



Tuesday, 16 January 2018

## **AUDIT COMMITTEE**

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

**Wednesday, 24 January 2018**

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 Barnby

Councillor Long

Councillor Bent

Councillor Morey

Councillor O'Dwyer

Councillor Stocks

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

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

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**01803 207064**

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



# AUDIT COMMITTEE AGENDA

1. **Apologies**  
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 4 - 7)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 28 September 2017.
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. **Internal Audit Report - Follow Up Report on Areas Requiring Improvement** (Pages 8 - 23)  
To note a report that details follow up reviews in order to provide updated assurance to Members.
6. **Internal Audit - Half Year Audit Report 2017-18** (Pages 24 - 50)  
To consider a report that reviews work undertaken to date in 2017/18, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

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|-----------|---|-----------------|
| <b>7.</b> | <b>Treasury Management Strategy 2018/19 (incorporating the Annual Investment Strategy 2018/19 and the Minimum Revenue Provision Policy 2018/19)</b><br>To consider a report that sets out the Treasury Management Strategy. | (To Follow)     |
| <b>8.</b> | <b>Certification work for Torbay Council for year ended 31 March 2017</b>   | (Pages 51 - 53) |
| <b>9.</b> | <b>Torbay Council Audit Committee Update - January 2018</b><br>To note a report that provides an update on the progress Grant Thornton has made in delivering their responsibilities as the Council's external auditors.    | (Pages 54 - 65) |



## Minutes of the Audit Committee

28 September 2017

-: Present :-

Councillor Tyerman (Chairman)

Councillors Bent, O'Dwyer, Stocks and Barnby

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### 107. Apologies

Apologies for absence were received from Councillor Stringer and Alex Walling of Grant Thornton.

### 108. Minutes

The Minutes of the meeting of the Audit Committee held on 26 July 2017 were confirmed as a correct record and signed by the Chairman.

### 109. Urgent Items

The Committee considered the items in Minutes 112, and not included on the agenda, the Chairman being of the opinion that they were urgent by reason of special circumstances i.e. the matter having arisen since the agenda was prepared and it was unreasonable to delay a decision until the next meeting.

### 110. Food Standards Agency Audit of Food Hygiene Service Delivery

Members noted the Food Standards Agency Audit of Food Hygiene Service Delivery Focusing on Service Organisation, Management and Internal Monitoring Arrangements, the audit that had been instigated by a data return that the Local Authority had submitted to the Food Standards Agency highlighting the relatively low percentage of planned interventions achieved on lower risk premises.

The Principle Environmental Health Officer informed Members that the audit did not find issues with staff competency but that the resources were inadequate to fulfil the service plan. Whilst the service was under resourced it was difficult to say what level of staffing was needed, whilst a resource assessment had been conducted a further assessment would be undertaken once events planned for the autumn had been held as it was hoped these events would reduce the number of interventions required. One such event was training where all medium risk premises would be invited hopefully resulting in intervention for around 100 premises, a full inspection would then need to be undertaken the following year.

Members were informed that performance of the team was monitored by the FSA and the Community Safety Management Team received quarterly reporting. When an application is received an initial assessment is undertaken as to whether the premises would be a high risk premises, if so an inspection is undertaken as soon as possible. The team is also furnished with intelligence gathered from other teams such as Licensing and Health and Safety, who also undertake their own inspections and raise concerns with the Food Safety Team. The premises rating has also been a driver for the number of premises asking to be re-inspected. The scheme has resulted in an element of self-regulation and as more premises achieve the highest rating the less premises the Food Safety Team has to inspect.

Members were also informed that a member of the team will regularly be present at Brixham Fish Quay in order to ensure compliance with the standards required for the landing and export of fish. The mussel beds are also tested weekly, these inspections are vital for the success and reputation of the industry.

#### **111. Treasury Management Mid-Year Review 2017/18**

Members considered a report that reviewed the Treasury Management activities during the first part of 2017/18. The Chief Finance Officer informed Members that in light of the significant increases in the Capital Plan arising from the Transformation Programme a revised Treasury Management Strategy had been produced. Members noted that peer to peer lending had probably come to the end of its use with the Council's focus changing to borrowing money.

The Chief Finance Officer informed Members that CIPFA were currently consulting on updates to both the Prudential Code and the Treasury Management Code of Practice to reflect the national increase in Councils use/purchase of 'non treasury investments'. The Chief Finance Officer sought Members views on whether increased levels of scrutiny and due diligence in relation to 'non treasury investments' would be something they recommend. Members felt that further investment portfolio training for Members would be of benefit, with the borrowing figures being split between that which is self-supporting by generating income and borrowing that isn't. That for the time being the setting of limits should be avoided. Members welcomed the suggestion that they be given the opportunity to provide informal feedback on the eventual report.

Resolved:

- i) that the Treasury Management decisions made during the first part of 2017/18 be noted;
- ii) that the revised Treasury Management Strategy for 2017/18 be noted; and
- iii) that the revised Prudential and Treasury Indicators 2017/18 be noted.

**112. RIPA Inspection Report Conclusions**

The Policy, Performance and Review Manager informed Members that the Office of Surveillance Commissioners had issued its final report regarding the inspection of the Council's RIPA policies and practices and presented Members with the conclusions from the report.

Members congratulated the Policy, Performance and Review Manager on the positive outcome of the inspection and welcomed the development of an action plan to address the gap created by the imminent departure a very experienced authorising officer.

**113. Performance and Risk**

Members noted a report that provided the performance and risk data for quarter one of 2017/18. Members referred to the indicators for Children's Services which highlighted issues that Members had been advised of at other meetings. Members questioned whether a deep dive exercise would be of use or whether the issue should be escalated to the Overview and Scrutiny to consider as part of their wider engagement with Children's Services.

Members were concerned to note that officers had not provided any data for the Attractive and Safe Place indicators. The Policy, Performance and Review Manager informed Members that the Senior Leadership Team were also concerned at the lack of data and would be raising the issue with officers.

The Policy, Performance and Review Manager expressed concern that the document wasn't as 'active' a document as it could be, whilst the Senior Leadership Team found the performance element really useful to challenge across teams enabling strong debate, the risk element of the data didn't seem to have the right strategic risks identified to make the document the 'active document' it needed to be, officers would therefore be reviewing the risk elements.

Resolved:

That the Chairman write to the Overview and Scrutiny Co-ordinator requesting the Overview and Scrutiny Board consider the performance indicators for Children's Services as part of their wider engagement with the service.

**114. The Annual Audit Letter for Torbay Council**

The Committee noted the Annual Audit Letter for Torbay Council which summarised the key findings arising from the work Grant Thornton had undertaken as the Council's external auditors for the year ended 31 March 2017.

**115. Torbay Council Audit Committee Update - September 2017**

Members noted an update that provided details on progress Grant Thornton had made in delivering their responsibilities as the Council's external auditors.

Chairman/woman

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## Internal Audit Report

Follow Up Report on  
Areas Requiring  
Improvement

Torbay Council

*December 2017*

**OFFICIAL**



## **Devon Audit Partnership**

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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.

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](mailto:robert.hutchins@devonaudit.gov.uk).

## **Confidentiality and Disclosure Clause**

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

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

## **Introduction**

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At the July 2017 Audit committee, members were provided with the Annual Internal Audit report for the Council. Appendix 4 of that report provided a summary of the audits undertaken during 2016/17, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvements required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

Members discussed and accepted the report; however, members have previously found it beneficial to receive a report on progress on the “improvement required” areas highlighted in Appendix 4 to the report.

As part of adding value, Devon Audit Partnership has completed follow up reviews to provide updated assurance to members. The results from this process are contained in this report at Appendix A.

## **Assurance Statement**

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Our assurance opinion remains as reported in our Annual Audit Report 2016/17. However, it should be recognised that there is potential for this assurance opinion to be adversely affected should the lack of progress made against certain individual audit management action plans continue.

## **Progress Impact Assessment**

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The progress made in some areas means the previously identified risks are being minimised or mitigated where appropriate. However the lack of progress made in some action plans means a number of the risks previously identified and highlighted to management continue to remain. In particular there remain areas where progress has been limited and this includes Emergency Planning and Business Continuity and a number of audits within ICT and Children’s Services.

In relation to Emergency Planning and Business Continuity, we are aware that a project has been formulated with appropriate plans to address the areas of concern, however as these are in their infancy we are not at this early stage to able to change our assurance opinion.

A decision has been made to develop a contractual partnership between Plymouth City Council and Torbay Council’s Children’s Services, with effect from April 2018. Children’s Services is also currently engaged in meeting an improvement plan. These factors may have impacted capacity and priority in addressing previous issues raised within some Internal Audit reports.

As part of the Transformation Programme ICT is currently subject to a service delivery options review and individual functions within ICT are affected by supporting associated projects, all of which impact the appropriateness of currently taking forward a number of the agreed actions.

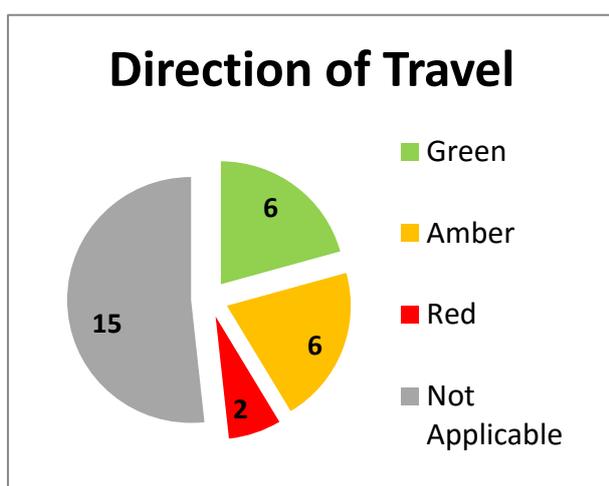
In addition, where agreed actions are set for future dates, and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

This follow up activity was an opportunity to facilitate, review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation’s strategic management arrangements.

