

# West Devon Audit Committee



West Devon  
Borough  
Council

<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Tuesday, 20th June, 2017</b>
<b>Time:</b>	<b>10.00 am</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 Ball</p> <p><i>Members:</i> Cllr Cann OBE Cllr Stephens Cllr Hockridge Cllr Watts Cllr Lamb</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 21 March 2017

**5. KPMG External Audit Fee Letter;**

**5 - 12**

**6. KPMG Interim Audit Letter 2016/17;**

**13 - 14**

**7. Audit Committee Work Programme 2017/18;**

**15 - 18**

**8. Annual Governance Statement**

**9. Internal Audit Annual Report 2016/17**

**19 - 34**

# Agenda Item 4

At a Meeting of the re-scheduled **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **21st** day of **MARCH 2017** at **9.00am**

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

Cllr J Yelland

Cllr W Cann

**Officers in attendance:** Finance Community of Practice Lead (S151 Officer)  
Devon Internal Audit Partnership Manager  
Deputy Monitoring Officer  
Case Manager, Strategy & Commissioning

**Also in attendance:** Cllr C Edmonds (lead Hub Committee Member)

**\*AC 28 APOLOGIES FOR ABSENCE**

Apologies were received from Cllr J Moody, Cllr B Stephens, Cllr L Watts and Cllr N Jory

**\*AC 29 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 10 January 2017 were confirmed and signed by the Chairman as a correct record.

**\*AC 30 KPMG ANNUAL GRANT CERTIFICATE LETTER**

(Note: KPMG representatives attended the scheduled committee meeting date on 14 March. However due to this meeting being inquorate the meeting was not able to proceed.

A short informal meeting proceeded whereby KPMG representatives gave an overview of the Annual Grant Certificate Letter as they were not able to attend the rescheduled meeting date on 21 March.

*Darren Gilbert from KPMG gave a synopsis of the Annual Grant Certificate Letter and External Audit Plan. Darren explained the methodology of applying an unqualified opinion on the Housing Benefit Subsidy claim and stated that the Council was in a positive place in this regard. He added that not to have any issues on the Housing Benefit Subsidy claim was a fantastic outcome. On page 19 of the agenda, Mr Gilbert explained the risks requiring specific audit attention which would be looked at as part of the Value for Money audit. These were T18 being embedded and Delivery of Savings Plans. With the LACC not proceeding in planned form, KPMG will await to see what process will happen moving forward.*

*The Committee agreed the notes that were taken at this meeting:*

It was then:

**RESOLVED**

That the informal meeting notes (as outlined in italics above) and the Annual Grant Certificate Letter be noted.

**\*AC 31 KPMG – EXTERNAL AUDIT PLAN**

The S151 Officer took Members through the External Audit Plan. Pensions and shared costs between the Council and South Hams District Council were two specific areas which KPMG would look at as part of the Audit of the Accounts for 2016-17.

Costs were split on the basis of the activity and the S151 Officer gave an example with benefit claims, where costs were split based on the ration of the number of benefit claims processed for each Council.

The number of benefit claims processed was higher in South Hams so the costs were shared accordingly. KPMG review the formulae used by officers to determine the spilt of costs and report on this process to Members in their audit report.

It was then:

**RESOLVED**

That the KPMG External Audit Plan be noted.

**AC 32 2017/18 TREASURY MANAGEMENT STRATEGY**

The lead Hub Committee Member introduced the report. The S151 Officer explained that the Councils borrowing needs focussed on the Leisure centres and waste contract vehicles. In answer to a Member question the S151 Officer confirmed that the vehicles would be purchased rather than leased.

It was then:

**RESOLVED**

That the Council be **RECOMMENDED** to approve the following:

1. The prudential indicators and limits for 2017/18 to 2019/20 contained within Appendix A of the report;
2. The Minimum Revenue Provision (MRP) statement contained within Appendix A which sets out the Council's policy on MRP;
3. The Treasury Management Strategy 2017/18 and the treasury prudential indicators 2017/18 to 2019/20 contained within Appendix B; and
4. The Investment Strategy 2017/18 Appendix C and the detailed criteria included in Appendix D.

