

# South Hams Audit Committee



<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	Thursday, 12th January, 2017
<b>Time:</b>	10.00 am
<b>Venue:</b>	Cary Room - Follaton House
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Wingate</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Pennington</p> <p><i>Members:</i> Cllr Bramble Cllr Pearce Cllr Brazil</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

<b>1. Minutes</b>	<b>1 - 6</b>
To approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 22 September 2016;	
<b>2. Urgent Business</b>	
Brought forward at the discretion of the Chairman;	
<b>3. Division of Agenda</b>	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
<b>4. Declarations of Interest</b>	
Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;	
<b>5. LACC Report (Risk and Governance aspects only)</b>	<b>7 - 28</b>
<b>6. KPMG Report - Annual Audit Letter and Closure of the Audit Letter</b>	<b>29 - 38</b>
<b>7. Appointment of an External Auditor</b>	<b>39 - 50</b>
<b>8. Update on Progress on the 2016/17 Internal Audit Plan</b>	<b>51 - 64</b>

**N.B.** Legal and financial officers will not, as a general rule, be present throughout all meetings, but will be on standby if required. Members are requested to advise Member Services in advance of the meeting if they require any information of a legal or financial nature.

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 22 SEPTEMBER 2016**

<b>Members in attendance</b> * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J T Pennington (Vice-Chairman)
∅	Cllr J Brazil	*	Cllr K R H Wingate (Chairman)
*	Cllr J A Pearce		

<b>Members also in attendance:</b>
Cllrs H D Bastone, J P Green, M J Hicks, T R Holway, L A H Ward and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Executive Director (Service Delivery and Commercial Development); Group Manager – Business Development; Section 151 Officer, Specialist (Accountant Business Partner) and Senior Specialist – Democratic Services
5	A.18/16	KPMG Director and KPMG Manager

**A.16/16 MINUTES**

The minutes of the meeting held on 28 July 2016 were confirmed as a correct record and signed by the Chairman.

**A.17/16 DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

**A.18/16 REPORT OF KPMG – EXTERNAL AUDIT REPORT 2015/16**

In presenting the report, the KPMG representatives informed that the headline messages were both positive. Firstly, the organisation had issued an unqualified audit opinion on the Council's financial statements following approval of the Statement of Accounts.

Secondly, it was noted that KPMG was intending to issue a value for money assessment that concluded that the Council had made proper arrangements to ensure that it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local residents.

In the subsequent discussion, particular reference was made to:-

- (a) the value for money risk relating to the delivery of the Transformation Programme. Having undertaken an assessment of the Transformation Programme, the KPMG representatives confirmed their conclusions whereby the Council had sound arrangements in place to meet its budget gap;
- (b) the forecasted budget surplus for 2016/17. Whilst accepting that the report sought acknowledgement of the budget position in 2015/16, some Members made reference to the Council decision to increase resources in planning enforcement being taken during that year (minute 65/15 refers) and concluded that the report was somewhat selective in certain areas.

In response, the KPMG representatives informed that the organisation would not take a view on such political decisions and there was a recognition that, on occasion, there would be a need for flexibility in Council budgets;

- (c) the positive nature of the report. The KPMG representatives emphasised that the report was a good news story for the Council and presented the authority with a clean bill of health. In acknowledging this view, the Committee wished to put on record its gratitude for the work undertaken by the Section 151 Officer and the rest of the Finance Community Of Practice in these challenging times;

It was then:

### **RESOLVED**

That the External Audit Report 2015/16 be noted.

## **A.19/16 ANNUAL STATEMENT OF ACCOUNTS 2015/16**

Consideration was given to a report that presented a summary of net revenue and capital expenditure. Furthermore, the report also sought approval of the audited Statement of Accounts for 2015/16.

In introducing the report, the lead Executive Member for Support Services wished to pay tribute to the Specialist (Accountant Business Partner) for her hard work in producing the annual Statement of Accounts.

In discussion, reference was made to:-

- (a) the reduction in projected income generated from letting space at Follaton House. In response to a request, officers agreed to find out how much letting space remained for potential tenants to move in to Follaton House;
- (b) pension liability. Officers advised that the triennial pension valuation

results would be known before the end of the year. As a provision, the Council had set aside an additional £150,000 to offset any consequent impact;

- (c) the planning enforcement backlog of cases. When questioned, officers confirmed that the additional resources in planning enforcement were having a noticeable impact and the function was on track to eliminate the backlog before the end of the year;
- (d) the variations in capital grants from the Environment Agency (EA). The Committee was advised that the EA had granted considerably more money in 2014/15 than in 2015/16, as a consequence of there being far more instances of flooding during 2014/15;

(NOTE: during discussion point (e) below, the Section 151 Officer left the meeting room).

- (e) the Section 151 Officer not being a member of the Council's Senior Leadership Team (SLT). A Member reiterated his previously raised view whereby the Section 151 Officer should be a member of SLT. In response, it was noted that this matter had been debated and discussed with the Council's External Auditors prior to this operational decision being taken and the arrangements were deemed acceptable at that time. In light of the Member continuing to express his concerns, it was agreed that he should discuss this issue further with the Leader and Chairman of Council outside of this meeting. As a general point, those Members in attendance wished to put on record their gratitude for the work undertaken by the Section 151 Officer, who it was felt did a fantastic job and was respected by all Members of the Council;
- (f) the remuneration paid to the Authority's senior employees. When questioned, officers advised that only those senior employees that were actually employed by the Council were listed in the presented table. Since some senior employees were employed by West Devon Borough Council, these were not illustrated in the table at Section 3 of the presented accounts, but were instead referred to in a note to the Table.

It was then:

### **RESOLVED**

1. That the wording of the Letter of Representation (as outlined at Appendix A of the presented agenda report) be approved; and
2. That the audited Statement of Accounts for the financial year ended 31 March 2016 (as outlined at Appendix B of the presented agenda report) be approved.

A.20/16

**STRATEGIC RISK ASSESSMENT – REGULAR UPDATE**

The Committee considered a report that presented an updated assessment of the Council's strategic risks.

In discussion, reference was made to:-

- (a) the risks associated with the Local Authority Controlled Company (LACC). A Member was of the view that there were far too many identified risks that were associated with the LACC and he therefore **PROPOSED** the following:

*'That the Committee does not support the setting up of a LACC by the Council.'*

In discussion, some Members expressed a great deal of sympathy with the proposal, but did also recognise that the Council had appointed a Joint Steering Group (JSG), which would be working its way through the risk register. Furthermore, assurances were given that in the event of the JSG concluding that any of the 'red lines' (issues relating to pensions, taxation and governance) were unresolvable, then the project work would be stopped immediately. The overriding view amongst the Committee was that the proposal was somewhat pre-emptive and the JSG should be allowed to complete its review. Therefore, the proposal was not seconded.