## Progress

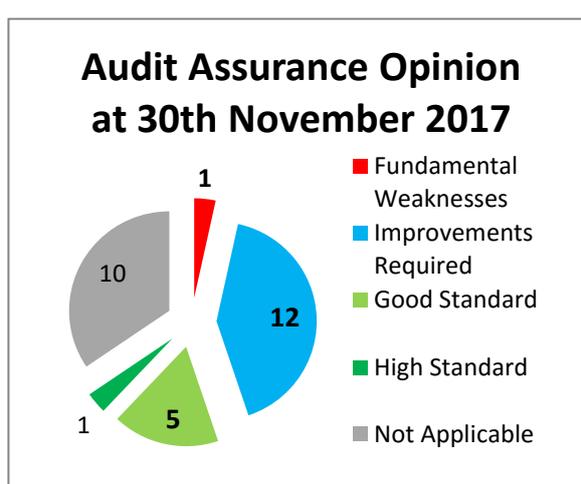
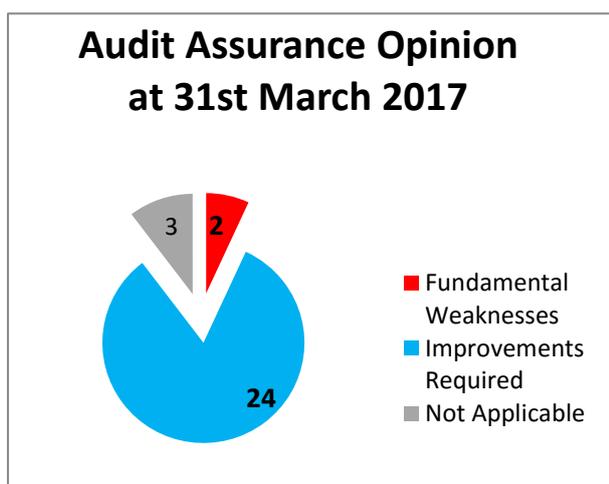
Some progress has been made against the agreed action plans as shown in the ‘Direction of Travel’ chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

It should be noted that a small number of the audits were not followed up due to the timing being inappropriate, linked to the timing of the agreement to the action plan for the original reports, hence in these instances the original assurance opinion remains.



### Direction of Travel Key

**Green** – action plan implemented or being implemented within agreed timescales;  
**Amber** – implementation of action plan not complete in all areas or overdue for key risks;  
**Red** – implementation of action plan not complete and we are aware progress on key risks is not being made.  
**N/A** – follow up not appropriate at this time / opportunity for progress has been limited



Although the audits previously followed up in 2016/17 are not subject to further formal audit follow up, for continuity and the avoidance of doubt we have analysed the previous year’s output to provide an indication of areas that may require further Management input. Please refer to table over page.

Total audits still at Improvements Required from 2016/17 annual follow up report			
Areas subject to follow up activity within 17/18 planned audit work			Audit areas potentially requiring Management review of progress against previous audit recommendations
Material Systems (annual audits)	Project activity	17/18 audits	
3	0	1	<ul style="list-style-type: none"> <li>• Corporate Security and CCTV</li> <li>• Hosted Services (ICT)</li> <li>• Database Administration (ICT)</li> <li>• Corporate Access Management (ICT)</li> </ul>

## Internal Audit Coverage and Results

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Overall we can report that, for the a number of audits, progress is being made against the agreed recommendations following our initial audit and this is shown in the direction of travel chart above and in Appendix A of this report. A significant number of opinions remain unchanged at this time although this does not in all cases reflect lack of action.

It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations have been completed, but this is as expected.

Some agreed actions have not been implemented for a variety of reasons including strategic and operational changes in the service area and the need to prioritise resource in other directions. We shall work with management in determining revised implementation dates to ensure that actions are taken as promptly as is possible to address the risks identified.

During our initial audit work we have made reference to areas where risk exists; however in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk, and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

Appendix A of this report sets out the audits at the end of 2016/17 which were identified as 'improvements required' or 'fundamental weaknesses'. The appendix shows the current (updated) assurance opinion following our follow up work, and a 'direction of travel'. We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

## Annual Governance Statement

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The conclusions of this report provide further internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

These should be considered along with the conclusions from the Annual Audit Report 2016/17 presented to the Committee in July 2017.

## Process

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For each service area where an overall audit opinion of “improvements required” or “fundamental weaknesses” was provided at the end of 2016/17 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For recommendations of "low" priority we required written confirmation that the action had been enacted upon, or an update on the progress being made.

For "medium" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

For "high" priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified, and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work

## Summary of Audit Follow and Findings 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

### Direction of Travel - Key

**Green** – action plan implemented or being implemented within agreed timescales;  
**Amber** – implementation of action plan not complete in all areas or overdue for key risks;  
**Red** – implementation of action plan not complete and we are aware progress on key risks is not being made.  
 \* report recently issued, opportunity for progress has been limited

Corporate Services & Operations and Commercial Services & Transformation					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
<b>Material Systems</b>					
Material systems audits and as such any recommendations made and associated agreed actions are followed up as part of the annual audit process.					
Income Collection	Risk / ANA - Medium	Improvements Required	High Standard	A review of progress against the previously agreed recommendations found that significant progress has now been made in a number of areas, for example controls have been put in place to mitigate the lack of segregation of duty between Administrator and general operational / transactions roles; system access has been improved; income collection has been incorporated into the FIMS Business Continuity Plan.	
Debtors	Risk / ANA - Medium	Improvements Required	N/A	The audit for 2017-18 will be undertaken in Q4 and will be reported upon in our annual outturn report.	N/A
Creditors	Risk / ANA - High	Improvements Required	N/A	The audit for 2017-18 is currently ongoing and will be reported upon in our annual outturn report.	N/A

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
Corporate Debt	Risk / ANA - Medium	Improvements Required	N/A	The audit for 2017-18 will be undertaken in Q4 and will be reported upon in our annual outturn report.	N/A
Council Tax and Non Domestic Rates	Risk / ANA - Medium	Improvements Required	N/A	The audit for 2017-18 will be undertaken in Q4 and will be reported upon in our annual outturn report.	N/A
Benefits	Risk / ANA - Medium	Improvements Required	Good Standard	<p>This year's work did not identify many issues in terms of accuracy of processing, and there have been improvements in the application of the RBV framework.</p> <p>There are still a number of issues outstanding from previous years, particularly in relation to SE earnings calculations and we have recommended that these are resolved as soon as possible.</p> <p>We found that the QC process was not working effectively and this may have had an impact on the External Audit findings which resulted in the need for additional testing in relation to the benefit subsidy claim.</p>	
<b>Other</b>					
Torbay Harbour Authority - Income	Risk / ANA - Medium	Improvements Required	Good Standard	<p>There has been significant progress against the agreed recommendations and we are pleased to uprate the assurance opinion to good standard. There remains a key issue in relation to the arrangement with the Brixham Trawler Agency (BTA) for fish toll which does not provide a formal robust structure within which both the Tor Bay 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.</p> <p>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.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
Discretionary Social Fund (Crisis Support)	Risk / ANA - High	Improvements Required	Improvements Required	Some progress has been made against agreed recommendations. A number of high priority actions remain. In particular, the requirement to formulate and undertake a quality checking process with feedback to assessors; monitoring of Plough and Share's administration of the loan scheme should be recorded and monitoring outcomes reported; reconciliation between the discretionary module in IBS Open Systems and the General Ledger should be undertaken. Hence the assurance opinion remains the same.	
Commissioning and Performance Monitoring by the Council of the TDS – Service Level Agreement	(ANA – High)	N/A – advice note only	N/A – advice note only	Formal agreement to the draft report was obtained in August 2017. A follow up of this audit was included in the 2017-18 audit plan and will be formally reported within the annual outturn report.	N/A*
Procurement and Contracting Arrangements	(ANA – High)	N/A – in progress at the time of the outturn report	Improvements Required	Formal agreement to the draft report was obtained in September 2017 and as such the Procurement and Contracting Arrangements audit is not yet due for formal follow up.	N/A*
Concessionary Fares	Risk / ANA - High	Improvements Required	N/A	The Concessionary Fares audit has been included within the 2017-18 audit plan for a specific piece of follow up work outside of this annual process. At time of reporting this work remains in progress and will be formally reported within the annual outturn report.	N/A
Velopark	Risk / ANA - Low	Improvements Required	N/A	In consultation with the then Assistant Director, Community and Customer Services, we gained agreement that due to the forthcoming change in management of the Velopark, this follow up process would be waived.	N/A
Sports Pitches	Risk / ANA - Medium	Improvements Required	N/A	The Sport Pitches audit has been included within the 2017-18 audit plan for a specific piece of follow up work outside of this annual process and will be undertaken in Q4.	N/A