**\*AC 33 2017/18 INTERNAL AUDIT PLAN**

The Devon Internal Audit Partnership Manager took Members through the Internal Audit Plan.

It was then:

**RESOLVED**

1. The report be noted, and
2. The proposed Internal Audit Plan for 2017/18 at Appendix A be approved.

**AC 34**

**REVIEW OF COUNCIL CONSTITUTION**

Cllr Edmonds took Members through the annual review of the Council Constitution. It was agreed that the limit of asset disposals and acquisitions that were delegated to the Assets CoP Lead in consultation with the Lead Member for Assets and the S151 Officer be increased from £50,000 to £150,000, with any acquisitions and disposals above those limits being referred to the Hub Committee for approval.

It was then:

**RESOLVED** that the Audit Committee:

1. Delegate to the Monitoring Officer any further amendments to the Contract Procedure Rules as a result of consultation with the Corporate Procurement Officer.
2. **RECOMMENDS** to Council that the amendments to the West Devon Borough Council Constitution (as summarised in Paragraph 2 of the report and fully outlined on the website) be approved and the revised Constitution is adopted at the Annual Meeting in May 2017. The recommendations to Council includes the amendment recommended by the Audit Committee that:-
  - The limit of asset disposals and acquisitions that are delegated to the Assets CoP Lead in consultation with the Lead Member for Assets and the S151 Officer be increased from £50,000 to £150,000, with any acquisitions and disposals above those limits being referred to the Hub Committee for approval.

**\*AC 35**

**STRATEGIC RISK ASSESSMENT –REGULAR UPDATE**

The S151 Officer took Members through the Internal Audit Plan, highlighting the areas of most risk on the Risk Register. The S151 officer reported that the Council had the opportunity to be part of a Business Rate pilot scheme in 2018/19 and confirmed she was in dialogue with other Devon authorities in this regard and expressed the positives of taking part. She confirmed there was a meeting of Devon S151 Officers in June where this was being discussed and to analyse some initial modelling to see if this would be financially beneficial and of no financial detriment to Authorities in Devon. A recommendation on whether to apply to the Government to become a business rates pilot would be presented to Members in the summer.

It was then:

**RESOLVED**

The Committee reviewed the strategic risks.

(The Meeting terminated at 9.50am)

Dated this

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Chairman



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## Private & confidential

Lisa Buckle  
Finance Community of Practice Lead  
West Devon Borough Council  
Kilworthy Park  
Drake Road  
Tavistock  
Devon PL19 0BZ

Our ref WDBC/1718/Fee Letter

29 March 2017

Dear Lisa

## Annual audit fee 2017/18

I am writing to confirm the audit work and fee that we propose for the 2017/18 financial year at West Devon Borough Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

## Planned audit fee

The planned audit and certification fees for 2017/18 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2017/18	Planned fee 2016/17
Audit fee – West Devon Borough Council	39,396	39,396
Certification of housing benefit grant claim	TBC	5,630

PSAA has set the 2017/18 scale fees at the same level as for 2015/16 and 2016/17, thereby preserving the 25 per cent reductions in cash terms that were applied to those years which in turn were in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. This equates to a real terms saving of 61 per cent over this period. The 2017/18 planned fee is in line with the scale fee.

The 2017/18 scale fee for the certification of housing benefit grant claims is still to be published. We will inform you of any changes in fee as a result of this once final scale fees are announced.

As we have not yet completed our audit for 2016/17 the audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

## **Redistribution of Audit Commission surplus**

PSAA plans, during the course of 2017/18, to make a distribution of surplus funds to principal local government and police bodies. The distribution is made possible by the transfer of an element of the Audit Commission's retained earnings prior to its closure in March 2015 and by PSAA continuing to generate surplus funds and make further efficiencies since its establishment.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

## **Factors affecting audit work for 2017/18**

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2017/18 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

## **Certification work**

As well as our work under the Code, we will certify the 2017/18 claim for housing benefit subsidy to the Department for Work & Pensions (DWP).