However, some Members did reiterate their sympathy with the proposal and an alternative was **PROPOSED** and **SECONDED** as follows:

- '1. That, at the moment, the Committee does not support the setting up of a LACC by the Council;*
- 2. That all Members be sent copies of the published report and the supporting appendices that underpin this agenda item. In addition, that all Members be sent a copy of the full (exempt) version of the Zurich Municipal LACC Risk Diagnostic report;*
- 3. That a progress update on the risk related work undertaken to date by the JSG be distributed to all Members; and*
- 4. That, as part of ongoing Member Briefings on the LACC, a specific session relating to the LACC risk register be scheduled.*

When put to the vote, these proposals were declared **CARRIED**.

- (b) the scores aligned to the risk report. Whilst the view was expressed that some of the ratings related to the LACC were questionable, it was agreed that the score aligned to the 'encouraging communities to thrive' risk was too high and should be reduced.

It was then:

**RESOLVED**

1. That the Committee has reviewed the strategic risk assessment;
2. That, at the moment, the Committee does not support the setting up of a LACC by the Council;
3. That all Members be sent copies of the published report and the supporting appendices that underpin this agenda item. In addition, that all Members be sent a copy of the full (exempt) version of the Zurich Municipal LACC Risk Diagnostic report;
4. That a progress update on the risk related work undertaken to date by the JSG be distributed to all Members;
5. That, as part of ongoing Member Briefings on the LACC, a specific session relating to the LACC risk register be scheduled; and
6. That the score aligned to the 'encouraging communities to thrive' risk is too high and should be reduced.

A.21/16

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

A report was considered that informed Members of the principal activities and findings of the Council's Internal Audit team for 2016/17 to 25 August 2016 by:

- showing the progress made by Internal Audit against the 2016/17 annual internal audit plan, as approved by the Committee on 24 March 2016 (Minute A.38/15 refers); and
- highlighting revisions to the 2016/17 internal audit plan.

Having been advised of the impact on the Plan that had been caused by an incident of staff sickness in the Internal Audit Team, the Committee requested that its wishes for a speedy recovery be passed on to the affected individual.

It was then:

**RESOLVED**

That the progress made against the 2016/17 internal audit plan, and any key issues arising, be noted.

A.22/16 **INTERNAL AUDIT CHARTER AND STRATEGY 2016/17**

The Committee considered a report that allowed Members to review and comment upon the Internal Audit Charter and Strategy for 2016/17.

During discussion, Members felt that, in the future, it would be helpful for the revisions and amendments that were being recommended to be highlighted.

It was then:

**RESOLVED**

That the Committee has reviewed and approved the Internal Audit Charter and Strategy 2016/17.

(Meeting commenced at 2.00 pm and finished at 3.10 pm)

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Chairman



## **NOT FOR PUBLICATION**

Appendices A and B to this report contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972

Report to: **South Hams District Council Audit Committee**

Date: **12<sup>th</sup> January 2017**

Title: **Local Authority Controlled Company (LACC)  
Risk and Governance**

Portfolio Area: **Leader of the Council - Strategic Vision**

Wards Affected: **All**

Relevant Scrutiny Committee:

Approval and clearance obtained: **No**

Urgent Decision: **N/A**

Date next steps can be taken:

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### **RECOMMENDATION**

**That the progress of the Joint Steering Group in respect of Risk and Governance matters contained in this report be noted.**

#### **1.0 Executive Summary**

- 1.1 The Council has been exploring the possibility of establishing a Local Authority Controlled Company (LACC) jointly with West Devon Borough Council. The matter was considered by Full Council on 28<sup>th</sup> July 2016.
- 1.2 At the July Council meeting, Members requested further detailed analysis to enable them to make a final decision on establishing a LACC. Members also agreed to establish a Joint Steering Group (JSG) consisting of members from both Councils. The purpose of the JSG is to consider the outstanding issues identified in the business case and report back to the Full Council.

- 1.3 The detailed information is currently being prepared for consideration by the Joint Steering Group at their meeting on 16 January 2017 following which the Joint Steering Group will make its recommendations to the Council on 9 February 2017. However, as part of the Council resolution, the Audit Committee were tasked to consider the Joint Steering Group's recommendations regarding risk and governance.
- 1.4 In view of the fact that the JSG is yet to make its recommendations, this report provides the Audit Committee with an overview of the current position for the key areas in respect of Risk and Governance.

## **2.0 Background**

- 2.1 On 28<sup>th</sup> July 2016, a full meeting of South Hams District Council considered a detailed business case prepared by PricewaterhouseCoopers into the viability of establishing a Local Authority Controlled Company.
- 2.2 Officers commissioned Zurich Risk Management Services to undertake a risk diagnostic of the LACC proposal. This work involved discussions with Officers of the Council's Leadership Team including Executive Directors and Section 151 Officer to understand what the Council was aiming to achieve and in turn identify any risks to the successful operation of a LACC.
- 2.3 The team from Zurich consolidated the views of Officers into a draft risk register which was then considered by a working group consisting of SLT and the LACC Project Team. The working group considered each risk and potential mitigations were identified. This formed the initial register of risks which would need to be considered should the Council proceed to establishing a LACC.
- 2.4 The risk register was considered by this committee on 22 September 2016 with a request for a specific workshop to be planned to consider risk relating to the establishing of a LACC. The risk register has been regularly updated as the project has progressed with regular updates provided to the Joint Steering Group.
- 2.5 A workshop was held on 8 December 2016 to provide Members with an opportunity to explore the risks in more detail. This provided further opportunity for the project team to update the risk register.
- 2.6 This report now provides a more in-depth update on the key risk and governance matters that will be considered by the Joint Steering Group on 16 January 2017.

## **3.0 Outcomes/outputs**

- 3.1 The positions set out in this report are subject to final consideration by the Joint Steering Group on 16 January 2017 but are based on expert advice from the Pension Actuaries (Barnett Waddingham) Bevan Brittan Solicitors, Grant Thornton Accountants and the Devon Pension Fund.
- 3.2 Currently work is being undertaken to prepare the final report for consideration by the Joint Steering Group however, the following

paragraphs set out the current position in respect of the key risk and governance matters.

### **Treatment of Pension liabilities**

- 3.3 Effective treatment of Pensions is critical to ensuring that a LACC is financially viable. The Council has commissioned expert advice on the most suitable pension models with officers having discussions with the Actuaries, Devon Pensions, legal and financial advisors to ensure that the position presented to Members in the final report considers all issues on this matter.
- 3.4 A summary of the advice from Grant Thornton is set out in Appendix A to this report.
- 3.5 The current recommendation to the Joint Steering Group is that the LGPS be closed to new entrants – meaning that only transferring staff would have access to the scheme. Staff subsequently recruited to the LACC would be offered an alternative pension scheme.
- 3.6 There will be an initial increase in the employer's contribution rate by moving to a LACC, however there is an option to 'step' this increase over a number of years.
- 3.7 The LACC project team are currently undertaking financial modelling based on 8% turnover of staff, the alternative pension scheme with a 6% employers contribution rate and a number of scenarios in respect of stepping the increased contributions.
- 3.8 The Council will retain its historic LGPS liabilities/deficits and employees remaining with the Council will continue with access to the LGPS to ensure that the scheme does not 'close' which would trigger a requirement for repayment of the full pension deficit.
- 3.9 Full financial modelling is being prepared for the Joint Steering Group to consider in January 2017. This will include the impact on the LACC and the Council.

