

South Hams Audit Committee



Title:	Agenda
Date:	Thursday, 24th March, 2016
Time:	10.00 am
Venue:	Repton Room - Follaton House
Full Members:	<p style="text-align: center;">Chairman Pennington</p> <p style="text-align: center;">Vice Chairman Wingate</p> <p><i>Members:</i> Bramble Foss Brazil</p>
Substitutes:	Named substitutes are not appointed
Interests – Declaration and Restriction on Participation:	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.
Committee administrator:	Member.Services@swdevon.gov.uk

1. Minutes

1 - 6

To approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 7 January 2016;

2. Urgent Business

Brought forward at the discretion of the Chairman;

3. Division of Agenda

To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;

4. Declarations of Interest

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;

5. Local Government Budget Survey - KPMG Report

7 - 30

6. External Audit Plan - KPMG Report

31 - 46

7. Appointment of External Auditors

47 - 56

8. Review of Council's Constitution

57 - 60

9. Strategic Risk Assessment - Regular Update

61 - 70

10. 2016/17 Internal Audit Plan

71 - 78

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.

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 7 JANUARY 2016**

Members in attendance * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J T Pennington (Chairman)
*	Cllr J Brazil	*	Cllr K R H Wingate (Vice-Chairman)
*	Cllr R J Foss		

Members also in attendance:
Cllrs L A H Ward and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Section 151 Officer, Representatives from Grant Thornton and KPMG, Head of Devon Audit Partnership and Senior Specialist – Democratic Services

A.2215 WELCOME

On behalf of the Committee, the Chairman welcomed Mr Darren Gilbert (from KPMG) to his first Audit Committee meeting. Furthermore, the Committee was also advised that Mr Adam Bunting (KPMG) had given his apologies for this meeting.

A.23/15 MINUTES

The minutes of the meeting held on 24 September 2015 were confirmed as a correct record and signed by the Chairman.

A.24/15 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.25/15 THE ANNUAL AUDIT LETTER FOR SOUTH HAMS DISTRICT COUNCIL

The Committee received the Council's Annual Audit Letter that summarised the key findings arising from the work that Grant Thornton had carried out at the Council for the year ended 31 March 2015.

In discussion, reference was made to:-

- (a) the Audit Fee. It was noted that the Fee was determined by the Public Sector Audit Appointments (PSAA) and it was set irrespective of the performance of the Council. For 2016/17, it was noted that, in comparison to 2015/16, there would be a 25% reduction in the Council's Audit Fee;
- (b) the key issues and recommendations raised. With regard to the requirement to open up dialogue with the asset software system provider, the Committee was informed that the Capital Accountant was to make contact in the ensuing weeks. Secondly, the S151 Officer confirmed that relevant officers had now been reminded of the importance of narrative descriptions being added to all journals to explain the nature and purpose of a transaction.

It was then:

RESOLVED

That the Annual Audit Letter be noted.

A.26/15

CERTIFICATION WORK FOR SOUTH HAMS DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2015

The Committee considered a report produced by Grant Thornton that presented their Certification Work for the Council for the year ended 31 March 2015.

The detailed work undertaken by Grant Thornton on the Council's Housing Benefit Subsidy claim which had a value of £22.4 million was noted by the Committee. In so doing, the Committee acknowledged that there were no amendments to the claim and the subsidy claim was unqualified.

The Committee emphasised the comments expressed by the Grant Thornton representative whereby an 'unqualified opinion' was an uncommon and excellent result for the Council. In recognition of this achievement, it was agreed that the Chairman should write to the Housing Benefit team to thank them for their hard work and commitment to the Council.

It was then:

RESOLVED

1. That the paper be noted; and
2. That the Chairman write to the Housing Benefit team to thank them for their hard work and commitment to the Council.

A.27/15

REPORT ON VALUE FOR MONEY FOR THE COUNCIL

Members considered a report that was produced by Grant Thornton that summarised the findings from their work supporting their Value for Money conclusion, which was required as part of the statutory external audit responsibilities.

During discussion, the following points were raised:-

- (a) The Committee wished to query the 'Amber' rating that was attributed to the Council's General Fund Balance particularly when considering that it was in line with the Council's target balance. In reply, the Grant Thornton representative informed that this rating had arisen in light of the balance being low compared to other similar sized rural local authorities. Specifically on this area of focus, the Committee felt that this was a misleading rating and expressed the view that it would be beneficial to see more information accompanying this rating;
- (b) A Member emphasised the current issues faced by the Council relating to IT systems and data quality and felt that the observations in the presented agenda report whereby 'no issues or concerns had been raised over the quality of date' were now seriously out of date;
- (c) On behalf of the Group Manager – Commercial Services, the Section 151 Officer provided the Committee with an update on the Strategic Waste Review. Members welcomed this update and requested that it be circulated to the wider membership by being included in the Budget papers that were circulated to the Overview and Scrutiny Panel meeting in January 2016;
- (d) It was noted that the rating attributed for 'Executive and Member Engagement' had been incorrectly labelled as 'Amber' and it should in fact be categorised as 'Green';

(NOTE: during consideration of point (e) below, the S151 Officer left the meeting room).

- (e) Members expressed their concerns that the rating for 'Understanding of the Financial Environment' had been downgraded to 'Amber' as a consequence of the S151 Officer no longer being a member of the Council's Senior Leadership Team. Members paid tribute to the tireless and excellent work undertaken by the postholder and recalled the comments expressed at a recent training event whereby Councils were urged to include their S151 Officer role as a member of their respective management teams. The following motion was then **PROPOSED** and **SECONDED** and when put to the vote declared **CARRIED**:-

'That consideration be given to the Section 151 Officer role being reinstated to the Council's Senior Leadership Team.'

(NOTE: at this point, the S151 Officer returned to the meeting room).

It was then:

RESOLVED

1. That the report be noted; and
2. That consideration be given to the Section 151 Officer role being re-instated to the Council's Senior Leadership Team.

A.28/15

EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

A KPMG produced report was considered that sought to provide the Committee with an overview on progress in delivering their responsibilities as the Council's new external auditor. The report also highlighted the main technical issues that were currently having an impact in local government.

In discussion, reference was made to:-

- (a) the need for a radical programme of house building. Members highlighted as a cause for real concern the following comments outlined in the presented agenda report:-

'without a radical programme of house building, average house prices in England could double in just ten years and quadruple in just twenty years.'

- (b) transport infrastructure assets. The new requirement (from 2016/17) to include transport infrastructure assets owned by local authorities in the accounts was causing councils much consternation. The KPMG representative felt that this requirement was less likely to affect district councils. Whilst still awaiting more guidance in this respect, officers confirmed that there was a possibility that the Dartmouth Lower Ferry slipway may be included within the definition of this type of asset.

It was then:

RESOLVED

That the report be noted.

A.29/15

APPOINTING YOUR EXTERNAL AUDITOR

A report was presented by KPMG that outlined what local authorities should be considering when appointing their External Auditors in the future.

In discussion, the following points were raised:-

- (a) The Committee was informed that, as a best guess (and depending upon the choice of procurement approach followed), the appointment process would typically take in the region of six months;
- (b) The long lead-in time for this process was welcomed by Members. Furthermore, Members welcomed the fact that the strength of the Council's financial controls would be reflected in the tendering process;
- (c) With regard to seeking more clarity in relation to the role of the Audit Panel, it was confirmed that CIPFA was in the process of producing guidance in this respect. At the conclusion of a brief debate, the Committee requested receipt of a report at a future meeting that provided more information on the role of the Audit Panel and an indication on the views of neighbouring local authorities.

It was then:

RESOLVED

1. That the contents of the report be noted; and
2. That a report on the role of the Audit Panel and an indication of the views of neighbouring local authorities be presented to a future Audit Committee meeting.

A.21/15 UPDATE ON PROGRESS ON THE 2015/16 INTERNAL AUDIT PLAN

The Committee considered a report that informed it of the principal activities and findings of the Council's Internal Audit team for 2015/16 to 6 November 2015.

In discussion, reference was made to:-

- (a) the alleged misappropriation of Council assets. Members were advised that the court date for the hearing to consider this matter had been confirmed for January 2016;
- (b) T18 Transformation. Officers gave assurances that the audit work on T18 Transformation would include reference to iESE, who had supported the Council during the Programme;
- (c) the Plan being more advanced than indicated in the presented agenda report. As an update, Members were advised that the Council Tax, Business Rates and Treasury Management projects had all now commenced. In addition, the Trade Waste, Car and Boat Parking and Salcombe Harbour project reports had now all been issued in draft form. In conclusion, it was noted that officers were confident that the work scheduled within the agree Plan would be completed before the end of the 2015/16 year;

- (d) the Greater Dartmoor Local Enterprise Action Fund (LEAF) and the South Devon Coastal Local Action Group (LAG). Whilst recognising that the allocation of 50 days of audit work to these projects was as a result of EU legislative requirements, Members reiterated their previously raised concerns that this was unduly excessive and was to the ultimate cost of the Council Taxpayer. Members were informed that the Overview and Scrutiny Panel had requested that representatives for the LEAF and LAG attend its meeting on 17 March 2016 and it may be deemed appropriate by Committee Members to raise questions relating to value for money at this meeting.

It was then:

RESOLVED

That the progress made against the 2015/16 internal audit plan, and any key issues, be noted.

(Meeting commenced at 2.00 pm and finished at 3.50 pm)

Chairman



Local Government Budget Survey

February 2016

www.kpmg.com/uk

Contents

	Page
Introduction	3
Key Messages	5
Local government budget survey – Comparatives	6
Questions to Consider	19

Introduction

Introduction

The local government sector faces well-documented, significant financial challenges for the foreseeable future. There are also opportunities linked to economic growth, notably with the new homes bonus and the prospect of local business rates retention, and the potential devolution of power to local areas. There is also an increased exposure to financial risk and volatility if growth is not as high or as sustained as hoped, or if demands for services outstrip expectations and lead to additional pressures. There is also the challenge of responding to the impact of central policies such as the 1% reduction in social housing rents from 2016-17, and the increased emphasis on home ownership rather than social renting. In this changing environment, high quality budget setting and monitoring are more important than ever for local government.

KPMG's 2011 publication 'The Brilliant Local Authority of the future' summarised the challenge facing local authorities.

"As the public sector recession bites and the localism agenda gathers pace, local government will have to address both the threats and opportunities that these forces are creating."

The paper explained that;

"In an age of austerity an iron-like grip on the organisation's financial position will be imperative..... This will entail a focus on management accounting and understanding the financial and operational performance of all parts of the business".

https://portal.ema.kworld.kpmg.com/audit/countries/europe/AuditPeople/DeptSites/IGHAudit/Technical%20guidance%20Library/RRD254220%20Brilliant%20Local%20Authority_v11.pdf

KPMG is proud to be the external auditor of a significant number of local government clients, and our audit teams consider key aspects of budget setting and budget monitoring alongside their external audit work. This paper sets out the results of a survey they completed in 2015, and analyses the assumptions and techniques used by our clients to generate budgets and to monitor them.

Our audit teams were very aware that when our clients were setting the 2015-16 budgets they were waiting for clarity about their funding for future years. Some clients had chosen not to publish a medium term financial plan until there was more certainty. Where this was the case, we took into account the work that officers were doing in preparation of the Comprehensive Spending Assessment.

Purpose of this paper

Our aim is that our clients find this paper useful when thinking about the budget information required to help address the financial challenges that they face. We hope that it will help our clients to take a fresh look at their approach to budget setting and monitoring. As financial risks and rewards continue to be localised, budgets will need to become more and more flexible and responsive to changes within financial years. We recognise that there is no single solution or blueprint for successful budgetary control, and that it is up to each client to find their own balance of summarised information and detailed data.

We plan to carry out a similar review next year. We would welcome feedback on this first version, and if there are any areas that you think that it would be useful to cover please let us know. Please let your local audit team know if you have any feedback or if there is anything you want us to take into account.

Introduction (cont.)

Our clients

We have analysed the 97 survey responses from our audit teams.

Client Type	Responses
Districts	41
London Boroughs	11
Unitary Authorities	11
Metropolitan Boroughs	10
Police & Crime Commissioners	8
Fire & Civil Defence Authorities	7
Counties	6
Transport Executives	2
Combined Authority	1
Total	97

Report Format

The paper provides the results of the responses, along with a brief analysis of the highlights (including extra information that audit teams provided where appropriate). We have also provided some possible questions that Members may wish to consider in the context of their own organisations. These questions are collated at the end of the report for ease of reference.

Key messages

We know that our local government clients have already taken significant steps to deal with the changes in their funding structure over the last few years. This paper highlights that as the financial challenges increase over the next few years there are measures that our clients can consider using in order to strengthen elements of their budget preparation, analysis, monitoring and reporting.

The move to more localised risks and rewards mean that techniques such as sensitivity analyses (to identify pressure points) and financial ratios will be key as the potential for financial volatility in the sector increases. This volatility in income and expenditure could happen at any time as well as on the annual budget-setting process, and so it is also increasingly important that our clients are alert and responsive to changes within the year, and to indications that their budgetary assumptions are no longer valid.

Tracking the achievement of savings is not straightforward. Sometimes plans need to be shelved for positive reasons – for example when there is unexpected demand for a service that generates income. It is important to identify the reasons for successful plans as well as those that fail in order to learn for the future.

The likely link between local growth and our clients' financial well-being means that selecting the right 'invest-to-save' schemes is vital, and the survey suggests that more use could be made of key processes for assessing the potential projects.

As financial pressures increase, savings measures may need to be re-considered or revisited, alongside ways to generate income.

