Value Added	Audit were requested to assist in both the review of the cost of public toilets provision provided by TOR2, and of the Options Proposals paper for Transformation Board. Summary contract cost data was provided by TOR2 from which to base potential savings. Audit provided the project lead with an objective analysis of the options to be presented to Transformation Board.	N/A
Museum Services	ANA – Low	Final	Improvements Required	Comprehensive paper inventory records of the Torre Abbey collection are gradually being replaced by the electronic MODES system; however the delayed completion of this process could adversely affect the accuracy of the resulting electronic record. Despite the arrangements and practices in place and improvements since the last audit, the risks of loss of assets and loss of income remain.	
Concessionary Fares	ANA – High	Draft	Improvements Required	Loss of a key officer has impacted on the Council’s ability to manage annual reimbursement rates with bus operators. Additionally, the accuracy and currency of existing reimbursement rates has been questioned. Recommendation has been made for consultancy input. Payments made to operators is effectively managed, however we consider that too much reliance is placed on bus operators accuracy and honesty. Reports are available to substantiate the claims data but not always provided or used effectively. Recommendations have been made to incorporate these due diligence checks. Checking eligibility of concessionary pass applicants is undertaken robustly, though disabled applications may be open to abuse.	 *

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Discretionary Social Fund (Crisis Support)	ANA – High	Draft	Improvements Required	<p>Whilst it was pleasing to note that the majority of previous report recommendations have been actioned, there remain a number of areas outstanding.</p> <p>In addition, we have recommended that the monitoring of Plough and Share’s administration of the loan scheme is recorded and monitoring outcomes reported to ensure that loan recovery rates are maximised and to hence minimise the financial risk to the Council.</p>	 *
Information Security Group	Value Added	Ongoing	Value Added	Support continues to be provided in the form of attendance and active participation in the Information Security Group. This includes the review and update of the Information Security Policy Framework, work on emerging and supporting policies such as the End User Computing policy and PCI compliance, which has recently been adopted.	N/A
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> • Risk Based Verification Implementation (ANA – Client Request) • Waste & Cleaning – EFW Partnership payments and contract management, TOR2 commissioning (ANA – Critical) • Housing Options (ANA – Medium) 		<p>It is anticipated that the reports will be issued and agreed in the third quarter of 2016/17. No issues of major concern have been identified from our fieldwork to date.</p>			
<p>The following audits are not due to commence until the second half of 2016-17:</p> <ul style="list-style-type: none"> • Emergency Planning and Business Continuity (ANA – High) 		<ul style="list-style-type: none"> • Safer Communities – community safety partnership / domestic abuse (ANA – Medium) 			
IT Audit					
Change Management	ANA – High	Final	Improvements Required	Effective ICT change control is critical in minimising the risk of interruptions to the IT infrastructure and associated data corruption and loss. Whilst the Council operates some ICT change management processes, these are not consistent and do not provide a robust framework by which risks are minimised or mitigated. There are some areas of good practice which do provide a good level of control in those areas.	

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Harbour Mooring Replacement System	ANA - Medium	Final	Value Added	We have provided advice on both the system and project controls. An advice note to support progression of the project to completion has been issued, and further support and advice continues to be made available to the project team where required.	N/A
Channel Shift	ANA – High	Final	Value Added	Project support and QA role provided and subsequent advice note provided to the client to support project progression and implementation. Channel Shift remains an ongoing process and further advice and support is available where required.	N/A
Service Strategy	ANA - High	Final	Value Added	We have provided advice to support the strategy review prior to auditing the ICT strategy formulation.	N/A

The following audits are currently in progress:

- Partnership Working (ICT systems) TOR2 (ANA – High)
- Library Services (new system implementation) (ANA – Medium)
- Cyber Essentials (Client Request)

It is anticipated that the reports will be issued and agreed in the third of 2016/17. No issues of major concern have been identified from our fieldwork to date.

The following audits are not due to commence until the second half of 2016/17:

- Service Design (ANA – Critical)
- PCI Compliance (ANA – High)
- ICT Continuity and Disaster Recovery - project 'critical friend' role (ANA – Critical)

- Corporate Information Management (ANA – Critical)

The following audits have either been cancelled by the client or deferred until 2017-18:

- Service Strategy (ANA – Critical)
- Infrastructure Management (ANA – Critical)

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Material Systems (within Community and Customer Services)					
Corporate Debt	ANA – Medium	Final	Improvements Required	Assurance was reported in last year’s report; please refer to that report for details.	
Benefits	ANA – Medium	Final	Good Standard	<p>This year’s walkthrough has identified few concerns in terms of the overall control environment, processing claims or transferring related payments; with the design of the system being sufficiently robust to prevent inaccurate or inappropriate awards from being made.</p> <p>Our recommendations mainly centre on the assessment and processing of self-employed earnings, where there continue to be issues.</p>	
IBS Open System Administration	ANA - High	Final	Good Standard	<p>IBS System management and the related control environment are being effectively maintained, and our work this year only identified one new area of concern; this relates to the access control of a generic user account / group. However, there remain a number of outstanding recommendations from the previous audits that now require action..</p> <p>The acknowledged lack of segregation of duty remains, as do various issues in relation to the system that cannot be resolved without additional cost to the organisation; hence the associated risks continue to be accepted by management.</p>	
Council Tax & NDR	ANA – Medium	Final	Improvements Required	<p>The team have continued to maintain accuracy and control over property data with amendments to billing adequately supported.</p> <p>There has been a lack of progress in implementing the recommendations made previously, hence the significant number of issues that have been re-reported, including the lack of regular review of discounts and exemptions to accounts and untimely changes to property valuation data, both resulting in a risk of unnecessary loss of income.</p> <p>Existing performance targets are insufficient to adequately monitor the work of the team, and generally performance targets are not being</p>	

COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				met. We acknowledge that there have been structural and management changes in year that may have impacted capacity to progress change.	

The following audits are currently in progress:

- Highways, Street Scene, Lighting and Transport Infrastructure – UK PMS System (ANA – High)

It is anticipated that the reports will be issued & agreed in the third quarter of 2016/17. No issues of major concern have been identified from our fieldwork to date.

The following audits are not due to commence until the second half of 2016/17:

- Benefits (ANA – Medium)
- Council Tax & NDR (ANA – Medium)
- Debtors & Corporate Debt (ANA – Medium)

Children's Services

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Fostering	ANA - High	Draft	Improvements Required	<p>Torbay changed from a tiered payment system for in-house foster carers to a fixed payment of £400 in October 2013.</p> <p>Whilst a number of foster carers have transferred from Independent Sector Providers (14 at the time of the audit), it appears that these have not been enough to achieve the potential savings that were indicated as part of the Children's Service Five Year Cost Reduction Plan. A review of the payments made by Torbay to Independent Sector Providers used by Torbay has showed that the average payment made was over £700 and of the 64 Independent Sector Placements 40 (62%) were paid over £800. Torbay currently pay independent sector providers between £550 / week to £1,242 / week. In order to get costs lower and to achieve the savings identified in the Children's Services Five Year Cost Reduction Plan, Torbay need to target the higher cost Independent Sector Providers and consider what level of payment is needed to achieve further savings.</p>	

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The following audits are currently in progress:

- Contracts, Commissioning, Procurement including CSW (ANA – High)
- Business Systems and Processes and Resourcing (ANA – High)

It is anticipated that the reports will be issued & agreed in the third quarter of 2016/17. No issues of major concern have been identified from our fieldwork to date.

A meeting has been held to scope the aims and objectives of the Special Educational Needs & Disability (SEND) - Ofsted Framework audit. Whilst work on this review was originally scheduled for Quarter 3 the client has now requested a commencement date of early January 2017. A meeting to scope the audit of Care Leavers - Transition Plans has been held and a request has been made for a scoping meeting upon PARIS - Case Recording / Data Quality / Business Use.

The following audits are scheduled for the second half of the year:

- | | |
|--|---|
| - PARIS - Case Recording / Data Quality / Business Use | - Safeguarding Unit and Board |
| - Proposed transfer of Children's Services into the Integrated Care Organisation (ICO) | - Looked After Children - Referrals |
| | - Care Leavers - Transition Plans |
| | - 5 Year Savings Plan / Budget Strategy |

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Grants					
Troubled Families (Sept 2016 claim)	Client Request	Completed	Certified	No issued identified.	N/A
Maintained Schools					
Schools Financial Value Standards (SFVS)	ANA – Low Mandatory for LA / Schools	Final	Good Standard	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2015/16 submitted to the Department for Education.	
Maintained Schools audit programme	Agreed programme through 'buy back'	On-going	Good Standard	The overall opinion for the routine school audit visits has been maintained as 'good standard' (refer to summary data below). The provision of internal audit's performance data provides a greater focus on schools causing concern in the wider control environment.	
Maintained Schools Summary Data					Assurance Opinion
<p>The key matters arising from the audits are:</p> <ul style="list-style-type: none"> Concerns still remain on the publication of governance information on school websites in a readily accessible format; Schools are expected to link their development plans to the budget to confirm the affordability of school improvement. We are continuing to make recommendations in this area; Absence of specific business continuity plans / incorporating more business continuity into existing emergency plans and management of assets with reference to inventory records. <p>Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.</p>					Good Standard

Adult Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
NRS Joint Equipment	Client Request	Draft	Improvements Required	<p>Torbay Council actively reviews the contract and its performance on a monthly basis. However different parameters and areas could be periodically reviewed to identify anomalies and issues requiring further examination.</p> <p>Audit undertook detailed examination of historic activity reports generated by NRS from iRIS4 which support the NRS monthly invoices sent to Torbay Council. Issues identified are as follows:-</p> <ul style="list-style-type: none"> • Tests undertaken upon a sample of equipment requiring annual or 6-monthly Pre-Planned Maintenance (PPM) has shown NRS charged Torbay Council for PPM each time such equipment returned to the warehouse; whether or not the PPM is due. This has now been resolved through a contract variation. • Monthly reports detail equipment where PPM is overdue. Fifteen items were sampled from the overdue maintenance list; PPM was found to be late by between 75 - 340 days. The majority of this equipment had been with service users for over a year and had not been maintained on site. Equipment within the sample included ambulatory syringe pumps, bath-lifts, hoists, mattresses and beds. • The iRIS4 database is not fully maintained and updated. Deceased persons were found to be shown as 'Active'. 	