### **Regulatory compliance**

- 3.10 The Council has commissioned expert advice from Grant Thornton in respect of Corporation Tax and VAT matters, and Bevan Brittan in respect of the TECKAL position. In addressing these matters at this stage, we can ensure that should a LACC be established, it will be compliant. Specialist advice has been sought on the following matters;

#### **VAT**

- 3.11 Grant Thornton undertook an assessment of the Councils and LACCs VAT positions. The LACC will need to register for VAT however based on the assessment, the conclusion is that there should be no irrecoverable VAT. Further details on the VAT position are as set out in Appendix A to this report.

#### **Corporation Tax**

3.12 The LACC should be exempt from corporation tax on any profits arising from transactions with the Council. In order to achieve this exemption the LACC would need to apply for Mutual Trading Exemption from HMRC. In the unlikely event that this is not granted, an alternative solution would be to establish two subsidiary companies – one to operate the activity of the two Councils and a separate one to operate the activity of third parties (where external business is won). This solution would also be required when external trading income exceeds the 20% required by the Teckal regulation,

### **Teckal exemption**

3.13 The *Teckal* exemption applies where a contracting authority contracts with a legally distinct entity which it controls (award of contracts to controlled persons) – usually this will be a company that the authority has set up, either on its own or in concert with others to provide services. There are three key tests to apply in demonstrating Teckal compliance.

- Control – the Councils must demonstrate similar control over the LACC as it does with its in house departments. This will be managed through reserved matters and appointments to the LACC board.
- Essential Activities – the LACC can only deliver 20% of its overall turnover to 3<sup>rd</sup> parties and must be similar services to those provided back to the Council. This will be managed in considering bidding for future trading opportunities.
- No private capital – the LACC cannot have any private capital. This will be managed by the LACC board and is a governance consideration

3.14 Compliance with the Teckal exemption will all be managed through the drafting of the contract and governance documents of the LACC. It will also be a critical test to be applied to board decision-making

### **State Aid**

3.15 The LACC and Councils will need to be mindful of State Aid Implications. State Aid means the giving of financial assistance or economic advantage by a body such as a local authority. Legal challenges can be made against both the Council and the LACC if the state aid rules are not followed; therefore Compliance with state aid regulations will be managed by the LACC and the Councils S151 officer to prevent breaching the regulations.

### **Governance and Shareholding**

3.16 The Councils have sought expert advice from Bevan Brittan in respect of governance and shareholding matters to ensure that the model proposed is compliant with regulation and ensures that the Council retains overall control. These issues will be set out in both the LACC and Councils' governing documentation.

## **Company Structure**

- 3.17 It is important that the form of company is established very early in the project. There are two key options available for the form of company – Company Limited by Shares or Company Limited by Guarantee.
- 3.18 Companies Limited by Guarantees are typically used as a vehicle for embedding “social” values and have a number of disadvantages (see below).
- 3.19 A Company Limited by Shares is a ‘tried and tested’ company vehicle for local authority companies and gives possibility for an income return to the shareholders, subject to there being sufficient profits available.
- 3.20 As such, a Company Limited by Shares is recommended as the most appropriate form of company for a LACC See Appendix C for the full benefits and risks to each option.

## **Board composition**

- 3.21 The Board composition is important to ensuring a commercial direction for the LACC whilst demonstrating sufficient control over the LACC by the Council in order to comply with the Teckal exemption. It should be of a sufficient size to ensure an appropriate spread of skills and experience but not so large that it inhibits fast and flexible decision-making by the LACC.
- 3.22 Legal guidance from Bevan Brittan is that the LACC board should consist of 7 -9 board members. This matter has been considered by the JSG with the current position being 7 board members - an Independent Chair, 3 company directors (Senior LACC officers) and 3 Non-Executive Directors (Senior Officers of the Council, Members or Independent).
- 3.23 The advice from Bevan Brittan is that the JSG should think carefully about Councillors being members of the LACC board. While it is completely lawful for Councillors to be non-executive directors of Council companies, conflicts need to be carefully addressed. These considerations relate to both code of conduct issues and risks associated with councillor decisions where s/he is also a LACC director, being challenged on the basis of bias/predetermination. Directors must act with the best interest of the company at all times.
- 3.24 If it is decided that Members should not be directors Members will still be able (and in fact it is a requirement of Teckal), to influence the direction of the company through reserved matters and approval of the annual business plan for the LACC without being on the board.

## **Control over the LACC**

- 3.25 A Joint Shareholder Committee will be formed consisting of Members of both South Hams District Council and West Devon Borough Council as the Shareholders. This Committee will be formally constituted as Joint Committee in order that it can make decisions in its own right and will oversee the implementation of the LACC and

once operational, and will consider and make decisions on Council reserved matters.

- 3.26 Reserved Matters will ensure that the Council retains control over the LACC. It is important that the Reserved Matters do not hold the company back from making timely decisions but are robust enough to demonstrate that the Council still controls the company sufficiently to comply with the Teckal exemption.
- 3.27 Workshops have been held with Members to consider possible matters which they would wish Council to retain control over.
- 3.28 Appendix D to this report sets out the matters which Members felt should be reserved but in summary the headline themes are:-
- Change of company name / registered office
  - Changing the issued share capital
  - Decision to wind up the LACC
  - Changes to the board composition
  - Appointments of independent persons to the board (including Chairman)
  - Admitting new organisations to the LACC
  - LGPS issues
- 3.29 Reserved Matters will need to be further considered during implementation of the LACC by the Joint Shareholder Committee.

#### **4.0 Options available and consideration of risk**

- 4.1. At the time of writing this report, positions are still being finalised for the Joint Steering Group's consideration in January 2017.
- 4.2. A final report into the issues will be prepared for the Joint Steering Groups January meeting on 16 January 2017 )
- 4.3. The Joint Steering Group will consider in January its final recommendation to Executive and Full Council based on that report and the specialist advice it has received to date.
- 4.4. The project risk register will continue to be updated to reflect the most up to date position. The current version of this register is as set out in Appendix E.

#### **5.0 Proposed Way Forward**

- 5.1. The Final report into the LACC proposal is being prepared which will address the key matters on which Members requested for more information and detailed financial modelling. The report will be published in January along with the Joint Steering Groups final recommendation.

