

# West Devon Audit Committee



West Devon  
Borough  
Council

<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Tuesday, 10th January, 2017</b>
<b>Time:</b>	<b>2.00 pm</b>
<b>Venue:</b>	<b>Chamber - Kilworthy Park</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Davies <b>Vice Chairman</b> Cllr Moody</p> <p><i>Members:</i> Cllr Jory Cllr Watts Cllr Stephens</p>
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
<b>Committee administrator:</b>	Member.Services@swdevon.gov.uk

**1. Apologies for absence**

**2. Declarations of interest**

Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda then please contact the Monitoring Officer in advance of the meeting.

**3. Items Requiring Urgent Attention**

To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).

**4. Confirmation of Minutes**

**1 - 4**

Meeting held on 27 September 2016

**5. Local Authority Controlled Company Risk and Governance**

Report of the Leader of Council

To follow

**6. KPMG - Annual Audit Letter and Closure of the Audit Letter**

**5 - 14**

Report of KPMG

**7. Appointment of External Auditor**

**15 - 28**

Report of the Section 151 Officer

**8. Treasury Management Mid-Year Update 29 - 40**

Report of the Section 151 Officer

**9. Update on Progress on the 2016/17 Internal Audit Plan 41 - 54**

Report of the Devon Audit Partnership

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# Agenda Item 4

At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the 27<sup>th</sup> day of **September 2016** at **2.00 pm**

**Present:** Cllr M Davies (Chairman)

Cllr B Stephens  
Cllr J Yelland

Cllr N Jory

**Officers in attendance:** Finance Community of Practice Lead (S151 Officer  
Accountant Business Partner  
Case Manager, Strategy & Commissioning  
Brenda Davies, Devon Internal Audit Partnership  
Darren Gilbert and Adam Bunting, KPMG

**Also in attendance:** Cllrs C Edmonds and Executive Director (Service Delivery and Commercial Development)

**\*AC 13 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllrs L Watts & J B Moody. The meeting proceeded to note that Cllr Yelland (for Cllr Watts).

**\*AC 14 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 19 July 2016 were confirmed and signed by the Chairman as a correct record.

**\*AC 15 EXTERNAL AUDIT REPORT**

A report was presented that summarised the key findings arising from KPMG's audit work. In his introduction Mr Bunting outlined the key points stating the unqualified opinion was a positive review. Shared costs were highlighted, KPMG was supportive in the methodology used for apportionment between West Devon and South Hams. Good reporting arrangements were in place.

In response to a Member question Mr Bunting said the agile working arrangements were not causing any issues as forward planning was implemented in regard to accessing staff.

The Chairman thanked the auditors and the finance team for their hard work.

It was then:

**RESOLVED**

That the External Audit Report be noted.

**\*AC16 ANNUAL STATEMENT OF ACCOUNTS 2015/16**

Cllr Edmonds introduced the Annual Statement of Accounts to the Committee. Without further questions it was then:

**RESOLVED**

That Members **APPROVED** the following:

1. The wording of the Letter of Representation (Appendix A);
2. The audited Statement of Accounts and Technical Appendix for the financial year ended 31 March 2016 (Appendix B);
3. The revised Annual Governance Statement

**\*AC17 ANNUAL TREASURY MANAGEMENT REPORT 2015/16**

The Committee were presented a report by the S151 Officer. Members were advised that a future report would be presented to Members to consider opportunities to invest for 5 years to obtain a better interest rate. After a short discussion it was then:

**RESOLVED**

That Members **APPROVED**

The actual 2015/16 prudential and treasury indicators in this report; and

That Members **NOTED**

The Annual Treasury Management Report 2015/16

**\*AC18 STRATEGIC RISK ASSESSMENT – REGULAR UPDATE**

The Business Development Group Manager took Members through the Strategic Risk Assessment Report. In discussions it was recommended that the risk scoring for Land Charges and Local Plan delivery be moved down from a 5 to a 4.

It was then **RESOLVED**

That the Committee review the strategic risks and make recommendations to Council on any further action the Committee concludes should be considered.

**\*AC19 INTERNAL AUDIT CHARTER & STRATEGY 2016/17**

Members considered a report on the Internal Audit Charter & Strategy 2016/17. Discussions took place including the arrangements of audit services and the possible transfer of elements of the audit function with the setup of a local authority controlled company. KPMG responded that in their view the internal auditing was strong and robust on being questioned on their views by a Member.

It was then **RESOLVED**

That the Audit Committee **APPROVED** the Internal Audit Charter & Strategy 2016/17

**\*AC20 UPDATE ON PROGRESS ON THE 2016/17 INTERNAL AUDIT PLAN**

A report was presented on the progress on the 2016/17 Internal Audit Plan. Members were advised that due to long term sick leave within the team and with the approval of the S151 Officer and the Senior Leadership Team the plan was reduced down by doing less work on VAT. HMRC had given the Council a clean bill of health in a recent VAT inspection, therefore it was low risk. A VAT specialist would be engaged to cover various aspects. Members allowances and how they are administered was deferred to 2017/18. Members acknowledged the high quality of work produced by Officers.

It was then **RESOLVED**

That the progress made against the 2016/17 internal audit plan was noted.