The 2017/18 subsidy claim will be the final year for which PSAA will make arrangements for auditors to undertake housing benefit subsidy certification work. After the end of the transitional arrangements and the current audit contracts, PSAA has no legal power or remit in relation to assurance on claims or returns. The DWP is developing its own assurance arrangements from 2018/19 and has issued further guidance directly to local authorities. We will liaise with the Council over the future approach to this work as details emerge.



There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

### **Assumptions**

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued early next year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

The proposed fee excludes any additional work we may agree to undertake at the request of West Devon Borough Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

### **Beyond 2017/18**

The 2017/18 audit will be the last under the current transitional arrangements whereby PSAA is responsible for managing the audit contracts novated to it from the Audit Commission upon its closure in March 2015.

For audits of the accounts from 2018/19, the provisions of the Local Audit & Accountability Act 2014 in relation to local appointment of auditors take effect. The Secretary of State for Communities and Local Government has specified PSAA as the appointing person for principal local government and police bodies. PSAA will therefore appoint auditors and set scale audit fees for bodies that have opted into its national scheme.

## Our team

The key members of our audit team for the 2017/18 audit are:

Name	Role	Contact details
Darren Gilbert	Director	darren.gilbert@kpmg.co.uk 0292 046 8110
Adam Bunting	Manager	adam.bunting@kpmg.co.uk 0117 905 4470
Monica Tirados	In-charge	monica.tirados@kpmg.co.uk 0799 056 6646

## Quality of service

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 me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy 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

Yours sincerely



Darren Gilbert  
Director, KPMG LLP

cc: Audit Committee

## Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2016/17;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA Code of Practice on Local Authority Accounting within your 2017/18 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you (note that 2017/18 is the first year in which the 'faster close' timetable applies whereby the deadline for draft accounts moves to the end of May and the deadline for publishing audited accounts moves to the end of July);
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

<b>Planned output</b>	<b>Indicative date</b>
External audit plan	January 2018
Interim audit report (if required)	May 2018
Report to those charged with governance (ISA260 report)	July 2018
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	July 2018
Opinion on Whole of Government Accounts return	September 2018
Annual audit letter	October 2018
Certification of grant claims summary report	December 2018

### **Appendix 3 – Independence & objectivity requirements**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. The APBs Ethical Standard requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within a local authority area.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

#### **Confirmation statement**

We confirm that as of March 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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**Private & confidential**

Lisa Buckle  
Finance Community of Practice Lead  
West Devon Borough Council  
Kilworthy Park  
Drake Road  
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Devon PL19 0BZ

Our ref WDBC/16-17/InterimLetter

9 June 2017

Dear Lisa

**West Devon Borough Council – Audit progress**

We have now completed our planning and interim audit work in line with the timetable set out in our detailed External Audit Plan, dated 3 March 2017. In that plan we indicated that we were planning to present an Interim Audit Report to the Council's Audit Committee to report on the outcome of the planning and control evaluation phases of our audit. This was to ensure that, in line with good practice, any significant matters are reported to those charged with governance in a timely manner.

As our audit work to date has gone smoothly and we have not identified any significant issues, we no longer consider it necessary to report to the Audit Committee at this stage.

We have identified one non-significant control deficiency which we have discussed with you and your team. This related to the fact that the completion of monthly benefit payment checks by officers was not being documented so as to evidence their completion. For completeness, we will include this in the ISA260 report which we will produce at the conclusion of the audit and present to the Audit Committee in September 2017.

In the absence of the need for an Interim Audit Report, please feel free to table this letter at the June meeting of your Audit Committee, to provide them with an update on the progress of our audit.

Yours sincerely

Darren Gilbert  
Director, KPMG LLP

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# Agenda Item 7

Report to: **Audit Committee**

Date: **20 June 2017**

Title: **Audit Committee Workplan Programme  
2017/18**

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)  
01803 861413**

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## **Recommendations:**

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

1. Approves the Workplan Programme for the financial year 2017-18.

## **1. Executive summary**

Appendix A sets out the suggested timetable for the agenda items that will be considered by the Audit Committee for the 2017-18 financial year.