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
Museum Services	Risk / ANA - Low	Improvements Required	Improvements Required	We can confirm that good progress has been made by management in addressing the risks identified in the original audit. The majority of agreed actions have taken place, considerably reducing the level of risk. A few recommendations remain to be completed, but we are confident that these will soon be addressed. It should be noted that management action in progress would expect to see this improve to Good Standard next year.	
Housing Options	Risk / ANA - Medium	Improvements Required	N/A	The Housing Options audit has been included within the 2017-18 audit plan for a specific piece of follow up work outside of this annual process and will be undertaken in Q4.	N/A
Highways, Street Scene, Lighting and Transport Infrastructure – UK PMS System	Risk / ANA - High	Improvements Required	N/A	The Highways Network Asset Code is no longer being introduced and therefore no further work is required in this area.	N/A
Emergency Planning and Business Continuity	Risk / ANA - High	Fundamental Weaknesses	Fundamental Weaknesses	Although the audit opinion remains the same, it should be noted that progress is being made but is not yet fully operational. As progress is in its early stage we are not yet in a position to formulate a revised opinion. It should be noted that management action in progress would expect to see this improve next year.	
TOR2 Commissioning	Risk / ANA - Critical	Improvements Required	Improvements Required	Formal agreement to the draft report was obtained in July 2017 and as such the TOR2 Commissioning audit is not yet due for formal follow up.	N/A*
Safer Communities	Risk / ANA - Medium	N/A – in progress at the time of the outturn report	Improvements Required	Formal agreement to the draft report was obtained in October 2017 and as such the Safer Communities audit is not yet due for formal follow up.	N/A*

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score	
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk		
<b>IT Audit</b>						
Page 18	Change Management	Risk / ANA - High	Improvements Required	Improvements Required	The possible organisational changes related to the ICT delivery model within the Transformation Programme may impact change management processes going forward. We would suggest that existing practices continue in relation to the regular formal change management meetings and associated communication, but further development of the process be reviewed on a case by case basis to ensure that resource is not focussed on enhancements which may ultimately become redundant. Whilst the Council operates some ICT change management processes, it remains that these are not consistent and do not provide a robust framework by which risks are minimised or mitigated, however the current risks have been accepted due to the potential organisation changes. There are some areas of good practice however a number are driven by the individuals concerned rather than by defined governance framework.	
	Partnership Working (ICT Systems TOR2)	Risk / ANA - High	Improvements Required	Improvements Required	Progress against the agreed recommendations has not been undertaken as originally expected. A number of the agreed actions have either not yet taken place or are partially implemented. We have been advised that in a number of cases the lack of progress has been in relation to delays in formalising process changes due to complexities in operational practices. We understand that both parties are operating under strict budget constraints, ruling out any current investment in infrastructure. In April 2018 the contract(s) enter their ninth year of the initial ten year contract period. As part of Transformation, a TOR2 Project Board has been formed as a key Transformation Project. Future ICT provision including channel shift and use of social media applications for Torbay residents will form part of this project.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
Cyber Essentials	Risk / ANA - Client Request	Improvements Required	Improvements Required	It is pleasing to note that some progress has been made against the agreed actions. A small number of recommendations have been implemented with a majority ongoing. Whilst progress has been made, the level of actions either ongoing or not implemented results in the risks remaining. It should be noted that management action in progress would expect to see this improve next year.	

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Adult Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
NRS Healthcare Joint Equipment	Risk / ANA: Client Request	Improvements Required	Good Standard	A follow up of this audit was included in the 2017-18 plan and is being formally reported within the six month outturn report.	

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
Educational Health and Care Plan – Ofsted Framework	Risk/ANA: ANA - Low, client request	Improvements Required	Good Standard	Significant progress has been made with a number of the associated risks having been addressed. There remain a small number of areas where further improvement is required however this is somewhat reliant on external influences.	
Contracts, Commissioning, Procurement including Career South West	Risk/ANA: ANA - Medium, client request	Improvements Required	Good Standard	Significant progress has been made with a number of the associated risks having been addressed. A sufficiency strategy has been drafted. Controls would be further enhanced through the finalisation and implementation of this policy.	
Care Leavers – Transition Plans	Risk/ANA: ANA - Low, Ofsted, client request	Improvements Required	Improvements Required	Other work priorities within Children's Services have prevented completion of a follow up audit; however since the original audit was completed the Care Leavers' Service has been subject to a focussed Ofsted Monitoring Visit in July 2017. Whilst the Monitoring Visit highlighted progress with the completion and quality of Pathway Plans, there remained variability in quality to be addressed. Ofsted also noted that Care Leavers' awareness of their entitlements had been significantly strengthened and that an After Care Handbook and Entitlement Sheet is issued to all Care Leavers. We have been advised that work is also underway to review all Care Leavers' accommodation as the visit evidenced a misunderstanding on the assessment process which has resulted in a programme which will see all accommodation settings visited and reassessed. In light of this information, we have taken assurance from Ofsted's findings and updated the direction of travel to 'Amber' now with the intention of re-visiting this area in our follow up exercise next year.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 30 November 2017	Commentary and residual risk	
Transition Children's to Adults – Special Educational Needs and Disabilities	ANA - Medium	Fundamental Weaknesses	Improvements Required	Progress has been made with the formulation of the SEND Strategy. A joint strategic needs assessment has been carried out, the results of which are awaiting publication. It is clear that new processes and templates have been formulated in relation to the Education, Health and Care Plans (EHCP). We are pleased to lift the assurance opinion to that of Improvements Required. This reflects that progress has been made, however the templates and processes will require a formal audit review to establish effectiveness and consistency in operation. It should be noted that management action in progress would expect to see this improve further next year.	
Torbay Safeguarding Children Board	Risk/ANA: ANA - Critical, Ofsted, client request	Improvements Required	Improvements Required	Formal agreement to the draft report was obtained in November 2017 and as such the Torbay Safeguarding Children Board audit is not yet due for formal follow up.	N/A*
Looked After Children - Referrals	Risk/ANA: ANA - Medium, Ofsted	Improvements Required	Improvements Required	Formal agreement to the draft report was obtained in September 2017 and as such the Looked After Children - Referrals audit is not yet due for formal follow up.	N/A*

## Definitions of Audit Assurance Opinion Levels

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

## Definition of Recommendation Priority

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

## Confidentiality under the National Protective Marking Scheme

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Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
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.
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.
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.

Internal Audit

# Half Year Audit Report 2017-18

Torbay Council  
Audit Committee

Page 24

January 2018

Robert Hutchins  
Head of Audit Partnership

Auditing for achievement

Agenda Item 6



## Introduction

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

The Accounts and Audit (Amendment) (England) Regulations 2015 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 2017/18 was presented and approved by the Audit Committee in March 2017. The following report and appendices set out the background to audit service provision; a review of work undertaken to date in 2017/18, 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 an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report provides that opinion.

### Expectations of the Audit Committee from this annual report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- the 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 (see appendix 1) and satisfy themselves from this assurance for signing the Annual Governance Statement.

**Robert Hutchins**  
**Head of Devon Audit Partnership**

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## Opinion Statement

Overall, based on work performed to date during 2017/18 and our experience from previous years', the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the majority of the Authority's internal control framework. The exceptions to this are Public Health and Children's Services, where opinions are of 'Limited Assurance' due to the level of audit activity in previous years. However, we acknowledge that engagement has greatly improved along with the level of work in current year, from which assurance can be provided.

*This opinion statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 1. Assurance over arrangement for adult social care is mainly provided by colleagues at Audit South West, the Internal Audit provider for Health Services, who provides a separate letter of assurance.*

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 details of Internal Audit's opinion on each audit review carried out in 2017/18 to date. 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 2017/18.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews, 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. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up.

This statement of opinion is underpinned by:

### Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. debtors, creditors, payroll & Main Accounting) or generally in the reviews undertaken in respect of directorate systems. The Council's overall internal control framework operated effectively during the year. Where internal audit work has highlighted instances of none or part compliance, none are understood to have had a material impact on the Authority's affairs.

### Risk Management

Risk Management process at Strategic level remains in place and is currently subject to a revised process through an ongoing project, which incorporates inclusion of ICT Continuity and Disaster Recovery, Corporate Business Continuity and Emergency Planning. There remains work to be done to integrate all of this at operational level.

### Governance Arrangements

Governance arrangements have been reviewed in the areas of Transformation, System Implementation, Projects and Equality Impact Assessments and found to be effective with opportunities to improve capacity or alignment to business need in these areas. The Information Security Group continues to provide governance in relation to management of information.

### Performance Management

The Transformation Programme performance is monitored by the Transformation Board. For other contracts, monitoring and governance is variable across the Authority and opportunities for improvement identified. Performance of ICT provision is monitored albeit at a reduced level. The infrastructure relies upon aged components and requires investment.

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.	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.
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.	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.

## Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can. We obtained feedback from those audited during the year who considered we were able to add value, e.g.:

*'points us in the direction for improvements in control and can also now discuss how other customers may have adapted procedures etc'.*

We believe internal audit activity can add 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.

We trust that Senior Management has found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

We consider our work has identified specific added value benefits in key areas and in mitigating key risks. For example:-

### Public Health

- combining audit areas and delivery to better suit customer requirements;
- the development of audit plans to cover new and emerging risk.

### Adult Services

- inclusion again of the NRS Joint Equipment Store audit in the planned work in order to provide management with an up to date assurance;
- liaison support in relation to the working relationship between the Council and Audit South West.

### Children's Services

- supporting the organisation in relation to the future of the PARIS system within a routine audit;
- assistance in maintaining the impetus in management action plans to address previously identified risks through an annual and robust follow up exercise;
- assistance in maintaining appropriate engagement with the internal function through regular management liaison meetings;
- development of audit plans to incorporate flexibility to meet changing and developing business demands.

## Corporate Services & Operations, Commercial Services & Transformation

- ongoing support to the transformation programme, including expansion to horizon scanning focussed on Revenue Income Optimisation, fees and charges cost recovery review, project engagement model, review of practices and governance within the Investment Portfolio project, support to the Sefas/Hubmail plan, advice and consultancy role regarding Digitalisation and appraisal of future service delivery models, embedding ethics and culture within Transformation, and formulation of the P3M3 (Portfolio, Programme and Project Management Maturity Model) self-assessment tool;
- additional support in relation to the external audit requirement for benefit subsidy;
- support to the ongoing GDPR project;
- ongoing support to projects, including HR Self Service and FIMS upgrade;
- continued advice, guidance and challenge to the Information Security Group;
- advice and support to the development of risk management and its wider integration with business continuity and Transformation;
- confirmation of Tor Bay Harbour Authority Port Marine Safety Code Compliance;

### Schools

The provision of internal audit's performance data provides a greater focus on schools causing concern in the wider control environment.