As savings become harder to achieve, the distinction between recurrent and non-recurrent savings becomes ever more important, and also an important element of reporting to members. The General Fund Reserve is a critical safety net, and setting the minimum level is a key task that should take into account the level and nature of usable reserves, and in particular if there is a lack of flexibility within those other reserves.

The results of our survey highlight differences in the way that our clients are budgeting for key financial factors such as inflation, borrowing and lending rates and employee related cost pressures. Similarly, there is variation in the factors used to generate the budget, with some such as demographics and population change less used than others. Whilst there is no single correct approach, all of our clients need to be alert to the impact of variations on expectations.

The amount of Local Government reserves is being increasingly challenged, and there needs to be a clear understanding of the reason for the current and planned levels, and what flexibility there is within them if there becomes a need for them to reduce.

Our survey also suggests that there is some scope for further analysis of our clients' assets to identify options for change. Asset management plans that are aligned to service and staffing changes are important for ensuring that those options are co-ordinated and realistic.

We know that many of our clients are still working hard to address gaps in their savings targets for future years, and all of them will need to re-assess their assumptions when the results of the financial settlement are made clear, along with the detail behind recent announcements are made available. It is vital that their budgetary frameworks are fit-for-purpose to respond to the challenges.

The remainder of this report sets out the results of our survey and the questions we have suggested for Members to consider. We look forward to your feedback.

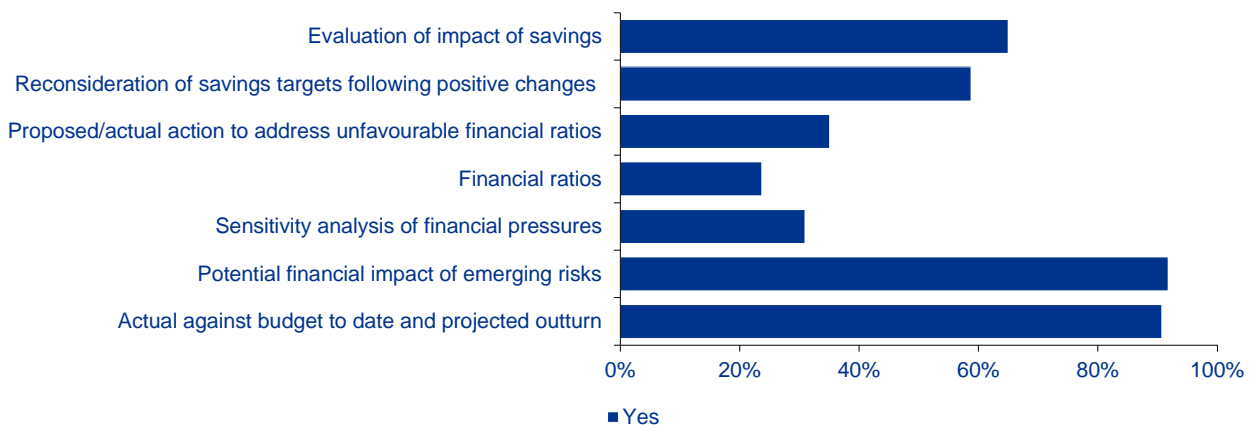
Comparatives

1

What's in your Budget Monitoring Reports?

We looked at our clients' main budget monitoring reports to see if they contained a series of potentially important elements.

Do budget monitoring reports include the following:



As expected, most budget monitoring reports identify the actual position against budget to date and a projected outturn, and the financial impact of emerging risks. The use of sensitivity analysis and financial ratios is less developed. It may be that Members will view these as more important as local financial volatility increases with the move away from block central funding.

Our audit teams highlighted some local practices that influence what goes in to the budget monitoring reports. These included that portfolio holders receive monthly summarised reports for their budget areas that supplement the quarterly reporting, or that particular committees receive detailed reports in addition to the high level reports for all members. Financial ratios are sometimes limited to particular areas, such as in the context of the Treasury Management Strategy.

There is no universal 'right level' of detail in budget monitoring reports – the key is that the reports provide decision-makers with sufficient information in the context of the other information that they receive to allow them to understand the financial position and projections.



Questions to Consider

- Do your budget monitoring reports provide an appropriate level of detail?
- Given the likelihood of increased financial pressures and volatility, do your budget monitoring reports need to evolve?
- Do members have the necessary training, skills & experience to interpret the budgetary reports and information provided?

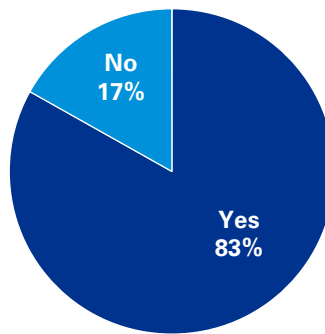
Comparatives (cont.)

2

Did you achieve last year's savings plans?

We looked at the achievement of the overall savings targets alongside the monitoring of the individual savings plans.

Did 2014-15 actual savings meet the budgeted target?



With the uncertainty about the future level and nature of funding, we know that many clients were looking to build up their levels of resilience in 2014-15, and many had savings plans that were designed to help increase useable reserves. The majority of clients met their 2014-15 budgeted savings target.

Some of our audit teams commented that better than expected income had had a significant impact on the net financial outcome – for example from the levels of new homes bonus and planning fees. We recognise that sometimes planned savings such as staff reductions are put on hold in order to meet unexpected demand for services. Tracking the achievement of savings in these circumstances can become complicated, and there is also a risk that unexpected income could result in a reduced focus on making savings elsewhere in the budget.

Our audit teams also noted examples of clients ensuring that the use of reserves is allowed only to provide new or enhanced services, and not to deal with deficits or overspends (which could mask failure to meet the savings targets). They also referred to cases where savings are built into budgets, and so are not separately identified – this links into the question on the following page.



Questions to Consider

- Do you know if your savings to-date in 2015-16 are on target to meet the budgeted amount?
- If you have received unexpected income in 2015-16, are you clear how it has impacted on your savings targets?
- If any of your 2015-16 individual savings schemes or the overall savings targets are not being achieved, do you know why?

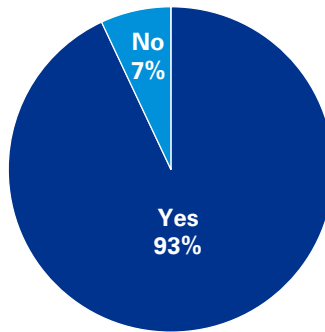
Comparatives (cont.)

3

Are individual savings plans monitored centrally?

We asked whether the individual schemes that make-up the overall savings plans are monitored centrally on an on-going basis.

Were individual savings projects/plans monitored during the year to check that expected savings remained deliverable in 2014-15?



As may be expected, the majority of our clients monitor individual schemes centrally. Audit teams that answered 'no' reported that the client approach is to expect budget holders to deliver their overall net financial target which incorporates the savings plans, and so the central monitoring is based on this net position rather than separating out savings plans.

As the pressure on budgets continues, savings will be increasingly hard to find. Whatever system is used to monitor the achievement of savings plans, it is vital that schemes that are failing to achieve the expected results are highlighted early, and that alternative measures are in place to address the financial shortfall. It is also important to learn the lessons as to why schemes fail in order to help avoid problems recurring. Similarly, successful ones can be analysed to understand the success factors, and to see if they can be replicated.



Questions to Consider

- Are you confident that you identify savings schemes that are failing at an early stage?
- Do you have alternative measures to substitute for failing savings schemes?
- Are successful schemes evaluated to identify why they worked, and to see if they can be applied in other parts of your organisation?

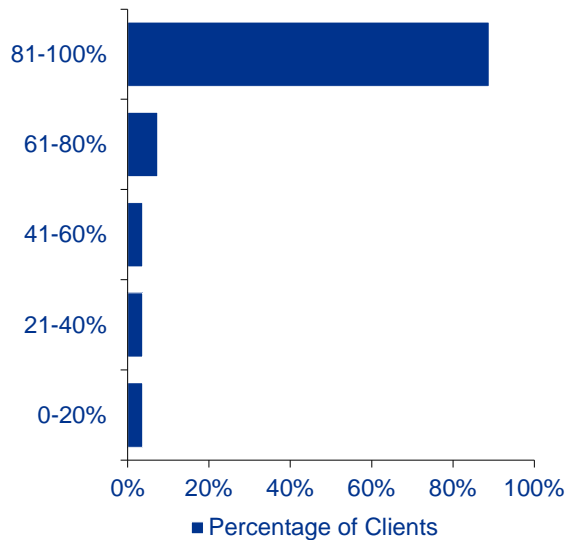
Comparatives (cont.)

4

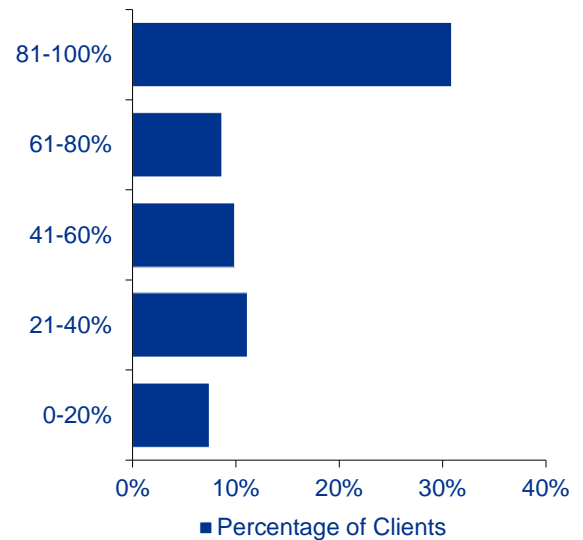
Do you have detailed plans for your savings?

We looked at what proportion of the savings targets for 2015-16 and 2016-17 had detailed plans at the start of the 2015-16 financial year to achieve them. We know that as the level of funding was uncertain beyond 2015-16, officers were estimating what level of savings will be needed.

What percentage of 2015-16 budget savings were backed by detailed plans as at 31 March 2015?



What percentage of 2016-17 budget savings were backed by detailed plans as at 31 March 2015?



At the start of the 2015-16 year, over 80% of clients had detailed plans that covered the level of savings needed. This dropped to below 40% for the 2016-17 year. As the financial position is clarified for 2016-17 and beyond, there will be a need to revisit the expected level of savings to ensure that the assumptions made remain valid and that the plans to achieve them are complete and robust on an ongoing basis.



Questions to Consider

- Are all of your savings targets backed with detailed plans?
- Are you confident that the detailed savings plans are robust and realistic?
- Are detailed savings plans updated to ensure that they reflect changes in circumstances?

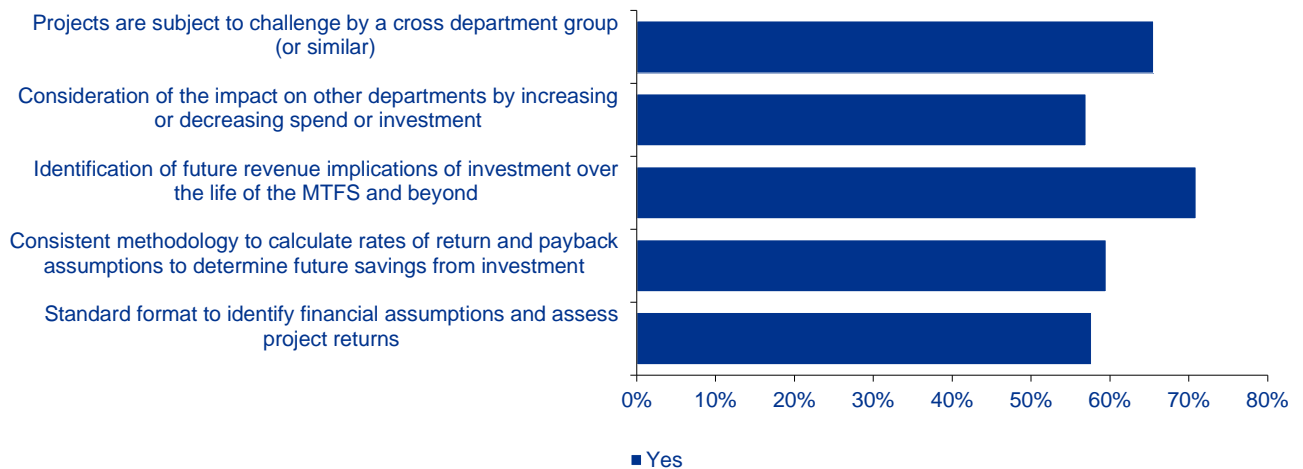
Comparatives (cont.)

5


When you consider possible invest-to-save projects, what factors do you take into account?

Even in financially pressured times we know that our clients will have opportunities to invest in new projects, and that those projects will not necessarily have an immediate or short-term impact, and may go beyond the life of the Medium Term Financial Strategy (MTFS). As available resources become more scarce, and the link increases between local economy growth and councils' financial well-being because of the localisation of economic risk and reward, it is more important than ever to have a strong framework in place to select the most appropriate invest-to-save projects. We looked at all clients for each of the elements below on a yes/no basis.

Are individual invest-to-save projects appraised using the following factors in a consistent way?



Our audit teams identified that not all of the possible tools and techniques available to our clients are being used routinely. We recognise that this may be because for some there is limited opportunity to invest-to-save, and we also recognise that the framework used to select the projects is dependent on local factors, such as the risk appetite, the range of opportunities, potential partners and other factors. However, with the confirmation of the intention to move to local business rate retention and the removal of Revenue Support Grant by 2020, selecting the right invest-to-save projects and monitoring their outcomes against their objectives will become increasingly important. It is also important to check how approved projects perform against the projected outcomes, and to assess why any significant variations have come about.