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The following audits have not started; they are due to commence within the second half of the year:

- Better Care Fund / Section 256 monies
- Commissioning and Performance Management

Appendix 2 – Performance Indicators

There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI's:

Annual Local Performance Indicators (LPI)	2013/14	2013/14	2014/15	2014/15	2015/16	2015/16	2016/17	2016/17
	Target	Actual	Target	Actual	Target	Actual	Target	Six Months Actual
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	100%	100%	100%	100%	63%
Percentage of Audit plan Completed (Inc. Schools)	93%	90.4%	93%	91.7%	93%	88%	93%	40%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	105.9%	95%	99%	95%	95%	95%	54%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	100%	100%	On target
Percentage of chargeable time	65%	69.3%	65%	67.8%	65%	68%	65%	66.9%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	99%	90%	99%	90%	96%
Draft Reports produced within target number of days (currently 15 days)	90%	83.2%	90%	77.7%	90%	76%	90%	78%
Final reports produced within target number of days (currently 10 days)	90%	88.6%	90%	96.6%	90%	97%	90%	100%
Average level of sickness absence (DAP as a whole)	2%	3%	2%	5.5%	2%	5.9%	2%	5.46%
Percentage of staff turnover (DAP as a whole)	5%	3%	5%	16.6%	5%	4%	5%	17%
Out-turn within budget	Yes							

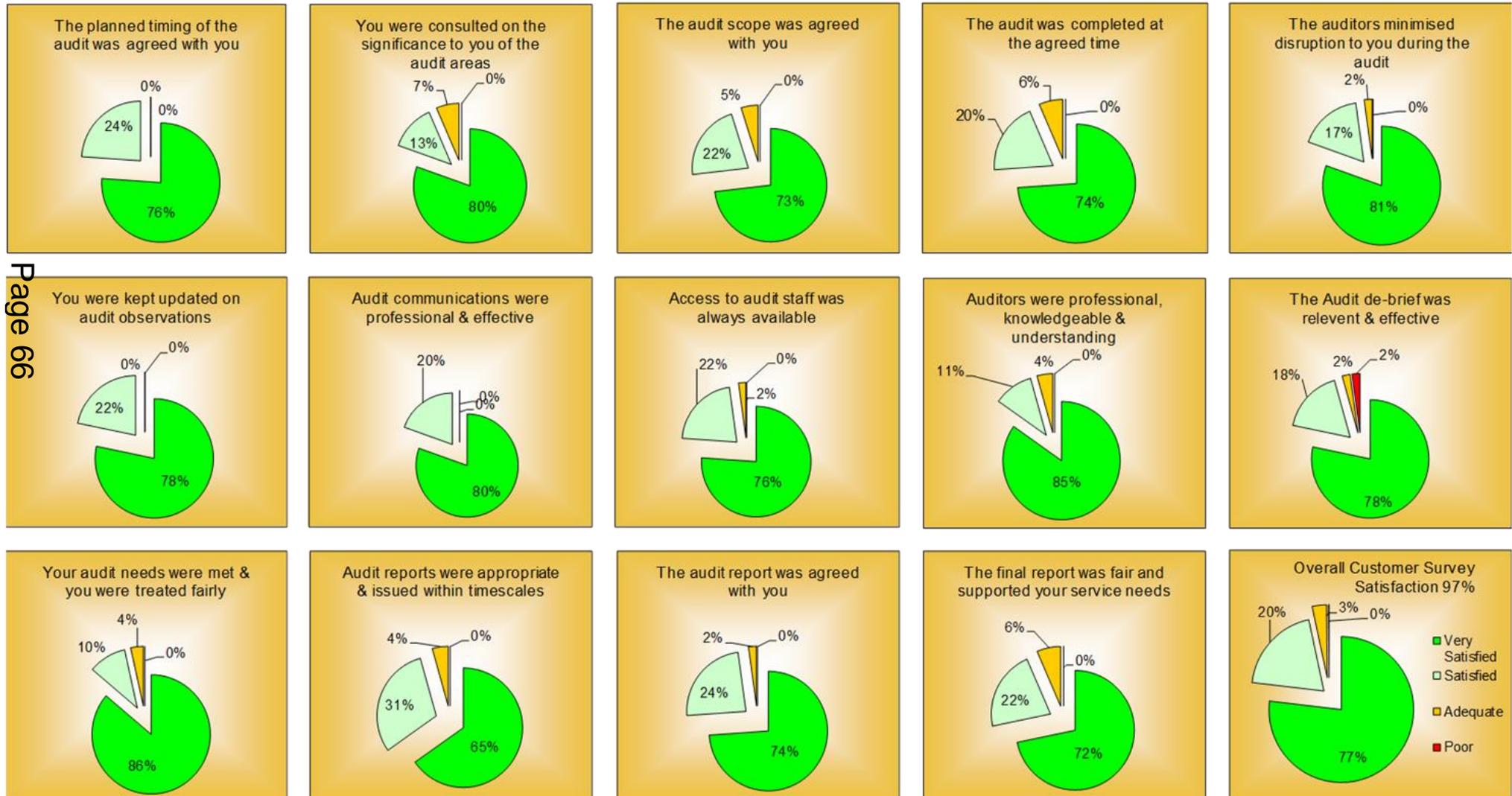
Note 1 - Sickness in the first part of 2016/17 has been high at 198 days or 5.64% of available time; equates to around 6.5 days per FTE. As always, we are working with staff to ensure that attendance at work is maximised; the assistance of HR support organisations such as Wellbeing @ work also assists us. We recently asked HR colleagues to provide detailed absence management training for managers and expect that this will ensure all episodes are dealt with consistently and in line with the DCC managing absence arrangements.

Note 2 – 3 people have left DAP; 1 x apprentice started; 1 x person on secondment to another role

Appendix 3 - Customer Service Excellence

Customer Survey Results April - October 2016

The charts below show a summary of 46 responses received.



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Appendix 4 – Definitions

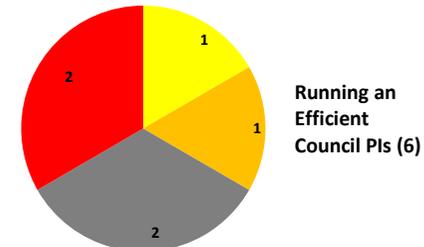
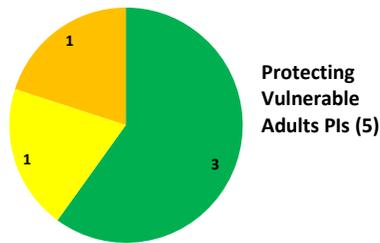
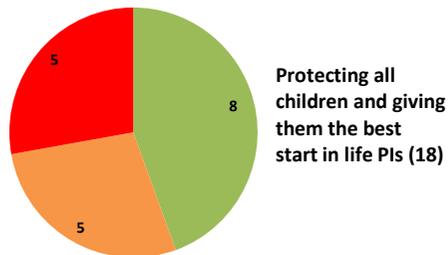
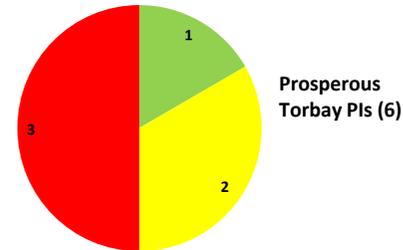
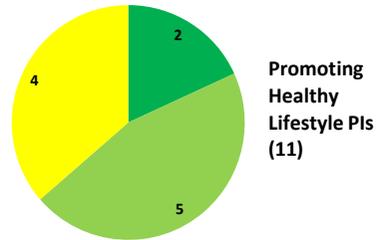
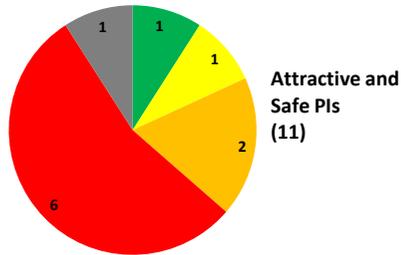
Definitions of Audit Assurance Opinion Levels

Confidentiality under the Government Security Classifications

Assurance	Definition	Marking	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.	Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.	Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.	Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.		

Performance and Risk Report October and November 2016

Key to Performance Status:



The risks in this report are high level strategic risks aligned to the Corporate Plan. This report enables the council's Senior Leadership Team (SLT) to be able to review and challenge the council's risks on a regular basis and identify improvement actions or mitigations required. Business units will continue to develop and manage their own risk measures aligned to their specific service areas. These business unit risks will be reported by exception to SLT, therefore the current risks listed within this report may be exchanged for others in the future.

An Attractive and Safe Place

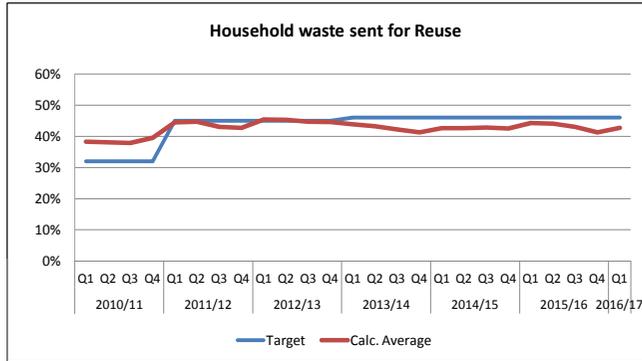
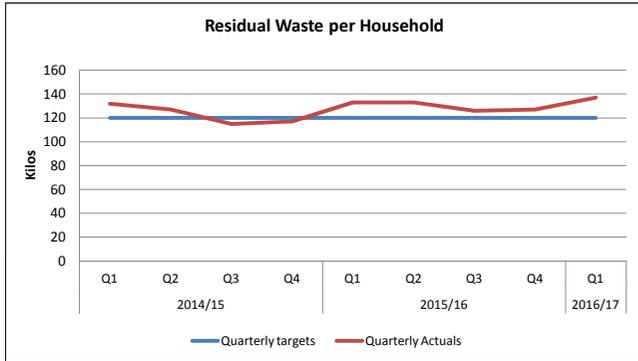
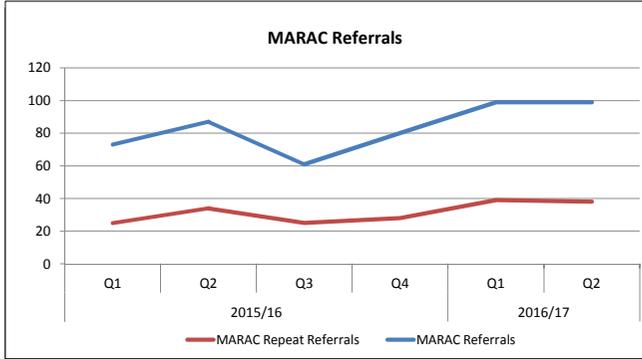
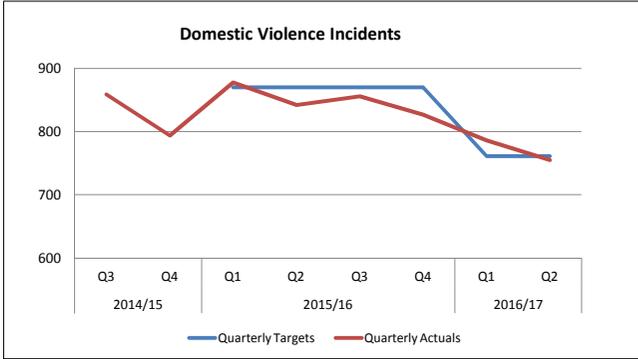
Attractive and Safe: Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Target	Quarter 3 2015/16	Quarter 4 2015/16	Quarter 1 2016/17	Quarter 2 2016/17	Last period value
ASPI00 a	Numbers on the housing waiting list by Band A.	It's better to be low	Well Above Target	Band A 2	Band A 2	-		Band A 2	Band A 6	Band A 6
ASPI00 b	Numbers on the housing waiting list by Band B.	It's better to be low	Well Above Target	Band B 330	Band B 300	-		Band B 356	Band B 350	Band B 350
ASPI01	Average number sleeping rough	It's better to be low	Above Target	24	20	-	24	23	22	22