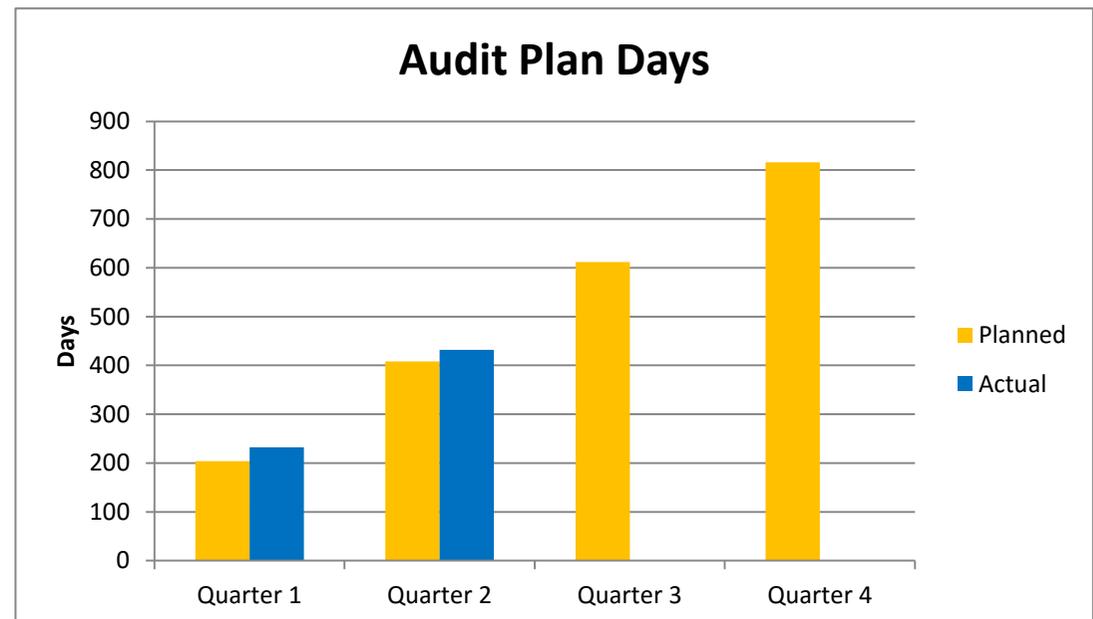
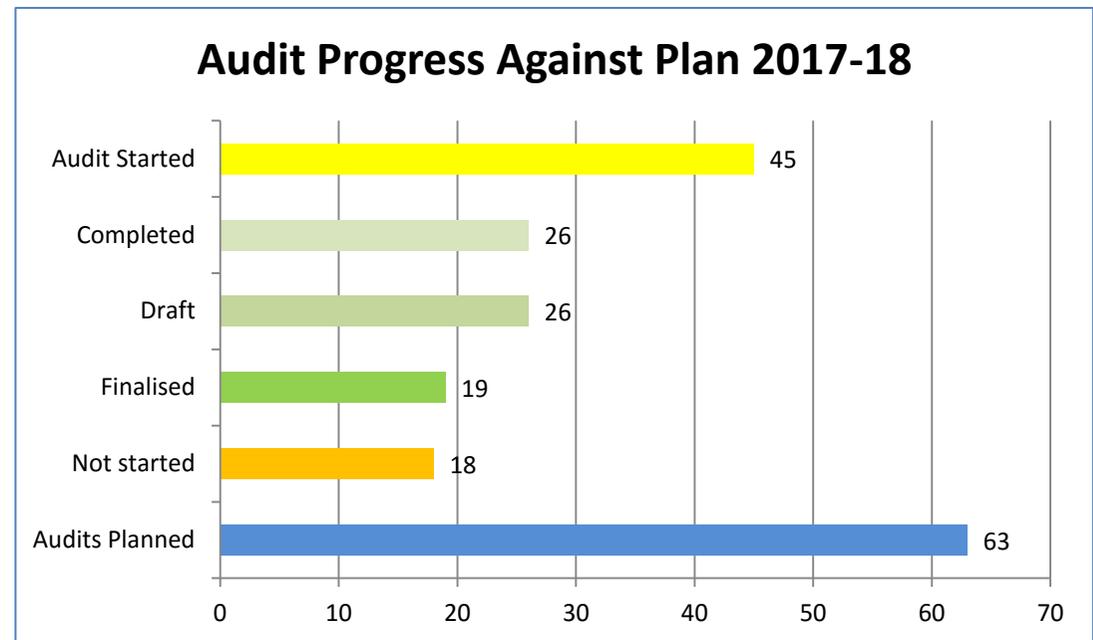
## Progress Against Plan

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.



## Summary audit results

### Children's Services

Based upon audit work completed in 2017/18 and that undertaken in previous years we can comment that the framework of control remains in operation. Whilst the number of audit reviews undertaken within Children's Services continues to increase compared to earlier years the assurance opinion provided for the majority of individual audit reviews in 2016/17 and 2017/18 to date has been one of 'Improvements Required'. However, it is pleasing to note that the results of our annual follow up exercise, which is reported separately, has identified a number of areas where we are now able to give an assurance opinion of 'Good Standard' demonstrating positive movement in the direction of travel for the control environment.

We identified opportunity for wider engagement by the education community outside of the Schools Forum meetings and identified that decision making recording could be improved. Ordinarily forward plan budgeting in relation to the use of the Dedicated Schools Grant (DSG) would be recommended to reduce reactive responses to budget pressures, however we understand that changes in policy and funding by the DfE and lack of detail provided on the new schools funding formula make this unrealistic in this instance.

Although practices in relation to the use of PARIS including quality assurance have changed since the Ofsted visit, we found that they are yet to become embedded. We noted that restrictions in the Paris System functionality result in no provision for formal workflow to enforce staged, accurate and complete data input; as such we cannot provide assurance that data is complete and accurate. Although PARIS is backed up, there is no service business continuity plan which could lead to the inability to operate in the event of an issue requiring invocation of such a plan. We also noted that the PARIS system is only in use by a very small number of Council's, which raises a question as to the effectiveness of the system for this purpose and the priority with the supplier.

### Corporate Services & Operations, Commercial Services & Transformation

In our opinion, and based upon our audit work completed so far during the 2017/18 year, 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 requirement for 40+Testing by the External Auditors in relation to Benefits Subsidy for 2016/17 indicates that quality control processes require strengthening as detailed in our findings.

The Transformation Programme including ICT digitalisation is critical to the organisation; our work found that whilst resource remains small in terms of the core/dedicated team, a new dedicated Finance role is in place and a Senior Transformation role is currently being recruited to; however our concern remains that capacity may not be sufficient given the scale of the programme. Issues identified with TOR2 Commissioning previously forms part of the Transformation project.

EU General Data Protection Regulations (GDPR) /UK Data Protection Bill (DPB) compliance is statutory with effect from May 2018. We found that there remains a need to formally identify / recruit a data protection officer and to fully resource the project to ensure compliance by the deadline.

The project to progress risk management and business continuity processes remains ongoing.

Opportunities exist for improvements in the control and governance framework for Safer Communities Channel Panel, Coroner Service and commissioning work with the TDA. Weaknesses exist in Procurement & Contracting arrangements which are currently being resolved.

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

## Public Health

We are unable to provide an overall opinion due to the limited work undertaken within this directorate area. We can, however, comment that in terms of our audit work completed during 2017/18 and where recommendations have been made, action plans are being agreed with management.

Our public health audit work remains ongoing with a further review to complete in the second half of the year. During this time we will also work with management to prepare an audit plan for 2018/19 that addresses new and emerging risks.

## Adult Services

We are unable to provide an overall opinion due to our limited work undertaken within this directorate area. We can, however, comment that in terms of our audit work completed during 2017/18 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 one further review to complete in the second half of the year. During this time we will also work with management to prepare an audit plan for 2018/19 that addresses new and emerging risks.

## Schools

The overall opinion for the routine school audit visits has been maintained as 'good standard'. In general, the systems and controls in schools mitigate the risks identified in many areas.

The key matters arising from the audits are that:

- Maintenance of the Single Central Record at a school was not fully compliant with 'Keeping Children Safe in Education';
- Information published on a school's website was not compliant with the information required by the Department for Education;
- The standard and content of minutes for a school's Governing Body Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.

The Schools Financial Value Standard is now an established tool for maintained schools as a self-assessment of their local financial management and schools are required to annually submit their self-assessment to their local authority by 31<sup>st</sup> March.

## Fraud Prevention and Detection

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 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 is now shared with the corporate fraud officer, with advice and assistance from DAP as required and with DAP undertaking the internal matching investigations i.e. Payroll and Creditors.

DAP have assisted the corporate fraud officer in producing the Council Policy on Blue Badge fraud. 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. The Council's Whistleblowing Inbox is also monitored daily. Periodic fraud bulletins are also produced and published on DAP's website.

**Irregularities** – During the first six months of 17/18, Internal Audit have carried out, or assisted in nine new irregularity investigations. Analysis of the types of investigation and the number undertaken shows the following:-

Page 31

Issue	Number
Poor Procedures	6
Employee Conduct	1
Misappropriation of Income	1
Financial Irregularities	1

### Summary details as follows:-

The irregularities have included reviewing officer conduct following allegations, reviews of historical records to clarify planning issues, reviews of payments and payroll processes, income anomalies, email review re possible data breach, review of certain arrangements for respite care and a whistleblower review.