## **2. Background**

Appendix A sets out the timetable of the cyclical reports to be considered by the Audit Committee on a yearly basis.

### 3. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Terms of Reference of the Audit Committee are set out within the Council's Constitution.
Financial	Y	There are no direct financial implications as a result of this report.
Risk	Y	The timetable sets out when agenda items relating to Risk Management will be considered by the Audit Committee.
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

### **Appendices**

Appendix A – Audit Committee Workplan Programme for 2017-18

### **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>

<b>Committee Meeting</b>	<b>Proposed workplan/timetable for Audit Committee 2017/18</b>
Tuesday 20 <sup>th</sup> June 10am	<ul style="list-style-type: none"> <li>i) KPMG External Audit Fee Letter</li> <li>ii) KPMG Interim Audit Report 2016/17</li> <li>iii) Audit Committee Work Programme 2017/18</li> <li>iv) Annual Governance Statement 2016/17</li> <li>v) Internal Audit Annual Report 2016/17</li> </ul>
Tuesday 18 <sup>th</sup> July 10am	<ul style="list-style-type: none"> <li>i) Draft Statement of Accounts 2016/17</li> <li>ii) Cost Methodology for Shared Services 2016/17</li> <li>lii) Budget Book 2017/18</li> </ul>
Tuesday 19 September 2pm	<ul style="list-style-type: none"> <li>i) KPMG External Audit report 2016/17</li> <li>ii) Annual Statement of Accounts 2016/17</li> <li>iii) Annual Treasury Management report 2016/17</li> <li>iv) Six monthly update – Strategic Risk Assessment</li> <li>v) Internal Audit Charter &amp; Strategy 2017/18</li> <li>vi) Update on Progress on the 2017/18 Internal Audit Plan</li> </ul>
Tuesday 30 January 2018 10am	<ul style="list-style-type: none"> <li>i) Update on the Appointment of External Auditor</li> <li>ii) KPMG Annual Audit Letter and Closure of the Audit Letter</li> <li>iii) Update on progress on the 2017/18 Internal Audit Plan</li> <li>iv) Treasury Management Mid-year Update</li> </ul>
Tuesday 20 <sup>th</sup> March 2018 2pm	<ul style="list-style-type: none"> <li>i) KPMG Annual Grant Certification Letter</li> <li>ii) KPMG External Audit Plan 2017/18</li> <li>iii) 2018/19 Treasury Management Strategy</li> <li>iv) 2018/19 Internal Audit Plan</li> <li>v) Review of Council Constitution</li> <li>vi) Six monthly update – Strategic Risk Assessment</li> <li>vii) Update on Anti-Fraud, Corruption and Bribery Policy and Strategy, Anti Money Laundering Policy and Confidential Reporting Policy</li> </ul>

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# Agenda Item 9

Report to: **Audit Committee**  
Date: **20 June 2017**  
Title: **Internal Audit Annual Report 2016/17**  
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 Managers**  
**Dominic Measures**  
**Robert Hutchins** **Head of Partnership**

Contact: [Brenda.davis@swdevon.gov.uk](mailto:Brenda.davis@swdevon.gov.uk)  
[Dominic.measures@swdevon.gov.uk](mailto:Dominic.measures@swdevon.gov.uk) **01803 861375**  
[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

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## **Recommendations:**

### **It is recommended that:**

1. The Audit Committee note that overall and based on work performed during 2016/17, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.
2. Members note the satisfactory performance and achievements of the Internal Audit Team during 2016/17.

## **1. Executive summary**

This report summarises the work undertaken by the Council's Internal Audit team during 2016/17, reviews the performance of the Internal Audit service and provides an audit opinion on the adequacy of internal control. The report is particularly relevant to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulations 2015.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2016/17 to 31st March 2017, 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, and
- Providing an opinion on the adequacy of the Council's control environment.