## 6.0 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/ Governance	Y	The LACC proposal will have significant Legal and Governance implications, on which the Council has received specialist legal advice from Bevan Brittan and to which officers and the JSG have had regard. The most significant matters are considered in this report. The detailed positions and recommendations will be provided in the final report considered by the Joint Steering Group In January.
Financial	Y	Detailed financial modelling is being undertaken with input from the Joint Steering Group. This will be considered by the January Joint Steering Group Meeting and included with their recommendation to Executive and Full Council.
Risk	Y	The project has a risk register which is regularly reviewed. This can be found in Appendix E to this report.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity		N/A as no change to service delivery or policy
Safeguarding		N/A as no change to service delivery or policy
Community Safety, Crime and Disorder		N/A as no change to service delivery or policy
Health, Safety and Wellbeing		N/A as no change to service delivery or policy
Other implications		N/A as no change to service delivery or policy

### **Supporting Information**

#### **Appendices:**

Appendix A – Financial advice from Grant Thornton (Exempt from publication)

Appendix B – Pensions Defined Benefit v Defined Contribution options (Exempt from Publication)

Appendix C – Options for company structures

Appendix D – Reserved matters workshop outputs

Appendix E – Risk Register

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## Appendix C- Choice of LACC company models

### Key advantages and disadvantages of common LACC vehicles

Company Limited by Shares	
<u>Advantages</u>	<u>Disadvantages</u>
"Tried and tested" – a flexible and familiar structure which is still the most popular form of corporate JV vehicle.	Annual and event driven reporting to Companies House means a reasonably high degree of publicity regarding the company.
Simple mechanism for introduction of new equity/transfers, although transfers of shares subject to potential 0.5% stamp duty charge. The share capital structure means shareholders can hold different numbers of shares (or different classes) and therefore hold varying levels of influence.	Directors subject to statutory and common law duties, especially if the company is in or is near insolvency.
Nature of shares as an investment gives possibility of future "exit" as well as income return for shareholders, subject to there being sufficient profits available for the purpose of distribution.	Company treated as a separate taxable entity from its shareholders.
Can be used for LA trading.	Potential issues surrounding valuation of shares on exit.

Company Limited by Guarantees	
<u>Advantages</u>	<u>Disadvantages</u>
Often used as a vehicle for embedding "social" values (e.g. social objects and no profit distributions to members), without the need to use a CIC, a Society or a charitable company.	Guarantee given by each member represents a future, albeit usual nominal, liability.
Membership easily changed by members being admitted or resigning from membership. No issues surrounding valuation on exit.	Annual and event driven reporting to Companies House means a reasonably high degree of publicity regarding the company.
Can be used for LA trading.	Directors subject to statutory and common law duties, especially if the company is or is near insolvency.
	Company treated as a separate taxable entity from its shareholders.
	Not as easy to distribute profits as with a CLS. CLGs are not appropriate if the

	members are looking for a profitable "exit" in the future.
	Cannot issue shares as a means of raising finance.

<b>Share Community Interest Company</b>	
Advantages	Disadvantages
Vehicle has automatically embedded "social" objects and requirement to use assets towards that social purpose. The creation of a CIC emphasises both its social character and local focus.	Alongside publicity requirements for a CLS, a Share CIC has additional publicity obligations towards the CIC Regulator.
Simple mechanism for introduction of new equity/transfers, although transfers of shares subject to potential 0.5% stamp duty charge. The share capital structure means shareholders can hold different numbers of shares (or different classes) and therefore hold varying levels of influence.	CIC Regulator has wide powers of inspection and intervention, albeit these would most likely be used in serious cases only.
CIC can raise finance through the issue of shares.	Returns to equity and debt investors are limited. Surplus assets on dissolution will not go to the shareholders of a Share CIC automatically (unlike the shareholders in a CLS).
Nature of shares as an investment gives possibility of future "exit" as well as income return for shareholders, subject to there being sufficient profits available for the purpose of distribution.	Directors subject to statutory and common law duties, especially if the company is or is near insolvency.
Can be used for LA trading	Company treated as a separate taxable entity from its shareholders.

<b>Guarantee Community Interest Company</b>	
Advantages	Disadvantages
Vehicle has automatically embedded "social" objects and requirement to use assets towards that social purpose. The creation of a CIC emphasises both its social character and local focus. A Guarantee CIC is also "not for profit", given it cannot distribute profits to its members.	Alongside publicity requirements for a CLG, a Guarantee CIC has additional publicity obligations towards the CIC Regulator.

Membership easily changed by members being admitted or resigning from membership.	CIC Regulator has wide powers of inspection and intervention, albeit these would most likely be used in serious cases only.
Can be used for LA trading.	No ability to distribute profits to members.
	Directors subject to statutory and common law duties, especially if the company is or is near insolvency.
	Company treated as a separate taxable entity from its members.

<b>Limited Liability Partnership</b>	
<u>Advantages</u>	<u>Disadvantages</u>
Not treated as a separate taxable person, so no "double tax" on profits generated, then distributed, to members.	Annual and event driven reporting to Companies House means a reasonably high degree of publicity regarding the LLP.
Flexible vehicle – no Companies Act directors, so no directors' duties (albeit these can be imposed by contract and underlying fiduciary duties probably exist for any LLP management)	Requirement for an LLP agreement to avoid default provisions under the Regulations applying.
	Requires a minimum of two members – a company can be incorporated with one.
	LLPs cannot be used by local authorities if undertaking trading or activities for a commercial purpose.

<b>Society</b>	
<u>Advantages</u>	<u>Disadvantages</u>
Lower level of annual and event driven reporting to the FCA than for companies, CIC and LLPs.	FCA-regulated, which is not as straightforward as dealing with Companies House
Vehicle has automatically embedded "social" objects and requirement to use assets towards that social purpose. A Society is also "not for profit", given it cannot distribute profits to its members	Requires a minimum of three members (or two if both members are themselves Societies).
Mechanism for introducing new members can be straightforward, through issue of new shares.	Shares do not represent an investment in the Society. Assets cannot be distributed to members, either as profit or on a winding up.

	Less well-known/used, so less familiar structure than companies, CICs and LLPs.
	Society treated as a separate taxable entity from its members.



## **Appendix D – Reserved Matters – output from Member workshops**

### **Regulation of LACC**

LACC shall be regulated by its constitutional documents and Company Law. The constitutional documents include, articles of association, memorandum of association, certification of incorporation, special resolutions etc.

### **Relationship between the councils**

- Governed by Inter Authority Agreement. This is also known as shareholder agreement. It will deal with inter alia, reserved matters.

### **Matters reserved to Full Council**

- Appointment and/or removal members of SJC
- Approval of annual business plan for LACC
- Approval of resolution to dissolve or wind up LACC
- Approval of JSC scheme of delegation

### **Reserved matters delegated to a Joint Shareholder Committee**

- Approval of expenditure by LACC above agreed financial threshold.
- Approval of constitutional documents of LACC such as, memorandum of association, articles of association and all documents required for the purposes of registration of LACC such as statement of capital and initial shareholding. Members need to agree, initial number of shares, value and class of shares, and names of directors etc.
- Approval of business plans
- Approval of Substantial Transactions (ST). ST are defined as transactions which are likely to result in the LACC spending sums in excess of or entering into a contract with a third party in excess of £££££
- Authorisation of litigation where such litigation is likely to involve expenditure of significant sums
- Approval of minor amendment to the articles. These are amendments which are not likely to result into substantial change or alter the structure, type of business and shareholding of the LACC.
- Approval of addition new shareholders i.e. Teignbridge, Torbay etc.
- Approval of change of name (s.78, SR required)
- Approval of change of registered office (s.87, OR required) and filed with registrar
- Approval of amendments to articles of association (s.21, SR required)
- Approval of appointment and removal of directors
- Approval of directors remuneration
- Approval of substantial employment packages
- Approval of directors service contracts (s.188)
- Alteration of share capital (s.617). Ordinary resolution is required and this must be filed with registrar.
- Approval of composition of board
- Appointment of independent chair.
- Approval of changes to type of business undertaken by LACC
- Appointment on independent chair
- Appointment of non-executive directors

**Note**

In order to avoid any potential conflict, all reserved matters should be dealt with within the IAA and Articles of Association. This removes any assumption that those matters which are not expressly reserved within the articles can be dealt with by directors.