Questions to Consider

- Is your process for assessing invest-to-save projects robust and consistent?
- Are there tools and techniques you could use to help strengthen your current invest-to-save process?
- How robustly do you review the outcomes of invest-to-save projects?

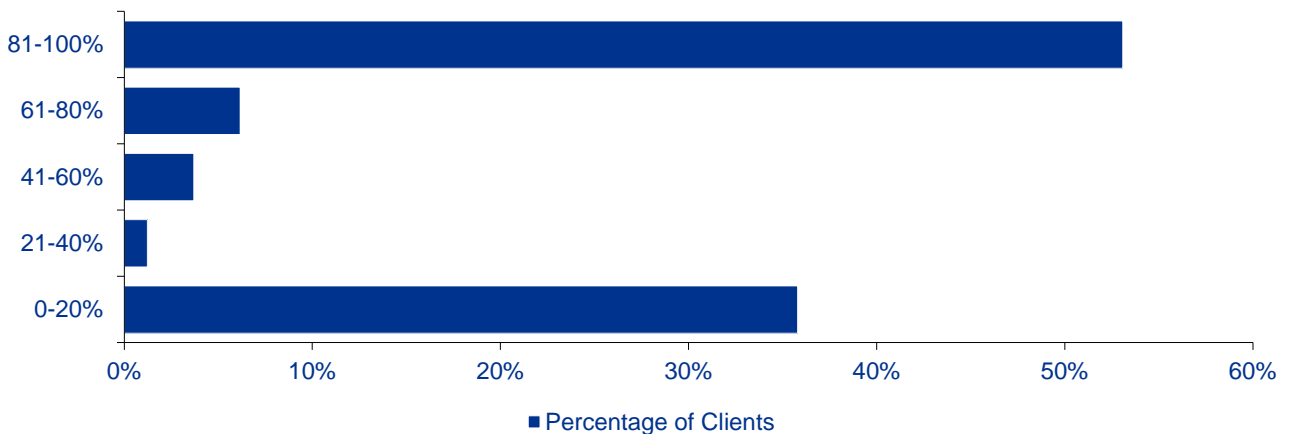
Comparatives (cont.)

6

Are your savings recurrent?

We considered the level of recurrent savings within the overall delivery of the plans. Recurrent savings are those that impact on more than one year. For example, removing a post is a permanent reduction in the budget – a vacancy freeze that delays recruitment to a post is a temporary, non-recurrent measure.

What percentage of 2014-15 actual budget savings were recurrent savings?



The majority or all of many clients’ savings were recurrent, which linked to permanent reductions in staffing levels and service reductions. Recurrent savings are particularly important in times where savings are required year-on-year, as any non-recurrent savings from previous years have to be re-achieved alongside the current year’s targets.

Unexpected income is welcome, but there can be a risk that it can help to mask either the underachievement of savings. This is a particular problem if the income is non-recurrent, as those savings will need to be made to avoid the financial impact simply transferring to the next year.

In some cases, the proportion of recurrent/non-recurrent savings was not available, and these are included in the 0-20% group above.



Questions to Consider

- Do you know the recurrent and non-recurrent levels in your savings plans for 2015-16 and beyond?
- Has the impact of any non-recurrent savings from previous years been factored into current and future savings plans?
- Do you assess unexpected income to check that it is recurrent/non-recurrent and that it has been factored in appropriately to financial monitoring and plans?

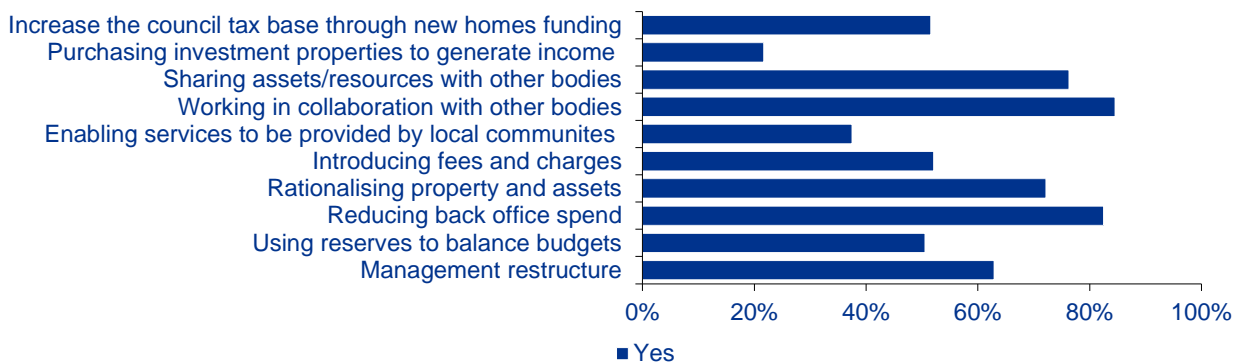
Comparatives (cont.)

7

What savings measures are you relying on for 2015-16 and beyond?

We looked at the savings measures that our clients are using in their budgets to make their medium term financial plans balance.

Which of the following measures are being used to deliver the 2015-16 budget and/or in the following years?




It is inevitable that not all clients will use all the measures, as the levels of financial pressure vary, as does the capacity to implement a variety of measures. We also recognise that some of the ‘no’ answers in the survey are because our clients have already used particular measures in previous years, such as management restructuring, where a period of stability may be appropriate to enable the changes to take effect.

It may be though that previous decisions – for example not to introduce/increase further fees and charges, or to continue to provide the current range of non-statutory services – will need to be revisited as financial pressures increase, and it is inevitable that some clients will need to make very difficult decisions in order to deliver their statutory financial responsibilities.

We asked our audit teams to highlight any other savings measures that were being used by our clients. They highlighted the following examples;

- Vacancy Management;
- Business Rates income growth;
- Withdrawal of services not deemed a priority or affordable;
- Early repayment of debt;
- Establishing a Housing Growth Company;
- Increased joint working and joint venturing;
- Procurement and contracting renegotiations; and
- Assets review and restructuring.



Questions to Consider

- Are you confident that your plans will enable you to continue to meet your statutory financial responsibilities?
- Have you considered all possible savings measures available to you?
- Are there any aspects of your budget that need to be revisited?

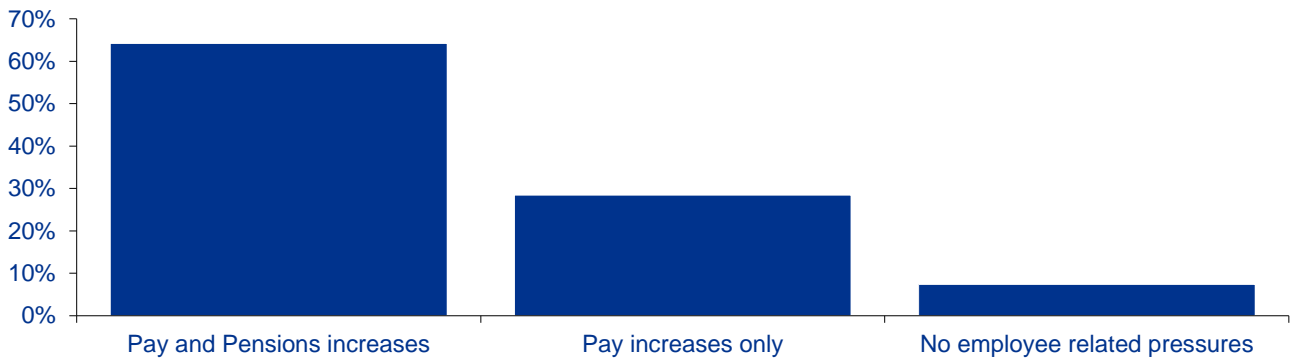
Comparatives (cont.)

8

Do you allow for pay and pension increases in your budget?

We asked all clients about their approach to factoring in employee related cost pressures, namely do you allow for pay and pension increases, just pay, or do you not allocate specific amounts for either?

What employee-related cost pressures does the 2015-16 budget include?



Nearly two-thirds of our clients factored in the impact of pay and pensions increases into the amount given to budget holders to manage. More than a quarter of our clients allowed for pay increases only in 2015-16, and in a year when there is no routine change in the actuary’s recommended level of pension contribution (which results from the triennial review), the variation in pension costs is unlikely to be significant overall. However, at an individual budget holder level, pension costs could vary up or down because of factors such as changes in the profile of staff in relation to their age, and decisions by employees to join or leave the scheme. Finally, our survey identified that a small number of clients expect their budget holders to absorb any additional employee-related costs into the overall budget that they are given to manage.

We are aware that our clients will also need to take account of the introduction of the national living wage from April 2016. There may be some internal (including subsidiary company) staff costs, but for many clients the bigger impact will be the additional costs incurred by their suppliers and the need to establish the way forward with them for service provision and continuity.



Questions to Consider

- If you don’t allow for pay and/or pension cost increases, can you identify any areas of the budget that are vulnerable to significant cost variations?
- Do you have mechanisms to identify and deal with changes to staff costs within year?
- Have you evaluated the cost of the national living wage across your cost base, including your supply chain?

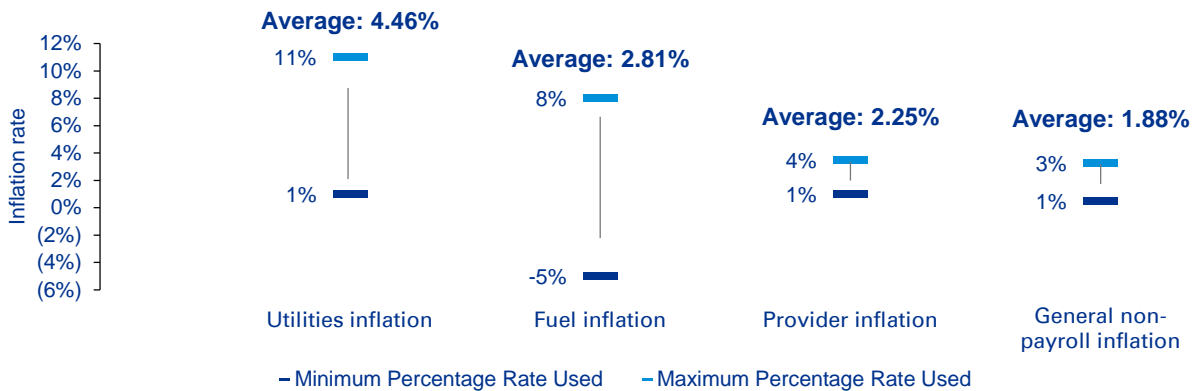
Comparatives (cont.)

9

What inflation rates do you use for particular cost pressures?

We looked at all of our clients' use of non-standard rates of inflation when preparing the budgets, focusing on four common variants. Whilst we were aware that some used a single inflation rate, we knew that others have decided to use differing rates for areas that could have a significant impact on their financial position.

If the 2015-16 budget includes separate inflation rates for the following, which rate is used?



We found that there were some large differences in the inflation assumptions made for fuel and utilities in particular (and we accept that all may be valid due to local circumstances, such as fixed increase, variable or new contract rates). Assumptions by nature are subjective, but they can be updated if it becomes clear that they are not correct. Although overall inflation is at a relatively low level, the current financial pressure means that the impact of variations in aspects of it could make a difference to achieving targets.

Our audit teams also identified that clients used inflation variations for the areas below:

- Hardware and Software price increases;
- Insurance and postage cost increases;
- Indexation increases in partnership arrangements;
- Landfill tax and building repairs; and
- Fee income rates raised to match the overall inflation assumption.



Questions to Consider

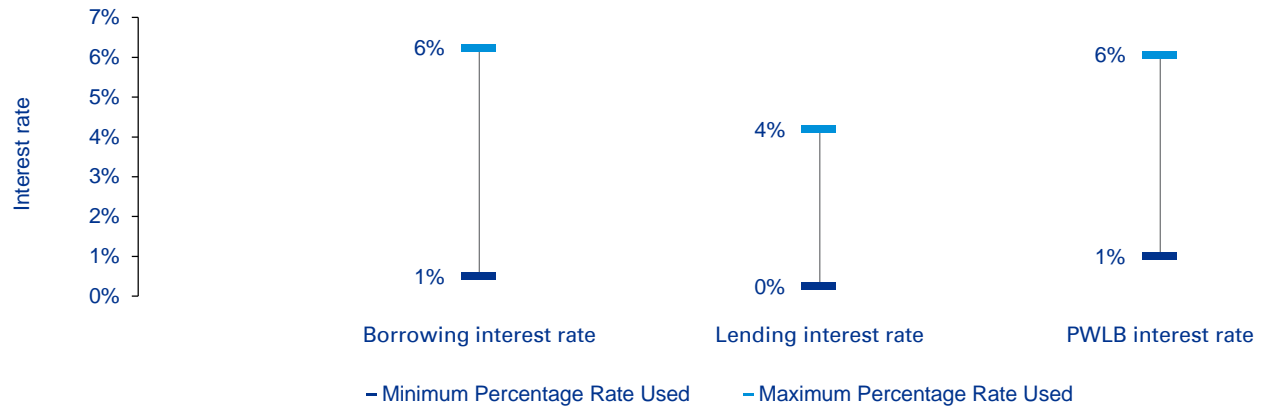
- Do you understand how your budget takes inflation into account (e.g. which supplies & services are on fixed/variable rates)?
- Do you know which inflation rate changes would have the biggest impact on your budget?
- How do you deal with inflation variations that happen within the year?

Comparatives (cont.)

10 **What rates have you used in your budget for borrowing and lending, and what other specific rates do you factor in to your budget?**

We looked at the assumptions about borrowing and lending rates that our clients have used for generating 2015-16 budgets and beyond. We also considered if our clients had identified any further areas of non-pay expenditure for particular rates.