### Freedom of Information and Subject Access Requests:-

We were asked to assist with four requests under Freedom of Information and Data Protection requirements.

## Professional Standards and Customer Service

### Conformance with Public Sector Internal Audit Standards (PSIAS)

**Conformance** - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2017. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

**Quality Assessment** – through external assessment December 2016 “DAP is considered to be operating in conformance with the standards”. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme.

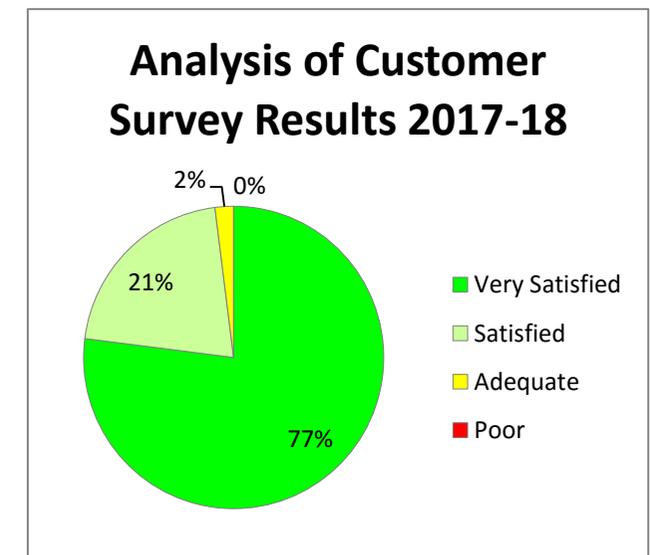
**Improvement Programme** – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and a status report was reported to the Management Board in October 2016.

### Performance Indicators

Overall, performance against the indicators has been very good with improvements made on the previous year (see Appendix 5). We are aware that some of our draft and final reports were not issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We continue to review where performance in this area can be improved.

### Customer Service Excellence

In June 2017, DAP was successful in re-accreditation by G4S Assessment Services of the CSE. We continue to issue client survey forms with our final reports and 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 near 98% being “satisfied” or better across our services, see appendix 6. 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.



## Appendix 1 - Annual Governance Framework Assurance

**The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.**

The Annual Governance Statement provides assurance that

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

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

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

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

The Committee should satisfy themselves, from the assurances provided by the Corporate Risk Management Group, Executive and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.

## Appendix 2 - Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, formed from risk-based reviews and sample testing, of the framework of governance, risk management and control.

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

The extent to which our work has been affected by changes to audit plans has not been notable this year to date and we anticipate meeting the majority of the original audit plan for Children's Services, Public Health and Adult Services this year. This increase in audit activity is mentioned in our Assurance Opinion on page 3.

In previous years, other service priorities have impacted audit delivery in Children's Services and Public Health, and this continues to impact our Assurance Opinion for these areas.

The overall audit assurance will have to be considered in light of this position.

In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2016/17, including those audits carried forward from 2014/15;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

## Appendix 3 - Audit Authority

### Service Provision

The Internal Audit (IA) Service for Devon County Council is delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

### Regulatory Role

There are two principal pieces of legislation that impact upon internal audit in local authorities:

- Page 35
- **Section 5 of the Accounts and Audit Regulations (England) Regulations 2015** which states that ".....a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance....."
  - **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

### Professional Guidelines

We work to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards.

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

Our Internal Audit Manual provides the method of work and Internal Audit works to and with the policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.



Internal Audit Strategy sets out how the service will be provided and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the audit function.

## Appendix 4 – Summary of audit reports and findings for 2017/18

### 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

### Direction of Travel Assurance 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 SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
<b>Transformation</b>			
Transformation Programme - project 'trusted advisor' role (ANA – Critical)  Risk / ANA - Critical  Page 36	Added Value  Status: Ongoing	<p>We have established regular reviews with both the Director of Adult Services and Housing, and the Transformation Programme Manager; this arrangement will be updated as a result of the recent restructure of SLT. As in 2016-17 our support continues to be primarily driven by the requests of the Transformation team; however the nature of our support has, in some instances, needed to be more operational and consultative in terms of undertaking pieces of work to support the programme rather than the traditional audit role.</p> <p>Our support during 2017-18 has included further work on the original horizon scanning with a focus upon Revenue Income Optimisation; we continue to undertake an analysis of the Council's fees and charges in relation to cost recovery; we have undertaken a review of the Transformation projects engagement elements, and enhanced the tracking record through provision of the output of the engagement work in the form of a RACI (Responsible; Accountable; Consulted; Informed) model; we have commenced our review of the Investment Portfolio and will continue with this throughout 2017-18; involvement in the Sefas/Hubmail project continues in line with project requirements; support to the Council's digitalisation project has commenced; we continue to review methods for integration of ethical and cultural issues into the Transformation Programme.</p> <p>The P3M3 assessment templates are in place and a top level assessment will be undertaken following the structure changes within the Transformation Programme.</p> <p>We continue to work with the Programme Manager to establish and define our further input to the project for the remainder of the year, and in addition our intention is to complete a project governance review before the end of the financial year.</p> <p>Transformation Programme resource still remains relatively small in terms of the core team, however a dedicated Finance resource has been recruited and the Council is currently recruiting a Senior Transformation role. Given the scale of the programme and the importance of the budget driver for the organisation, our concern remains that resources allocated to the Transformation programme in relation to the size of the team may not be sufficient.</p>	N/A

**CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION**

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<b>Material Systems and Grants</b>			
Income Collection Risk / ANA - Medium	High Standard Status: Final	<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 reconciling a number of systems, using complex, manual paper based processes. Relevant receipting practices ensure that every transaction is uniquely identifiable and effective reconciliation processes ensure that all income is accounted for accurately.</p> <p>A review of progress against the previously agreed recommendations found that significant progress has now been made in a number of areas, for example controls have been put in place to mitigate the lack of segregation of duty between Administrator and general operational / transactions roles; system access has been improved; income has been incorporated into the FIMS Business Continuity Plan.</p>	
Treasury Management Risk / ANA - Low	Good Standard Status: Final	<p>A comprehensive Treasury Management Strategy is in place and complies with the current CIPFA Code of Practice; however we understand that due to a recent change in the investment approach, an updated Strategy, along with updated Treasury Management Practices (TMPs) will soon be approved.</p> <p>As in previous years, high operational standards continue to be maintained, with only minor issues being identified, though we note that some of these remain outstanding from previous years.</p> <p>Recommendations have been made, mainly to further strengthen existing controls, including: ensuring that TM documentation is sufficiently restricted; drafting a Business Continuity Plan; and ensuring regular team meetings are held to allow important information to be effectively communicated.</p>	
FIMS System Administration Risk / ANA - Critical	Good Standard Status: Final	<p>The control environment relating to FIMS System Administration is robust. There are comprehensive procedures and processes in place and system training is mandatory for users with transactional capability. With the exception of the system administrators, access to the system is appropriately controlled and restricted; and we continue to report the lack of full segregation of duty between the system administration and finance roles.</p> <p>Changes to system parameters as well as system modifications and fixes are effectively controlled, and there are appropriate business continuity arrangements in place. Routine verification processes ensure that the system is operating correctly and that the General Ledger remains properly reconciled to other FIMS modules.</p>	

**CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
IBS* System Administration Risk / ANA – High *International Business Systems	Good Standard Status: Final	IBS System management and the related control environment are, in the main, being effectively maintained. The acknowledged lack of segregation of duty remains, as do a number of other issues including a lack of robust audit trail retention in relation to parameter changes. We have also recommended that reconciliation and balancing procedures are reviewed as there seems to be some duplication, and hence inefficiency in this area.	
Benefits Risk / ANA - Medium  Page 38	Good Standard Status: Draft	This year's sample testing approach has not identified many issues in terms of accuracy of processing, and there have been improvements in the application of the RBV framework. At the time of the audit, the QC process was not working effectively. The target number of accuracy checks had not been met for Q2, and we are unable to determine if the target number of checks relating to RBV is being adhered to. There were no checks being undertaken on claims that relate solely to council tax support at the time of the audit, although we have since been informed that these are now being performed; and no training has been undertaken as a result of the QC results found. We understand that this is due to the newly appointed QC officer not having been in post for a sufficient length of time to be able to establish common themes and devise a training schedule accordingly. There are still a number of issues outstanding from previous year, particularly in relation to SE earnings calculations and we have recommended that these are resolved as soon as possible.	
Asset Register Risk / ANA -Medium	Good Standard Status: Final	Access to the asset system (RAM) is appropriately restricted to authorised users, and there are mitigating controls in place to reduce the risk of the lack of separation of duty between system admin rights and input / edit functionality. Sample testing did not identify any issues in terms of the appropriateness of capitalised expenditure, nor the authorisation of disposals, and only a small number of minor issues were identified in terms of the valuation process. The asset register is regularly and effectively reconciled to other relevant systems, including Torbay On-line Asset Database and the General Ledger.	
Grants x 5 Risk / ANA: N/A	Certified Status: Complete	Grants certified comprise; Bus Subsidy, Local Transport Capital Block Funding, Pothole Funding, Local Growth Fund and Troubled Families. A number of minor issues were identified and reported to the relevant funding body.	N/A
Benefit Subsidy Claim – additional 40+ testing. Risk / ANA: N/A	Added Value Status: Complete	A number of minor issues were identified in relation to rent allowance income calculations, and results have been passed over to Grant Thornton.	N/A

**CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION**

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following audits are currently in progress: <ul style="list-style-type: none"> <li>General Ledger and Bank Reconciliation (ANA – Medium)</li> <li>Creditors and POP (ANA – High)</li> </ul>		The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>Payroll (ANA – Critical)</li> <li>Debtors and Corporate Debt (ANA – High)</li> <li>Council Tax and National Non-Domestic Rates (ANA – Medium)</li> </ul>	
<b>IT Audit</b>			
Corporate Information Management Risk / ANA - Medium	Added Value Status: Final	Assurance was reported in last year's annual report; please refer to that report for details	
Digitalisation - Transformation Risk / ANA - Client Request	Added Value Status: Ongoing	As outlined in the Transformation Programme work above, we are providing support to the Digitalisation element of Transformation. In the initial stages we are looking at reviewing ICT Service Delivery to identify an appropriate model to best support the organisation in delivering both operational savings and service improvements.	N/A
GDPR Project Risk / ANA - Client Request	Added Value Status: Ongoing	We are members of the GDPR project team undertaking a project QA role, and regularly attend project meetings, providing support to the project as requested, which is primarily client request driven. Our key concern is the Council's ability to ensure compliance within the ICO timeframes. We have recommended that both Members and Officers at the highest level must be committed to the delivery of this by May 2018 and the allocation of necessary resources to both achieve and maintain compliance. A Data Protection Officer must be appointed to oversee and actively manage the initial and continued compliance of the regulations for the Authority. The organisation must understand their full 'personal data' lifecycle (including data held by third parties) - how it's collected; stored; where it's located; how it's transferred / shared; and secured; classification; reason for retention whilst being processed by the Authority; and ultimately the method of disposal.	N/A
The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>ICT Continuity and Disaster Recovery (ANA – Critical)</li> <li>Website Content Management (ANA – Medium)</li> </ul>		The following audits have been deferred or cancelled at the request of the client: <ul style="list-style-type: none"> <li>Service Strategy (ANA – High)*</li> <li>ICT Knowledge Management (ANA – High)*</li> <li>Service Operation (Service desk data review using IDEA) (ANA – High)*</li> <li>Service Design (ANA – Medium)*</li> <li>Shared Services and Partnership Working (ICT Systems) (ANA – Medium)*</li> </ul> *These audits have been replaced by two new audits, GDPR Project and Digitalisation - Transformation	

**CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION**

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<b>Other</b>			
Fair Decision Making Risk / ANA - High	Good Standard Status: Final	Assurance was reported in last year's annual report; please refer to that report for details	
TOR2 Commissioning Risk / ANA – Critical	Improvements Required Stratus: Final	Assurance was reported in last year's annual report; please refer to that report for details	
Safer Communities Risk / ANA – Medium	Improvements Required Status: Final	<p>Local processes, protocols and documents have been developed to manage the Channel Panel process. However statutory guidance was updated in 2015 and local guidance requires review and communication to inform Panel and other stakeholders appropriately of changes. Additionally, the protocol for data sharing needs to be finalised and implemented.</p> <p>The Terms of Reference for the Channel Panel requires refinement and oversight responsibility and reporting for the Channel Panel is unclear. Training for Panel members and associated officers should to be assessed and prioritised. In addition, attendance at Panel meetings and core membership need to be improved and enhanced.</p> <p>Support packages are essential to providing relevant support to individual cases, but remains an area where knowledge of what is available is deficient. Other processes, such as the consent pathway, and the mechanism for gathering pre-Panel meeting information, require improvements to process.</p>	
Procurement and Contracting Arrangements Risk / ANA - High	Improvements Required Status: Final	<p>Compliance with Procurement regulations was found to be varied and inconsistent in relation to the directorate examined; ranging from major non-compliance through a clear lack of any formal tender process and contractual arrangement, to contracts that require further clarification to establish compliance e.g. contracts that were established by other Local Authorities within consortium arrangements with no documentation held by Torbay; and contracts established by Devon County Council prior to Torbay obtaining unitary status.</p> <p>Individually a number of contracts will require specific action to establish and maintain compliance. Corporately action is required to enforce the required practices in relation to the Procurement framework and to establish and maintain compliance with regulatory requirements. It is pleasing to note that the Procurement Service has been restructured to better support the Procurement Strategy and this would be further enhanced through establishing a method for enforcing compliance at departmental level.</p>	

**CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION**

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Commissioning by the Council of the Torbay Development Agency (TDA) – Service Level Agreement  Risk / ANA - High	Improvements Required  Status: Final	<p>The original agreement between the Council and the TEDC from its establishment in 2010 is now out of date, along with the corporate level SLA for the core services delivery. There should be an underlying expectation / direction that services commissioned from the TDA are supported by adequately detailed SLAs to ensure service delivery and payments are managed with due regard to protecting the public purse; we note that this is now being progressed.</p> <p>Additionally, there is a risk that the basis on which commissioned services are priced is not adequately challenged and agreed by individual Services / budget holders and that consideration may not always be given to other providers due to reliance on historic arrangements.</p> <p>The existing arrangements rely heavily on historic agreements and contract pricing methods, which are overdue for review against current priorities.</p> <p>Since completion of the audit, in October 2017 the council and TDA agreed a schedule of rates for work undertaken supported by a signed protocol that outlines the key assumptions for the financial transactions between the Council and the TDA</p>	
Coroner Service  Risk / ANA - Low	Improvements Required  Status: Draft	<p>Current arrangements for indirect and direct cost recording and recharging by Plymouth City Council were found to be effective and accurate, although there may be advantage in greater use of the case recording system in relation to direct cost recording given the increase in recharging and associated monitoring of costs following the introduction of the new arrangements.</p> <p>Whilst direct costs are checked to source documents, there is no similar checking to source for the indirect costs; such checking will become more important under the new arrangements where invoices and costs will be new and different.</p> <p>The main concern arising from our work is the risk associated with the introduction of the new SLA arrangements given the change in the recharge process / mechanism from the existing practices, as without effective dissemination of requirements there may be over or under recharging. In addition, the changes to arrangements may cause unforeseen budgetary pressure to either of the authorities. For these reasons the overall opinion is Improvements Required.</p> <p>Effective communication of changed arrangements for procurement of services by coroners staff based in Torbay will be necessary to ensure continued compliance with PCC Financial Regulations.</p> <p>It is pleasing to note that arrangements for sensitive cases to be heard locally have been established, and these should be formalised within the SLA.</p>	

**CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Port Marine Safety Code Risk / ANA – Client Request	Added Value  Status: Complete	To the best of our knowledge and belief, and having carried out appropriate checks, in our opinion the Tor Bay Harbour Authority is compliant with the Port Marine Safety Code. It is pleasing to note that progress has been made against the previous year's recommendations although some remain outstanding and have been re-reported.	
HR / Payroll System - new modules implementation project Risk / ANA - Critical	Added Value  Status: Ongoing	We continue to provide support to the project as requested by the client and have provision to attend any project meetings as required. This is very much client driven at this stage of the project. We have provided advice on system changes such as the implementation of scanned documentation to support transactions such as travel and subsistence, and absence fit notes. We will continue to provide support as required throughout 2017-18.	N/A
Torbay Online Asset Database (TOAD) Replacement Risk / ANA - Medium	Added Value  Status: Ongoing	This project has encountered issues within the original tender process due to the nature of the requirements. A subsequent procurement process has been undertaken with the focus being on two key elements; the Asset database and Facilities Management. We continue to maintain contact with the project team and understand that a preferred supplier has been identified and agreement to funding is being sought. We are currently awaiting confirmation from the project team on their requirements of our project support during the remainder of 2017-18.	N/A
FIMS Upgrade Risk / ANA - Medium	Added Value  Status: Ongoing	We are continuing to provide a project QA role. Our involvement to date has included review of project documentation such as the business case and PID and general project management methodologies. We have provided advice in terms of system controls as required by the project lead and will continue to provide support during 2017-18.	N/A
Information Security Group Risks / ANA - N/A	Added Value  Status: Ongoing	We maintain membership of and attendance at the Council's Information Security Group. Our role provides advice, guidance and challenge in terms of active participation within the group. Of concern is the level and nature of data breaches. The resource requirement to investigate and respond to these is significant and currently impacts upon the other operational duties of the team, significantly, the GDPR project.	N/A
The following audits are currently in progress: <ul style="list-style-type: none"> <li>Spatial Planning - Section 106 - follow up, including Community Infrastructure Levy (ANA – Medium)</li> <li>Human Resources - Exit Packages (ANA – Medium)</li> <li>Covert Surveillance of Social Networking Sites (Client Request)</li> <li>Food Safety, Safety and Licensing (ANA – High)</li> <li>Concessionary Fares - follow up (ANA – Medium)</li> </ul>		The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>Troubled Families grant (second claim)</li> <li>Housing Services – follow up (ANA – Low)</li> <li>Printing Services and Post Room (ANA – Medium)</li> <li>Parking Services (ANA – High)</li> <li>Spatial Planning - Development and Planning (ANA – High)</li> <li>Sports Pitch Leases - follow up (ANA – Medium)</li> <li>Commissioning and Performance Monitoring of the TDA (ANA – High)</li> </ul>	

## CORPORATE SERVICES & OPERATIONS, COMMERCIAL SERVICES & TRANSFORMATION

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following audits have been cancelled at the request of the client: <ul style="list-style-type: none"> <li>Transport Infrastructure Highways Network Asset Valuations (ANA – High)*</li> </ul>			
		*Replaced by new Covert Surveillance of Social Networking Sites audit	