Code	Title	Polarity	Status	Prev Year End	Target	Quarter 3 2015/16	Quarter 4 2015/16	Quarter 1 2016/17	Quarter 2 2016/17	Cumulative to date
ASPI02	Numbers in Temporary accommodation	It's better to be low	Well Below Target	497	420	-	-	141	137	278
ASPI03	How long people stay in temporary accommodation	It's better to be low		33	30	-	-			New indicator - awaiting data
ASPI04	Total number of placements of 16-17 year olds in emergency temporary accommodation	It's better to be low	Well Above Target	45	41			12	15	27
ASPI05	Domestic violence incidents	It's better to be low	On Target	3,043	3,043	856	827	786	755	1,541
ASPI06	MARAC Referrals	It's better to be low	Well Above Target	301	301	61	80	99	99	198
ASPI07	MARAC Repeat Referrals	It's better to be low	Well Above Target	112	112	25	28	39	38	77

Code	Title	Polarity	Status	Prev Year End	England Value	Quarter 3 2015/16	Quarter 4 2015/16	Quarter 1 2016/17	Quarter 2 2016/17	Last period value
NI191	Residual household waste per household	It's better to be low	Well Above Target	129kg	120kg	126kg	127kg	137kg	Not due	137kg
NI192	Percentage of household waste sent for reuse, recycling and composting (LAA)	It's better to be high	Below Target	42.61%	47.00%	43.01%	42.61%	42.78%	Not due	42.78%

An Attractive and Safe Place: Performance of Monthly and Quarterly PIs



Attractive and Safe: Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?												
ASPR01	Increased demand on housing services	High (20)	19/10/16	5 - Almost certain	4 - Major	Fran Hughes	Alternative provision is being explored i.e. Agreement with Mears Group re leased accommodation. Re-procurement of temp accom started July 2016.		Accepted												
ASPR02	Failure to meet statutory thresholds	Medium to high (12)	19/10/16	3 - Possible	4 - Major	Fran Hughes	Maintain sufficient resilience within teams providing statutory services to meet thresholds		Accepted												
ASPR03	Increasing cost of highways improvements and maintenance	Medium to high (12)	29/11/16	4 - Likely	3 - Moderate	Fran Hughes	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.	There has not been any recent significant change. Preventative maintenance programme for 2016/17 has been completed.	Accepted												
ASPR04	Cliff and Sea defence failures through storm/ lack of maintenance	Medium to high (12)	01/12/16	3 - Possible	4 - Major	Fran Hughes	Continue maintenance and apply for capital funding from council and grant aid funding from Environment Agency. Part of Oddcombe Cliff has recently been stabilised. A rock fall at Goodrington occurred and as a result further stabilisation works will be required in the autumn. Investigations are 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. These works are likely to be required in the autumn due to birds nesting on cliffs. A number of coastal defence schemes are on the Environment Agency medium term plan which covers the next 6 years. One of these is Hollicombe Cliffs, a project appraisal report has recently been approved by the EA to for £1.2million of grant in aid funding. Detailed design works are underway and the scheme should commence on site in late October 2016. Following a rock fall at Meadfoot sea road a new rock catcher fence is required to mitigate the risk of rocks falling onto the highway.	<ul style="list-style-type: none"> As no funding has been made available to stabilise the rock fall at Goodrington, the area is being monitored. Detailed design and contract preparation for the Freshwater Quarry stabilisation scheme has been completed. Tenders were invited in late October 2016 and these bids have been returned on 1st December 2016. The tender submissions are currently being evaluated. The successful contractor will be appointed before Christmas and works will commence on site in January 2017. All works are programmed to be completed by the end of April 2017. Tenders for the Hollicombe Cliffs rock armour scheme were received in late October 2016 and the successful contractor has been appointed. Works cannot commence on site until we have received an MMO licence for the works and this is due in early December. As a result it is likely that the contractor will commence works on site in early January 2017 with all works being completed before Easter 2017. All works on the rock catcher fence at Meadfoot were completed in November 2016. 	With mitigation works the risk is reduced however areas where we have not undertaken any works are still at risk as we cannot predict where rock falls are likely to occur.												
ASPR05	Increasing cost of waste disposal.	Medium to high (12)	19/10/16	3 - Possible	4 - Major	Fran Hughes	Contract review being undertaken		Accepted												
ASPR06	Reduction of Police funding and possible cost shunt to the council	High (20)	19/10/16	4 - Likely	5 - Critical	Fran Hughes	Ensure that a robust Community Safety Partnership remains in place to identify and address escalating issues.		Accepted												
ASPR07	Increase in crime	Medium to high (12)	19/10/16	4 - Likely	3 - Moderate	Fran Hughes	Reduction in resources across all agencies could have an impact on crime levels.	<table border="1"> <thead> <tr> <th>Yr13/14</th> <th>Yr14/15</th> <th>Yr15/16</th> <th>Q1 16/17</th> <th>Q2 16/17</th> <th>Q3 16/17</th> </tr> </thead> <tbody> <tr> <td>9,812</td> <td>8,988</td> <td>8,586</td> <td>2,425</td> <td>2,612</td> <td></td> </tr> </tbody> </table>	Yr13/14	Yr14/15	Yr15/16	Q1 16/17	Q2 16/17	Q3 16/17	9,812	8,988	8,586	2,425	2,612		Accepted
Yr13/14	Yr14/15	Yr15/16	Q1 16/17	Q2 16/17	Q3 16/17																
9,812	8,988	8,586	2,425	2,612																	
ASPR08	Unsustainable funding for Domestic Abuse Services	High (20)	19/10/16	4 - Likely	5 - Critical	Fran Hughes	Existing contract has been extended until Sept 2017 with additional funding from CSP. Future funding being considered by SWIFT.		Accepted												

Promoting healthy lifestyles

Promoting healthy lifestyles: Performance Indicators

Code	Title	Polarity	Status	Prev Year End	England Value		Last period value
PHOF2.06 HI	Excess weight in 4-5 and 10-11 year olds – 4-5 year olds (Per 100,000)	It's better to be low	Well Above Target	25.3%	21.9%	2014/15	24.1%
PHOF2.15i HI	Successful completion of drug treatment – opiate users	It's better to be high	Well Below Target	7.4%	6.7%	2015	5.9%
PHOF2.18 MHI	Admission episodes for alcohol-related conditions –narrow definition (Male) per 100,000	It's better to be low	Well Above Target	1,002	827	2014/15	965
PHOF2.18 FHI	Admission episodes for alcohol-related conditions –narrow definition (Female) per 100,000	It's better to be low	Well Above Target	642	474	2014/15	600
PHOF2.22 vHI	Cumulative % of the eligible population aged 40-74 received an NHS Health Check	It's better to be high	Below Target	n/a	27.4%	2013/14 - 2015/16	25.7%
PHOF2.13i HI	Smoking Prevalence	It's better to be low	On Target	19.9%	16.9%	2015	17.0%
PHOF2.13i HI	Percentage of physically and inactive adults - active adults	It's better to be high	Below Target	52.4%	57.0%	2015	53.6%
PHOF2.13i IHI	Percentage of physically and inactive adults - inactive adults	It's better to be low	On Target	34.2%	28.7%	2015	29.9%
PHOF2.12 HI	Excess weight in adults - Percentage of adults classified as overweight or obese	It's better to be low	Above Target	68.1%	64.8%	2013-2015	68.4%
Code	Title	Polarity	Status	Prev Year End	England Value		Last period value
PHOF0.2iv MOI	The gap between life expectancy at birth in Torbay and life expectancy at birth for England: Male	It's better to be high	Below Target	-0.3	0.0	2012-2014	-0.5
PHOF0.2iv FOI	The gap between life expectancy at birth in Torbay and life expectancy at birth for England: Female	It's better to be high	Below Target	-0.3	0.0	2012-2014	-0.2

Promoting healthy lifestyles: Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
PHLR01	Pandemic - i.e. Flu/Ebola	Medium to high (12)	29/11/16	3- Possible	4 - Major	Caroline Dimond	Emergency plans	On-going risk. Exercise planned for October	Accepted
PHLR02	Reduction in the public health grant	Medium to high (12)	29/11/16	4 -Likely	3 - Moderate	Caroline Dimond	Forecast budget planning taking into account potential impact of reduction. Awaiting actual cut, Planning mitigating actions.	Risks identified	Accepted
PHLR03	Reduction in funding for sport and leisure services	Medium (8)	19/10/16	4 -Likely	2 - Minor	Fran Hughes	The authority needs to identify and attract alternative sources of funding for sports and leisure services.		Accepted