## **2. Background**

The Audit Committee, under its Terms of Reference contained in West Devon Borough Council's Constitution, is required to consider the Head of Internal Audit's annual report, 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. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2016/17, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

## **3. Outcomes/outputs**

The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to present an annual report providing an opinion that can be used by the organisation to inform its governance statement.

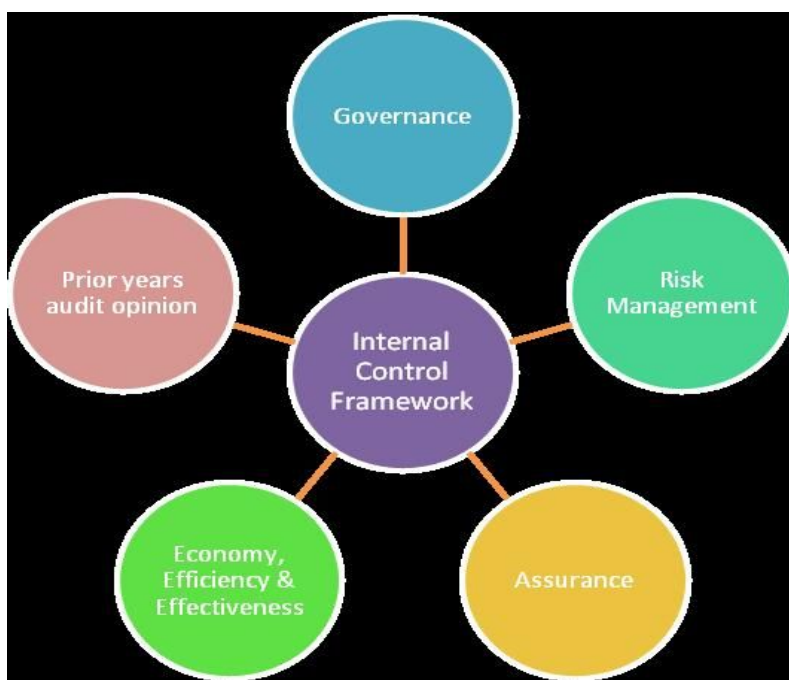
In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Details of Internal Audit’s opinion on each audit review carried out in 2016/17 have been provided to relevant members of the Senior Leadership Team to assist them with compilation of their individual annual governance assurance statements.

**Overall and based on work performed during 2016/17, and that of our experience from previous year’s audit, the Head of Internal Audit’s Opinion is of “Significant Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.**

*This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement*

The above statement of opinion is underpinned by our consideration of:



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

## **Key Findings 2016/17**

As stated above we are, overall, able to provide significant assurance on the internal control framework. During the year a number of audit assignments have been completed for which an audit opinion of "improvements required" has been provided (please refer to appendix B for definition of "improvements required").

We set out below some of the key issues of concern identified. It should be noted that agreed management actions plans are in place to address the weaknesses, and we consider that if such actions are completed promptly then the control issue will be addressed. Many of the findings have previously been reported at audit committee meetings during the 2016/17 year.

### **Council Tax** - see App B

Council Tax bills are accurate and the system is operating with generally satisfactory controls but there were some areas highlighted where there is scope for improvement, in particular more regular review of Single Persons Discount. Staff resources have reduced and some of the audit recommendations may help create additional capacity within the team to enable key tasks to be completed promptly and effectively.

### **Business Rates** – see App B

The billing and collection of Business Rates sits in the same service area as Council Tax and therefore face similar resource challenges. Areas that require improvement include the monitoring and review of account suppressions and broken arrangements. Assurance can be given that bills are raised and calculated correctly.

### **Benefits** – see App B

Although some of the agreed actions from our 2015/16 audit report have been implemented there remain a number of outstanding issues, which management have advised are either due to limited staff resource or awaiting the results of the strategic debt review project and the trial period of using an external debt recovery company.