## PUBLIC HEALTH

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Commissioned Services - Contracts Management and Monitoring (Drugs & Alcohol and Public Health Nursing including 0-5 Activities - Health Visitors)  <i>Note: this audit was planned as two separate audits but was completed as a single combined audit.</i>	Good Standard  Status: Final	<p>The current Public Health Services Contract has been let in accordance with approved Council and statutory requirements. Effective working relationships with the Procurement team and Legal Services ensure that compliance is maintained.</p> <p>Contract management arrangements are effective, and supported by detailed contract service specifications, quality outcomes indicators, timely data provision, and a quality review meetings (QRM) process. Public health team officers ensure the QRM process is adhered to and performance outcomes are reviewed.</p> <p>Financial Regulations are followed in relation to contract payments, and payments are accurate and timely in accordance with the Contract terms as amended by a Variation to Contract. Payments are monitored against the contract and budget. PHE 'ring fenced' funding should be used solely for Public Health benefits, however accounting transactions impact the effectiveness of the related budget monitoring.</p> <p>The service is currently undertaking a re-commissioning review across the three main areas. The re-commissioning work will seek to ensure that the services continue to meet existing needs, and / or develop to meet the changing needs of the Council, users and other stakeholders, as well as ensuring continued compliance with Public Procurement Regulations. However, venturing into new commissioning models does not come without risk and we have made recommendations regarding the commissioning of public health and substance misuse services.</p>	N/A*

The following audit is not due to commence until the second half of the year:

- Public Health / NHS Links (ANA – High)

**ADULT SERVICES**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
NRS Joint Equipment Store – follow up Risk / ANA - Low	Good Standard Status: Final	<p>Good progress has been made since the last audit was undertaken in 2015-16. Of the seventeen recommendations made in the original report, we are pleased to report that eleven have now been implemented, and five part implemented. Those issues that remain include:</p> <ul style="list-style-type: none"> <li>• technical issues within the virtual budget monitoring spreadsheets are preventing them from being utilised this year;</li> <li>• a number of clients' dates of birth remain as the default, and therefore incorrect on the iRIS database;</li> <li>• a final decision on removing erroneous data on legacy equipment from the database is yet to be taken</li> <li>• the review of specials stock in terms of deciding which can be placed in the main catalogue and which should be recycled has yet to be undertaken</li> <li>• the review of stock management and recording stock movements at peripheral stores has not yet begun.</li> </ul> <p>For the last two issues, the Authority is awaiting the appointment by Torbay and South Devon NHS Foundation Trust of a Lead Occupational Therapist, part of whose role it will be to undertake these reviews.</p>	
Commissioning and Performance Management (non-Integrated Care Organisation) Risk / ANA – High	Good Standard Status: Draft	<p>Commissioning needs are changing due to continuing budgetary pressures and we found good liaison between Adult Services and the Procurement team ensuring ongoing compliance with regulations; the initial stage of reviewing future need has begun.</p> <p>Contractual arrangements in place for non-ICO services are supported in the main by detailed and robust contract specifications including performance management requirements.</p> <p>Performance is subject to monitoring arrangements by commissioning officers, although we did identify the need to consistently record this monitoring on a quarterly basis in line with contract requirements. We also noted the intention to formalise regular performance reporting to senior management and the Social Care Programme Board. Other recommendations have been made to address specific contract issues, but do not suggest control weaknesses.</p> <p>Payments for services are accurate and timely, and where necessary reviewed and adjusted to match the Council's changing needs, with appropriate supporting contract variation approval.</p>	

The following audits are not due to commence until the second half of the year:

- Care Act – Better Care Fund / Section 256 monies (ANA – Critical)

**CHILDREN'S SERVICES**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Business Processes / Workforce Strategy Risk / ANA: High	Good Standard Status: Final	Assurance was reported in last year's annual report; please refer to that report for details.	
Torbay Safeguarding Children Board (TSCB) Risk / ANA: Critical, Ofsted	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details.	
Looked After Children - Referrals Risk / ANA: Medium, Ofsted	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details.	
Schools' Forum / use of DSG Risk / ANA: Medium	Improvements Required Status: Draft	<p>There are a number of processes in operation which align to expected practice and associated guidelines. Forum meetings are reasonably well attended by the educational community and the Local Authority (LA), with a good level of information provided by the LA to forum members to allow preparatory review, scrutiny and challenge. We identified opportunity for wider engagement from the education community via their representatives feeding into the meetings. Challenge and associated decision making is not appropriately recorded and is itself at risk of subsequent challenge and potential invalidation.</p> <p>As required by associated guidance, forum documentation is available publicly on the Torbay website; however the information was very difficult to locate and therefore not easily accessible. In our opinion, it would benefit from a more structured dedicated communications provision that is well signposted so to be visible to the public.</p> <p>Although budget information provided to the forum by the LA is comprehensive, it is in effect short term and does not currently provide a means for long term forecasting and planning. Ordinarily a long term approach would be recommended to provide a more strategic and less reactive approach to budget pressures. However we understand that ongoing changes in policy and funding by the DfE and lack of detail provided on the new schools funding formula make implementation of this type of approach unrealistic. Whilst the forum challenges budget positions, we felt that the timeliness of remediating action in relation to a significant increase in overspend was, in our opinion, delayed, however we do recognise that it was dealt with given the constraints outlined above</p>	
PARIS - Case Recording / Data Quality / Business Use Risk / ANA: Critical, Ofsted	Improvements Required Status: Draft	There have been a number of practices put in place following the last Ofsted visit, in particular the performance framework including a Quality Assurance (QA) process; however our review of the reports and the level of outstanding items would suggest that this is not yet fully embedded. The system itself appears complex in terms of the background database structure and associated data	

**CHILDREN'S SERVICES**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Page 46		<p>fields, and also the system functionality has no formal process workflow to enforce staged, accurate and complete data input. As such our concern is that data completeness and accuracy cannot be fully assured.</p> <p>Logical system access controls are reasonably well managed, although the user leaver process would benefit from enhancement to provide a more robust approach. From a business continuity perspective, the system data is subject to regular back up; however a service business continuity plan was not evident; a lack of which increases the risk of the service areas ability to operate in the event of an issue requiring BCP invocation occurring.</p> <p>There may be a need to consider whether Paris is an appropriate system for use within Children's Services. We understand that Torbay Council is one of a very small number of council's in the UK that use Paris for Children's Services; that in itself raises question as to the effectiveness of the system for this purpose and the priority with the Supplier. The pending strategic organisation changes within the Service area also impact the potential in relation to continued use of the system in relation to integration issues both from a system and back office processing perspective.</p> <p>The lack of adequate engagement, communication and provision of supporting data regarding the use of Dragon Speak, PDA technology and mobile devices made formulation of a robust assurance opinion in this area of the service problematic. This has therefore resulted in a lack of audit assurance and associated recommendation in this regard.</p>	
Grants x 1 Risk / ANA: N/A	Certified Status: Complete	Grants certified comprise; Troubled Families first claim.	N/A
The following audits are currently in progress: <ul style="list-style-type: none"> <li>Children's Services Medium Term Financial Strategy / Improvement Plan (ANA – High)</li> <li>School Transport Provision (ANA – High)</li> <li>Education Services ROI CIPFA Return (Client Request)</li> <li>Legal Care Proceedings (ANA – Medium)</li> <li>Placement Activity (ANA – Medium, Ofsted)</li> </ul>		The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>Adoption (ANA – Medium)</li> <li>Contracted Services (Information, Advice, Guidance) (ANA – Medium)</li> <li>Section 17 Payments (ANA – Medium)</li> <li>Early Help Strategy (ANA – Medium)</li> </ul>	
The following audits have been deferred or cancelled at the request of the client: <ul style="list-style-type: none"> <li>Early Years / Children's Centre Contract (ANA – Medium)*</li> </ul>			
Schools Financial Value Standards (SFVS)	Good Standard	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2016/17 submitted to the Department for Education.	

<b>CHILDREN'S SERVICES</b>			
<b>Audit Report</b>			
<b>Risk Area / Audit Entity</b>	<b>Assurance opinion</b>	<b>Residual Risk / Audit Comment</b>	<b>Direction of Travel Assurance</b>
Maintained Schools audit programme	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.	
<b>Maintained Schools Summary Data</b>			<b>Assurance Opinion</b>
<b>The key matters arising from the audits are:</b> <ul style="list-style-type: none"> <li>• Maintenance of the Single Central Record at one school was not fully compliant with 'Keeping Children Safe in Education';</li> <li>• Information published on a school's website was not compliant with the information required by the Department for Education;</li> <li>• The standard and content of minutes for a school's Governing Body.</li> </ul>			Good Standard

## Appendix 5 – 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:

<b>Local Performance Indicator (LPI)</b>	<b>2015/16</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>	<b>Full Year Target</b>	<b>Six Month Actual</b>
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	99%	100%	68%
Percentage of Audit plan Completed (Inc. Schools)	93%	97%	93%	96%	93%	34%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	101%	95%	113%	95%	53%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	On target
Percentage of chargeable time	65%	69%	65%	70%	65%	66%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	99%	90%	98%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	87%	90%	85%	90%	85%
Final reports produced within target number of days (currently 10 days)	90%	94%	90%	100%	90%	96%
Average level of sickness absence (DAP as a whole)	2%	2%	2%	3.2%	2%	3.2% *
Percentage of staff turnover (DAP as a whole)	5%	5%	5%	21%	5%	7% **
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes

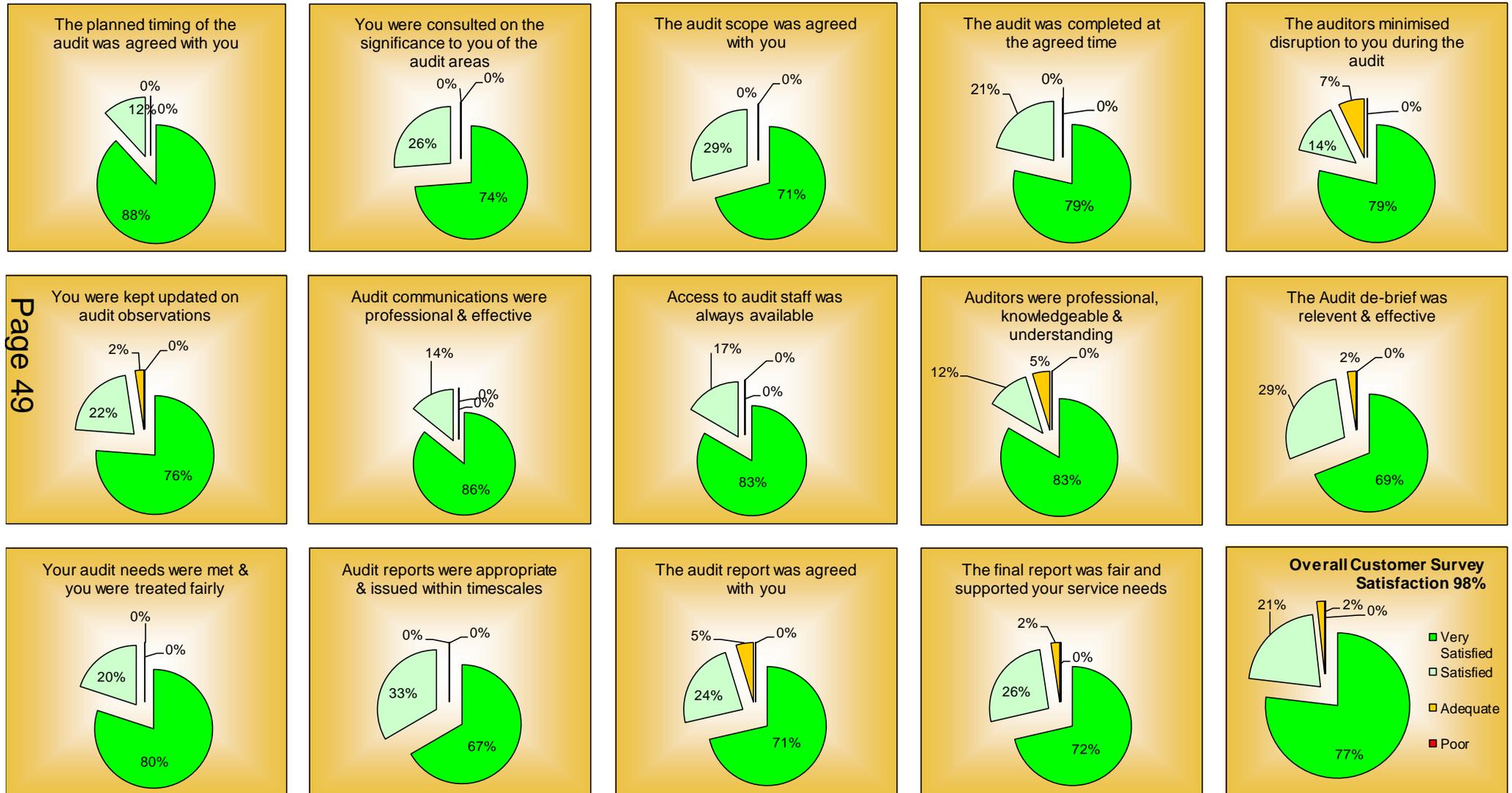
\* Sickness relates to DAP overall

\*\* Staff turnover relates to 2 starters and 2 leavers

Overall, performance against the indicators has been maintained; certain areas of the audit plan relate to project work and will not be complete until the end of the year and analysis demonstrates that draft reports are now usually issued in line with performance targets.

# Appendix 6 - Customer Service Excellence

## Customer Survey Results April – September 2017



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



## Grant Thornton

An instinct for growth™

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15 January 2018

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### **Certification work for Torbay Council for year ended 31 March 2017**

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) took 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 2016/17 relating to subsidy claimed of £64.9 million. Further details are set out in Appendix A.

We identified a number of issues from our certification work, which we wish to highlight for your attention. . These are set out in Appendix A.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 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 PSAA for the Council for 2016/17 was £9,630. Due to the additional work required to address the issues we identified, we have agreed with you an additional fee of £2,607, subject to confirmation from PSAA. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

## Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£64,861,258	Yes	£368	Yes	See below

### Findings from certification of housing benefits subsidy claim

The claim was qualified due to the following issues:

#### **Claimant income**

We identified one error where assessors had incorrectly calculated claimants' earned income from evidence provided in respect of claims in receipt of rent allowances. We found 1 error out of 20 cases tested. We tested a further 40 cases and identified a further 9 cases where benefit had been incorrectly paid due to errors in calculating claimants' average weekly wage, leading to an extrapolated error of £26,600. As a result we will undertake specific testing in this area in 2017/18.

#### **Non-HRA residency end date**

We identified one error where benefit was overpaid due to the Council not terminating the claim until 2 days after the residency had ended. had incorrectly calculated claimants' earned income from evidence provided in respect of claims in receipt of rent allowances. We found 1 error out of 20 cases tested. We tested a further 40 cases and identified no further errors, meaning that the extrapolated error was £287. We will undertake specific testing in this area in 2017/18.

#### **Overpayment classification**

We identified one error where a rent allowances overpayment was incorrectly classified as eligible rather than Local Authority error. This resulted from Extended Payment (EP) case where claimant did not provide requested job information, but was paid benefit after the EP ended. Officers were able to review the whole of the population and we agreed the amendment required to the claim as a result. The audit team reviewed and re-performed a sample of the work of the Council

#### **Child tax credit**

We identified one error where the incorrect child tax credit figure was used. Officers were able to review the whole of the population and we agreed the amendment required to the claim as a result. The audit team reviewed and re-performed a sample of the work of the Council.

#### **Modified schemes**

We identified one error where the incorrect value for the Employment and Support Allowance (ESA) transitional addition was used, causing an overstatement of the modified amount Officers were able to review the whole of the population and we agreed the amendment required to the claim as a result. The audit team reviewed and re-performed a sample of the work of the Council.

#### **Recommended actions for officers**

We recommend that the Council as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where we identified errors from our testing.

**Appendix B: Fees for 2016/17 certification work**

<b>Claim or return</b>	<b>2014/15 fee (£)</b>	<b>2016/17 indicative fee (£)</b>	<b>2016/17 actual fee (£)</b>	<b>Variance (£)</b>	<b>Explanation for variances</b>
Housing benefits subsidy claim (BEN01)	12,840	9,630	12,237*	2,607	Additional work was necessary to certify the claim due to errors identified in the initial testing. Additional testing was carried out in two areas with 100% checks carried out in three areas. We reviewed the additional work and re-performed a sample in line with PSAA guidance.
Total	12,840	9,630	12,237	2,607	

\* Includes a fee variation of £2,607, which is subject to the approval of the PSAA

# Audit Progress Report and Sector Update

Torbay Council  
Year ending 31 March 2018  
January 2018



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# Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

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 10 January 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We are due to commence our interim audit on 15 January 2018. Our interim fieldwork visit will include:

- 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

We will report any findings from the interim audit to you in our Progress Report at the March Audit committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We discuss our plan and timetable with officers to achieve this deadline.

The final accounts audit is due to begin on the 29 May with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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

We will make our initial risk assessment to determine our approach in January 2018 and report this to you in our Audit Plan at the March Audit committee.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

We met with Finance Officers in December as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Our next event is our local government accounts workshop which is scheduled for 6 February in Plymouth. Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	February 2018	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditor's Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

# Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 5 of 9

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Combined Authorities: Signs of Success



In her foreword to 'Building our Industrial Strategy' the Prime Minister states that the initiative "will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East."

Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

## Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

[Click on the report cover to download and read more.](#)



# Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 to introduce key reporting principles for the Narrative Report
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 affecting the Housing Revenue Account, to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

These publications may be obtained from CIPFA and are available [here](#).

CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

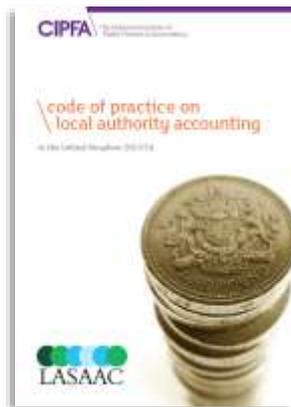
Looking further ahead, this sets out the changes to the 2018/19 Code in respect of [IFRS 9 Financial Instruments](#) and [IFRS 15 Revenue from Contracts with Customers](#). It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.



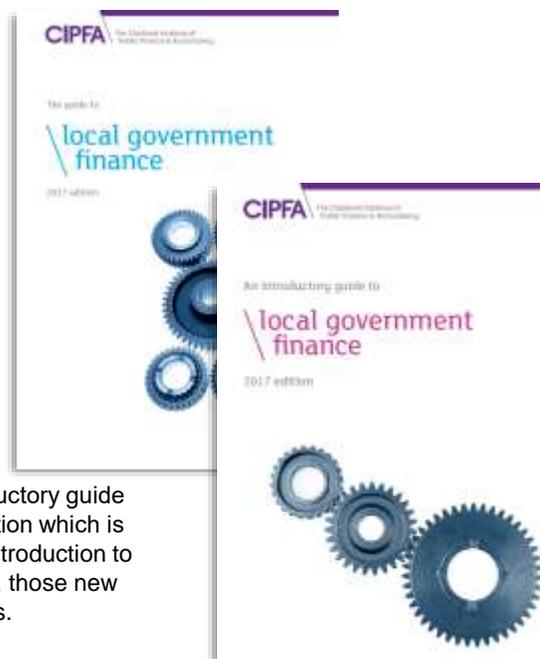
# CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.



CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

# DCLG Consultation

## DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The Government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closed on 22 December 2017 and may be accessed [here](#).

### Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

### Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

## CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

## DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>