Prosperous Torbay

Prosperous Torbay: Performance Indicators

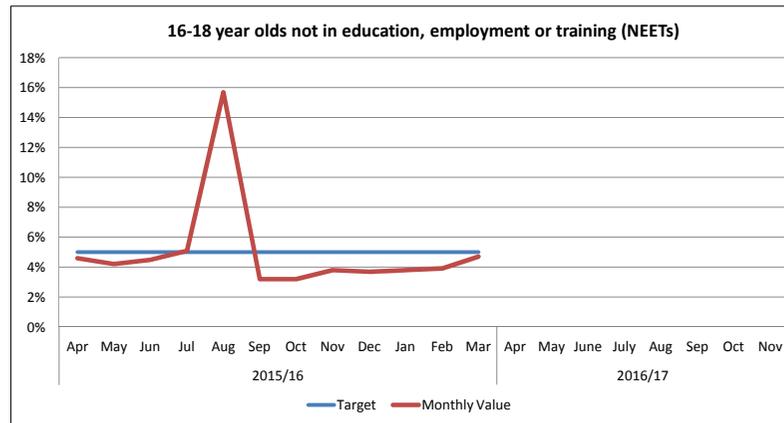
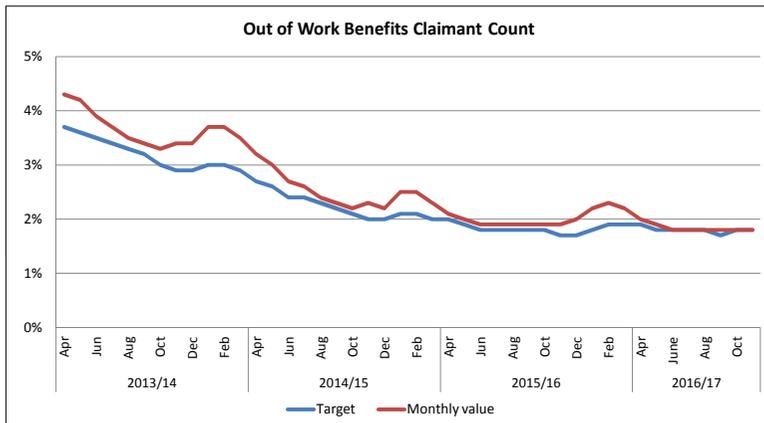
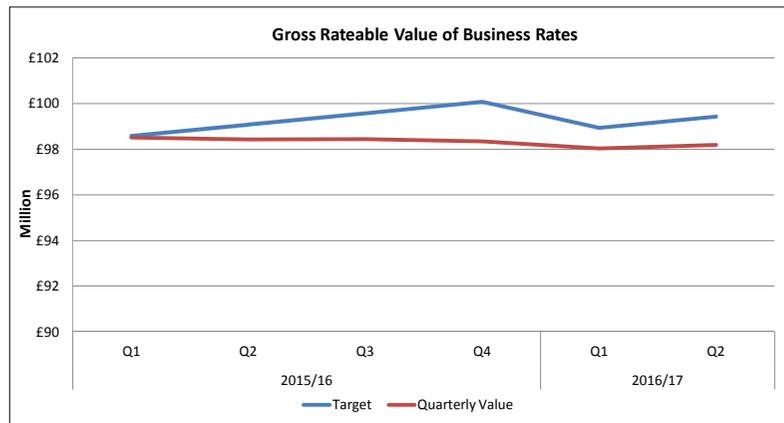
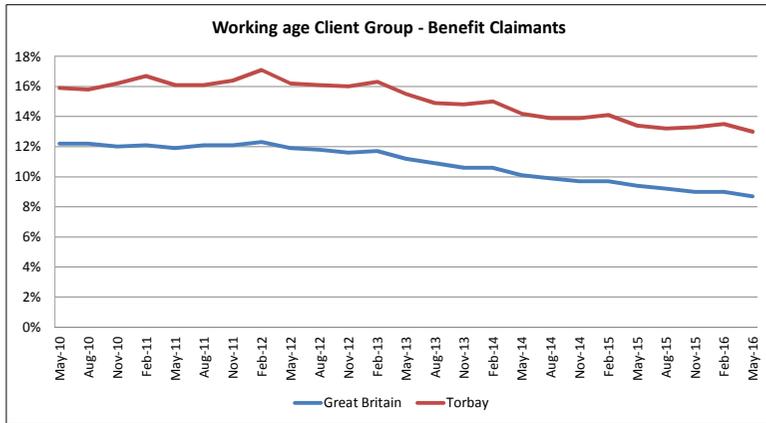
Code	Title	Polarity	Status	Prev Year End	Great Britain / Quarter Target	Aug-15	Nov-15	Feb-16	May-16	Last period value
PTPI01	Working age Client Group - Main benefit claimants	It's better to be low	Well Above Target	13.9%	8.7%	13.2%	13.3%	13.5%	13.0%	13.0% (9,990)

Code	Title	Polarity	Status	Prev Year End	Quarter Target	Quarter 3 2015/16	Quarter 4 2015/16	Quarter 1 2016/17	Quarter 2 2016/17	Last period value
PTPI02	Gross rateable value of Business Rates (NDR)	It's better to be high	On Target	£98,334,749	£99,426,668	£98,439,809	£98,334,749	£98,027,554	£98,187,919	£98,187,919

Code	Title	Polarity	Status	Prev Year End	Great Britain / Month Target	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Last period value
PTPI03	Out of Work Benefits Claimant Count	It's better to be low	On Target	2.2%	1.8%	2.0%	2.2%	2.3%	2.2%	2.0%	1.9%	1.8%	1.8%	1.8%	1.7%	1.8%	1.8%	1.8% (1,415)
PTPI04	% 16 - 18 year olds not in education, employment or training (NEET)	It's better to be low	Below Target	4.0%	5.0%	3.2%	3.8%	3.7%	3.8%	3.9%	4.7%							

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

Prosperous Torbay: Performance of Monthly and Quarterly PIs



Prosperous Torbay: Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
PTR02	Local Plan not delivered	Medium (8)	20/07/16	2 - Unlikely	4 - Major	Kevin Mowat	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. Political support for masterplan delivery / regeneration continues; appointment of major projects programme director will help reduce risk		
PTR03	Failure to meet national planning performance targets	Medium to high (12)	20/07/16	3 - Possible	4 - Major	Kevin Mowat	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. Performance report to DMC in June 2016 showed continued improvements over last 2 years		
PTR04	Five year housing land supply	Medium to high (12)	20/07/16	3 - Possible	4 - Major	Kevin Mowat	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. BREXIT has had a major impact on national house builders and on Government timeframes for bringing forward new legislation to allow Permission in Principle. Continued work on Neighbourhood Plans to help bring forward more housing sites. Council has published and promoted Brownfield land register and established a self-build register.		

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
PTRO5	Further reductions made under welfare reforms	Medium to high (12)	01/12/16	4 -Likely	3 - Moderate	Bob Clark	<p>The Council recognises that residents are facing wider financial pressures from energy bills, increasing housing costs as well as welfare reforms, the ability of lower income households to absorb the impact is restricted. Early engagement our customers who are impacted ensures they make informed choices, are offered appropriate support and do not fall into debt.</p> <p>As Torbay's economy grows and unemployment falls, strategies that encourage new employment, skills development and enterprise will mitigate welfare reform. The following actions should be undertaken;</p> <ul style="list-style-type: none"> • Support those most affected by welfare reform into jobs • Inform and prepare residents for welfare reform changes • Inform and prepare staff for welfare reform changes • Engage, involve and prepare elected members • Internal council activity - Identify wider financial risks where demand for services may increase, e.g. Homeless, Customer Services and Children's Services etc. 	<p>Benefit Cap – lower thresholds were introduced from 7 November 16, initially affecting 40 households already capped. From 28 November 16 around 230 new cases will be introduced over a two month period.</p> <p>Council Tax Support – proposed new scheme to go to full council on 8 December. Further update in January with the outcome.</p> <p>Local Housing Allowance(LHA) rate in social housing – it was announced in the 2016 Autumn Statement that the implementation of the cap on Housing Benefit and LHA rates in the social rented sector will be delayed by one year, to April 2019. The cap will be applied to all supported housing tenancies from April 2019, and the government will provided additional funding to Local Authorities , so that they can meet the additional costs of supported housing in their area. In Torbay we pay in excess of £2 million in HB for supported accommodation, which will cover around 65% of this cost, leaving the grant fund to cover the remainder. This will have a financial impact on either the council or vulnerable tenants.</p>	Accepted

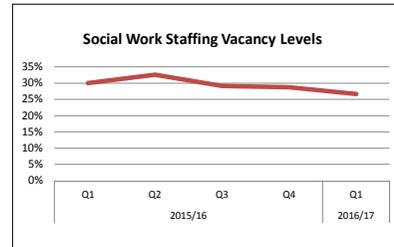
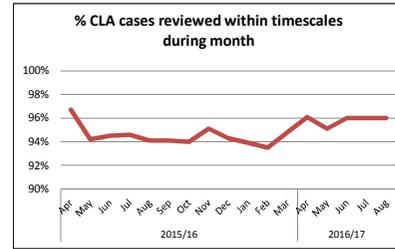
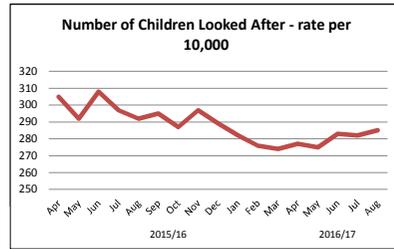
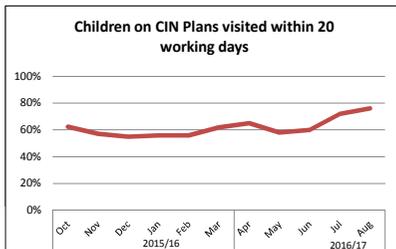
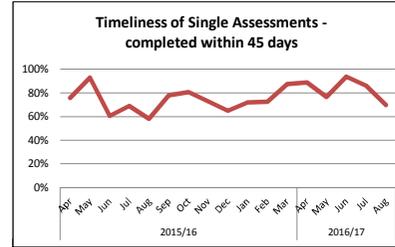
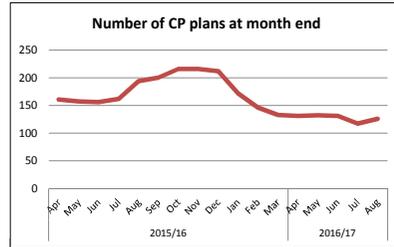
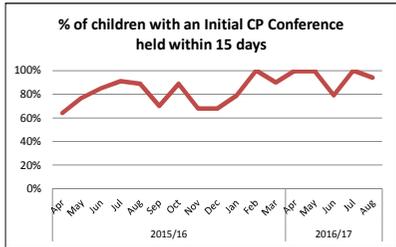
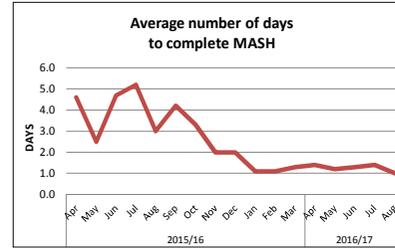
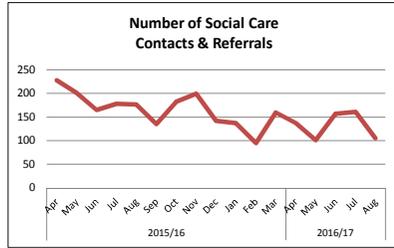
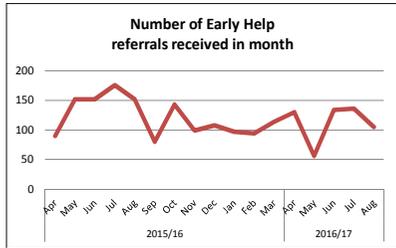
Protecting All Children and Giving Them the Best Start in Life