Support Services Risk register

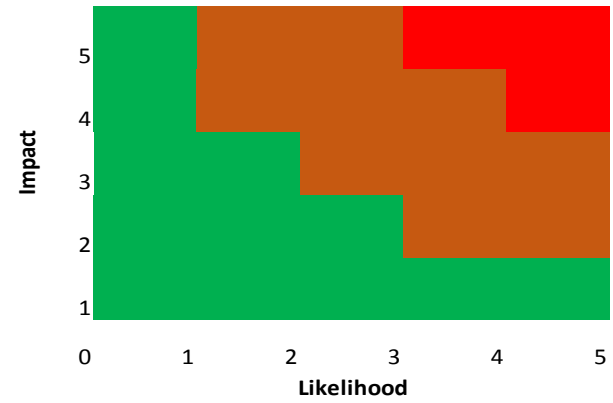
dated 7th December 2016

ID	Risk Description	Triggers	Consequences	Risk Owner	Rating at point logged			Treatment	Mitigations	Proximity	Current Risk Rating		
					Likelihood	Impact	Risk Rating				Likelihood	Impact	Risk Rating
1	Effective and efficient set up of the LACC	<ul style="list-style-type: none"> <li>- Lack of expertise in technical areas such as VAT and Corporation Tax</li> <li>- Insufficient management capacity to complete project tasks and actions</li> <li>- Conflicting priorities for SLT e.g. Service performance v LACC implementation</li> <li>- Awareness of regulation and legislative requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Financial Model becomes unviable</li> <li>- Benefits are not maximised</li> <li>- LACC Cessation</li> <li>- Cash Flow issues</li> <li>- Lack of control of the LACC / ineffective governance</li> <li>- Monitoring and internal controls become complicated</li> <li>- Increased and unexpected set up costs</li> </ul>	Sophie Hosking	3	4	12	Mitigate	<ul style="list-style-type: none"> <li>Legal advice is being provided with Bevan Brittan, with LACC advice note and Pension advice notes received. They are being consulted on other issues as they arise. Specialist Financial advice is being provided with Grant Thornton.</li> <li>- A draft Business Plan is being produced using an agreed CIPFA template</li> <li>- Active management of risk register for LACC throughout the project and into the operate phase</li> <li>- Clear gateways for the Joint Steering Group to make decisions on proceeding or not – part of project planning</li> <li>- Financial Modelling and Forecasts being prepared - Project Team examining issues, seeking specialist advice and preparing Implementation Plan .</li> </ul>	9 months Sept 2017	2	3	6
2	LACC financial viability	<ul style="list-style-type: none"> <li>- Initial assumptions and predictions are inaccurate including those of set up and running costs</li> <li>- Market place not fully understood</li> <li>- Competitors not identified</li> <li>- Waste Management Contract not handled effectively.(i.e. not brought into LACC)</li> <li>- Service offering is not competitive</li> <li>- Unsuccessful in winning council contract</li> <li>- Growth / savings are not achieved</li> <li>- Modelling of profit margins is over estimated</li> <li>- Irrecoverable VAT</li> <li>- Continued Local Authority cuts</li> </ul>	<ul style="list-style-type: none"> <li>- Costs of company set up not recovered</li> <li>- LACC dissolved and services taken back into the Local Authorities with associated costs</li> <li>- Ability to deliver council services for other Local Authorities reduced</li> <li>- Savings and profit not achieved</li> <li>- Economies of scale impacted if service reduction required</li> <li>- reputational damage stakeholder dissatisfaction</li> </ul>	Lisa Buckle	3	3	9	Mitigate	<ul style="list-style-type: none"> <li>- Officer group to further develop market analysis work – ongoing</li> <li>- Mapping of market competitors and ongoing monitoring of potential trading pipeline from early stage – early engagement with sort market assessment activities which can commence 12 /18 months prior to a tendering opportunity becoming available</li> <li>- Continue discussions with FCC over current waste arrangements to ensure smooth transition</li> <li>- Ongoing modelling of irrecoverable VAT – to be built into project plan as key gateway for Joint Steering Group to agree</li> <li>- Commence discussion with HMRC once approval to proceed is granted re Corporation Tax exemption</li> <li>- Base budget review and full financial profiling of roles.</li> </ul>		2	3	6
3	Ability to meet LACC project implementation timescales	<ul style="list-style-type: none"> <li>- Availability of staff to participate and support the delivery of the project work streams</li> <li>- Management Capacity</li> <li>- Availability of project management skills</li> <li>- Deadline for project not realistic</li> <li>- Delay in decision by members</li> </ul>	<ul style="list-style-type: none"> <li>- Increased costs</li> <li>- Reputational damage</li> <li>- Failure to meet stakeholder expectations</li> <li>- Delays in realising benefits of becoming an LACC (savings / payback period)</li> <li>- Continued staff uncertainty</li> <li>- Loss of member confidence</li> </ul>	Neil Hawke	2	4	8	Mitigate	<ul style="list-style-type: none"> <li>- Clearly defined project work streams and project governance. Regular Project Team meetings now supported by Project Support Officer</li> <li>- Implementation Plan being drawn up to cover tasks in Legal, HR and Finance</li> <li>- Project Team reporting monthly to Joint Steering Group and dates scheduled to February 2017</li> <li>- Timeline and deadlines being kept updated , as well as widely circulated</li> <li>Workshop, Drop In sessions and meetings all scheduled in advance</li> <li>Formal risk management and project change process</li> </ul>	6 months Feb 2017	2	3	6