Quality checks and targeted reviews have been re-instated. Claimants are now able to submit claims electronically and this is showing signs of reducing the amount of manual intervention needed in processing some claims and has the potential to create some additional capacity.

### **Strategic Debt Review** – see App B

Responsibility for debt recovery currently devolved across individual services. A virtual Debt Recovery Community Of Practice was established in December 2016, with membership from across those services, to better understand collectively each area's current levels of debt, remedies available to address it, staffing capacity and gaps in service.

With limited staff capacity for debt recovery having been identified as an issue, representatives from the Debt Recovery Community of Practice have met with an external debt recovery company, who offer debt recovery tailored to the needs of local authorities, amongst other services.



Arrangements have been made for a free diagnostic analysis to be completed of all outstanding debts. The diagnostic will be returned with commercial recommendations.

**Health and Safety** (previously reported) \*

The audit review provided independent confirmation that the gap analysis undertaken by Environmental Health COP Lead had identified areas which could be strengthened and that an action plan was developed to ensure compliance with health and safety legislation and best practice. Our recommendations highlighted some additional considerations.

Subsequently, a communication policy has been drawn up, an e-learning module developed and risk assessments undertaken. Once the action plan is fully implemented and embedded, the system should be operating to a good standard

**Housing Standards – Disabled Facilities Grants & Loans** (previously reported) \*

Controls over the administration of grants and loans for Private Sector Housing Renewal (PSHR) are in place, but recommendations were made which would contribute to the strengthening of these.

Subsequently, a Level 4 Specialist has been appointed into the lead PSHR role, training being provided to strengthen systems and the use of technological solutions will allow information to be shared securely with third parties. Controls over discretionary loans have been reviewed to ensure the effective use of available funds.

*\* Audit review not part of West Devon 2016/17 Audit Plan but included here for information purposes.*

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

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

**Appendix C** provides a summary of work where the planned work is complete but no audit report produced.

**Non Compliance with Contract or Financial Procedure Rules**

There are no significant issues to bring to the attention of the Committee for 2016/17. 12 applications for exemptions to Contract / Financial Procedure Rules have been received, all were accepted.

**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 (National Fraud Initiative – NFI) every two years. In October 2016, a number of data sets of information were provided to the Cabinet Office and a list of potential matches have now been received. This data is currently being reviewed by management and appropriate action is being taken. The NFI exercise identifies

potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single person's discounts and creditor payments.

### Irregularities

There are no irregularities to report.

### 4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 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.

### PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2016/17

There are no national performance indicators in place for internal audit; however the team monitor against local performance indicators as follows:-

Local performance indicator	2016/17	2016/17
	Target	Actual
Percentage of audit plan commenced	95%	100%
Percentage of audit plan completed	95%	91%
Actual audit days as a percentage of planned	95%	94%*
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100% **
Draft reports issued within target days	90%	100%
Average level of sickness	2%	11.8%***
Outturn within budget	Yes	Yes

\* In addition to the planned work, 40 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work.

\*\* During the period we issue client survey forms with our final report and it is pleasing to note that auditees considered that the team continue to provide a good or excellent service.

\*\*\*Sickness relating to officers within the combined internal audit team equates to 41 days in the period 1st April 2016 to 31st March 2017.

## 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	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.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
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.

### **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>

**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	
Main Accounting System & Budgetary Control	4	■	■				■			
Creditor Payments	2	■	■	■	■		■			Summary to Audit Committee in January 2017
Payroll	4	■	■	■	■		■			Summary in App B below
Council Tax	4	■	■	■	■			■		Summary in App B below
Business Rates (NNDR)	4	■	■	■	■			■		Summary in App B below
Benefits Payments	5	■	■	■	■			■		Summary in App B below
Treasury Management	4	■	■	■	■	■				Summary to Audit Committee in January 2017
<b>Main Financial Systems</b>	<b>27</b>									
ICT Audit	6	■								Commenced at year end, rolling into 17/18.
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2016 Audit Committee under separate cover
Risk Management	5	■	■	■	■	-	-	-	-	Summary in App B below
Culture & Ethics	2	■	■	■	■		■			Summary in App B below