(The Meeting terminated at 2.47 pm)

Dated this

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Chairman

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**Private & confidential**

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Tavistock  
Devon PL19 0BZ

Our ref WDBC/2015-16/ACL

19 October 2016

Dear Lisa

**Audit of accounts 2015/16 – Notice of certification of completion of the audit**

I am pleased to advise you that the audit of West Devon Borough Council's accounts for the year ending 31 March 2016 has been completed.

An unqualified opinion on the accounts was issued on 27 September 2016. On the same date we also issued an unqualified conclusion on the Authority's arrangements for securing value for money.

We have not had to exercise any statutory audit powers under the Audit & Accountability Act 2014 (the Act).

May I draw your attention to Regulation 16(1) of the Accounts & Audit Regulations 2015 which requires the Authority to publish (which must include publication on its website) a statement:

- that the audit has been concluded and that the statement of accounts have been published;
- of the rights on inspection conferred on local government electors by section 25 of the Act (inspection of statement of accounts etc.); and
- setting out the address at which, and the hours during which, those rights may be exercised.

Yours sincerely

Darren Gilbert  
Director, KPMG LLP

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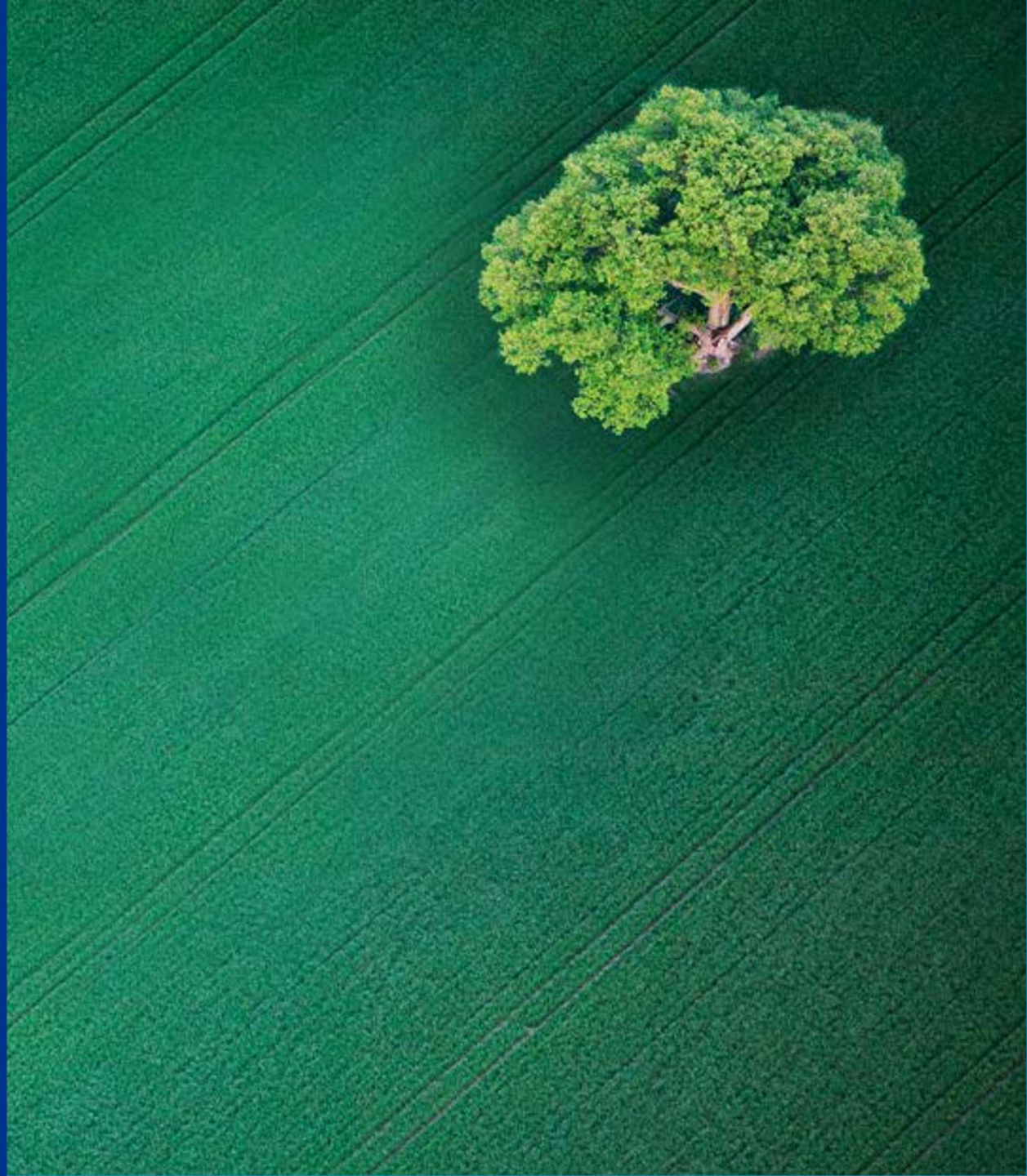
# Annual Audit Letter 2015/16

Page 7

West Devon Borough Council

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19 October 2016



# Contents

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Page 8

## Page

### Report sections

— Headlines 2

### Appendices

1. Summary of reports issues 4
2. Audit fees 5

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



**This Annual Audit Letter summarises the outcome from our audit work at West Devon Borough Council in relation to the 2015/16 audit year.**

**Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.**

Page 9

<b>VFM conclusion</b>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 27 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<b>VFM risk areas</b>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> <li>— The Authority is facing significant savings requirements as a result of the ongoing reductions in central government funding. In the face of these, the Authority has delivered an underspend of £32k against budget. We are satisfied that adequate arrangements are in place to identify savings plans and monitor performance against these throughout the year. However, like most bodies in the sector, the Authority will continue to face significant financial challenges in the future. It will therefore be vital that the Council maintains a strong focus on these challenges and takes the difficult decisions that will be necessary to address them; and</li> <li>— As part of its response to funding reductions, the Council has been delivering a transformation (the T18 Transformation Programme) which has resulted in significant changes in the way in which the Council operates. Whilst the delivery of the programme has encountered delays and additional costs have been incurred (£0.2 million for fixed term temporary transitional staffing resources) above those originally included in the business case, we are satisfied that appropriate approvals were sought from Members and that progress is being monitored and reported.</li> </ul>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 27 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
<b>Financial statements audit</b>	<p>We are pleased to report that we did not identify any material misstatements to the Authority's accounts.</p> <p>We have agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.</p> <p>We have raised no high priority recommendations as a result of our audit work.</p>
<b>Other information accompanying the financial statements</b>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>

# Headlines (cont)

We have issued our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year.

Page 10

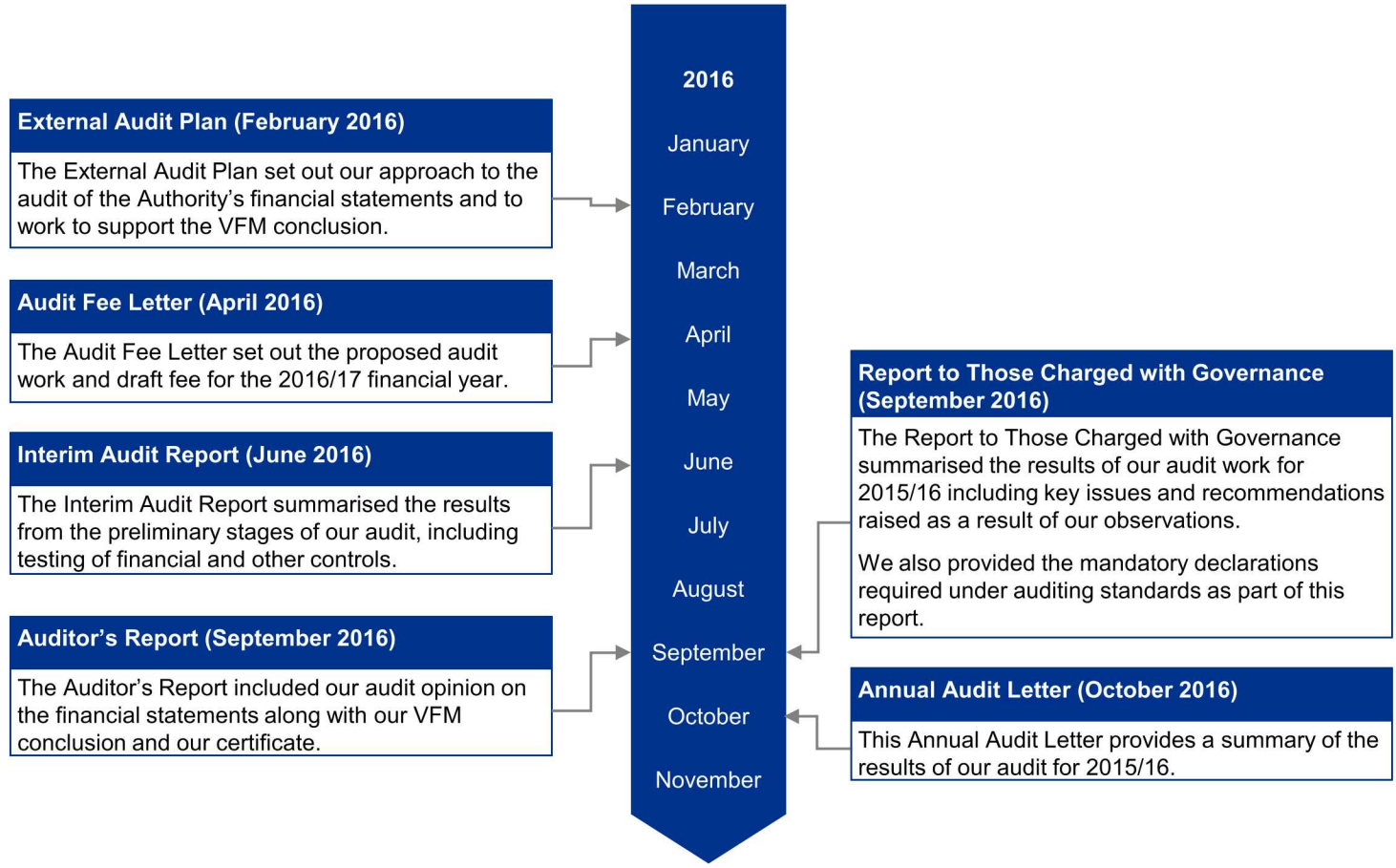
<b>Whole of Government Accounts</b>	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
<b>Certificate</b>	We issued our certificate on 27 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
<b>Audit fee</b>	Our fee for 2015/16 was £39,396, excluding VAT, which is in line with the planned fee we set out in our Audit Fee Letter. Further detail is contained in Appendix 2.

# Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at [www.westdevon.gov.uk](http://www.westdevon.gov.uk)

Page 11



# Appendix 2: Audit fees

Page 12

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

### External audit

Our final fee for the 2015/16 audit was £39,396. This is unchanged from our planned fee.

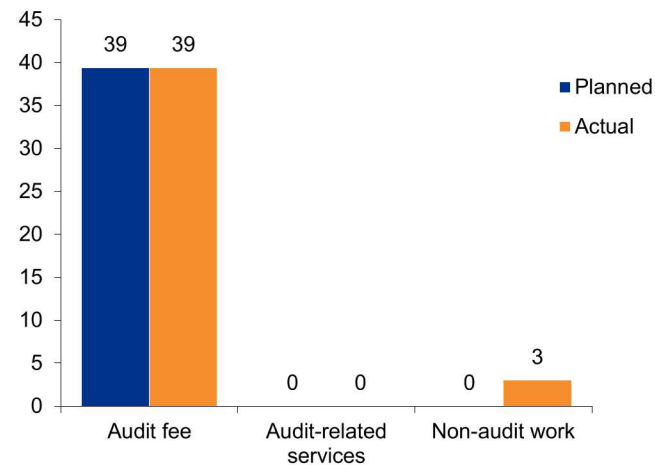
### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

### Other services

We anticipate charging £3,000 for additional non-audit services for the planned provision of budget management training to Members, the timing of which is still to be decided. This work is not related to our responsibilities under the Code of Audit Practice.

External audit fees 2015/16 (£'000)







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# Agenda Item 7

Report to: **Audit Committee**  
Date: **10th January 2017**  
Title: **Appointment of External Auditor**  
Portfolio Area: **Support Services – Councillor C Edmonds**

Wards Affected: **ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: Lisa Buckle Role: **Finance Community of Practice Lead**

Contact: **Email [lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk)  
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## **Recommendations:**

### **That the Audit Committee:**

1. Recommends to Council that West Devon Borough Council opts into the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

## **1. Executive summary**

Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement the Council undertakes with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee is asked to make the recommendation outlined to Council.

The alternative is to establish an auditor panel and conduct the Council's own procurement. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

## **2. Background**

As part of closing the Audit Commission, the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.

There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- \* Assure timely auditor appointments
- \* Manage independence of auditors
- \* Secure highly competitive prices
- \* Save on procurement costs
- \* Save time and effort needed on auditor panels
- \* Focus on audit quality
- \* Operate on a not for profit basis and distribute any surplus funds to scheme members.

### **Resource Implications:**

If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

### **Timescale**

A form of notice of acceptance must be sent by the Council before the deadline of 5pm on Thursday 9 March 2017.

PSAA Frequently Asked Questions are attached in Appendix A. The timescales have since been clarified since the FAQ document was compiled, as stated in the sentence above.

### **Devon Position**

It is likely that the majority of Devon Authorities will opt into the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

### 3. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.
Financial	Y	If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.
Risk	Y	As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

#### **Background Papers:**

PSAA Prospectus

#### **Supporting Information**

Appendix A – PSAA Frequently Asked Questions (please note that timescales have changed since these were written)

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/a</b>

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**Appointing person: Frequently asked questions**

Question	Response
<p>1. What is an appointing person?</p>	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities, national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies.</p> <p>The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.</p>
<p>2. When will invitations to opt in be issued?</p>	<p>The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016 at the latest.</p>

Question	Response
	<p>Authorities will have a minimum period of eight weeks to respond to the invitation.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.</p>
<p>3. Who can accept the invitation to opt in?</p>	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
<p>4. Can we join after it has been set up or do we have to join at the beginning?</p>	<p>The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.</p>

Question	Response
5. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.
6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing <a href="mailto:generalenquiries@psaa.co.uk">generalenquiries@psaa.co.uk</a> and via the LGA and their Principal Advisors.
7. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).
8. What will be the length of the contracts?	The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector

Question	Response
	considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.
9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

Question	Response
	<p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally</p>

Question	Response
	<p>maintain a dedicated public sector practice with staff trained and experienced in public sector work.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> <li>• firms have a regional presence;</li> <li>• greater continuity of staff input; and</li> <li>• a better understanding the local political, economic and social environment.</li> </ul>
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.</p>
<p>16. What will be the process to feed in opinions from customers of current auditors if there are issues?</p>	<p>PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.</p>
<p>17. What is the timetable for set up and key decisions?</p>	<p>We expect the key points in the timetable to be broadly:</p>

Question	Response
	<ul style="list-style-type: none"> <li>• establish an overall strategy for procurement - by 31 October 2016;</li> <li>• achieve 'sign-up' of scheme members - by early January 2017;</li> <li>• invite tenders from audit firms - by 31 March 2017;</li> <li>• award contracts - by 30 June 2017;</li> <li>• consult on and make final auditor appointments - by 31 December 2017; and</li> <li>• consult on, propose audit fees and publish fees - by 31 March 2018.</li> </ul>
18. What are the terms of reference of the appointing person?	PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Question	Response
<p>20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?</p>	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>



