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SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 14TH JUNE, 2012

Agenda, Reports and Minutes for the meeting

Agenda No Item

1. **Agenda Letter** (Pages 1 - 2)

2. **Reports**

Reports to Audit:

- a) Item 5 - Audit Commission - Audit Committee Update 2011/12 (Pages 3 - 12)
- b) Item 6 - Review of the Effectiveness of the System of Internal Audit 2011/12 (Pages 13 - 22)
- c) Item 7 - Joint Anti-Money Laundering Policy (Pages 23 - 38)
- d) Item 8 - Internal Audit - Annual Report and Opinion on the Adequacy of Internal Control 2011/12 (Pages 39 - 62)

3. **Minutes** (Pages 63 - 66)

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Agenda Item 1

Please reply to: Jo Doney
Service: Corporate Services
Direct Telephone: 01803 861466 Direct Fax: 01803 866669
E-Mail: Jo.Doney@southhams.gov.uk

To: Chairman & Members of the Audit Committee
(Cllrs Bramble, Bruce-Spencer, Gorman, Jones and Pennington);

Our Ref: CS/JD

cc: Cllr Hicks (Lead Executive Member)
Remainder of the Council;
Usual press and officer circulation.

6 June 2012

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Thursday 14 June 2012 at 10.30am** when your attendance is requested.

Yours sincerely

Jo Doney
Member Support Officer

<p>FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT JO DONEY MEMBER SUPPORT OFFICER ON DIRECT LINE 01803 861466</p>

A G E N D A

1. **Minutes** – to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 5 April 2012 (pages i to viii) and of the joint meeting of the Audit and Standards Committees held on 5 April 2012 (pages ix to xi);
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 prejudicial interests, including the nature and extent of such interests, they may have in any items to be considered at this meeting;
5. **Audit Commission – Audit Committee Update 2011/12** – to consider a report which provides the Committee with a report on progress (pages 1 to 9);
6. **Review of the Effectiveness of the System of Internal Audit 2011/12** – to consider a report that provides Members with assurance that the System of Internal Audit is in place and effective (pages 10 to 19);

7. **Joint Anti-Money Laundering Policy** – to consider a report which seeks to recommend approval of a revised Anti-Money Laundering Policy (pages 20 to 34);
8. **Internal Audit – Annual Report and Opinion on the Adequacy of Internal Control 2011/12** – to consider a report with **EXEMPT appendices** that summarises and informs Members of the principal activities of the Internal Audit section of Financial Services during 2011/12 (pages 35 to 56).

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 Support Services in advance of the meeting if they require any information of a legal or financial nature.

* * * * *

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

THIS AGENDA HAS BEEN PRINTED ON ENVIRONMENTALLY FRIENDLY PAPER

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Members of the public may wish to note that the Council's meeting rooms are accessible by wheelchairs and have a loop induction hearing system

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Audit **Committee** **update**

South Hams District Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Alun Williams
District Auditor
1 June 2012

Progress report

Financial statements – Interim Audit

5 Each year, in support of our audit opinion on the financial statements, we carry out walkthrough tests to confirm our understanding of the key financial systems, to confirm that they have been implemented as designed and to identify risks of material misstatement. We have completed our walkthrough tests of the majority of your main financial systems with the exception of 'Property, Plant and Equipment' which we intend to complete in June 2012. This is undertaken at a later date as the majority of the processes/controls are carried out after the year end.

6 We have not identified any issues to report as a result of our 2011/12 walkthroughs completed to date.

7 We have a joint working protocol with Internal Audit who undertake testing on the key controls within your key financial systems. We plan to rely on Internal Audit's work and will review the results of their work shortly.

8 Each year we are required to evaluate the Council's internal control environment of which IT is a key aspect. We have concluded that the Council has an effective IT control environment, which we plan to rely upon for our "opinion" audit.

VFM conclusion

9 Our work in relation to our Value For Money (VFM) Conclusion is continuing. We will report our findings to you in due course.

Housing Benefits

10 We are currently planning our work on the housing benefits subsidy claim and will begin our testing on 6 June.

Other matters of interest

2012/13 audit fees

11 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of health and local government bodies.