What rates are being used to budget for borrowing and lending?



The chart shows that there were variations in the assumptions used. Lending and borrowing rates are comparatively low historically, but the variations suggest that local circumstances still make a difference to the budget assumptions. This is likely to be related to existing arrangements that date back to when rates were higher.

Audit teams also identified specific assumptions for the following non-pay areas, including the following examples:

- Rent increases;
- Change in the Council Tax base;
- Pension Lump sum increases; and
- Reduction in direct central government support.



Questions to Consider

- Do you know what borrowing and lending assumptions are used when generating the budget?
- Have you identified the areas of your budget where rate assumptions need to be specified?
- Are you alert to changes in rates within year?

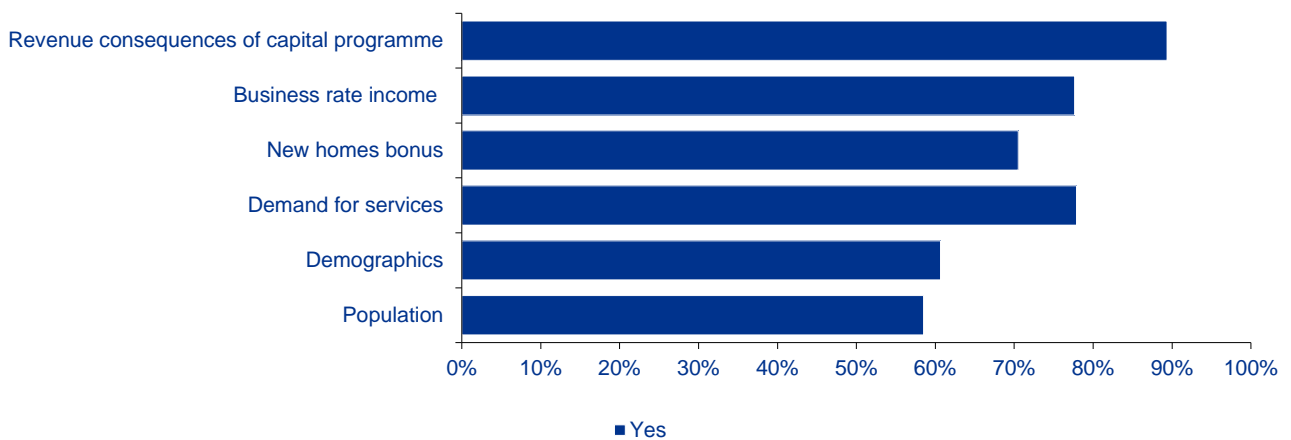
Comparatives (cont.)

11

What factors do you use when developing your budget?

We looked at a particular range of factors that are commonly used when generating budgets, and considered whether our clients used them.

Does the 2015-16 budget include evaluation of the potential financial impact of changes in the following factors?



Although all of these factors were used by the majority of our clients, the proportion using demographics (e.g. deprivation levels, average age) and population (e.g. size and location) factors was smaller than the others. It is generally accepted that the overall population is growing, and that the number of older people with complex needs is likely to increase. However, the impact will vary in different areas.

Income sources such as new homes bonus and business rates, and the demand for services from the public, are subject to variables such as economic conditions and changes in government policy. Scenario planning for the impact of changes is vital to help prepare for different outcomes. It is also important to ensure that the impact of the capital programme is affordable and to update that assessment as budgets are revised.

Questions to Consider

- Do you make use of all available data to help generate your budget?
- Do you understand how your budget is impacted by changes in the factors that drive it?
- Do you revisit the capital programme to ensure its revenue impact remains affordable?

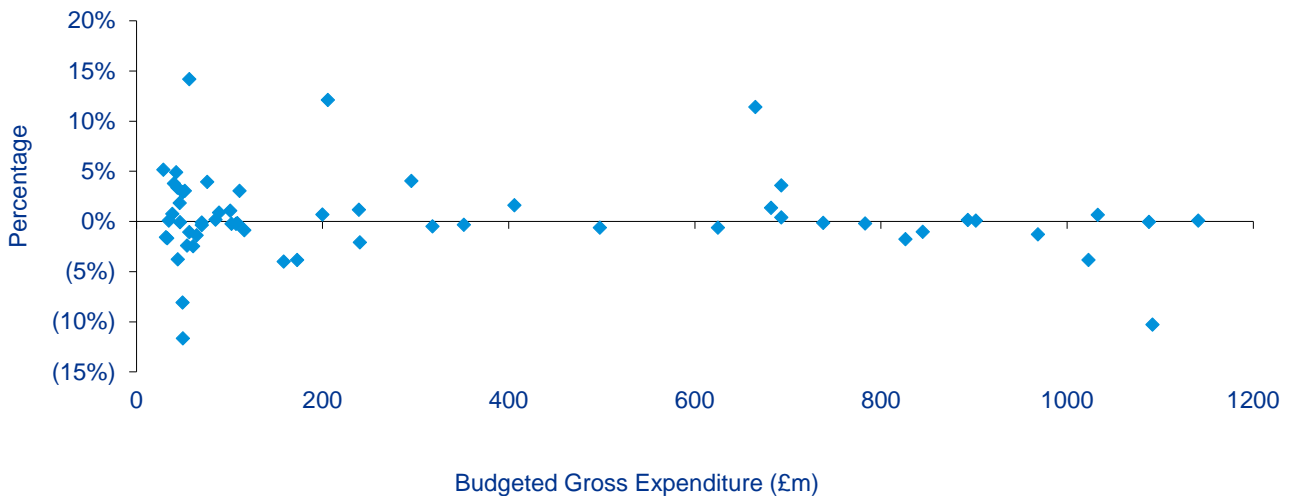
Comparatives (cont.)

12


What is the planned change in usable reserves in 2015-16?

The level of local government reserves is a much-debated topic. We looked at the planned change in the overall level of usable reserves in 2015-16 from the opening to the closing position, and compared it to the level of gross expenditure across all clients. Usable reserves includes amounts earmarked for particular reasons. Earmarked funds can be flexible – changes in policies, intended projects and plans can mean that they can become either insufficient or not needed.

What is the budget change of useable reserves as a percentage of budgeted gross expenditure compared to budgeted gross expenditure?



Many clients are planning to keep usable reserves relatively stable at the end of the year, with most variations within plus or minus 5% of the starting point. A small number have larger variations. The increases reflect that some are aiming to boost financial resilience reserves in preparation for the expected challenges to come. The reductions could be due to the appropriate application of earmarked reserves for planned expenditure. However if reserves are being used to help achieve a balanced budget for 2015-16, this may be a concern given that the financial pressure is expected to increase in the following years.



Questions to Consider

- Do you think the level of your usable reserves is about right?
- Do you understand the reason for any planned changes in the level of usable reserves?
- Do you know how much flexibility you have in your usable reserves?

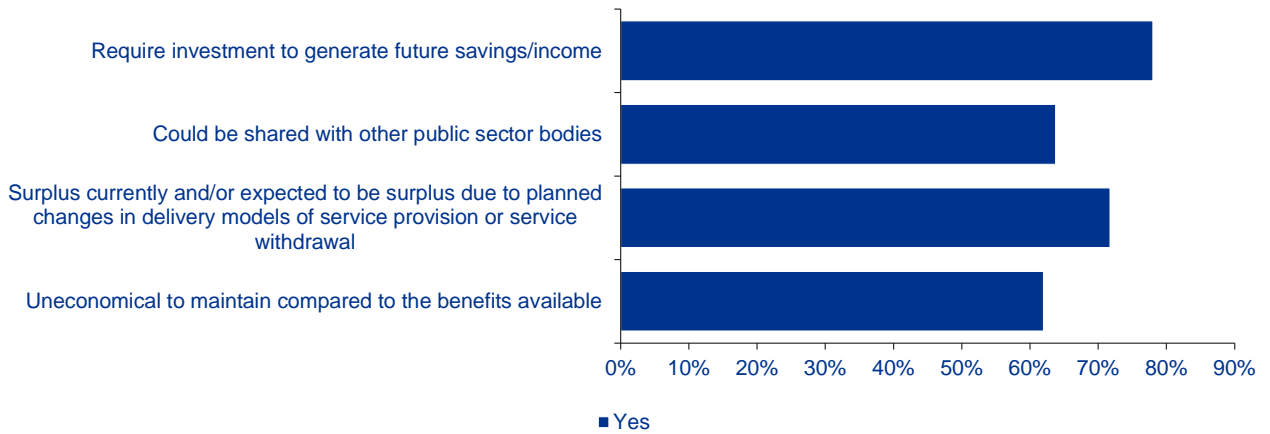
Comparatives (cont.)

13

Have you analysed your asset base?

We are aware that many of our clients are reviewing their assets to see if they can make more use of them. We considered whether our clients had analysed assets that met four categories.

Does the body have an up to date analysis of its assets to identify those that meet the following descriptions:



The results suggest that the analysis of the costs and benefits of assets, and the analysis of current and likely surplus assets is up-to-date at a significant number of clients, but not so at a minority. Similarly, the majority of our clients have an up-to-date analysis of assets that could be made available for shared use, and that more have worked out which assets require investment. However, it is likely that some could do more to fully understand what their options are.

The importance of these assessments will vary depending on the nature of the asset base. We also recognise that some clients are taking steps such as changing ways of working that will release assets in the future, and so their analysis will be on-going. Nevertheless, asset review and management are likely to be important budgetary measures given the financial challenges. An asset utilisation plan can be used to summarise the intended use of assets, and it is vital that it is co-ordinated with any intended changes in the way that services are delivered, or changes to internal operations in order to ensure it is up-to-date.

Questions to Consider

- Do you have a comprehensive and current asset utilisation plan?
- Do your asset plans align with any intended changes to service delivery or internal ways of working?
- Are all options for asset use being considered?



Summary of Questions to Consider

Questions to Consider

1

What's in your Budget Monitoring Reports?

Questions to Consider

- Do your budget monitoring reports provide an appropriate level of detail?
- Given the likelihood of increased financial pressures and volatility, do your budget monitoring reports need to evolve?
- Do members have the necessary training, skills & experience to interpret the budgetary reports and information provided?

2

Did you achieve last year's savings plans?

Questions to Consider

- Do you know if your savings to-date in 2015-16 are on target to meet the budgeted amount?
- If you have received unexpected income in 2015-16, are you clear how it has impacted on your savings targets?
- If any of your 2015-16 individual savings schemes or the overall savings targets are not being achieved, do you know why?

3

Are individual savings plans monitored centrally?

Questions to Consider

- Are you confident that you identify savings schemes that are failing at an early stage?
- Do you have alternative measures to substitute for failing savings schemes?
- Are successful schemes evaluated to identify why they worked, and to see if they can be applied in other parts of your organisation?

4

Do you have detailed plans for your savings?

Questions to Consider

- Are all of your savings targets backed with detailed plans?
- Are you confident that the detailed savings plans are robust and realistic?
- Are detailed savings plans updated to ensure that they reflect changes in circumstances?

5

When you consider possible invest-to-save projects, what factors do you take into account?

Questions to Consider

- Is your process for assessing invest-to-save projects robust and consistent?
- Are there tools and techniques you could use to help strengthen your current invest-to-save process?
- How robustly do you review the outcomes of invest-to-save projects?

Questions to Consider

6

Are your savings recurrent?

Questions to Consider

- Do you know the recurrent and non-recurrent levels in your savings plans for 2015-16 and beyond?
- Has the impact of any non-recurrent savings from previous years been factored into current and future savings plans?
- Do you assess unexpected income to check that it is recurrent/non-recurrent and that it has been factored in appropriately to financial monitoring and plans?

7

What savings measures are you relying on for 2015-16 and beyond?

Questions to Consider

- Are you confident that your plans will enable you to continue to meet your statutory financial responsibilities?
- Have you considered all possible savings measures available to you?
- Are there any aspects of your budget that need to be revisited?

8

Do you allow for pay and pension increases in your budget?

Questions to Consider

- If you don't allow for pay and/or pension cost increases, can you identify any areas of the budget that are vulnerable to significant cost variations?
- Do you have mechanisms to identify and deal with changes to staff costs within year?
- Have you evaluated the cost of the national living wage across your cost base, including your supply chain?

9

What inflation rates do you use for particular cost pressures?

Questions to Consider

- Do you understand how your budget takes inflation into account (e.g. which supplies & services are on fixed/variable rates)?
- Do you know which inflation rate changes would have the biggest impact on your budget?
- How do you deal with inflation variations that happen within the year?

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What rates have you used in your budget for borrowing and lending, and what other specific rates do you factor in to your budget?

Questions to Consider

- Do you know what borrowing and lending assumptions are used when generating the budget?
- Have you identified the areas of your budget where rate assumptions need to be specified?
- Are you alert to changes in rates within year?

Questions to Consider

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What factors do you use when developing your budget?

Questions to Consider

- Do you make use of all available data to help generate your budget?
- Do you understand how your budget is impacted by changes in the factors that drive it?
- Do you revisit the capital programme to ensure its revenue impact remains affordable?

12

What is the planned change in usable reserves in 2015-16?

Questions to Consider

- Do you think the level of your usable reserves is about right?
- Do you understand the reason for any planned changes in the level of usable reserves?
- Do you know how much flexibility you have in your usable reserves?

13

Have you analysed your asset base?

Questions to Consider

- Do you have a comprehensive and current asset utilisation plan?
- Do your asset plans align with any intended changes to service delivery or internal ways of working?
- Are all options for asset use being considered?



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cutting through complexity

External Audit Plan 2015/2016

Page 3
South Hams District Council
February 2016

Agenda Item 6

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at £2,200,000.