# Agenda Item 8

Report to: **Audit Committee**  
Date: **10<sup>th</sup> January 2017**  
Title: **Treasury Management Mid-Year Review**  
Portfolio Area: **Support Services – Cllr C Edmonds**  
Wards Affected: **ALL**  
Relevant Scrutiny Committee:

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: Lisa Buckle                      Role: **Finance Community of Practice Lead**  
David Bennett                              **Specialist Accountant**  
Contact: **Email [Lisa.buckle@swdevon.gov.uk](mailto:Lisa.buckle@swdevon.gov.uk) 01803 861413**

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## **Recommendations:**

1. That the report is noted.

## **1. Executive summary**

The Council is on course to meet its budget target of £45,321. To date, the Council has outperformed the industry benchmark by 0.25%. The Council has achieved a rate of return of 0.53%, against the 7 day LIBID bid rate (LIBID) of 0.28%.

## **2. Background**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The Council is currently has a £2.1 million loan with the Public Works Loan Board.

Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council's Finance Procedure Rules require that a report be taken to the Executive three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Audit Committee 15/03/2016 – AC32)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy (Audit Committee 27/09/2016)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

## **Economic Background**

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2.

During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

### Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

(Please note that these forecasts were produced in September 2016 and since then the forecasts have been revised by Capita Asset Services. Bank base rate is now not expected to reduce to 0.1%, but instead to remain at 0.25% until Summer 2019 when it is predicted the Bank base rate will rise to 0.5%).

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

## Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 05/04/16 – CM61 (and Audit Committee 15/03/2016 – AC32). It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

### Treasury Position at 30 September 2016

Investment Type	As at 31/03/2016		As at 30/09/2016	
	Principal £	Interest %	Principal £	Interest %
Short Fixed	4,000,000	0.69	8,000,000	0.57
Money Market Funds	3,875,000	0.48	1,950,000	0.37
<b>Total</b>	<b>7,875,000</b>	<b>0.59</b>	<b>9,950,000</b>	<b>0.53</b>

The Council's Investments mid way through the year are always higher than at the end of the year (at 31st March) due to the cashflow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The following is a list of our fixed investments at 30 September 2016:

Counterparty	Fixed to	£	Interest Rate
Barclays Bank plc	15/03/2017	3,000,000	0.43%
Nationwide BS	06/10/2016	2,000,000	0.42%
Lloyds TSB Bank Plc	17/10/2016	3,000,000	0.80%

## Performance Assessment

The Council's budget for investment interest is £45,321 for 2016/17. Performance to date is on target to meet this budget.

To date, the Council has outperformed the industry benchmark by 0.25%. The Council has achieved a rate of return of 0.53%, against the 7 day LIBID bid rate (LIBID) of 0.28%. Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of September was 0.28% which is 0.25% lower than our average return of 0.53% @30/09/16.

The reason the Council is exceeding this benchmark is due to the use of fixed term investments that were made before the Bank of England dropped the base rate so when they are renewed the return will be lower. A discussion with Members of the different options available was part of the agenda for the Financial Principles workshop with Members on 5 December 2016.

The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating are required together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix A).

## Compliance with Treasury Limits and Prudential Indicators

During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2016/17 are detailed and shown in Appendix B.

## 3. Outcomes/outputs

In the last 18 months the interest achieved has been above the industry benchmark due to better use of fixed term investments. Now that rates have dropped not risen we are forecasting to come on budget in 2016/17 but unless we update our TM strategy 2017/18 investment returns could be below 2015/16 & 2016/17 figures

## 4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003

Financial	Y	2016-17 Budget for investment income is £45,321 and the Council is currently forecasting to reach this. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.  The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.  The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/A
Safeguarding	N	N/A
Community Safety, Crime and Disorder	N	N/A
Health, Safety and Wellbeing	N	N/A
Other implications	N	None

### **Supporting Information**

#### **Appendices:**

Appendix A – Lending list as at 31 March 2016

Appendix B – Prudential and Treasury Indicators 2016/17

**Background Papers:**

Annual treasury strategy in advance of the year (Audit 15/03/16 – AC32)  
Annual review following the end of the year describing the activity compared to the strategy (27/09/16 – Item 7)

**Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Cabinet/Scrutiny)	<b>N/A</b>

## APPENDIX A

### West Devon Borough Council lending list as at 31 March 2016.

<b>Barclays Bank Plc</b>
<b>HSBC Bank plc</b>
<b>Lloyds Banking Group Plc:</b> <ul style="list-style-type: none"><li>• Bank of Scotland plc</li><li>• Lloyds Bank plc</li></ul>
<b>Nationwide Building Society</b>
<b>Royal Bank of Scotland Group Plc:</b> <ul style="list-style-type: none"><li>• The Royal Bank of Scotland plc</li><li>• National Westminster Bank plc</li></ul>
<b>Government UK Debt Management Facility</b>
<b>Local Authorities (as defined under Section 23 of the Local Government Act 2003)</b>
<b>AAA rated Money Market Funds</b>