**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	-	-	-	-	-	-	-	-	Review of Leisure Contract deferred to 17/18 to enable contract to embed. Resources used on Strategic Debt Review.
Strategic Debt Review		■	■	■	■	-	-	-	-	Summary in App B below
Counter Fraud Work	4	-	-	-	-	-	-	-	-	Inc. supporting National Fraud Initiative (NFI) exercise
Street Cleaning	4	■	■	■	■		■			Summary to Audit Committee in January 2017
Public Convenience	3	-	-	-	-	-	-	-	-	Resources used for review of Section 106 agreements (see below)
Planning Policy –Section 106 Agreements		■								
Development Control – enforcement		■								
Development Controls – planning applications (Follow Up to Peer Review)	5	■	■			-	-	-	-	Review found good progress is being made to implement the recommendations from the Planning Improvement Peer Review.
Shared Services - recharging	2	-	-	-	-	-	-	-	-	Incorporated within the review of Main Accounting System
Performance Management - Pls & Data Quality	5	-	-	-	-	-	-	-	-	Resources used on Strategic Debt Review
T18 Project	4	-	-	-	-	-	-	-	-	T18 Audit deferred until September 17 to align to when a final report on the Programme is scheduled be reported to Members
Partnerships & Partnership Management	3	■	-	-	-	-	-	-	-	Deferred to 2017/18 and recently commenced

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	
Follow Up of Previous Year's Audits	4	■	■	■	■	-	-	-	-	
Contingency (Unplanned) & Advice inc. Exemptions from Financial Regulations	6	-	-	-	-	-	-	-	-	12 Exemption applications received and processed in 2016/17, all of which accepted
Audit Management, including <ul style="list-style-type: none"> <li>■ Audit Planning</li> <li>■ Partnership audit Management</li> <li>■ Monitoring against the plan</li> <li>■ Reports to management and audit</li> </ul>	10	-	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 30 June 2016.
<b>Other Systems &amp; Audit Work</b>	<b>67</b>									

Previously Reported Changes to the Plan										
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>94</b>									<b>Previously 100 days</b>

## Planned Audit 2016/17 – Final Reports

The following tables provide 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
Payroll	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b> Overall we have found the payroll system and process design to be adequate, providing suitable key controls.</p> <p>There have been on-going developments during 2016/17, which include:</p> <ul style="list-style-type: none"> <li>■ A move towards holding all documentation electronically, including accepting email submission of scanned documents such as overtime forms; and</li> <li>■ The introduction of the self-serve module for the submission of travel and expenses claims.</li> </ul>	
Council Tax	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b> Assurance can be given that the Council Tax bills issued are calculated correctly. However controls do need strengthening in some areas; weaknesses identified include the lack of regular monitoring and / or review of:</p> <ul style="list-style-type: none"> <li>■ User's system access rights;</li> <li>■ Identification of new properties;</li> <li>■ Single Persons Discount;</li> <li>■ The suspense account;</li> <li>■ Broken arrangements to pay;</li> <li>■ Use of the bailiff; and</li> <li>■ Debt recovery strategy.</li> </ul>	<p>The outcome of the strategic debt review and the trial use of an external debt recovery company will help to determine future processes.</p> <p>Arrangements will be made for regular review and amendment of access rights.</p> <p>The Authority is examining the possible use of a Credit Reference Agency to help identify cases where Single Persons Discount may no longer apply.</p> <p>Responsibility for the review of the suspense account to be allocated to a specified officer.</p>
Business Rates	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b> The findings following the review of the business rates system is similar to that of</p>	See Council Tax above