We are obliged to report uncorrected omissions or misstatements, other than those which are 'clearly trivial', to those charged with governance (in relation to the Authority this is the Audit Committee). The threshold in relation to this has been set at £50,000.

Significant risks

We have identified one significant risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error. This relates to the risk of management override of controls. As part of our approach to this, we will specifically consider the way in which those costs shared with West Devon Borough have been allocated to the Authority.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Change in accounting policy relating to the de-minimis applied to revenue accruals.

See pages 3 to 5 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:

- Achievement of savings plans; and
- Delivery of the T18 transformation programme.

This assessment is ongoing and where necessary we will report further VFM significant risks as our audit progresses.

See pages 6 to 9 for more details.

Logistics



Our team is:

- Darren Gilbert – Director
- Adam Bunting – Manager

More details are on **page 12**.

Our work will be completed in four phases from February to September and our key deliverables are this outlined on **page 11**.

Our fee for the audit is £43,404 **see page 10**.

Background and Statutory responsibilities

This is our first audit plan for the Authority and follows our appointment by Public Sector Audit Appointments Ltd (“PSAA”) as the Authority’s external auditors.

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office’s Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our preliminary VFM risk assessment.



Financial Statements Audit Planning

Our planning work takes place during December 2016 to March 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



Significant Audit Risks

In relation to, and as an extension of, our work on the risk of management override of controls we have identified a specific areas of risk that we will require specific audit attention and procedures to address the likelihood of a material financial statement error.

Allocation of shared costs

■ Risk

The Authority operates on a shared service basis with its neighbour, West Devon Borough Council. As a result of this arrangement, costs are initially borne by each council individually and then an exercise is undertaken in order to ensure that these are shared on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two councils. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which resources are consumed.

■ Approach

We will review the way in which shared costs have been allocated to the Authority and ensure that:

1. The basis of allocation is appropriate and reflects the nature of the activities involved;
2. The allocation basis has been approved appropriately by management and is subject to appropriate review; and
3. The allocation has been appropriately calculated and the resulting costs recognised.

Page 34

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Change in revenue accruals de-minimis policy

■ Issue

During 2015/16 the Authority has amended its policy in relation to the recognition of revenue accruals. Whereas in prior years a de-minimis of £1,000 was applied, this will be set at £2,500 for 2015/16 onwards.

■ Approach

We have considered the impact that such a change would have had had it been applied to the 2014/15 financial statements and are satisfied that the new threshold should not result in the accounts being unfairly stated. The analysis undertaken to support this assessment indicated that the changed threshold would have reduced debit accruals by £30,251 and credit accruals by £9,119. As part of our audit work we will further consider the change in accruals levels between 2014/15 and 2015/16 and confirm that the policy change has been accounted for appropriately. We will quantify the impact of this policy change and report this to the Committee.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.2 million for the Authority's accounts which equates to 1.7 percent of gross expenditure.

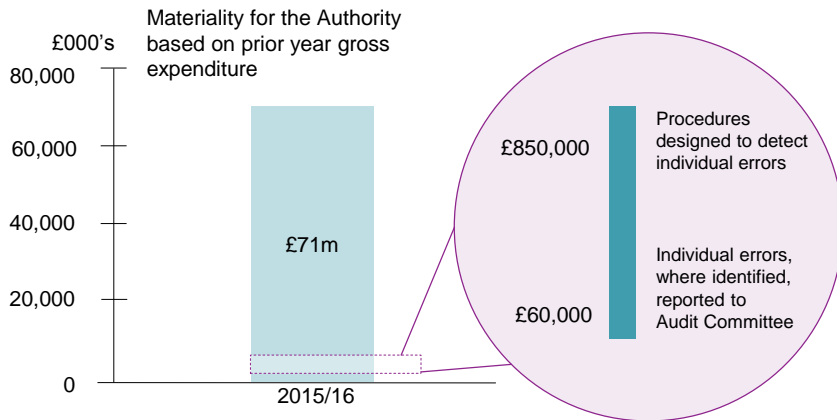
We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60,000. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

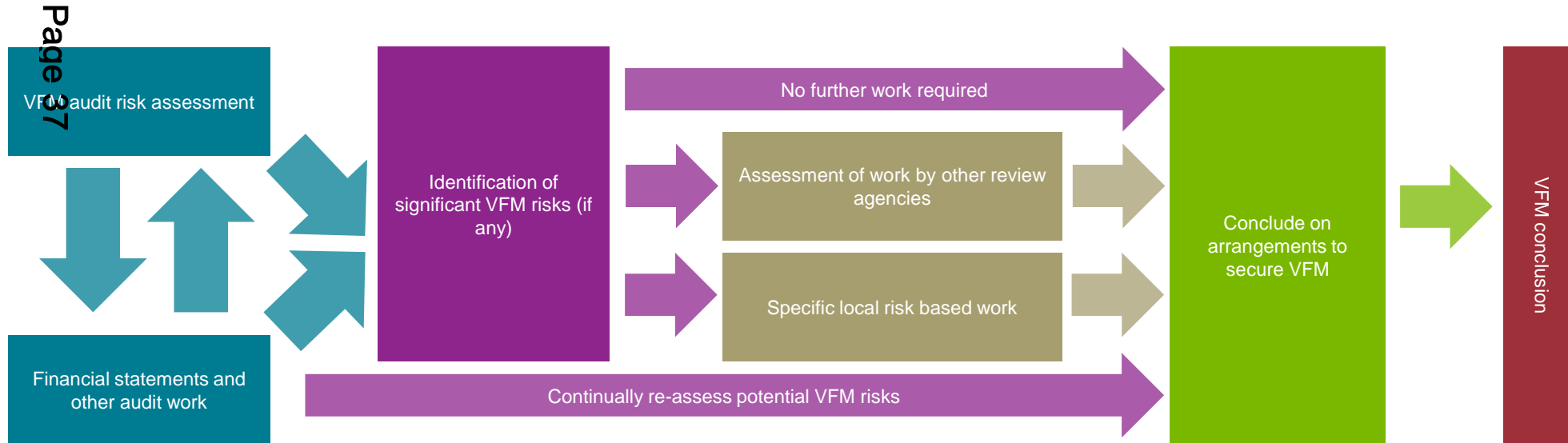
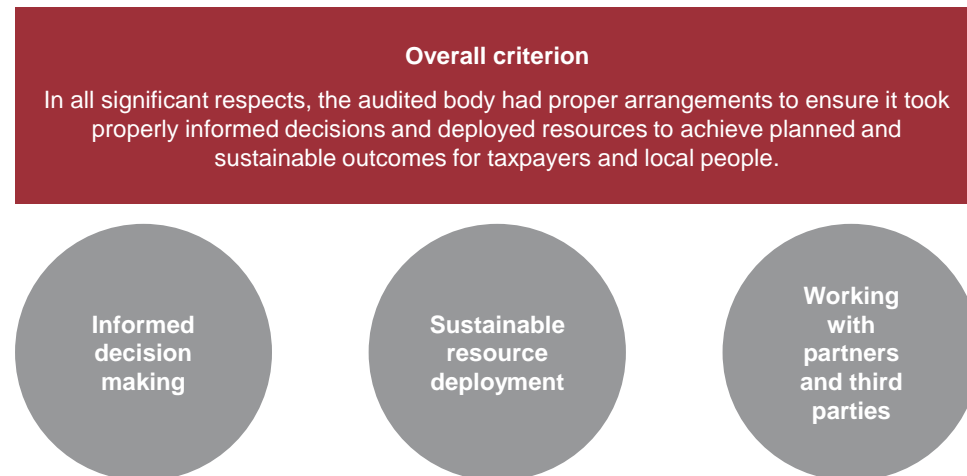


Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.





VFM audit stage	Audit approach
<p>VFM audit risk assessment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 38</p>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
<p>Linkages with financial statements and other audit work</p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<p>Identification of significant risks</p>	<p>The Code identifies a matter as significant <i>'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</i></p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Page 39



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Achievement of savings plans

■ Risk

The Authority has identified the need to make savings of £2.3m in 2015/16. The current forecast shows that the Authority will deliver an overspend of approximately £70,000.

The Authority's budget for 2016/17 forecasts a budget surplus of £767,995 as a result of the full savings being realised in relation to the ongoing transformation plan and due to the additional Rural Services Delivery Grant that the Council has been allocated in 2016-17 by Central Government. Subsequent years show further funding gaps however, resulting in a total net budget gap of £1,009,835 for the period to 2020/21. Further significant savings will be required in 2017/18 onwards to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.

■ Approach

As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

Delivery of the T18 transformation programme

■ Risk

As part of its response to the central government funding reductions, and in order to improve the efficiency of its operations, the Authority has initiated a major transformation programme ("T18"). This programme results in significant changes to the way in which services are delivered and back office functions undertaken. As part of the transformation programme, all staff roles and responsibilities have been redefined and a more unified model has been developed whereby staff act as key points of contact for service users and work across services rather than operating as separate teams.

The establishment of this new working model has resulted in significant one-off investment costs, both in terms of redundancy costs and those relating to the establishment of new processes and delivery structures. The Authority expects that such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme. The predicted payback period of the programme is 2.5 years.

■ Approach

We will review the way in which the Authority has monitored the costs and savings arising from the T18 transformation programme. We will also consider the way in which the progress of the programme has been reported to member enable performance to be monitored.

In relation to this work, we will consider the findings of the work undertaken by internal audit as well as place reliance upon our own accounts audit work in relation to redundancy costs.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

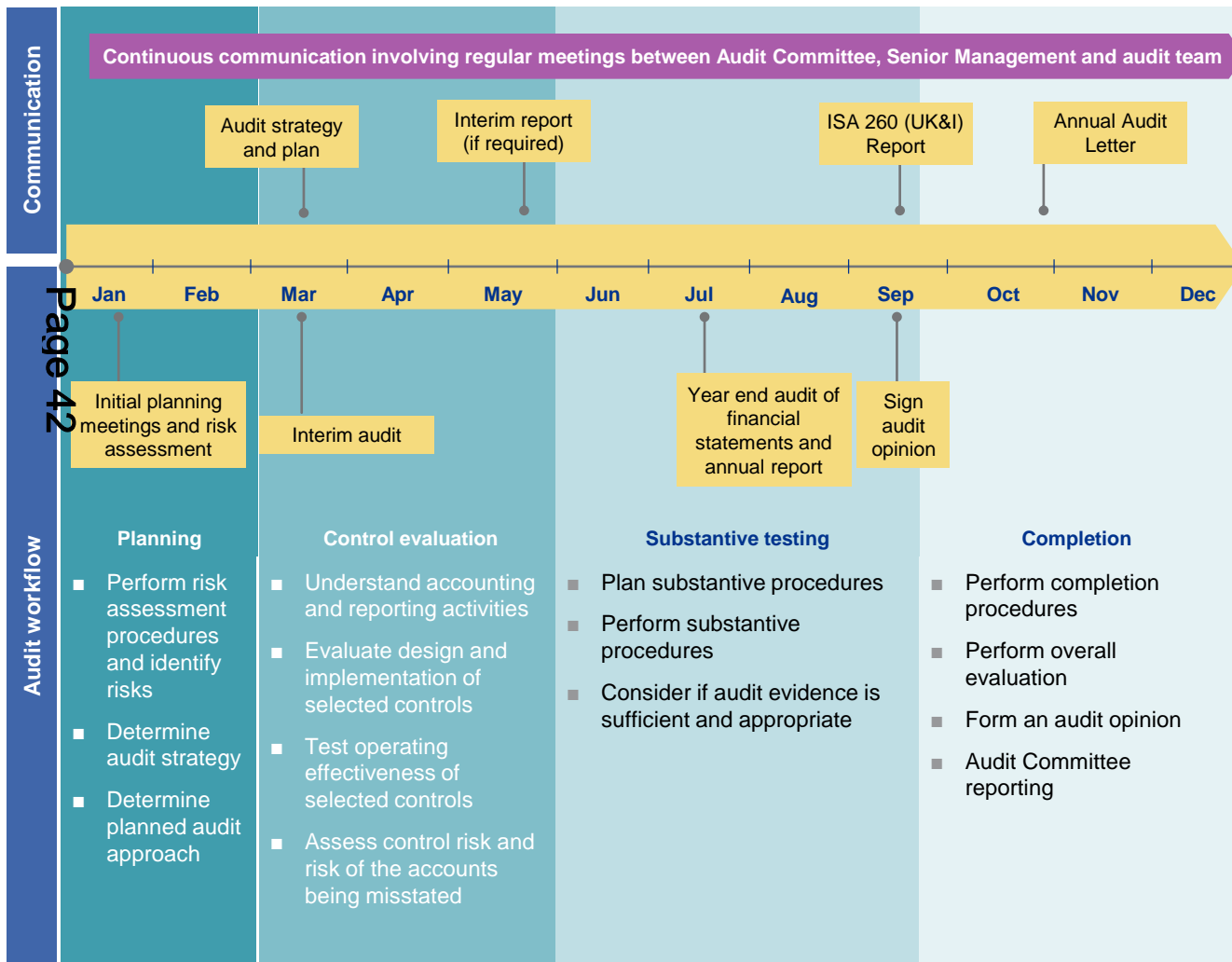
Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £43,404. This is a reduction in audit fee, compared to 2014/2015, of £14,468 (25%).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

In light of the significant risks identified it may be necessary to charge an additional fee in relation to the VFM work should the scale of work required exceed that anticipated in setting the scale fee. Should this be necessary we will communicate the revised fee in advance and agree it with the Authority.



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.



Your audit team has been drawn from our specialist public sector assurance department.