12 The Commission has been able to pass on significant reductions in audit fees to audited bodies. These lower fees are fixed for five years irrespective of inflation, and will help public bodies at a time when budgets are under pressure. The Commission has also introduced indicative composite fees for certification work. It sent out letters notifying organisations of the new fees on Wednesday 11 April.

Local Payment by results – Audit Commission briefing

13 On 5 April the Audit Commission published *Local payment by results*, a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as an approach to commissioning and paying for services.

14 National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

15 The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

16 The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

17 The Commission has sent the briefing to chief executives of all councils, and other key stakeholders.

Consultation on auditor appointments from 2012/13

18 The Audit Commission wrote to all principal audited bodies (with the exception of probation trusts) on 16 April 2012 to consult them on their proposed auditor appointment for five years from 2012/13 to 2016/17 (or for 2012/13 only for strategic health authorities, primary care trusts and police authorities).

19 Where a firm is currently the appointed auditor, in all but one case, the proposal is to extend the appointment until 2016/17.

20 For Audit Practice audits, in all but a small number of cases, the proposal is the winning firm for the relevant contract area. The consultation letters for these audited bodies include an invitation to attend an introductory meeting with the Audit Commission and the firm. The schedule of introductory meetings was communicated to audited bodies on 6 March when the results of the procurement were announced.

Contact details

21 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

22 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Alun Williams

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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June 2012

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SOUTH HAMS DISTRICT COUNCIL

AGENDA
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NAME OF COMMITTEE	Audit Committee
DATE	14th June 2012
REPORT TITLE	REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2011/12
Report of	Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to provide members with assurance that the System of Internal Audit is in place and effective.

Its intention is to demonstrate that the Council's internal audit section continues to reach the standards set out in CIPFA's Code of Practice for Internal Audit in Local Government enabling the external auditor to place reliance on the work of the section, and that the service provided to clients continues to be well received.

The internal audit section also continues to work with its partners, West Devon as a shared internal audit service and collaboration with Teignbridge, and review its own processes to ensure that the improvements of recent years are maintained in the future.

This review also aims to demonstrate that the wider System of Internal Audit is effective and therefore contributes to the assurance provided by the Chief Internal Auditor's Opinion on the Adequacy of Internal Control, which is provided in a separate Internal Audit annual report presented to this Committee.

Financial implications:

There are no direct financial implications of the monitoring of the Internal Audit service. The internal audit costs for the year are as budgeted.

RECOMMENDATIONS:

It is recommended that members note the findings of the Review of the Effectiveness of the System of Internal Audit set out in this report.

Officer contact:

Allan Goodman, Chief Internal Auditor: 01803 861375

Email: allan.goodman@southhams.gov.uk

Background

1.1 The **Terms of Reference** for Internal Audit were presented to the Audit Committee in April 2010 and updated at the April 2011 Audit Committee (Minute reference A.39/10). They cover:

Statutory Requirements
Purpose, Authority and Responsibility;
Independence;
Audit Management;
Scope of Internal Audit's Work;
Audit Reporting; and
Audit Committee.

1.2 The **Audit Strategy** was updated for 2011/12 and was approved by the Audit Committee in April 2011 (Minute reference A.39/10 refers) and covers:

Objectives and Outcomes;
Opinion on Internal Control;
Local and National Risk Issues;
Provision of Internal Audit; and
Resources and Skills.

1.3 Until 2009/10, the Chief Internal Auditor's annual report included feed back to members of the review of the effectiveness of the System of Internal Audit, and on aspects of the Internal Audit Strategy: the Provision of Internal Audit and Resources and Skills. The annual report also included the Chief Internal Auditor's Opinion on the Adequacy and the main findings from individual audits and the managers' proposed actions to address them.

1.4 Due to the size of the report, it was decided to separate the areas reported into two. The second document, the Annual Report and Opinion on the Adequacy of Internal Control 2011/12, also appears on the agenda of this Committee.

Review of the Effectiveness of the System of Internal Audit

2.1 The process to produce the Annual Governance Statement requires the Council through the Chief Internal Auditor to review the effectiveness of the system of internal audit covering:

- Compliance with the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government 2006;
- Effectiveness of the Audit Committee;
- Reliance on Internal Audit by the external auditor;
- Client and management opinion; and
- Extent to which IA adds value and helps delivery of corporate objectives.