## APPENDIX B

### PRUDENTIAL INDICATORS

#### THE CAPITAL PRUDENTIAL INDICATORS

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

#### Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
<b>Total</b>	<b>473</b>	<b>300</b>	<b>720</b>	<b>701</b>	<b>701</b>

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

Capital Expenditure	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
<b>Total</b>	<b>473</b>	<b>300</b>	<b>720</b>	<b>701</b>	<b>701</b>
<b>Financed by:</b>					
Capital receipts	259	32	0	0	0
Capital grants	186	244	402	402	402
Reserves	28	24	0	0	0
New Homes Bonus	0	0	318	299	299
<b>Net financing need for the year</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

#### The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero.

	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
<b>Capital Financing Requirement (CFR)</b>					
<b>Total CFR</b>	1,799	1,757	1,715	1,673	1,631
<b>Movement in CFR</b>	-42	-42	-42	-42	-42
<b>Movement in CFR represented by:</b>					
<b>Net Financing need for the year</b>	0	0	0	0	0
<b>Less MRP and other financing movements</b>	-42	-42	-42	-42	-42
<b>Net borrowing requirement</b>	0	0	0	0	0

### Minimum Revenue Provision (MRP)

The Minimum Revenue Provision is calculated at £42,000 per year. This is the Council's borrowing of £2.1 million divided by the life of the asset of 50 years.

### Debt Rescheduling

The Council has one PWLB loan of £2.1 million which matures in 2053; this is at a rate of 4.55%.

The Council has not undertaken any debt rescheduling during the first six months of 2016/17 and there are no current opportunities for debt rescheduling.

### AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Estimate	Estimate	Estimate
Ratio of net investment income to net revenue stream. (Surplus)	1.2%	1.2%	1.3%	1.3%	1.2%

## Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources. The Council is not undertaking any borrowing to fund its Capital Programme at present.

### Incremental impact of capital investment decisions on the band D council tax (Notional cost as explained above)

	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Estimate	Estimate	Estimate
	£	£	£	£	£
Future incremental impact of capital investment decisions on the band D Council tax (Notional cost)	0.03	0.01	0.06	0.13	0.18

## TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

**The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2015/16	2016/17	2017/18	2018/19
	£	£	£	£
Borrowing	3,000,000	3,000,000	3,000,000	3,000,000
Other long term liabilities	-	-	-	-
Total	3,000,000	3,000,000	3,000,000	3,000,000

Operational Boundary	2015/16	2016/17	2016/17	2016/17
	Actual	Estimate	Current Position	Revised Position
	£	£	£	£
Prudential Indicator – Capital Financing Requirement				
CFR	1,757,000	1,715,000		1,715,000
Prudential Indicator – External Debt/ The Operational Boundary				
Total Debt 31 March 2016	2,100,000	2,100,000	2,100,000	2,100,000

**The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

<b>Authorised limit</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Borrowing	6,000,000	6,000,000	6,000,000	6,000,000
Other long term liabilities	-	-	-	-
Total	6,000,000	6,000,000	6,000,000	6,000,000

West Devon Borough Council's current level of external borrowing is £2.1 million.

# Agenda Item 9

Report to: **Audit Committee**  
Date: **10 January 2017**  
Title: **Update on Progress on the 2016-17 Internal Audit Plan**  
Portfolio Area: **Support Services – Cllr C Edmonds**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Brenda Davis** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**

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## Recommendations:

**It is recommended that the progress made against the 2016/17 internal audit plan, and any key issues arising are noted.**

### 1. Executive summary

- 1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2016/17 to the 1 December 2016 by:
  - Providing a summary of the main issues raised by completed individual audits; and
  - Showing the progress made by Internal Audit against the 2016/17 annual internal audit plan, as approved by this Committee in March 2016.

## **2. Background**

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

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2016/17 was presented to and approved by the Audit Committee in March 2016. Progress in the period up to 1 December 2016 has included completion of work carried forward from 2015/16 but progress against the 2016/17 plan has been limited due to sickness.

## **3. Outcomes/outputs**

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates to address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Overall, and based on work performed to date during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2016/17 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

**Appendix B** provides a summary of work carried out by the team which is not included within the 2016/17 audit plan for West Devon Borough Council.

**Appendix C** summarises work undertaken where no audit report is issued.

**Non Compliance with Contract or Financial Procedure Rules** – there are no significant issues to bring to the attention of the Committee so far this year. Seven applications for Contract / Financial Procedure Rules have been received in the year to date, six have been accepted and one is pending the outcome of a member decision.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (The National Fraud Initiative - NFI) every two years. For the 2016/17 exercise data has been extracted from a range of Council systems including Creditors, Payroll, Housing Benefits and Insurance and uploaded to the

NFI secure web application where they will be matched against other local authority data sets. The subsequent matching reports are expected back from the NFI Team at the end of January 2017.

The NFI requires Council Tax and Electoral Register data to be submitted annually for the council tax single person discount matching. The deadline for submission of these data sets is not until 28 February 2017 as the electoral registers for England are not published until 1 December 2016.

### **Irregularities**

There are no irregularities to report.