Darren Gilbert

Director

Name	Darren Gilbert
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Executive Directors.'</p>



Adam Bunting

Manager

Name	Adam Bunting
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Darren Gilbert to ensure we add value.</p> <p>I will liaise with the Head of Finance and the Executive Directors.'</p>

Independence and objectivity

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

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

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

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

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

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

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of March 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (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 [...], 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, by email to 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 by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Report to: **Audit Committee**
Date: **24 March 2016**
Title: **APPOINTMENT OF EXTERNAL AUDITORS**
Portfolio Area: **Support Services**

Wards Affected: **All**

Relevant Scrutiny Committee: Overview and Scrutiny Panel

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

Date next steps can be taken:
(e.g. referral on of recommendation or implementation of substantive decision)

Author: **Robert Hutchins** Role: **Head of Devon Audit Partnership**

Contact: Robert.hutchins@swdevon.gov.uk
01392 383000

Recommendations:

- 1. Audit Committee Members note the implications of the Local Audit & Accountability Act 2014 and the requirement for the Council to appoint a local auditor by 31 December 2017.**
- 2. A decision will be required as to whether South Hams either opts in to a sector-led body or decides to appoint its own local auditor (and if so, which further option is then selected).**

1 Executive summary

- 1.1 The purpose of this report is to advise the Audit Committee of the requirement for the Council to appoint its external auditor from 2018/19, the necessary steps which need to be taken to meet this deadline, and the various options available.
- 1.2 South Hams District Council needs to appoint an external auditor from 2018/19. The Local Audit and Accountability Act 2014 sets out the specific process which



needs to be followed and, in order to be compliant, the Audit Committee need to commence the decision making process.

- 1.3 A decision will be required as to whether South Hams either opts in to a sector-led body or decides to appoint it's own a local auditor (and if so, which further option is then selected).

2. Background

- 2.1 The Local Audit & Accountability Act 2014 (the Act) abolished the Audit Commission, paving the way for local authorities to appoint their own external (local) auditors.
- 2.2 The Secretary of State for Communities and Local Government (CLG) has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1 April 2017 and larger local government bodies (e.g. South Hams District) a year later, on 1 April 2018.
- 2.3 The Council's current external auditor is KPMG, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State CLG. Over recent years we have benefited from reduction in fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission.
- 2.4. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to locally appointing an auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.
- 2.5. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.
- 2.6 South Hams must have appointed a local auditor by 31 December 2017. The phased implementation has been designed to enable audit firms to plan their workloads and retain suitably qualified staff, provide auditor stability for principal authorities for the 2017/18 audit period, and enable the sector to make timely arrangements for procurement under the new framework.



- 2.7 The Secretary of State has established regulations to determine “an appointing person” to conduct a sector-led exercise and the Local Government Association (LGA) are working on developing a Sector Led Body (SLB). In a recent survey, 58% of respondents expressed an interest in this option, and it is expected that economies of scale will come from a number of councils acting collectively and opting-in to a SLB.
- 2.8 If the Council wishes to make its own appointment then the process requires an **Audit Panel** to be set up and advise the Council on the selection of the local auditor. The final deadline for appointment is 31st December 2017; to comply with procurement processes, and the need to appoint independent members to the Panel required beforehand, South Hams will probably have to start making arrangements for an audit panel in summer/autumn 2016.
- 2.9 The Council will need to decide whether to opt into a sector led procurement exercise or undertake its own procurement exercise through an auditor panel. Until details of the sector-led exercise are published then a full assessment of the merits of each approach will not be possible. However, in broad terms, the advantage to the Council of opting in will be a saving in the cost of conducting its own procurement exercise. The disadvantage will be loss of control over the process, including the final decision on appointment.

3. Outcomes / outputs

- 3.1 The Audit Committee will need to decide whether to :-
- opt in to a sector led body that may be established as an appointing body for local auditors, and would not therefore need to establish its own auditor panel; or
 - to begin to consider the setting up of an auditor panel as soon as possible to allow the Council to have the necessary arrangements in place to undertake this process.
- 3.2 In relation to the auditor panel, there are four main options available to authorities:
- individually;
 - jointly with another authority or authorities;
 - using another authority’s own auditor panel; or
 - using an existing committee or sub-committee to carry out the role.
- 3.3 These options, and the possible advantages / disadvantages are set out in Appendix A attached.

4. Options available and consideration of risk

- 4.1 Appendix A sets out a summary note of the advantages and disadvantages of the various options.
- 4.2 Appendix B is the guidance issued by CIPFA’s in relation to Auditor Panels.



5. Proposed Way Forward

- 5.1 Audit Members are requested to agree to consider the implications of the various options and schedule Committee time between April and September 2017 to discuss and recommend the most appropriate way forward for South Hams District Council.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;</p> <p>Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.</p> <p>Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.</p>
Financial		<p>It is expected that costs associated with the changes referred to in this paper will be broadly in line with this annual cost, although there is a risk that fee levels could increase when the current contracts end in 2018</p>
Risk		<p>The external auditor provides members with assurance on the Financial Statements.</p> <p>Getting the right auditor to meet our needs is essential in promoting good governance and</p>



		control.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None
Safeguarding		None
Community Safety, Crime and Disorder		None
Health, Safety and Wellbeing		None
Other implications		None.

Supporting Information

Appendices:

None

Background Papers:

None



Briefing Note - Auditor Panel Issues and Requirements.

The local auditor (external auditor) will need to be appointed by December 2017, to undertake the audit of accounts for 2018/19 financial year.

An authority could decide to opt into a sector-led body that may be established as an appointing body for local auditors and, if so, would not need to establish an auditor panel. The possible benefits of this option is that the cost of procuring new auditors would be shared across those authorities who decide to opt in and with larger contract values, firms may offer lower fees.

However, if the organisation decides that it wishes to appoint a local auditor, then an Auditor Panel will need to be established.

If this decision is taken, the Council needs to determine whether:-

- a. to set up its own panel
- b. set up a panel with one or more authorities
- c. use an existing committee or sub-committee to act as auditor panel
- d. ask another authority's auditor panel to carry out this function

Dependent on the option, the Audit Committee will need to decide:-

1. The composition of the Panel.

The minimum number will be three members, of which at least two must be considered independent. Panels need not be large. The focus is on quality of member panel. The challenge will be to achieve the required depth of knowledge and experience. The Chair of the Auditor Panel must be independent of the Authority.

In the case of joint Panels, any number can join but it may be that constituent authorities will want to appoint their own independent Members and this will increase the size of the Panel.

Arrangements will be necessary to address incidental vacancies in panel membership. Meetings will need to be quorate and where the chair cannot attend meetings, another independent member will have to take on that role.

2. Appointment of Independent Chair and Members

The skills and knowledge for the Panel's post will require a job description and relevant recruitment process for appointment via normal advertising arrangements.

3. Terms of Office

The tenure of Chair and Members will have to be determined, balancing continuity and development of knowledge base against developing new ideas and fresh approaches.

Once the above are determined, there will be a need to ensure :-

1. Independence

Appointees to the Auditor Panel will have to ensure independence by having none of the following :-

- a. previous involvement within the last five years as a member or officer with the authority or another, connected authority or an officer or employee of a connected entity



- b. a relationship (familial or friendship) with a member or officer of the authority or a connected authority or with an officer or employee of a connected entity
- c. a contractual (commercial) relationship with the authority – either as an individual or via a body in which the panel member has a ‘beneficial interest’, and
- d. a possible conflict of interest through being a prospective or current auditor of the authority or, within the previous five years, is or has been: an employee of such a person
- e. partner in a firm, or
- f. director of a body corporate

which is a prospective or current auditor of the authority at the given time.

2. Panel Training

Will be required to maintain up-to-date knowledge. Panel members will need to commit to training and development on appointment.

3. Governance

The Panel will require officer support, in line with Committee arrangements. In addition, procedures for member resignation or removal will need to be in place, plus the capacity to pay expenses (and allowances?) to members.

The functions of the Auditor Panel will be to advise the Council on :-

- i. the selection and appointment of the auditor
- ii. whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy
- iii. any proposal by the authority to enter into a liability limitation agreement
- iv. maintaining an independent relationship with its auditor
- v. the outcome of any investigation of an auditor’s resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

The Panel will be able to call any Council Member or Officer to a meeting. It will monitor the Auditor contract and have a close working relationship with the Audit Committee. There will be areas of overlap between the Audit Committee and Auditor Panel’s duties, including :-

- a. The quality and effectiveness monitoring role undertaken by the audit committee which will feed into the panel’s contract monitoring.
- b. The audit committee should be able to express an opinion on the selection and rotation of the auditor.
- c. The audit committee reviews the authority’s policy on non-audit work carried out by external audit whereas the auditor panel has to advise the authority on the contents of any non-audit work policy and whether the authority should adopt such a policy.

If the Council decides not to take the advice of the Auditor Panel, it will be required to publish the basis of its decision in a format available to the majority of residents.

The Panel will have extensive involvement in the procurement process for the appointment of the local auditor and might be involved in their removal, although clearly this would only be in exceptional cases.

The Panel has a statutory duty to give advice to the Council, if we propose to enter into a limited liability agreement with the local auditor. Such agreements seek to limit the liability owed to the Council, as a result of negligence, default, breach of duty or trust, during the course of the audit. Panels may need relevant training in this area. Additionally, Panels should be seen to receive any public interest reports produced by the local auditor and should take these into account when advising the Council on its relationship with the auditor.



Advantages and Disadvantages of Audit Panel Options

Option	Possible Advantages	Possible Disadvantages
Set up own panel	<ul style="list-style-type: none"> • Full ownership of the process • Fully bespoke contract with the auditor • Tendering process more based on local circumstances (within EU procurement rules) 	<ul style="list-style-type: none"> • May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations • Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions • Will have to cover panel expenses completely • May not be able to procure at a lower cost, for example, depending on authority location, where there will be a risk of limited provider choice and a single authority contract may be less attractive to some providers • Will not achieve economies of scale
Set up a panel with one or more authorities	<ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share the administration expenses • May be easier to attract suitable panel members <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May still be a relatively locally tailored process • May be able to achieve some economies of scale <p>If procuring separate audit contracts:</p> <ul style="list-style-type: none"> • An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree 	<p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May need to compromise on the arrangements or auditor contract • May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together • Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process



<p>Use an existing committee or sub-committee</p>	<ul style="list-style-type: none"> • Existing administrative structure in place • Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements 	<ul style="list-style-type: none"> • Possible need to appoint new (sub) committee members to comply with independence regulations
<p>Use another authority's panel</p>	<ul style="list-style-type: none"> • Will not have to set up an auditor panel • Arguably most independent option for the authority using the host authority's panel 	<ul style="list-style-type: none"> • The panel may not understand the specific needs of the authority • May need to enter into a formal arrangement with the other authority • May be difficult to find an authority willing to enter into such an arrangement • May be more difficult to ensure adequate liaison with authority's own audit committee (if one exists)



CIPFA – Auditor Panels Guidance



CIPFA Auditor Panel
guidance.pdf



Report to: **Audit Committee**
Date: **24 March 2016**
Title: **Review of the Council's Constitution**
Portfolio Area: **Resources and Performance**
Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **N/a**

Date next steps can be taken: **Annual Meeting**
(e.g. referral on of recommendation or implementation of substantive decision)

Author: **Catherine Bowen** Role: **Monitoring Officer**

Contact: Catherine.Bowen@swdevon.gov.uk

Recommendation:

That the Audit Committee RECOMMENDS to Council that the amendments to the South Hams District Council Constitution (as summarised in paragraph 2 of the report and fully outlined on the website) be approved and that the revised Constitution is adopted at the Annual Meeting in May 2016

1. Executive summary

- 1) The Council is legally required to formally adopt its Constitution at the Annual Meeting in May for the forthcoming municipal year.
- 2) The Audit Committee is responsible for an overview of the Constitution and for making any necessary recommendations to the Council and this report seeks to ensure that the Constitution is amended to reflect the changes that have either occurred in the Council over the previous year, or to implement any necessary changes to ensure that it is up to date, lawful and reflects the Council's current practices and priorities.

2. Background

- 1) In order that the Audit Committee can make informed recommendations to the Council on the adoption of the Constitution at the Annual Meeting, the Committee is requested to review the Council's Constitution.
- 2) Changes to the Constitution are made throughout the year by the Council and through its consideration of recommendations arising from Committee minutes. Examples over the past year include:
 - Changes to the regulations on dismissal of statutory officers
 - Members' Allowance Review
- 3) Such changes are effective from the date of approval and are made by the Monitoring Officer.
- 4) In addition, the Monitoring Officer has delegated authority to make minor (or legal) amendments to the Constitution during the course of the year. For clarity, these changes are not shown as proposed amendments to the Constitution. The changes that have been made under these powers mainly relate to officer job titles and evolving areas of responsibility following the T18 restructure.
- 5) As part of the annual review, further amendments have been made and highlighted in yellow to the version of the Constitution marked 'Constitution Review 2016'. However, due to the large size of the Constitution, it has not been circulated with the agenda, but is available on request by contacting Member Services (member.services@westdevon.gov.uk).
- 6) Members will note that most of the amendments made during this review are not significant as there has not been a major review of the Constitution's provisions this year. The changes are largely corrective or for clarification.
- 7) The Contract Procedure Rules were reviewed in 2014 and the Financial Procedure Rules were reviewed in 2013 but it is recommended that a further review of both of these sets of rules be conducted during the next year to ensure that they remain relevant following the finalisation of the new T18 structure. A report will be accordingly presented to a future Committee meeting.

3. Outcomes/outputs

- 1) The Council is required to have an up to date Constitution which reflects the law, its working practices together with best practice to ensure that it delivers efficient services and lawful decisions. The Constitution is a living document and changes are made throughout the year when necessary.