Protecting All Children and Giving Them the Best Start in Life: Performance Indicators

Code	Title	Polarity	Status	Average monthly for 15/16 year	Anticipated performance level	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Last period value
1	Number of Early help referrals received in month	In line with our service expectations	In line	122	100 per month (1200)	108	97	94	114	130	112	134	136	105				
4	Number of Social Care Contacts & Referrals	Its better to be low	Below expected levels	168	135 per month or 1,620 per year	142	137	95	160	137	158	157	161	105				
Code	Title	Polarity	Status	Average monthly for 15/16 year	Anticipated performance level	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Last period value
5	Average number of days to complete MASH	Its better to be low	In line	3.04 (working days)	1.0	2.0	1.1	1.1	1.3	1.4	1.2	1.3	1.4	1.0				
11	% of children with an Initial Child Protection Conference held within 15 days from strategy meetings	Its better to be high	In line	79%	100.0%	68%	79%	100%	90%	100%	100%	79%	100%	94%				
12	Number of CP plans at month end by Category	In line with benchmarks	In line	133	140	212	172	146	133	131	137	131	117	126				
	Timeliness of Single Assessments - completed within 45 days	Its better to be high	Below expected levels	75%	82%	64.8%	71.9%	72.4%	87.5%	88.9%	76.7%	93.6%	86.0%	69.8%				
16	% CLA cases reviewed within timescales during the month	Its better to be high	Below expected levels	96%	100.0%	94.7%	93.9%	93.5%	94.8%	96.1%	95.1%	96.0%	96.0%	96.0%				
Code	Title	Polarity	Status	As at 2015/16 year end	Anticipated performance level	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Last period value
12	Children on CIN plans visited within 20 working days	Its better to be high	Well above expected levels	53%	80%	55%	56%	56%	62%	65%	58%	60%	72%	76%				
18	Number of Children Looked After	In line with benchmarks	Well above expected levels	274	250	289	282	276	274	277	275	283	282	285				

Code	Title	Polarity	Status	As at 2015/16 year end	Quarter Target	Quarter 3 2015/16	Quarter 4 2015/16	Quarter 1 2016/17	Quarter 2 2016/17	Last period value
17	Social Work Staffing levels – numbers, vacancies	Its better to be low	Below expected levels	28.7%	18%	29.1%	28.7%	26.7%		
Code	Title	Polarity	Status	Prev Year End	England Value					Last period value
19	Adoption Timeliness - Average time from entering care to moving in with adoptive family	Its better to be low	Below expected levels	530	426	2015/16				360
PCPI09	KS4 % achieving 5+ A*-C GCSEs (or equivalent) including English and maths GCSEs	It's better to be high	In line	56.6%	53.8%	2015				57.3%
PCPI10	KS2 % achieving level 4 or above in reading, writing and maths	It's better to be high	In line	77.0%	80.0%	2015				80.0%
PHOF1.021 W	School Readiness: All children achieving a good level of development at the end of reception.	It's better to be high	In line	61.30%	66.3%	2014/15				64.4%
PHOF2.021 iHI	Breastfeeding Prevalence at 6-8 weeks after birth	It's better to be high	Well below expected levels	n/a	43.8%	2014/15				35.7%
PHOF2.03 HI	Smoking status at the time of delivery	It's better to be low	Well above expected levels	16.1%	10.6%	2015/16				15.0%
PHOF2.091 iHI	Smoking prevalence at age 15 - regular smokers (WAY survey)	It's better to be low	Well above expected levels	n/a	5.5%	2014/15				10.4%
PHOF3.03 xHP	Population vaccination coverage - MMR for two doses (5 years old)	It's better to be high	In line	88.9%	88.6%	2014/15				89.9%

Protecting All Children and Giving them the Best Start in Life: Performance of Monthly and Quarterly PIs



Protecting All Children and Giving Them the Best Start in Life: Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
PCR01	Increased demand for services (Troubled Families/Early Help Strategy)	Medium to high (12)	23/08/16	3 - Possible	4 - Major	Andy Dempsey	Work is underway with TSCB partners to review the approach towards Early Help to ensure work is managed and led at the right point within the continuum of need.	Discussions have been ongoing with Hampshire colleagues around the revised model which will bring the troubled families programme more directly within the scope of early helps arrangements. This work will progress during October.	Accepted
PCR02	Delivery of 5 year plan - Stemming The Flow (Including PIP)	High (16)	23/08/16	4 - Likely	4 - Major	Andy Dempsey	Year 1 is currently projecting an overspend at the end of Q1 of circa £1.3m. Although action has been taken to address this, the cumulative impact of assumptions within the plan around reductions in placement costs that are yet to be actioned will eradicate those savings and generate a potential pressure of £2.2m by year end. A comprehensive review of the CLA population has been commenced to determine the effectiveness of permanency planning and the extent to which there are planned exits from care sufficient to deliver the 5 year plan. This exercise will be completed by end of August. A dedicated placements/contacts/commissioning team will be created using existing resources in September to focus on placement capacity and costs.	At the end of Q2 the budget pressure remains around £1.4m this is despite in year staffing and agency savings having been made and is due to the lack of progress with placement changes incorporated within year 1 of the previous financial plan. Work is on-going to address the in year pressures through the formation of a placements and contracting team which will focus on progressing the planned moves and addressing high cost placements. The review of the CLA population has been completed and is identifying around 49 planned exits for 2017/18. The exercise has highlighted that further work is needed to improve permanence planning. At this stage the projections are for the CLA population to be more or less stable for 2017/18 until a more proactive approach towards permanence is embedded during the final half of 2016/17. Peopletoo have been commissioned by the LGA to work with Children's Services around financial planning and service improvement. The work has identified a range of savings for the years 2017-2020 which are currently being evaluated and will be included within the department's financial plan going forward.	Reduced
PCR03	Delivery of TPST and Integrated Care Organisation	High (16)	23/08/16	4 - Likely	4 - Major	Andy Dempsey	Mutual Ventures (MV) undertook an evaluation of work to progress the transfer of Children's Services into the ICO in March. They concluded that much work remained to be completed. The inspection outcome has necessarily required the timescales for transfer to be recalibrated and for improvement activity to be carefully balanced with preparation work. MV will be working with stakeholders in September with the aim of having a revised project plan in place by end of the month.	The Mutual Ventures project commenced in September and is progressing in line with expectations. The aim remains to have the base case arguments for the ICO completed by the end of December but in a manner that will also provide much of the pre-work for other alternative delivery models should the ICO not prove to be the optimal solution.	Accepted
PCR04	Safeguarding Improvement Programme	Medium to high (12)	23/08/16	3 - Possible	4 - Major	Andy Dempsey	National research (ISOS/LGA) suggests that sustained and marked improvement in Children's Services taken 18-12 months from the point that an accurate picture of performance is in place. Hampshire and Ofsted have identified improvements in voice of the child and assessment work alongside areas requiring considerable improvement. The improvement process is also being reviewed to place a much tighter focus on meeting the Ofsted recommendations, following an approach used by Hampshire in their improvement work for other authorities. The revised approach will be in place for September.	Both Ofsted and the DfE appointed Commissioner have now reported on progress. Both concluded that Torbay is making expected progress but that much work remains to be done. A revised improvement plan has been developed with input from Hampshire to provide a greater degree of focus on the completion of improvement tasks underpinned by a revised performance management framework to detect impact.	Reduced
PCR05	Removal of the Education Service Grant	High (16)	23/08/16	4 - Likely	4 - Major	Andy Dempsey	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. A mapping exercise is underway to understand how ESG is underpinning corporate/central services with the aim of mitigating the impact of ESG withdrawal.	The residual ESG funding for the local authority has been confirmed as £15 per head which has been determined as being broadly efficient to meet the local authority's residual duties. However, work is ongoing to determine how the residual funding that did not come to Children's Services has been used historically in order to mitigate the impact of the funding reductions from 2017 onwards.	Accepted