4	Stakeholder perception of LACC	<ul style="list-style-type: none"> <li>- Lack of understanding of LACC objectives and purpose e.g protecting public services</li> <li>- Councils' rationale is not understood or appreciated by the community</li> <li>- Inability to articulate the LACC's unique selling point</li> <li>- Lack of buy in of staff, unions and other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of identity of the Council by the public</li> <li>- Reputation adversely affected</li> <li>- Loss of community engagement</li> <li>- Loss of attractiveness as an employer</li> <li>- Increase number of change initiatives, impacting upon service delivery</li> <li>- Impacted staff morale</li> </ul>	Steve Jordan	2	2	4	Mitigate	<ul style="list-style-type: none"> <li>- A draft Communication Plan has been produced and presented to JSG. A Knowledge briefing item about LACC has been sent to all staff. Union engagement is ongoing and they attended the November JSG meeting. LACC updates given at recent Staff Briefings Updates on LACC given to Town &amp; Parish Councils and other partners.</li> <li>- Ongoing liaison with Salcombe Harbour Board and AONB Member Joint Steering Group to become "champions" for the LACC ensuring key messages understood</li> <li>- Early discussions with Leaders of other Council and Senior Management Teams</li> <li>- Still some misunderstanding in the community about the purpose of the LACC</li> </ul>	Ongoing	3	2	6
5	Ability to maximise the benefits of the LACC	<ul style="list-style-type: none"> <li>- Lack of flexibility to deliver potential future savings required due to further</li> <li>- Start up costs become unaffordable in the uncertain local authority financial climate</li> <li>- Potential lack of commercial skill set</li> <li>- Strategic business case is not effectively communicated to or understood by members including acceptance and awareness of ownership and profit share allocation</li> <li>- Market fails to materialise and mature</li> </ul>	<ul style="list-style-type: none"> <li>- Council stays as is and T18 programme is refined to deliver further savings</li> <li>- Income cannot be generated to offset future government grant cuts</li> <li>- Reputational damage</li> <li>- Further cuts to services, required to meet budget reductions</li> <li>- Alternate service delivery models required</li> <li>- LACCs / other delivery models are established prior to set up</li> </ul>	Steve Jordan	3	3	9	Mitigate	<ul style="list-style-type: none"> <li>- Contract will require a change process for change requests from LACC to the Councils and vice versa - managed by client contract management</li> <li>- Contract Manager post will be created</li> <li>- Start up budget has been agreed with Joint Steering Group within parameters set out to Members for far</li> <li>- Commercial skills pre-requisite for board members</li> <li>- Business and marketing plan to be developed</li> </ul>	2 years	3	3	9
6	Page 26 Effective utilisation of the Teckal Exemption	<ul style="list-style-type: none"> <li>- Lack of flexibility to deliver potential future savings required due to local authority cuts</li> <li>- Start up costs become unaffordable in the uncertain local authority financial climate</li> <li>- Potential lack of commercial skill set</li> <li>- Strategic business case is not effectively communicated to or understood by Members including acceptance and awareness of ownership and profit share allocation</li> <li>- Market fails to materialise and mature</li> </ul>	<ul style="list-style-type: none"> <li>- Council stays as is and T18 programme is refined to deliver further savings</li> <li>- Income cannot be generated to offset future government grant cuts</li> <li>- Reputational damage</li> <li>- Further cuts to services, required to meet budget reductions</li> <li>- Alternate service delivery models required</li> <li>- LACCs / other delivery models are established prior to set up</li> </ul>	Sophie Hosking	1	3	3	Mitigate	<ul style="list-style-type: none"> <li>- Strong project management and governance throughout implementation phase (with assistance of the JSG)</li> <li>- Careful contract construct and reserved matter decision points to enable flexibility</li> <li>- Mapping of market competitors</li> <li>- Active management of sales funnel / pipeline for LACC throughout the project and into the operate phase – CRM tools to be employed</li> <li>- Monitoring of contract values against third party business won</li> <li>- Consider utilisation of a s95 company or Servaco if thresholds likely to be breached</li> <li>- Invite potential customers to become shareholders as opposed to customers to increase threshold limits</li> <li>- Clear legal advice on Teckal received from Bevan Brittan</li> <li>- Early establishment of marketing strategy and focus on quality, effective &amp; efficient public sector service</li> </ul>	Ongoing	1	3	3

7	<b>Service Resilience</b>	<ul style="list-style-type: none"> <li>- Impact on service delivery for the Council and other 3rd parties</li> <li>- Unable to fulfil contract requirements</li> <li>- Financial liabilities</li> <li>- Reputation damage</li> <li>- Community needs not met</li> </ul>	<ul style="list-style-type: none"> <li>External factors beyond Council and company control</li> <li>- Effective management of company</li> <li>- Effective contract specification, management and monitoring through out supply chain</li> <li>- Excessive pressure on service demands</li> <li>- Unexpected demand on finances e.g. unpaid debt, cash flow, disputes and claims</li> </ul>	Sophie Hosking	2	5	10	Mitigate	<ul style="list-style-type: none"> <li>- Emergency change process to be developed and captured in Contract</li> <li>- Client side contract manager to be empowered to make speedy decisions (within councils delegated authority levels)</li> <li>- Building of company financial reserves</li> <li>- Performance Management framework for LACC to be developed to identify any downward trends in service delivery at an early stage</li> </ul>	Sep-17	2	5	10
8	<b>Breach of statutory rules and obligations / regulations</b>	<ul style="list-style-type: none"> <li>- Lack of understanding around that the LACC can and can't do and how it should do it</li> <li>- Employment disputes / TUPE challenges due to incorrect procedures being followed</li> <li>- Failure to conform with TUPE and other proposal consultation requirements</li> <li>- Inequalities within workforce (i.e. Equal Pay Claims)</li> <li>- Failure to adhere to EU procurements rules</li> </ul>	<ul style="list-style-type: none"> <li>- Possibility of trading ultra vires</li> <li>- Reduction in quality of services</li> <li>- Delay in implementation / cessation of LACC</li> <li>- Financial costs</li> <li>- Legal action</li> <li>- Reputational damage</li> </ul>	Steve Jorden	1	5	5	Mitigate	<ul style="list-style-type: none"> <li>- Director responsibilities clear with in depth knowledge of contract . Board legal training to be provided by Bevan Brittan.</li> <li>- Specialist advice from Bevan Brittan (Legal) and Grant Thornton (Financial) received as part of implementation with clearly mapped procedures for the LACC</li> </ul>	from Feb 2017 onwards	1	5	5
9	<b>Ability to achieve desired rates of growth and be competitive in the market place</b>	<ul style="list-style-type: none"> <li>- Lack of expertise and acumen</li> <li>- Failure to recruit the right executive team</li> <li>- New entrants to the market offer more competitive rates (i.e. other LACCs)</li> <li>- Uncompetitive due to cost of its workforce in comparison to competitor</li> <li>- Market does not materialise or mature</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of market share / customers</li> <li>- Unable to attract future partners / private customers</li> <li>- LACC model may become unsustainable in the longer term</li> <li>- Reputation for being expensive, if so, must maintain high standards</li> <li>- Alternate service delivery model required</li> </ul>	Sophie Hosking	3	3	9	Mitigate	<ul style="list-style-type: none"> <li>- Ensure management team reflect LACC's behaviour &amp; skill requirements to effectively deliver contract</li> <li>Continuous market research &amp; analysis – map competitor wins / actions.</li> <li>- Use customer and market segmentation to understand where LACC fits in. Draft Business Plan to be drawn up.</li> <li>- Account manage customers to ensure service delivered exceeds expectations</li> <li>- Early establishment of marketing strategy and focus on quality, effective &amp; efficient public sector service</li> <li>- Continuously seek efficiency improvements and income generation activities</li> </ul>	Ongoing	3	3	9
10	<b>Retain and recruit competent and capable people to deliver the LACC vision</b>	<ul style="list-style-type: none"> <li>- Disillusioned workforce / lack of engagement</li> <li>- Ability to recruit the right executive team / board members</li> <li>- Inequalities across the workforce through inconsistent Terms and Conditions</li> <li>- Difficulties / times delay with recruitment</li> </ul>	<ul style="list-style-type: none"> <li>- Management team and workforce that lack a commercial outlook / acumen</li> <li>- Increased workloads</li> <li>- Reduction in staff morale</li> <li>- Failure to achieve commercial goals</li> <li>- Negative impact on service quality</li> </ul>	Sophie Hosking	3	4	12	Mitigate	<ul style="list-style-type: none"> <li>- Develop LACC recruitment strategy including profiles of roles that may require ongoing access of LGPS to attract staff</li> <li>- Clear communication with staff, which forms part of wider Implementation Plan</li> </ul>	from Sept 2017	3	4	12