4. Options available and consideration of risk

- 1) The options are limited as the Council has a statutory duty to adopt its Constitution annually and to review that document to ensure that it is fit for

purpose and reflects both statutory requirements and the Council's working practices.

- 2) If the Council does not review the Constitution there is risk that the Council may make unlawful decisions with a consequent risk of challenge.
- 3) Senior Officers have been consulted on the Constitution and any necessary amendments incorporated.

5. Proposed Way Forward

- 1) The Audit Committee is asked to review the Constitution and make any necessary recommendations to Council in order that the Constitution can be adopted at the Annual Meeting in May for the forthcoming year.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Local Government Act 2000 requires the Council to have (and to maintain) a Constitution. The Monitoring Officer must review the Constitution annually and make recommendations to the Audit Committee, who in turn must recommend its adoption to full Council. Only the Council can approve and adopt the Council's Constitution.
Financial	N	There are no financial implications to this report
Risk	Y	There is a risk arising from a failure to review the Constitution and approve the necessary changes because it may lead to unlawful decisions being taken by the Council. By undertaking an annual review of the Constitution the Council mitigates this risk by ensuring that the Constitution is up to date and reflects current practice and law.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None arising from this report
Safeguarding		n/a
Community Safety, Crime and Disorder		n/a
Health, Safety and		n/a

Wellbeing		
Other implications		n/a

Supporting Information

Background Papers:
Constitution Review 2016

Report to: **Audit Committee**

Date: **24 March 2016**

Title: **STRATEGIC RISK ASSESSMENT – REGULAR UPDATE**

Portfolio Area: **Strategy & Commissioning**
Cllr Michael Hicks

Wards Affected: **All**

Relevant Scrutiny Committee: **N/A**

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

Date next steps can be taken: **n/a**

Author: **Darren Arulvasagam** Role: **Business Development Group Manager**

Contact: Darren.Arulvasagam@swdevon.gov.uk
01803 861222

RECOMMENDATION

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

1. Executive summary

- 1.1. In accordance with the Joint Risk Management Policy adopted by South Hams District Council on 10th May 2012, this report forms the required 6 monthly update to Members.
- 1.2. The report includes the current corporate strategic risk assessment and a summary of the management and mitigating actions to address the identified risks.

2. Background

- 2.1. The Council at its meeting on 10 May 2012 resolved to adopt the Joint Risk Management Policy.
- 2.2. The Joint Risk Management Policy requires the Senior Leadership Team (SLT) to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis.

2.3. It also stipulates that a member of the Senior Leadership Team will provide update reports to the Audit Committee on a six monthly basis. This is now the responsibility of the Business Development Group Manager.

3. Outcomes / Outputs

- 3.1. The risks currently monitored by SLT are set out in Appendix 1.
- 3.2. The tables include a summary of mitigating and management actions undertaken or proposed, to manage the identified risks. Monitoring requires both a proactive approach to assessing potential risk, as well as carrying out retrospective reviews to improve learning from risk and embedding it across the two Councils.
- 3.3. Appended to the risk tables as Appendix 2 is the Risk Scoring Matrix which has been used to identify risk status. A risk rating is developed by assessing risk impact/severity and multiplying it by the likelihood / probability of the risk occurring. The risk score identified is the assessment based on the mitigation being successful.

4. Options available and consideration of risk

- 4.1. The tables are living documents and will regularly change in response to issues arising.
- 4.2. Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.

5. Proposed Way Forward

5.1. It is suggested that the Committee’s attention is focussed on those risks with the highest score i.e. the risks with a score above 12. While members are invited to focus on the key risks, members are welcome to review any of the risks identified, including questioning whether the risk is appropriately scored, or whether further detail around the risk or the proposed mitigating actions is required.

6. Implications

Implications	Relevant to proposals	Details and proposed measures to address
Legal / Governance	Y	<p>The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management.</p> <p>There are no direct legal implications arising from the report although a strategic focus on risk management is good practice. Any specific legal implications are considered in individual risk assessments.</p>

Financial	Y	There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Council from budget variances.
Risk	Y	Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.
Other implications	N	N/A

Supporting Information

Appendices:

Appendix 1: Corporate Risk Report
Appendix 2: Risk Scoring Matrix

Background Papers:

- Joint Risk Management Policy
- Covalent risk register

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#	Owner	Risk Description										After Treatment (if applicable)			Action / Update
		Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25 (multiply L vs I)	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1-25 (multiply L vs I)		
1	SJ	Encouraging communities to thrive	Delivery of local plan (inc. 5 Year Land Supply in South Hams)	Risk of speculative development without a 5 year land supply in South Hams, following Riverside ruling. Risk of designation in relation to Development Management & local plan across both councils.	Lack of detail / contingency around 5 year land supply until the Plymouth joint local plan is completed. Work has commenced.	3	4	12	Mitigate	Work underway to agree joint strategic working plan between Plymouth, South Hams and West Devon to ensure land supply across the three areas is sufficient. Collaboration agreement due to be signed by April 2016	2	2	4	Agreement by three Councils; plans and joint team in place, with recruitment where required due soon	
2	SJ	Financial Sustainability	Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government Policy and/or Income Streams	Failure to sustain a robust on-going medium term financial strategy with adequate reserves to meet unforeseen circumstances, due to cost pressures and missed income targets, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/regional businesses successfully appeal against business rate valuations	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Reclassification of waste classes by the Environment Agency could see items becoming recoverable rather than recyclable material, e.g. leaf sweeping could reduce recycling rate by about 5% in West Devon and 1% in South Hams. It is as yet unknown if and when such changes may take place.	3	4	12	Mitigate	Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council are not intending to rely heavily on sources of income which may not be sustainable. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT have been engaged in the development of the medium term financial strategy in the context of the Transformation Programme. Latest budget reports approved by both Councils in February 2016 after member workshops in October 2015 and result of Government Finance Settlement communicated. The possible effects of a fall in NNDR income are mitigated in WDBC by the Councils membership of the Devon wide pooling scheme, which significantly reduces the risk to income volatility. SHDC do not participate in the pool due to uncertainty surrounding power station.	2	3	6	SLT to keep watching brief over Government changes in policy and to proposals to alter funding - strategically amending the MTFS and local plans to adapt to changes. Officers to develop income generation response as part of MTFS; 'invest to earn' budgets allocated to seed fund income initiatives. Report to both Councils due March/April covering asset strategy. Housing options and income generation principles.	
3	SH	Financial Sustainability	Implementation of LACC	Capacity impact on staff and BAU delivery; timescale of delivery may slip; Due diligence before LACC set-up may not be complete; Business case may not evidence a discernible market for the proposed company	Business case and implementation plan are yet to be produced; next milestone is completion of these items and a series of member workshops leading to Council decision on whether to proceed with implementation. At this stage it is difficult to predict impact upon organisation	3	4	12	Mitigate	Procurement underway to employ services of experienced external consultants to prepare business case and implementation plan. This will help determine the validity of the business proposition and help SLT and Members the appropriate timescale for delivery and impact on capacity (along with any necessary mitigations)	2	3	6	Procurement is live; contract award during March 2016	
4	SJ	Financial Sustainability	Strategic Leisure Review	Risk that the Councils may not end up receiving a bid that meets its requirements; Capital demands from bidders may exceed available reserves, which could restrict ability to deliver other programmes	Future cost of service may increase in both capital and revenue terms in view of aging assets and potential competition to Meadowlands	3	4	12	Mitigate	Detailed procurement process and constant monitoring; wide review team of officers; budget set and highlighted as part of tender process	2	3	6	Procurement process ongoing; competitive bids received within certain tolerances	
5	SJ	Provision of quality services	Adherence to Council policies & processes and Government guidelines	Failure to manage/enforce s106 conditions. Ombudsman complaints could lead to finding of maladministration due to management of issues, e.g. poor record keeping; time to resolve issues or meet imposed timelines; reputational damage. Failure to meet current and changing needs of customers and to manage customer feedback. There is a risk of failure to respond to changes and to recognise external influences such as changes in government policy; Risks of losing JRs, appeals and Ombudsman rulings	T18 programme rollout has seen service levels reduce and customer perception affected for certain services	3	4	12	Mitigate	Plan to measure customer satisfaction during 16/17. Increased customer engagement; review of complaints policy underway to ensure organisations learns lessons from prior failures / compliments	2	3	6	Complete review of customer complaint process and embed new process within organisation	

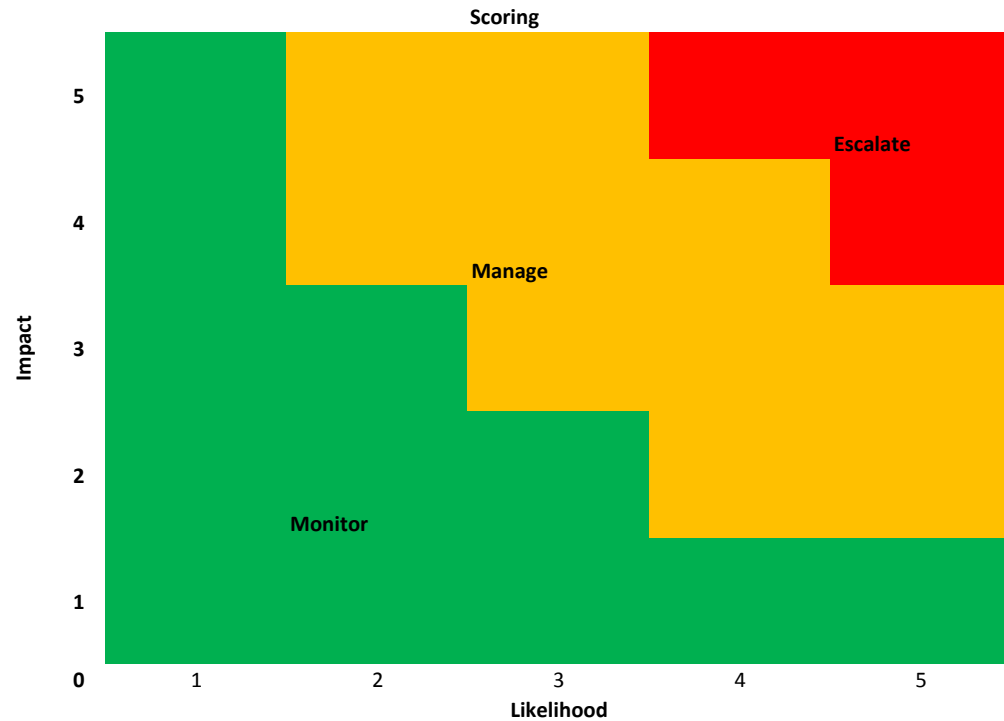
#	Owner	Risk Description										After Treatment (if applicable)			Action / Update
		Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25 (multiply L vs I)	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1-25 (multiply L vs I)		
6	SH	Provision of quality services	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems	Following the event, how quickly will certain systems and processes be able to be back on-line	4	3	12	Mitigate	Agile working reduces reliance on two main office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments	1	2	2	Annual work programme to address critical areas. A Business Continuity Plan for the ICT. On-going review of the Business Continuity/Disaster Recovery arrangements.	
7	SH	Provision of quality services	Potential for late filing of accounts	There is a requirement that closedown of 16/17 accounts be brought forward 4 weeks to end of May 2017. The risk is that resourcing within the finance cop and delayed process improvement prevents closedown by the government deadline	Whether the new timetable is achievable for the existing team.	3	4	12	Mitigate	Consider resourcing plans, review processes and commence year end processes early, trial run of 4 week early closedown to be held for 15/16 closedown	2	4	8	Mitigation in place. Team working to reduced timetable for 2015/16 closure and additional resource (deputy s151 officer recruited)	
8	SH	Provision of quality services	WD Waste Procurement	If LACC does not progress then timeline to procure new provider may exceed time available before existing contract ends and therefore existing provider contract will need to be extended	Future cost of service may increase in both capital and revenue terms in view of aging assets during extension period. Service received during transition / notice period may deteriorate.	3	4	12	Mitigate	Existing contract management / monitoring in place. Detailed procurement process including specification ; wide review team of officers/members; budget will be set and highlighted as part of tender process if required	2	3	6	Procurement process for LACC business case & implementation plan underway. Specification and pre-procurement process for waste also being run simultaneously.	
9	SH	Provision of quality services	Data Protection	Failure to control the appropriate use of data and unauthorised Access.	To manage the risk of non compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA, Human Rights Act.	2	5	10	Mitigate	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Look out for advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff will be completing a data protection awareness course in the near future via the Council's new eLearning tool.	2	3	6	eLearning tool being rolled out as part of new performance management system during 16/17	
10	SH	Provision of quality services	Emergency Response, e.g. Coastal Erosion / Storm Damage / Flooding	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	3	3	9	Mitigate	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	3	3	9	Processes have stood up to recent storm damage	
11	SH	Financial Sustainability	Inadequate asset maintenance	Failure to maintain all Council owned assets and buildings.	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	2	4	8	Mitigate	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.	1	3	3	HR proposal for dedicated resource, coupled with Asset COP proposal to appoint a consultant to write the initial long-term maintenance plan, will assist with the risk in respect of the maintenance of all Council assets.	