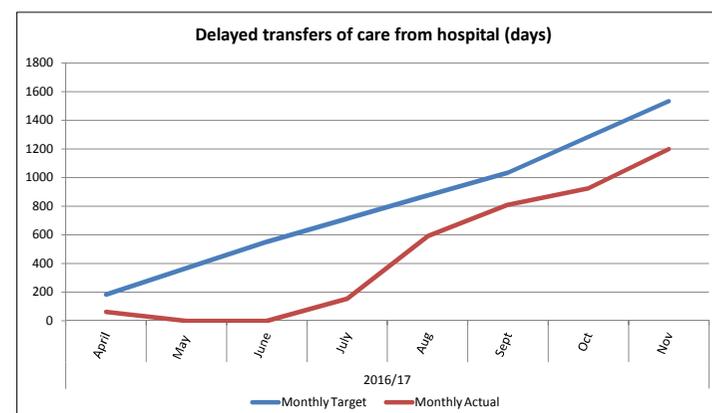
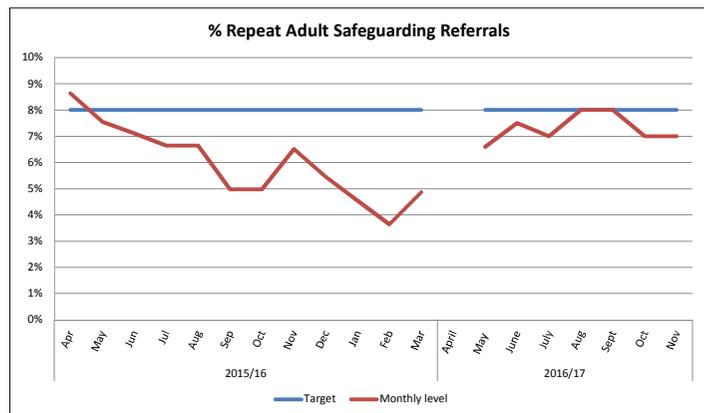
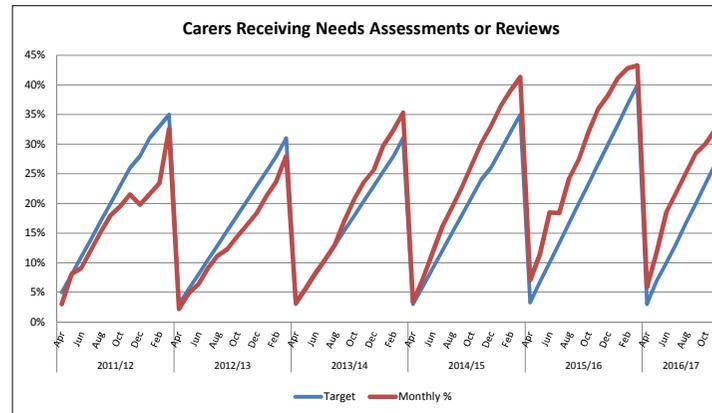
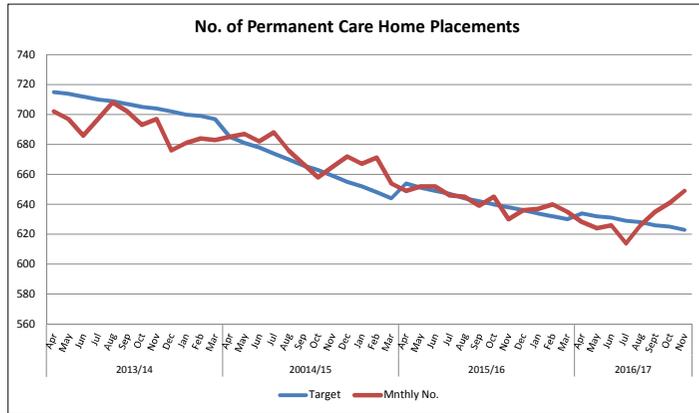
Protecting Vulnerable Adults

Protecting Vulnerable Adults: Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Last period value
LI404	No. of permanent care home placements	It's better to be low	On Target	635	625	636	637	640	635	628	624	626	614	626	635	641	649	649
NI135	Carers receiving needs assessment or review & a specific carer's service, or advice & infor (LAA)	It's better to be high	Well Above Target	43.28%	23.30%	38.22%	41.17%	42.79%	43.28%	5.90%	11.90%	18.60%	21.91%	25.16%	28.47%	30.04%	32.50%	32.50%
TCT14b	Safeguarding Adults - % repeat SG referrals in last 12 months	It's better to be low	Well Above Target	4.87%	8.00%	5.45%	4.55%	3.64%	4.87%	~	6.64%	7.52%	7.00%	8.00%	8.00%	7.00%	7.00%	7.00%
BCF-004a	Delayed transfers of care from hospital (days)	It's better to be low	Well Above Target	n/a	1,285	~	~	~	~	63	0	0	155	590	811	925	1200	1200
Code	Title	Polarity	Status	Prev Year End	Target													Last period value
PVAP10	Re-ablement Services (Effectiveness)	It's better to be high	Below Target	n/a	84.0%	2014/15												77.20%

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Protecting Vulnerable Adults: Performance of Monthly and Quarterly PIs



Protecting Vulnerable Adults: Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
ASCR01	Increased demand for services	Medium to high (12)	20/06/16	4 - Likely	3 - Moderate	Caroline Taylor	A new care model and prevention strategy STP will have geographic Devon approach to prevention- ensure modelling gives Torbay benefits.		Reduced
ASCR02	Financial strain relating to the implementation of the Care Act	Medium (6)	20/06/16	2- Unlikely	3 - Moderate	Caroline Taylor	Lobby government and feedback future cost strain. Await new government approach to rest of care act and 2019 implementation- may be further delayed due to costs.		Accepted
ASCR03	Insufficient and unsustainable care home market in Torbay	Medium to high (12)	20/06/16	4 - Likely	3 - Moderate	Caroline Taylor	Work to diversify the market and outcomes based model and regional work on supply		Accepted
ASCR04	Integrated Care Organisation: Delivery of new model of care at pace and scale	Medium to high (12)	20/06/16	4 - Likely	3 - Moderate	Caroline Taylor	Strong commissioner provider monitoring, overview of overall outcomes via HWBB/JCG. Exe lead Cllr on ICO Board-continuing to influence STP and find agreement despite local challenges. Ensure STP finance plan is aligned to council MTFP and risk share is robust.		Accepted
ASCR05	Failure to deliver ICO within budget	High (12)	19/08/16	4 - Likely	4 - Major	Caroline Taylor			

Running an Efficient Council

Running an Efficient Council: Performance Indicators

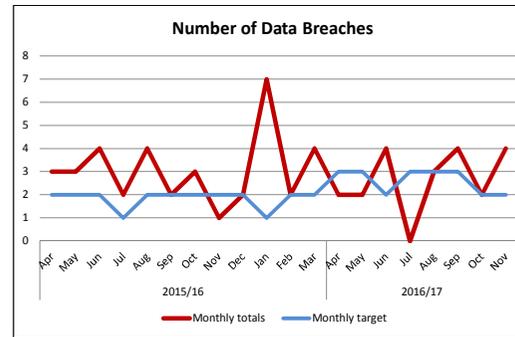
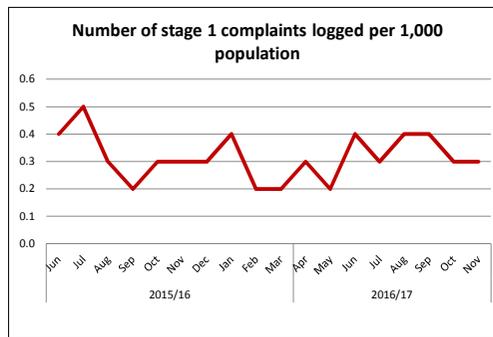
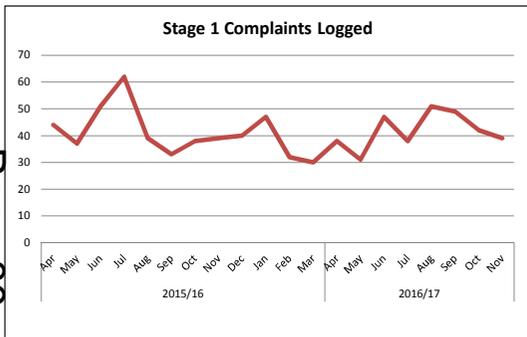
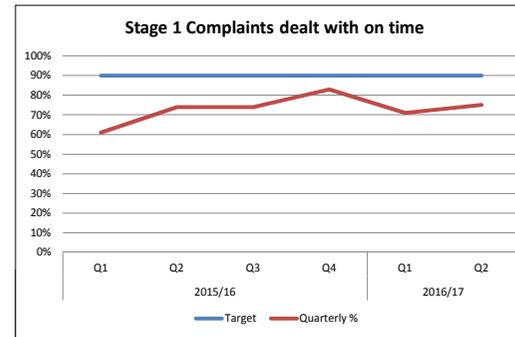
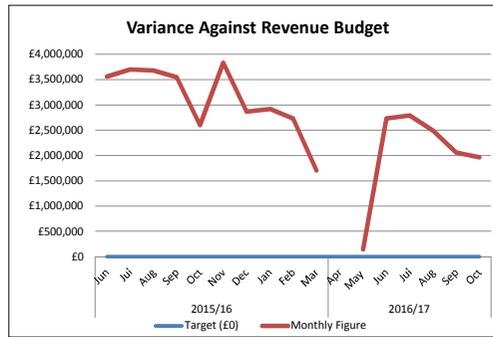
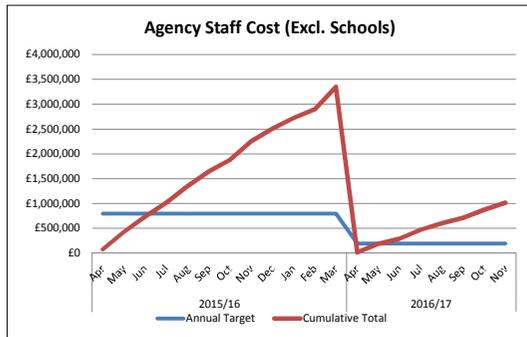
Code	Title	Polarity	Status	Prev Year End	Annual Target	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Cumulative to date
RECPI01	Agency Staff Cost (excluding schools)	It's better to be low	Well Above Target	n/a	£196,000	£255,466	£210,000	£176,815	£451,136	£103,94	£178,873	£100,638	£183,708	£127,128	£110,875	£160,348	£146,842	£1,018,806
Adults £0 Children's £104,000 Public Health £0 Corp & Business Services £36,000 Community & Cust Services £7,000																		

Code	Title	Polarity	Status	Prev Year End	Annual Target	Quarter 3 2015/16			Quarter 4 2015/16			Quarter 1 2016/17			Quarter 2 2016/17		Last period value	
RECPI02	Variance Against Revenue Budget	It's better to be low	Below Target	£1,701,000	£0	£2,866,000	£2,921,000	£2,730,000	£1,701,000	N/A	£144,000	£2,733,000	£2,791,000	£2,493,000	£2,062,000	£1,967,000	Not due	£1,967,000

Code	Title	Polarity	Status	Prev Year End	Annual Target	Quarter 3 2015/16			Quarter 4 2015/16			Quarter 1 2016/17			Quarter 2 2016/17		Last period value
RECPI03	Stage 1 complaints dealt with on time	It's better to be high	Well Below Target	83%	90%	74%			83%			71%			75%		75%

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Cumulative to Date
RECPI06	Number of stage 1 complaints logged	N/A	(monito-ring only)	492	n/a	40	47	32	30	38	31	47	38	51	49	42	39	335
RECPI08	Number of stage 1 complaints logged per 1,000 population	N/A	(monito-ring only)	3.7	n/a	0.3	0.4	0.2	0.2	0.3	0.2	0.4	0.3	0.4	0.4	0.3	0.3	2.5
RECPI07	Number of Data breaches	It's better to be low	On Target	37	22	24	31	33	37	2	2	4	0	3	4	2	22	22