2.2 The Annual Governance Statement will be presented to the Audit Committee at the meeting of 31st July 2012.

Compliance with the CIPFA Code of Practice for Internal Audit 2006

- 2.3 The Chief Internal Auditor carried out a self assessment of the Council's internal audit service against a schedule summarising the CIPFA Code kindly supplied by our internal audit colleagues at Teignbridge District Council as part of the collaboration between the teams.
- 2.4 The results were satisfactory with no significant issue arising, which was expected given that a similar assessment was made each year since the end of 2007/08 and the gaps identified closed. The audit process and key documents were changed at that time to reflect the findings and requirements of the 2006 Code of Practice.

Assessing Fraud Risks in the Current Financial Climate

- 2.5 At the April 2012 Audit Committee, under Item 9 'Protecting the Public Purse', members asked for further details on audit planning in the current financial climate. CIPFA's paper Auditing in an Economic Downturn suggests that many internal audit sections are moving away from the annual plan to a more flexible approach having regard to operational risks, effectiveness of risk management, proactive anti fraud work, cost reductions and reputational risks.
- 2.6 The Council's Internal Audit Plan has always been flexible with an adequate contingency and changes for emerging risks made with the approval of the S.151 officer and confirmed by the Audit Committee. This is unchanged.
- 2.7 In addition, a further paper provides tips on areas for internal audit to take particular care over and this is referred to at the start of each audit exercise. It covers Governance, Personnel, Assets, Procurement, Payments, Creditors, Debtors, Cash and Bank, Accounting, Grants, Treasury Management etc.

Effectiveness of the Audit Committee

- 2.8 The Audit Committee met in a 'workshop' forum in June 2011 (and has done so for a number of years), jointly with West Devon's Audit Committee, to consider a number of issues and carry out a self assessment of the effectiveness of the Audit Committee.
- 2.9 The assessment was based on a schedule from the CIPFA document 'Audit Committees: Practical Guidance for Local Authorities' and the result was satisfactory. A review of the resolutions made during the year and the actions taken as a result is also a typical agenda item.
- 2.10 A further 'workshop' is planned for June 2012 although at the date of writing this report the final details have not been completed. However, there is no reason to believe that the Effectiveness of the Audit Committee has diminished during 2011/12.

External Audit - Assurance Provided by Internal Audit

- 2.11 We have not to date received a formal report from the Audit Commission that contains comment on the performance of Internal Audit for 2011/12, but we have had no negative feedback on the audit process or work standards from the external auditor.

Client and Management Opinion

2.12 For some years the audit team have issued a satisfaction survey electronically to the main client officers with the final audit report for each of the audits that we undertake. Completion and return is encouraged but is discretionary.

2.13 Satisfaction surveys received for 2011/12 continue to be satisfactory, with 100% of the 13 responses (97% from 9 at West Devon) marking us good or excellent (93.6% in 2010/11 from 22 returned) for the sub criteria under Audit Planning, Quality of Audit Report and Communication as shown in table 1:

Table 1: 2011/12 Satisfaction Survey Results.

Survey Criterion	Excellent	Good	Total 2010/11	Target	Total 2010/11
	%	%	%	%	%
Audit Planning - Consultation; Objectives.	51.3	48.7	100	90	86.4
Quality of Audit Report Clarity; Accuracy; Value; Presentation.	55.8	44.2	100	90	93.2
Communication Feedback; Helpfulness; Professionalism; Timeliness.	86.2	13.8	100	90	98.2
Overall %	67.3	32.7	100	90	93.6

There were no 'poor' markings and positive comments were made by 4 managers, which included the following:

- *'A thorough audit that balanced the need for managing risk against reducing resources well';*
- *Appreciate support and help from all officers within the Internal Audit Team'; and*
- *'Yet again this has been a useful chance to review what we are doing and how far we have moved on'.*

2.14 We continue to learn from any comments made and are ensuring that, wherever possible, we take on board suggestions for improvement, such as:

One manager said:

- *'Would like to see a scoring system rather than poor/fair/good/excellent. If an audit is fair, we do not know how close it was to poor or good'.*

We now include a comment under the 'Conclusion' for audits where the Opinion is in danger of moving to a lower rating, and for 2012/13 we will establish some form of indicator in the report that confirms where in the rating the Opinion lays.