### **4. Options available and consideration of risk**

No alternative option has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

### **5. Proposed Way Forward**

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

### **6. Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	<p>There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.</p>
Risk	Y	<p>The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.</p>

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

#### **Background Papers:**

Annual Internal Audit Plan 2016/17 as approved by the Audit Committee on 15 March 2016.



## Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
MAS & Budgetary Control	4									
Creditor Payments	2	■	■	■	■		■			
Payroll	4	■	■				■			Review will also include additional 3 days for election payroll.
Council Tax	4	■								
Business Rates (NNDR)	4	■								
Benefits Payments	5									
Treasury Management	4	■	■	■	■	■				
<b>Main Financial Systems</b>	<b>27</b>									
Shared Services - recharging	2									
ICT Audit	6									
Performance Management - Pls & Data Quality	5									
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2016 Audit Committee under separate cover
Risk Management	5									
T18 Project	4									
Partnerships & Partnership Management	3									
Culture & Ethics	2	■								
Counter Fraud Work	4	■								

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Leisure Centre Client	2									
Street Cleaning	4	■	■	■	■		■			
Public Conveniences	3									
Development Control – enforcement	5									
Development Controls – planning applications										
Follow Up of Previous Year's Audits	4	■	-	-	-	-	-	-	-	
Contingency (Unplanned), Advice & Exemption from Financial Regulations	6	-	-	-	-	-	-	-	-	
Audit Management, including • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit	10	-	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 5 July 2016.
<b>Other Systems &amp; Audit Work)</b>	<b>67</b>									

Changes Agreed by the Audit Committee in September 2016										
VAT	0									Removed from plan, previously 4 days external VAT Specialist to be engaged.
Member Allowances	0									Deferred to 2017/18, previously 2 days
<b>Total Revised Days)</b>	<b>96</b>									<b>Previously 100 days</b>

## Planned Audit 2016/17 – Final Reports

The table below provides a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

### Definitions of Audit Assurance Opinion Levels

#### 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.

## Planned Audit 2016/17 – Final Reports

Subject	Audit Findings	Management Response
<b>Creditors</b>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b> Assurance can be provided that based on our work on the Creditors payments system, controls are operating to a good standard. In delivering our work we look to identify opportunities where existing procedures could be further strengthened and have made some recommendations relating to:-</p> <ul style="list-style-type: none"> <li>• The timely raising of orders and payment of invoices;</li> <li>• Opportunities to review payment runs to identify actual or potential duplicate payments and related NFI data matching;</li> <li>• Reconciling of the system; and</li> <li>• Review of purchasing card processes and procedures, including the opportunity to reclaim the VAT.</li> </ul>	<p>The Acting Support Services Case Management Manager (RD) has agreed to action the points raised in the report and is already undertaking action to address those highlighted.</p>
<b>Treasury Management</b>	<p><b>Audit Opinion – High Standard</b></p> <p><b>Conclusions</b> Based on our work we can confirm that the Councils are adhering to legislative requirements and have appropriate and effective controls in place over the day to day treasury management operations.</p> <p>At the time this review was being undertaken, insurance renewals were being agreed with the Councils' insurer. This provided the ideal opportunity for guidance to be sought from the insurer that the level of Fidelity Guarantee* cover for each authority remains at an appropriate value.</p> <p><i>*A Fidelity Guarantee provides insurance cover against theft or dishonesty by employees.</i></p>	

Subject	Audit Findings	Management Response
<p><b>Street Cleaning</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b>                      We found minimal evidence of formal complaints about street cleaning, although a small number have been received over the past eighteen months regarding issues such as fly tipping that may impact on the perception of street cleanliness.</p> <p>The number of phone calls received since 2014 have increased but the majority of these calls were to advise that an area needs cleaning. Such contacts escalated after Devon County Council ceased to carry out weed spraying of public areas as a budget saving. Now, where possible weed treatment work is integrated into a co-ordinated programme with the District or Borough Councils' highway sweeping.</p> <p>Although these contacts are not classed as formal complaints unless the customer requests that they are treated as such, the Operational Manager for Waste is planning to analyse these customer contacts to identify if there are any specific issues which could be addressed by a change in working practices or procedures. It should be noted that several compliments were also identified during the course of the audit review.</p> <p>Our report has highlighted that whilst procedures for dealing with corporate complaints are in place they do not extend to those complaints made directly to members. It is accepted the members need to be made aware of how the complaints they receive directly should be treated in the future.</p>	

## Other Final Reports for 2016/17

The table below provides a summary of the audit opinions and main issues raised in the reports issued to managers from areas of work performed outside of the West Devon audit plan but which provide assurance to members of the Audit Committee on the control environment.