Running an Efficient Council: Performance of Monthly and Quarterly PIs



Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
RECR01	Failure of Transformation board to deliver on Transformation Projects to support future years budgets	Medium to high (12)	20/07/16	3 - Possible	4 - Major	Caroline Taylor	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. Pump prime projects and ensure greater investment to get timely benefits out in next 4 years.		
RECR02	Lack of effective workforce planning - retention of key/relevant skills across the organisation	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Anne-Marie Bond	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	Lack of robust and safe decision making	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	Insufficient infrastructure and support across the Council including IT infrastructure	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	Budget overspend within arms length organisations and contracted services	Medium to high (15)	15/02/16	3 - Possible	5 - Critical	Anne-Marie Bond	Ensure effective performance monitoring and contract management is in place		
RECR06	The Council not achieving a balanced budget in year	Medium to high (15)	15/08/16	3 - Possible	5 - Critical	Martin Phillips	Budget monitoring takes place throughout the year. As a result of the monitoring SLT to instigate recovery action.	DCS has considered options for partial recovery of the Children's services position. DAS will continue to challenge ICO to both reduce spend and accelerate CIP savings.	Accepted

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
RECR08	Cost shunting to the local authority as partners reduce resources.	Medium (9)	15/02/16	3 - Possible	3 - Moderate	Anne-Marie Bond	Maintaining a robust Community Safety Partnership.		
RECR09	Failure to deliver the Council's Asset Management Plan	Medium to high (12)	15/02/16	3 - Possible	4 - Major	Anne-Marie Bond	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	Risk of inadequate maintenance and repairs of our Council assets due to reducing budgets.	High (16)	15/02/16	4 - Likely	4 - Major	Anne-Marie Bond	Assessment as to current state and options going forward is currently being undertaken.		
RECR11	Lack of appropriate and effective business continuity plans in the event of a large scale emergency.	Medium to high (15)	19/10/16	3 - Possible	5 - Critical	Fran Hughes	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.		Accepted

Arms Length Organisations

Strategic TOR2 Performance Indicators

A specific dashboard for TOR2 is being developed

Strategic Torbay Coast and Countryside Trust Performance Indicators

In development

Strategic Torbay Development Agency Performance Indicators

Code	Title	Polarity	Status	Prev Year End	Quarterly Target	Quarter 3 2015/16	Quarter 4 2015/16	Quarter 1 2016/17	Quarter 2 2016/17	Last period value
CU-06	Number of inward investment enquiries received	It's better to be high	Well Above Target	50	13	29	40	5	16	16
EDCPI-001	0% variance from budget	It's better to be low	Above Target	0.00	0.00	0.00	-2.50%	-4.00%	-4.00%	-4.00%

Code	Title	Polarity	Status	Prev Year End	Annual Target					Last period value
BUSR018	Total jobs created	It's better to be high	Well Above Target	172	150	2015/16				170
EDCPI-002	Income from Torbay Council let estate	It's better to be high	On Target	£2,708,014	£2,700,000	2015/16				£2,693,227
FE7	% Overall customer satisfaction	It's better to be high	Well Above Target	5%	85%	2015				100%

Strategic Torbay Development Agency Risks

Code	Title	Score	Last Review Date	Probability Score	Impact Score	Risk Owner	Mitigation	Progress	Is Risk Reduced, Accepted or eliminated?
BURTDAR-001	Business growth opportunities and diversification	Medium to high (16)	02/08/16	4 - Likely	4-Major	Alan Denby	Develop support structures for businesses. 1. Develop Business centre programme to maximise the survivability and growth of early stage businesses. 2. Work with business support providers. Work to develop new business support products where required based on identified local need 3. Potential for more innovative solutions 4. Develop Inward investment programme including lead generation campaign, Deliver the required sites and premises required by local businesses including Claylands, EPIC and others 5. Develop skills and retraining opportunities Develop sector networks and links –health and creative sector opportunities to be explored. Identification of business growth & attraction of public money.		



Meeting: Audit Committee
Council

Date: 18 January 2017
23 February 2017

Wards Affected: All

Report Title: Decision to opt in to the national scheme for Auditor Appointments with Public Sector Audit Appointment (PSAA) as the 'Appointing Person'

Is the decision a key decision? No

When does the decision need to be implemented? 8 March 2017

Executive Lead Contact Details: Mayor Oliver, Mayor and Executive Lead for Finance and Regeneration, (01803) 207001 and mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, (01803) 207285 and martin.phillips@torbay.gov.uk

1. Proposal and Introduction

- 1.1 This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
- 1.2 If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, it needs to take the decision at this meeting to enable the Council to accept the invitation, which has a deadline of, by early March 2017.

2. Reason for Proposal

- 2.1 A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:
 - The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;

- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
- PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council;
- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.

3. Recommendation(s) / Proposed Decision

3.1 That the Audit Committee recommends:

That the Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

Appendices

Appendix 1: Supporting Information

Background Documents

Invitation to become an opted-in authority

Supporting Information

Section 1: Background Information	
1.	<p>What is the proposal / issue?</p> <p>The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.</p> <p>The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.</p> <p>In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.</p> <p>PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.</p>
2.	<p>What is the current situation?</p> <p>The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's current external audit fee is £102,000 per annum plus any grant certification work.</p> <p>The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the</p>

	required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
3.	<p>What options have been considered?</p> <p>If the Council did not opt in the PSAA there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.</p> <p>Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities. Local procurement has been considered and discussed with neighbouring authorities however there was no appetite for such action. This together with only nine providers that are eligible to audit local authorities and other relevant bodies means that any local procurement exercise would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.</p> <p>None of these options are recommended. All these options would require more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.</p>
4.	<p>How does this proposal support the ambitions, principles and delivery of the Corporate Plan 2015-19?</p> <p>The proposal supports the Corporate Plan by using reducing resources to best effect. The PSAA as appointing authority would manage the procurement process, ensuring both quality and price criteria are satisfied. Ensure suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise whilst minimising the scheme management costs and returning any surpluses to scheme members. Activities that would have placed greater demand on resources that are already stretched.</p>
5.	<p>Who will be affected by this proposal and who do you need to consult with?</p> <p>Torbay Council's officer and elected members. However there would be no change to the delivery model.</p>
6.	<p>How will you propose to consult?</p> <p>Not applicable.</p>

Section 2: Implications and Impact Assessment

7.	<p>What are the financial and legal implications?</p> <p>Legal implications</p> <p>Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.</p> <p>Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.</p> <p>Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.</p> <p>Financial implications</p> <p>There is a risk that current external fee levels could increase when the current contracts end in 2018. Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.</p> <p>If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.</p>
8.	<p>What are the risks?</p> <p>The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.</p>
9.	<p>Public Services Value (Social Value) Act 2012</p> <p>No implications</p>

<p>10.</p>	<p>What evidence / data / research have you gathered in relation to this proposal?</p> <p>Information on Council's who have opted in is available on the PSAA website.</p> <p>Informal updates between unitary Council's indicate the significant majority are intending to use the PSAA.</p> <p>Informal update between other Councils in Devon indicates the majority are intending to use the PSAA.</p>
<p>11.</p>	<p>What are key findings from the consultation you have carried out?</p> <p>Not applicable.</p>
<p>12.</p>	<p>Amendments to Proposal / Mitigating Actions</p> <p>Not applicable</p>



Grant Thornton

An instinct for growth™

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6 January 2017

Dear Martin

Certification work for Torbay Council for year ended 31 March 2016

We are required to certify the Housing Benefit subsidy claim submitted by Torbay Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £67.3 million. Further details of the claims certified are set out in Appendix A.

There were no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by the Audit Commission for the Council for 2015/16 is £7,954. Additional work was required to certify the housing benefit subsidy claim at a cost of £171. We have requested approval from the PSAA for a fee variation for this additional amount. This is set out in more detail in Appendix B.

Yours sincerely

A handwritten signature in black ink that reads "Alex Wang".

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	67,253,776	Yes	£4,976	No	Increase in subsidy receivable was due to a system issue identified which misclassified some claims as modified schemes, which would attract nil subsidy.

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	10,605	7,954	8,125	171	Additional work was necessary to verify that the Council's amendments to rectify the system issue, that was misclassifying claims as modified schemes, had been correctly made.
Total	10,605	7,954	8,125	171	