Extent to which Internal Audit adds value and helps delivery of corporate objectives

2.15 The customer survey results and comments help to demonstrate that Internal Audit adds value.

2.16 The Audit Plan for 2011/12 (Appendix A of the 'Annual Report and Opinion' presented separately to this Committee) is linked to the Council's Priorities and Heads of Service/service managers are invited to express areas of concern to the auditor at the commencement of each audit. Wherever possible these areas are included in the audit work of undertaken.

Internal Audit's Performance Indicators

3.1 The Internal Audit Strategy 2010/11 (April 2010 Audit Committee) sets out the performance indicators to be recorded.

Audit Reports Issued

3.2 The number of audit reports issued in 2010/11 were as follows:

Table 2: Number of audit reports issued in the past 5 years.

Audit Year	Number of Reports by Type			
	Major Systems	Other systems/ Establishments	External Bodies	Annual Total
2011/12	9	22	2	33
2010/11	9	24*	1	34
2009/10	9	30*	1	40
2008/09	9	40*	1	50
2007/08	8	33*	1	42

**The BVPI reports included in Other Systems contained the results a number of full systems audits but were issued as only one report in each year started.*

The total number of reports for SHDC fell in 2010/11 due to the provision of the shared service to West Devon as reported to the Audit Committee in the audit plans in April 2010 and 2011.

3.3 We are continuing to be alert to development in the profession of meaningful targets for the section, and monitor our performance against them and always seek to benchmark key indicators with other Devon internal audit teams whenever possible.

Other Indicators

3.4 Timeliness is an important element of audit reporting, and therefore we monitor against two targets for this:

- The timely issue of draft audit reports: within 10 working days of completing the audit work;
- The timely issue of finalised audit reports: within 10 working days of completing discussions on the draft report, and completing the action plan on recommendations.

3.5 We are also monitoring the % of the audit plan that is completed during the year. Completion is influenced mainly by the level of unplanned work carried out in the year, for which some contingency time is planned.

3.6 The following table shows that Internal Audit is meeting its targets, as set out below:

Table 3: Internal Audit Performance against Targets 2011/12

Performance Indicators	Target	2011/12	2010/11
% of Audit Plan completed, against target for South Hams	90%	95%	98%
% of Audit Plan completed, against target for West Devon	100%	100%	100%
Overall % of Audit Plan completed	90%	96%	98%

Performance Indicators (Cont.)	Target	2011/12	2010/11
Timeliness of reports:			
% of draft reports issued within 10 working days of the audit completion	100%	100%	100%
% of final reports issued within 10 working days of discussion on the draft	100%	100%	100%
External Audit			
Assurance gained (Reliance) on work of Internal Audit by the external auditor	Yes	Expected	Yes
Costs			
Direct cost of provision of service with oncosts/recharges (Gross)	-	£106.2k*	£97.5k
Oncosts added to the above e.g. use of the building, ICT etc.	-	£17.4k	£14.5k
Recharges/income	-	(£37.0k)**	(£42.8k)
Net cost of the service	£82.5k	£86.6k	£69.2k
Average cost per audit day:			
Average cost per audit day: Direct costs (without oncosts/recharges) and based on available days.	-	£175	£184
Average cost per audit day: direct costs with oncosts but not recharges.	-	£204	£211
Follow Up			
Percentage of audit reports where the agreed recommendations were satisfactorily actioned i.e. Implemented/Mainly implemented.	90%	82%***	96%

* above: direct cost increase due to the European Grants Officer/Auditor being charged to Internal Audit budget at 50% for 2010/11, and in full for 2011/12. As a result, the 2010/11 cost per day has been restated when compared with the equivalent report last year to ensure consistency of calculation.

** above: includes income from West Devon of £25.2k, LAG recharge at £10k and Dartmouth Town Council etc.

*** above: main reason cited for non implementation was the change in responsibilities following senior and middle manager reviews.