Subject	Audit Findings	Management Response
	Council Tax above. Both taxes are administered by the same officers and assurance can be given that the Business Rate bills are calculatedly correctly.	
<b>Benefits – Follow Up of 2015/16 review</b>	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b>          Whilst our Audit Opinion remains as Improvements Required we acknowledge that there have been improvements to the service. Whilst satisfactory progress has been made against several of the agreed recommendations, some actions remain to be completed. This is largely due to staff resources being limited for the following reasons:</p> <ul style="list-style-type: none"> <li>■ Period of staff absence;</li> <li>■ Introduction of W2 system and</li> <li>■ Transfer of documentation from the previous document imaging system to W2.</li> </ul> <p>A full Housing Benefit audit review is planned for the beginning of Quarter 3, 2017.</p>	<p>The outcome of the strategic debt review and the trial use of an external debt recovery company will help to determine future processes.</p> <p>With the move to more customer self-serve and use of associated new technology, staff are able to focus more on processing claims accurately and promptly.</p> <p>Quality checks are undertaken and benefits processors' weekly activity is reviewed to ensure that performance is satisfactory.</p> <p>Revised processes have been put in place to help reduce the occurrence of overpayments. With greater use being made of technology, officer resource is now freed up to address claims more promptly, with claims being suspended as soon as any information is received which could have a detrimental effect on a claim.</p>
<b>Risk Management</b>	<p><b>Audit Opinion - Working</b></p> <p>Senior managers take the lead to apply risk management thoroughly across the organisation. They own and manage a register of key risks and set the risk appetite. A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework. Staff are aware of key risks and responsibilities. Risk with partners and suppliers is well managed across organisational boundaries. Appropriate resources in place to manage risk. Risk management processes used to support key business processes. Early warning indicators and lessons learned are reported. Critical services supported through continuity plans.</p> <p><b>Conclusions</b></p> <p>The Lead Members and senior officers are risk focused and consider risks to objectives as part of day to day corporate and service management.</p> <p>The new working model is starting to become embedded with a better understanding of roles, responsibilities and new ways of working. The model and emerging culture, with clear leadership and encouragement for well managed risk</p>	

Subject	Audit Findings	Management Response
	<p>taking, provides the right business environment to continue the rise in the Council's risk management maturity that will protect reputation, improve resilience, reduce unexpected losses, demonstrate good governance and better position the Council to meet its strategic objectives and priorities.</p>	
<p><b>Strategic Debt Review</b></p>	<p><b>Audit Opinion - Value Added</b>                      This strategic review has looked holistically at debt recovery arrangements and identified opportunities to improve the ongoing collection processes.</p> <p><b>Conclusions</b>                      Resources and procedures need to be considered and other issues addressed in order to maximise recovery rates and reduce current debt levels.</p> <p>Potential contributing factors include:</p> <ul style="list-style-type: none"> <li>■ Reduced staff resource;</li> <li>■ The process for obtaining County Court Judgements for sundry debts has lapsed;</li> <li>■ Less use of enforcement agents since the increase in fees that agents can levy on the customer.</li> </ul>	<p>Following the trial period of debt recovery by an external organisation, their effectiveness will be evaluated and an assessment made of their continued use versus the establishment of an in-house, centralised debt recovery team.</p> <p>A business case will then be presented to recommend the most cost-effective route.</p> <p>The findings, as well as consideration of whether or not any further parts of debt enforcement can be automated, will inform the Debt Recovery guidance to be produced.</p>
<p><b>Culture &amp; Ethics</b></p>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b>                      There has been regular and comprehensive communication from management, and members, setting the 'tone from the top', outlining to staff the direction and requirements of the Council. The Councils need to further develop and strengthen this by demonstrating a clear vision of the future for both Councils; this could be demonstrated by preparing a 'mission statement' to support the Councils' plans and provide a vision for both customers and staff.</p> <p>The Council's Annual Reports and Our Plans set out the objectives and expected outcomes for the Councils. These, together with Joint Local Plan, provide a useful summary of the key actions the Council is taking to improve life and the environment of the District.</p> <p>Good procedures were found in the following areas:</p> <ul style="list-style-type: none"> <li>■ The conduct of Members and officers;</li> <li>■ The receiving and handling of complaints;</li> <li>■ Response to the results of staff surveys</li> </ul>	

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

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<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 19 July 2016 with the draft accounts.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>12 applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>