* Includes a fee variation of £171, which is subject to the approval of the PSAA

Audit Committee update
Torbay Council
Year ended 31 March 2017

January 2017

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Alex Walling

Associate Director

T 0117 305 7804

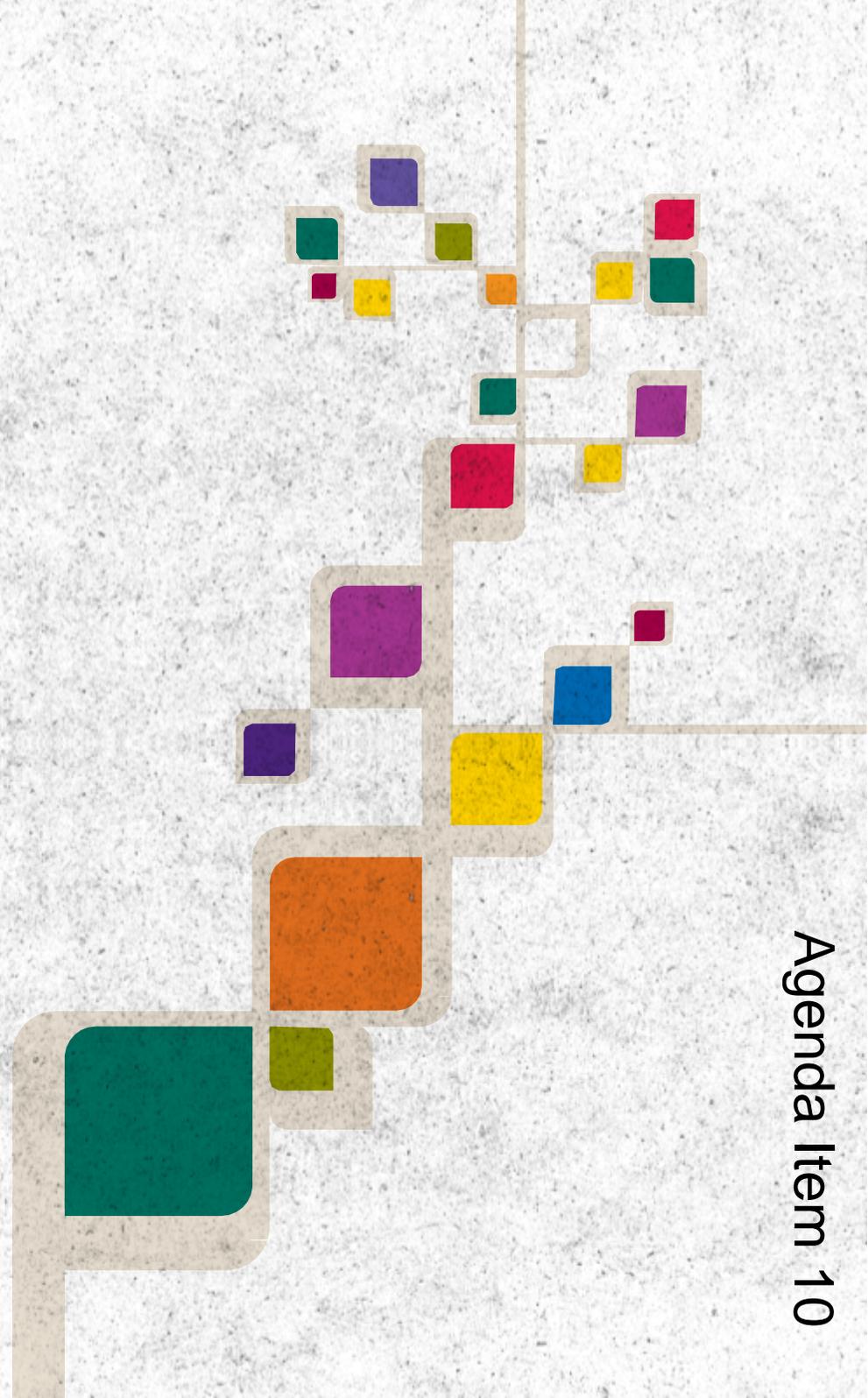
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.



Introduction

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

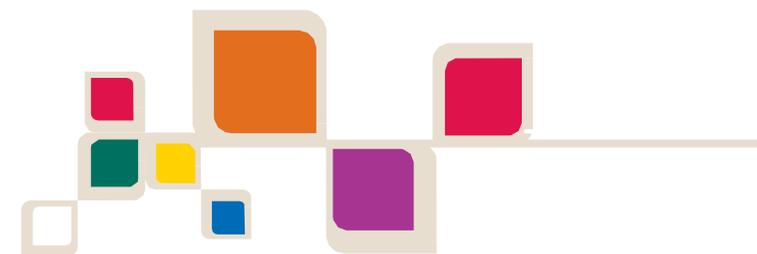
Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Advancing closure: the benefits to local authorities (July 2016) www.grantthornton.co.uk/insights/advancing-closure-the-benefits-to-local-authorities/
- Building a successful joint venture company (April 2016) www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/
- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes-audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

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 Engagement Manager.

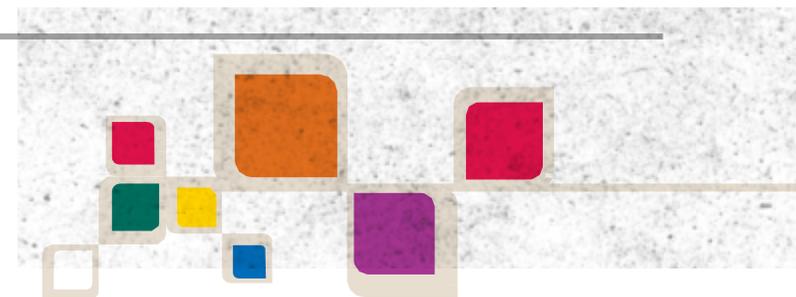


Progress at 6 January 2017



2015/16 work			
	Planned Date	Complete?	Comments
<p>Grant Claims Audit</p> <ul style="list-style-type: none"> Housing Benefits Subsidy Claim Teachers Pension return 	Sept – Nov 2016	Yes	<ul style="list-style-type: none"> We certified the Council's housing benefits subsidy claim on 28 November 2016, meeting the 30 November deadline. The outcome of this work is reported in the Annual Certification Letter, which is a separate item on the agenda of this meeting. Our report on the Teachers Pension return was submitted on 17 November 2016, in advance of the 30 November deadline. There were no issues arising from our work.
2016/17 work			
	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016.
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.</p>	March 2017	Not yet due	The Audit Plan will be presented to your March meeting.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> updated review of the Council's control environment updated understanding of financial systems review of Internal Audit reports on core financial systems early work on emerging accounting issues early substantive testing Value for Money conclusion risk assessment. 	January 2017	Not yet due	The interim audit starts on w/c 9 January 2017, however we have already done some initial work on understanding the Council's arrangements for the Highways Network Asset. Issues arising from our interim audit will be reported in the Audit Plan.

Progress at November 2016



2016/17 work

Planned Date Complete? Comments

Final accounts audit

Including:

- audit of the 2016/17 financial statements
- proposed opinion on the Council's accounts
- proposed Value for Money conclusion
- review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

June – July 2017

Not yet due

We will undertake work on your draft financial statements to provide an opinion by end of July 2017, in advance of the statutory deadline of 30 September 2017. The final accounts audit is scheduled to start on 5 June 2017.

Value for Money (VfM) conclusion

The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as; "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Jan – June 2017

Not yet due

The results of our initial risk assessment will be presented in our audit plan to your March meeting.

Annual Audit Letter

We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.

October 2017

Not yet due

Other activities

- We held an Income Generation workshop in Exeter on 13 October 2016. The aim of these events is to bring together senior leaders from local government and the private and investment sectors to stimulate cross-sector debate and consider current and future funding models. The workshop was attended by your Head of Finance.
- We held a Faster Close and Highways Network Asset (HNA) workshop on 19 October 2016 in Exeter. This workshop was aimed at local authority practitioners and will consider the main factors for authorities to consider in accelerating their financial reporting procedures to produce their year-end accounts, and provided training on the latest developments in accounting for the HNA in 2016/17. The workshop was attended by members of Council's Finance team, and the Head of Finance did a joint presentation with your Audit Manager on how we worked together to achieve approval of the audited accounts by 31 July in 2015/16.
- We held a Joint venture seminar on 6 December in Taunton, which was attended by your Head of Finance. Further details of the event are included on page 18 of this update.

Technical Matters

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Highways network asset accounting update

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset ('HNA') at depreciated replacement cost in local authority financial statements for 2016/17. This is due to delays in obtaining updated central rates information that was required for the valuations.

CIPFA/LASAAC will issue an Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom to confirm this decision once it has completed the full due process before publication. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18 and will consider whether central rates and the central assurance processes will be delivered in a timely manner to allow successful implementation. It expects that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

In August, CIPFA published the 'Code of Practice on the Highways Network Asset (2016 Edition)' and additional guidance to aid the implementation process.

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April 2016, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

Sector issues and developments

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National Audit Office:

Below is a selection of reports issued during 2016 which may be of interest to Audit Committee members. Please see the website for all reports issued by the NAO.



Local welfare provision

Overall spending on discretionary local welfare support by central and local government has reduced since April 2013. The consequences of this gap in provision are not understood.

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/local-welfare-provision/>

Published:

12 Jan 2016



English devolution deals

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended

Sector(s): [Central Finance and Treasury](#), [Community and society](#)

Performance Improvement area(s): [Economic growth](#), [Local service delivery](#)

<https://www.nao.org.uk/report/english-devolution-deals/>

Published:

20 Apr 2016



Financial sustainability of local authorities: capital expenditure and resourcing

Local authorities have kept up levels of capital spending but face pressure to meet debt costs and maintain investment in existing assets.

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

Published:

15 Jun 2016

National Audit Office reports (continued)



Overview: Local government

This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): [Local services](#)

Performance Improvement area(s): [Departmental Overviews](#), [Local service delivery](#)

Published:
9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>

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The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): [Community and society](#), [Local services](#)

Published:
18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>

Grant Thornton



Integrated Reporting

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as "*enhancing the way organisations think, plan and report the story of their business.*"

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Grant Thornton publications

Grant Thornton
Accountancy & Advisory

Integrated reporting
Looking beyond the report
November 2016



Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

Page 113 They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

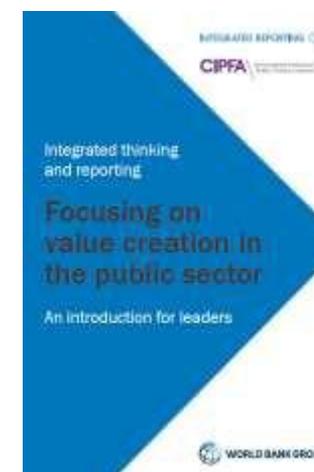
The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications



Brexit

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Grant Thornton update

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Page 115 Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

Grant Thornton update

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>

Grant Thornton Events

Joint Venture Seminar, 6th December - Taunton

Following the publication of our 'Better Together' report we hosted a seminar in Taunton. The session included presentations from some of the practitioners interviewed in researching our report.

Local government continues to innovate and change, as it looks for ways to protect front line services we are expecting to see an increase in the number of Joint Ventures (JVs) for service delivery being established. Our event provided an invaluable insight into setting up and running JVs and was attended by 22 officers and members from Councils in the South West, including Martin Phillips from Torbay Council.

Attendees heard from Arthur Hooper, Group MD of CORSERV, who shared his experiences of developing the newly formed JV with Nottinghamshire County Council for Highways, highlighting the importance of collaborative partnership working and staff engagement.

Mark Cook, Partner at Anthony Collins Solicitors discussed the legal implications to consider when setting up a JV.

Sophie Hosking, Executive Director – Service Delivery and Commercial Development, South Ham District and West Devon Borough Council highlighted their journey so far in establishing a joint local authority company and why they are exploring this route.

Mike Britch, Norse Group MD discussed how the Norse Group have established 25 JVs with local authority partners and highlighted the importance of using JVs to change the outcome in service delivery and client commissioning as well as ensuring arrangements are not too complex.

The morning ended with a panel session where our speakers were joined by Sally McKinlay (Tax Director – Grant Thornton).



You can download a copy of the Grant Thornton report – Better Together from our website at

<http://www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/>

Hard copies are also available from your Engagement Lead and Audit Manager.



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