11	<b>Defined and Clear Exit strategy</b>	<ul style="list-style-type: none"> <li>- Contractual disputes</li> <li>- Failure to include appropriate break clauses in contracts and Service Level Agreements</li> <li>- LACC model becomes financially unviable due to changes in demand and complexity of user needs</li> <li>- Change of political will and direction</li> </ul>	<ul style="list-style-type: none"> <li>- Service disruption / instability</li> <li>- workforce unrest</li> <li>- impact upon service quality / performance i.e delays</li> <li>- potential for LACC restructure</li> <li>Financial model assumptions require review</li> <li>- financial implication</li> <li>- Perception by stakeholders of LACC failure and therefore SHDC &amp; WDBC failure</li> </ul>	Steve Jordan	2	3	6	Mitigate	<ul style="list-style-type: none"> <li>- Exit strategy to be drafted as part of initial contract drafting, updated (where changes) and submitted on annual basis to councils. Initial draft contract would be drawn up by Bevan Brittan.</li> <li>- Break clauses to be agreed by Joint Steering Group – recommend first break in 5 years to ensure LACC has suitable opportunity to gain trading history</li> <li>- Contract change procedure to be developed during implementation</li> <li>- Active risk management by Councils and LACC</li> </ul>	from Sept 2017	2	3	6
12	<b>Pension Liability leads to LACC proposal not being financially viable</b>	<ul style="list-style-type: none"> <li>- Unfavourable accounting regulations requiring bond of guarantee</li> <li>- pension liabilities to be met by Councils</li> </ul>	<ul style="list-style-type: none"> <li>- LACC project becomes unviable due to not achieving admitted body status</li> <li>- Other delivery models will need to be considered</li> <li>- LACC accounts would record a significant loss each year (insolvent / not a going concern)</li> </ul>	Sophie Hosking	3	5	15	Mitigate	<ul style="list-style-type: none"> <li>- To be established during implementation and be set out as a clear gateway in the project plan. Other LA's set up LACC's and Admitted Body Status typically achieved but will be assessed by Joint Steering Group.</li> <li>- Various meetings with legal and financial specialists has taken place to discuss Pension options, considerations and impacts. The figures, modelling and results will be discussed at JSG on 12/12/16.</li> </ul>	Oct-17	2	5	10
13							0						0
14							0						0





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**Private & confidential**

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Totnes  
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Our ref SHDC/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 South Hams District Council's accounts for the year ending 31 March 2016 has been completed.

An unqualified opinion on the accounts was issued on 28 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

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**South Hams District Council**

—  
19 October 2016



# Contents

The contacts at KPMG in connection with this report are:

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## Report sections

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## Appendices

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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 South Hams District 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.

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<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 28 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 £69k 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, above those originally included in the business case (£546,000 for fixed term temporary transitional staffing resources), 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 28 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.

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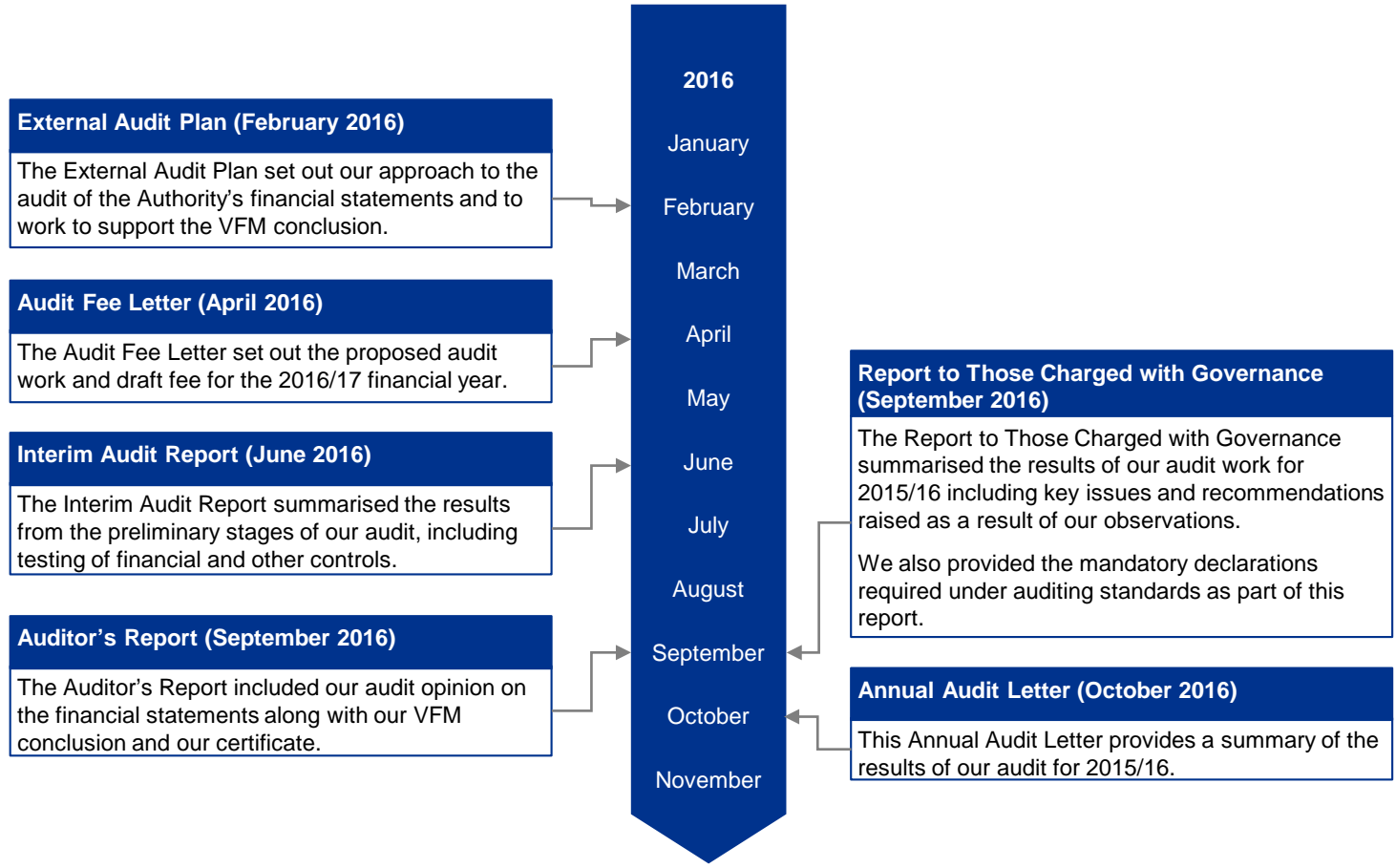
<b>Whole of Government Accounts</b>	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
<b>Certificate</b>	We issued our certificate on 28 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 £44,385, excluding VAT which is greater than the planned fee of £43,404 as a result of work required in relation to elector questions. 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.southhams.gov.uk](http://www.southhams.gov.uk)