In all cases (unless stated) an action plan has been agreed to address these issues

Subject	Audit Findings	Management Response
<b>Community Parks &amp; Open Spaces</b>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b> In general the Council has appropriate and effective controls in place over the management and maintenance of Community Parks and Open Spaces. To contribute to the ongoing strengthening of existing procedures and in support of the service in its drive to be more commercial management have agreed to:-</p> <ul style="list-style-type: none"> <li>• Review the most efficient mechanism for the delivery of the Grounds Maintenance service across both authorities, including considering whether more effective software is available to help manage all aspects of the service;</li> <li>• Ensure that there is just one master list of sites;</li> <li>• Consider if the software currently used for managing faults reported in playgrounds is sufficiently effective in supporting processes and procedures so that faults continue to be addressed on a timely basis;</li> <li>• Ensure that a recharge is made for all grounds maintenance carried out on behalf of other organisations; and</li> <li>• Review the current arrangement to inspect, maintain and insure play areas owned by parish councils for a notional fee which does not cover the Council's costs.</li> </ul>	<ul style="list-style-type: none"> <li>• The fee for play parks inspections is to be included in the fees and charges report for January Overview and Scrutiny Panel to consider.</li> </ul>
<b>Health &amp; Safety</b>	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b> With the launch of T18 the Executive Directors commissioned an initial status review and gap analysis of the Council's Health and Safety Management system.</p> <p>This review provides independent confirmation that the Environmental Health COP Lead has identified areas within the current arrangements which could be</p>	

Subject	Audit Findings	Management Response
<p><b>Health &amp; Safety (continued)</b></p>	<p>strengthened and has developed an action plan to guide the review and delivery of those tasks most needed to ensure compliance with health and safety legislation and best practice.</p> <p>Our recommendations support the work of the COP Lead and highlight some additional considerations to ensure that the Councils are meeting legislative requirements for health and safety by ensuring that:-</p> <ul style="list-style-type: none"> <li>• Procedures are in place to require managers to complete regular risk assessments, as well as reviewing the risk assessment methodology from time to time;</li> <li>• Safe Systems of Work in are place at all locations; and</li> <li>• When publishing the revised Health and Safety Policy and associated Safety Codes, make sure that all staff are aware of them and understand their personal responsibilities.</li> </ul> <p>Once the action plan is fully implemented and embedded, the system should be operating to a good standard.</p>	<p>The recently revised policy has been communicated to Senior Managers and:-</p> <ul style="list-style-type: none"> <li>• A communication policy and plan has been drawn up to roll out to all staff (which will include staff briefings; bulletin and Friday flash);</li> <li>• Health and safety will form part of the induction for new staff and an e-learning module is to be developed;</li> <li>• A corporate H &amp; S training matrix will be drawn up to document training provision across the Councils;</li> <li>• H &amp; S software is in the process of being procured which will allow effective management of all aspects of H &amp; S, including procedures, data storage, data sharing, reviews and performance management;</li> <li>• Risk assessment provision has been reviewed and workplace managers advised of the requirement to carry out risk assessments and the implementation of safe working practices.</li> </ul>
<p><b>Pollution Control</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b> Our review considered the statutory duties of the Council with regards to Pollution Control and sought evidence that these were being met. We also examined income transactions relating to the recharging of customers for private water sampling and contaminated land enquiries and subsistence charges made to companies carrying out permitted processes.</p> <p>Based on the work undertaken, controls appear to be appropriate and effective and implementation of the recommendations below will serve to further strengthen existing procedures.</p> <ul style="list-style-type: none"> <li>• Ensure that the Air Quality Strategy is fit for purpose and that regular Air Quality Progress Reports are published;</li> <li>• Consider increasing the administration fee charged for Private Water Sample collection; and</li> <li>• Ensure that the register of Permitted Processes installations is up to date.</li> </ul>	<ul style="list-style-type: none"> <li>• The Air Quality Strategy will be reviewed and updated as necessary;</li> <li>• The administration fee will be reviewed for 2017/18;</li> <li>• The register will be maintained on an ongoing basis.</li> </ul>

Subject	Audit Findings	Management Response
<b>Housing Standards – disabled facilities grants &amp; loans</b>	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b> Controls over the administration of grants and loans for Private Sector Housing Renewal (PSHR) are in place and operating, but the following recommendations which will contribute to the strengthening of these.</p> <ul style="list-style-type: none"> <li>• Confirm that the 2012 PSHR policy still meet objectives of the Councils' Homes Delivery Plans;</li> <li>• Ensure that audit trails of applications and all supporting evidence are complete;</li> <li>• Review security of sensitive information which is required to be shared with third parties, such as Occupational Therapists;</li> <li>• Ensure staff are provided with appropriate guidance to process applications for discretionary loans and that appropriate controls are in place to allow these to be managed efficiently in conjunction with the relevant partner organisation.</li> </ul>	<ul style="list-style-type: none"> <li>• Since the T18 restructure there has been a lack of resource and expertise in the PSHR area. This has now been rectified with the appointment of a Level 4 Specialist into the lead PSHR role.</li> <li>• Additional staff resource is also enabling applications for mandatory grants to be processed more efficiently;</li> <li>• Missing documentation was mainly due to officer understanding of new software. Although documents were held, they weren't stored correctly and so were inaccessible. Training is being provided to rectify this.</li> <li>• The use of technological solutions will allow information to be shared securely with third parties.</li> <li>• Controls over discretionary loans are in the process of being reviewed to ensure effective use of the funds available.</li> </ul>



**Planned Audit 2016/17 – Work Complete (No Audit Report)**

Subject	Comments
<p><b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b></p>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2015/16 financial year. The S151 Officer presented the 2015/16 AGS to the Audit Committee on 5 July 2016.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>Seven applications for Contract / Financial Procedure Rules have been received in the year to date, six have been accepted and one is pending the outcome of a member decision.</p>

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