#	Owner	Risk Description										After Treatment (if applicable)			Action / Update
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12	SH	Financial Sustainability	T18 Benefits Not Delivered	Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for BAU; Capacity risk post March 2016 when budget runs out for temporary staff	Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff moral and reputation can be affected.	2	4	8	Mitigate	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Quarterly monitoring reports to Members.	2	3	6	Continued management focus on programme delivery	
13	Page 67	Provision of quality services	Corporate Governance	Failure to maintain effective Corporate Governance arrangements.	To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act 2010. To ensure that there is on-going review and self assessment of the effectiveness of governance arrangements within the Council	2	4	8	Mitigate	Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual governance self assessment review by both ELT and SLT. Audit Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity.	1	3	3	n/a	
14		SJ	Provision of quality services	Health & Safety	Failure to manage the health, safety and welfare of the public, visitors and staff. Key consideration in relation to number of external frontline staff, including lone workers.	High impact on service delivery resulting in resources / services being unavailable for long periods	2	4	8	Mitigate	Safe working environment, policies and procedures, e.g. fire safety policy, travel at work policy. IIP, PDRs. Revised sickness absence policy, health and other wellbeing initiatives. Awareness of appropriate legislation e.g. Corporate Manslaughter Act, Equalities Act. Up-to-date corporate Health & Safety Policy/procedures	1	3	3	Review as required
15	SJ	Provision of quality services	Inadequate Staffing Resources	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	2	4	8	Mitigate	Review of staffing arrangements and GAP analysis is planned for 16/17. New performance management system being introduced linked to recruitment IMPACT behaviours; staff will continue to be set SMART objectives and be regularly appraised to give early warnings if issues. Staff forum to be reintroduced; continued SLT engagement with unions and regular staff comms sessions held. Other comms media under review and several improvements made. Staff satisfaction survey planned for 16/17.	1	4	4	Review of staffing arrangements and GAP analysis is planned for 16/17.	
16	SJ	Provision of quality services	Political commitment	On-going political commitment to ensure that the local plan and BAU is delivered in the context of major external change and the inevitable challenges that will emerge as a result	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	2	4	8	Mitigate	Ongoing liaison with Members to maintain shared vision. Managing interest from potential partners in terms of securing critical project timescales and taking account of organisational capacity. Raise awareness of the scale of organisational change and the impact on existing arrangements for both Members and Staff. Ensure that the new model delivers and retains separate Council identities.	1	4	4	Continued liaison with members to alleviate this risk	
17	SJ	Provision of quality services	Safeguarding	Council and/ or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as Children Act 2004 section 11.	Do staff, members and contractors know what is required and how to react?	2	4	8	Mitigate	Policies in place and key staff & management have received appropriate training and contact details to spot and report safeguarding issues	1	4	4	n/a	

#	Owner	Risk Description								After Treatment (if applicable)			Action / Update	
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18	SH	Provision of quality services	SH Waste Round Review	Risk of reputational issue to the Council if the project fails to run to project timeframe and deliverables. Risk to identified efficiency savings if project not run on time. Failure to manage customer enquiry and feedback in a timely manner could also affect reputation.	Amount of customer contact. External factors.	2	4	8	Mitigate	Project group are meeting weekly and the operational plan is supported by a communications plan. Additional staff are included in the customer contact/case management plan.	2	2	4	N/a

Appendix 2 - Risk Scoring Matrix

Likelihood	Impact
1- Unlikely to occur under normal circumstances	1 - Very low impact to delivery
2- Potential to occur however likelihood remain low	2 - Minor impact to service delivery with potential for some financial / reputational implications
3- Likely to occur	3 - Impact on service delivery and financial / or reputational implications
4- Most likely to occur	4 - High impact on service delivery resulting in services / resources being unavailable for a long period
5 - Almost certainly will occur	5 - Severe impact on service delivery resulting in closure of some services / ceasing of project and / or significant financial and/or reputational implications



Green - These risks have low impact and/or low likelihood of occurring. Have a plan to prevent them escalating but only light touch monitoring required

Red - These risks can have a significant impact on the business or project and must be managed by the project board or service management team. Mitigations must be in place and managed to ensure that the risk is not realised or can be controlled

Amber - These risks need to be managed to prevent them causing an impact on the business or project. Clear plans with owners need to be in place and they should be managed by the project team or service leads on a regular basis

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Report to: **Audit Committee**
Date: **24 March 2016**
Title: **2016/17 Internal Audit Plan**
Portfolio Area: **Support Services**
Wards Affected: **All**
Relevant Scrutiny Committee: **Overview & Scrutiny Panel**

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

Date next steps can be taken:
(e.g. referral on of recommendation or implementation of substantive decision)

Author: **Brenda Davis** Role: **Audit Manager**
Robert Hutchins **Head of Partnership**
Contact: Brenda.davis@swdevon.gov.uk **01803 861375**
Robert.hutchins@swdevon.gov.uk **01392 383000**

Recommendations:

It is recommended that:

- 1. The report be noted, and**
- 2. The proposed Internal Audit Plan for 2016/17 at Appendix A be approved.**

1. Executive summary

- 1.1 The purpose of this report is to provide Members with the opportunity to review and comment upon the proposed internal audit plan for 2016/17.
- 1.2 The report provides information on the legislative requirement for local authorities to provide an Internal Audit (IA) service in accordance with the Accounts and Audit Regulations and Public Sector Internal Audit Standards; the need for an annual risk-based IA

plan to be prepared; and the methodology of identifying the audit needs for the Authority.

- 1.3 The 2016/17 audit plan sets out the proposed audit resource allocated to each audit area, although the plan needs to remain flexible to be able to respond to any changing risks and priorities of the Authority given the significant changes across the public sector.

2. Background

- 2.1 All principal Local Authorities, including South Hams District Council, are subject to the Accounts and Audit (England) Regulations 2015, which state:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

- 2.2 The Public Sector Internal Audit Standards require that the Head of Internal Audit must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Head of Internal Audit should take account of the organisation’s risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation’s business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.
- 2.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

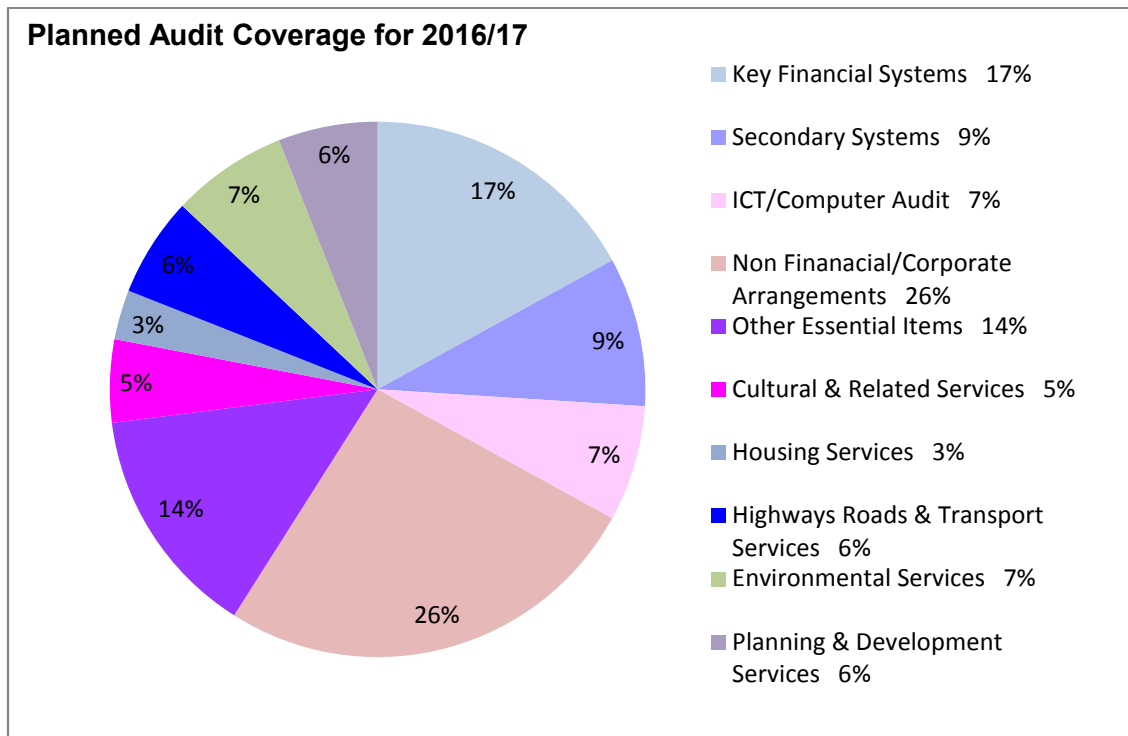
3. Outcomes/outputs

- 3.1 We employ a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the “Audit Universe” using a number of factors/criteria that includes the value of transactions, complexity and change, last audit coverage, impact on other systems, political sensitivity and management requests for audit work.
- 3.2 Assurance work is undertaken each year on the areas termed as “Fundamental Systems” as these systems process the majority of income and expenditure of the Council; work is also carried out on important cross-cutting areas such as performance management. Those areas which are deemed to be “Low” risk are subject to cyclical review which is usually not more than once in 3 years.

Fund (LEAF) takes responsibility for the legal and financial management of the grant awarded to the programmes; this includes ensuring that each grant claim submitted by projects is audited to the standards set out by Defra. It is estimated that the audit coverage for 2016/17 will total 80 days, this is in addition to the 345 days in the audit plan.

3.5 The Council is itself able to submit grant claims to draw down the management and administration costs it incurs and it is proposed that the grant income received in respect of the internal audit resource deployed, will be used to purchase backfill to enable completion of the audit plan.

Figure 1



4. Options available and consideration of risk

4.1 No alternative approach has been considered as the failure to develop a risk-based plan to determine the priorities of internal audit activity which is consistent with the priorities of the organisation would be in contravention of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2015.

5. Proposed Way Forward

5.1 We will be flexible in our approach to ensure that the audit plan continues to reflect the changing risks and corporate priorities of the Council with the timetabling of audits agreed with management to ensure our work is 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 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.

Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

None.

Approval and clearance of report

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

Appendix A

Proposed 2016/17 Audit Plans for South Hams District Council		
FUNDAMENTAL SYSTEMS		
MAIN ACCOUNTING SYSTEM (INC BUDGETARY CONTROL)	H	8
PAYMENTS	M	10
PAYROLL (INC TRAVEL & SUBSISTENCE)	H	12
COUNCIL TAX	H	10
NNDR (BUSINESS RATES)	M	10
HOUSING BENEFITS	M	5
TREASURY MANAGEMENT	L	5
FUNDAMENTAL SYSTEMS		60
SECONDARY SYSTEMS		
VAT	H	10
SHARED SERVICES - recharging	L	5
MEMBERS ALLOWANCES	L	4
STORES (STOCK CONTROL & SECURITY)	M	6
CAPITAL RECEIPTS	L	5
SECONDARY SYSTEMS		30
COMPUTER AUDIT		
Including Security (inc. Penetration testing), Applications (new, version control) Back up and resilience Database Management Environment Controls Access control Back up and resilience Disaster recovery and ICT Policies (inc internet & email).	H	26
COMPUTER AUDIT WORK		26
NON FINANCIAL/CORPORATE ARRANGEMENTS		
PERFORMANCE MANAGEMENT – Performance Indicators	Annual	10
PERFORMANCE MANAGEMENT - Data Quality		
ANNUAL GOVERNANCE STATEMENT	Annual	2
RISK MANAGEMENT	Annual	15
T18 PROJECT	H	11
PARTNERSHIPS AND PARTNERSHIP MANAGEMENT	H	10
CULTURE AND ETHICS	New	8
CONTRACTS AND CONTRACT MANAGEMENT	M	8
ELECTIONS	L	8
FRAUD AND CORRUPTION	Annual	10
EXEMPTIONS FROM FINANCIAL REGULATIONS	Annual	3
NON FINANCIAL/CORPORATE ARRANGEMENTS		85
CULTURAL & RELATED SERVICES		
LEISURE CENTRE CLIENT	M	6
COMMUNITY PARKS & OPEN SPACES (inc events & leaflet sales)		6
CULTURE AND HERITAGE		5

CULTURAL & RELATED SERVICES		17
ENVIRONMENTAL SERVICES		
HEALTH & SAFETY AT WORK	L	8
BEACH & STREET CLEANING	L	6
POLLUTION REDUCTION	L	5
HOUSING STANDARDS	L	5
ENVIRONMENTAL SERVICES		24
HIGHWAYS ROADS AND TRANSPORT SERVICES		
DARTMOUTH LOWER FERRY	H	7
CAR & BOAT PARKING/STREET SCENE	H	8
SALCOMBE HARBOUR	H	7
HIGHWAYS ROADS AND TRANSPORT SERVICES		22
HOUSING SERVICES		
PRIVATE SECTOR HOUSING RENEWAL (e.g.DFG's)	M	10
HOUSING SERVICES		10
PLANNING & DEVELOPMENT SERVICES		
DEVELOPMENT CONTROL – ENFORCEMENT	M	8
DEVELOPMENT CONTROL - PLANNING APPLICATIONS	M	8
PLANNING POLICY S106 AGREEMENTS	L	7
PLANNING & DEVELOPMENT SERVICES		2
OTHER ESSENTIAL ITEMS		
FOLLOW UP OF PREVIOUS YEAR'S AUDITS		10
AUDIT MANAGEMENT e.g.		
- Audit planning		3
- Attendance at Committee		5
- Monitoring Report / Annual Report		10
CONTINGENCY & ADVICE		20
OTHER ESSENTIAL ITEMS		48
TOTAL AUDIT PLAN		345
RURAL DEVELOPMENT PROGRAMME FOR ENGLAND FUNDING		
SOUTH DEVON COASTAL ACTION LOCAL ACTION GROUP (LAG)	Statutory	40
GREATER DARTMOOR LOCAL ENTERPRISE ACTION FUND (LEAF)	Statutory	40
RDPE GRANT FUNDING AUDIT RESOURCE		80