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# Appendix 2: Audit fees

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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 £44,385. This compares to a planned fee of £43,404. The reasons for this variance was the work required in relation to questions raised by an elector.

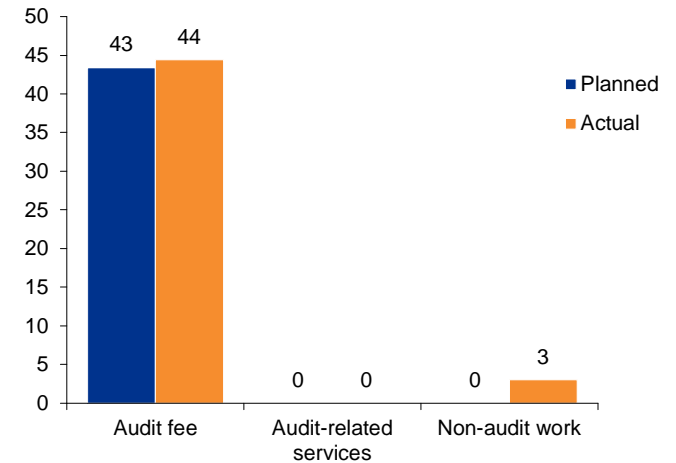
### Certification of grants and returns

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, 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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[kpmg.com/app](http://kpmg.com/app)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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# Agenda Item 7

Report to: **Audit Committee**  
Date: **12 January 2017**  
Title: **Appointment of External Auditor**  
Portfolio Area: **Support Services**  
  
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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## **RECOMMENDATION:**

**That the Audit Committee RECOMMEND to Council that South Hams District 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)

**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: **12 January 2017**  
Title: **Update on Progress on the 2016-17 Internal Audit Plan**  
Portfolio Area: **Support Services – Cllr S Wright**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny Panel

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

Author: **Brenda Davis** Role: **Audit Manager**  
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## RECOMMENDATION

**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 LEAF and LAG grant work and sickness.

In the June Audit Committee, there was some discussion relating to the Development Control (Enforcement) audit which had been deferred due to the Development Management Service Peer Review. I am pleased to report that it has been agreed that funding which the Council is able to claim against officer time spent on administering the LAG and the LEAF will be used to provide a resource to carry out the work on Development Control and a strategic review of Risk Management.

## **3. Outcomes/outputs**

In carrying out systems and other reviews, Internal Audit assess 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 any 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** 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. Eleven applications for Contract / Financial Procedure Rules have been received in the year to date, 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 (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	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 24 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	8									
Creditor Payments	10	■	■	■	■		■			
Payroll	12	■	■				■			Review will also include additional 3 days for election payroll.
Council Tax	10	■								
Business Rates (NNDR)	10	■								
Benefits Payments	5									
Treasury Management	5	■	■	■	■	■				
<b>Main Financial Systems</b>	<b>60</b>									
Shared Services - recharging	5									
Stores (stock control & security)	6	■	■	■	■			■		
ICT Audit	26									
Performance Management - PIs & Data Quality	10									
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2016 Audit Committee under separate cover
Risk Management	15									
T18 Project	11									
Partnerships & Partnership Management	10									
Culture & Ethics	8	■								

**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	
Contract Management	8									
Counter Fraud Work	10	■								
Exemptions from Financial Regulations	3	■								
Community Parks & Open Spaces	6	■	■	■	■		■			
Culture & Heritage	5									
Leisure Centre Client	6									
Health & Safety	8	■	■	■	■			■		
Pollution Control	5	■	■	■	■		■			
Street Cleaning	6	■	■	■	■		■			
Dartmouth Lower Ferry	7	■								
Street Scene - Car & Boat Parking	8	■								
Salcombe Harbour	7	■								
Housing Standards – disabled facilities grants & loans	15	■	■	■	■			■		
Development Control – enforcement	8									
Development Controls – planning applications	8									
Planning Policy –Section 106 Agreements	7									
Grants –Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	0	■								26 days spent on claims to date. Estimate further 34 days required – totalling 60 days in all.

**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	
Follow Up of Previous Year's Audits	10	■	-	-	-	-	-	-	-	
Contingency (Unplanned) & Advice	20	-	-	-	-	-	-	-	-	
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>	18	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 30 June 2016.	
<b>Other Systems &amp; Audit Work</b>	<b>261</b>									

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Changes Agreed by the Audit Committee in September 2016										
VAT	0									Removed from plan, previously 10 days external VAT Specialist to be engaged.
Member Allowances	0									Deferred to 2017/18, previously 4 days
Capital Receipts	0									Removed from plan, previously 5 days
Elections	3									Reduced by 5 days, previously 8 days. The 3 days are to be used to review the Election Payroll and have been incorporated into the Payroll audit.
<b>Total Revised Days</b>	<b>321</b>									<b>Previously 345 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
<b>Stores (stock control &amp; security)</b>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b> In response to audit recommendations, actions have already been taken to improve the security of the depots and plans are underway to further update the systems and processes.</p> <p>Management are confident that the introduction of the new Concerto software system will deliver improved system functionality and enable more robust controls to be put in place relating to the management and administration of stock and equipment. Consideration will also be given to the use of barcoding, handheld devices and direct purchases to enhance the service and improve efficiency.</p> <p>The service is also in the process of procuring a new fuel system which will also strengthen controls regarding the management and issue of fuel.</p>	<p>Controls are now in place to improve the security at the depots.</p> <p>The new stock control system is due to be implemented in the next couple of months.</p> <p>A procurement process is underway to obtain a new fuel management system.</p>
<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>

Subject	Audit Findings	Management Response
<p><b>Health &amp; Safety</b></p>	<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. This review provides independent confirmation that the Environmental Health COP Lead has identified areas within the current arrangements which could be 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>

Subject	Audit Findings	Management Response
<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>
<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>	



Subject	Audit Findings	Management Response
<b>Street Cleaning (continued)</b>	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.	
<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 30 June 2016.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>Eleven applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>