Resources and Skills

3.7 An allowance of 13 sickness days was originally planned for 2011/12, with 9 days actually being used (10 days 2010/11), and 1 day Carers Leave.

3.8 Training provided to members of the team during the year included:

Chief Internal Auditor

- Council Contracts & Your Actions (in-house);
- Future of Local Audit (DCLG; Taunton).

Senior Auditor:

- Council Contracts & Your Actions (in-house);
- Word 2007 Introduction (E Academy);
- Excel 2007 Introduction (E Academy);
- Excel 2007 Intermediate (E Academy).

Auditor:

- Council Contracts & Your Actions (in-house)
- E Academy – various modules including Word 2007; Word 2007 Intermediate; Excel 2007; Excel 2007 Intermediate; Excel 2007 Advanced; Questioning; Listening etc.

Other Partners

Dartmouth Town Council

4.1 We again provided an internal audit service to Dartmouth Town Council in June 2011. The Town Council was recharged for the 5 days on a cost-plus recovery basis.

4.2 Our audit and any recommendations that we make for improvement of controls are formally reported to the Clerk and the Council's Chairman of Finance and General Purposes Committee.

4.3 Although the service was well received, confirmed by the survey referred to above, the Town Council has chosen not to continue the arrangement. We understand that an external supplier has been able to provide a service at a significantly lower charge.

Shared Services West Devon Borough and Teignbridge District Councils

West Devon Borough Council

4.4 The second year of the provision of an internal audit service to West Devon Borough Council (WDBC) has been completed.

4.5 The work and findings have been reported to the WDBC Audit Committee using a similar suite of reports and with the same frequency as those received by the SHDC Audit Committee.

4.6 The relevant charges have been paid by WDBC.

- 4.7 It is intended that Members of both Council's Audit Committees will attend the workshop planned for in June 2012.

Teignbridge District Council

- 4.8 The Audit Committee has been provided with frequent updates on the progress of the Shared Service arrangement with our Internal Audit colleagues at Teignbridge District Council following the decision of the Joint Steering Group (JSG) in June 2008.
- 4.9 The decision has never been rescinded and so the arrangement continues, to the benefit of both teams. The majority of the proposals for the extended internal audit collaboration have been completed or are continuing and include sharing of information, audit programmes, best practice, attending and feeding back on seminars etc.

5. LEGAL IMPLICATIONS

- 5.1 Required under the Local Government Finance Act 1972 and subsequent Accounts and Audit Regulations – the latest being 2003, 2006, and 2011.

6. FINANCIAL IMPLICATIONS

- 6.1 Within existing budgets. The costs of the service are highlighted at paragraph 3.6 above.

7. RISK MANAGEMENT

- 7.1 The risk management implications follow after the table of other considerations:

Other Considerations:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Local Government Finance Act 1972 Accounts and Audit Regulations 2003, 2006, 2011

Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16. Internal Audit Plan 2011/12 and Strategy (April 2011 Audit Committee); Internal Audit Terms of Reference (April 2010 and 2011 Audit Committees);

	Progress against the Internal Audit Plan reports to the Audit Committees of – September 2011, November 2011, and April 2012.
Appendices attached:	None

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Failure of the System of Internal Audit	The Council's Annual Governance Statement cannot be signed if the System of Internal Audit fails.	3	2	6	↔	<p>An annual Internal Audit Strategy reviewed by the Audit Committee at the beginning of each financial year sets out how the audit plan is to be delivered.</p> <p>A risk based Internal Audit plan is reviewed by senior managers and members, and updated to reflect emerging as appropriate through the year. The plan is linked to the Council's objectives and risks to these objectives.</p> <p>The Internal Audit approach adheres to the appropriate professional standards set by CIPFA.</p> <p>Regular monitoring of performance of Internal Audit is carried out by the S.151 Officer and the Audit Committee.</p> <p>Liaison with the external auditors ensures that duplication of scarce audit resources is avoided and that they are able to gain assurance on internal Audits work.</p> <p>Liaison with Heads of Service and managers ensures Internal Audit adds value.</p> <p>The Audit Committee reviews its effectiveness annually.</p>	S.151 Officer; Chief Internal Auditor; Audit Committee Chairman.

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	14 June 2012 (South Hams)
REPORT TITLE	Joint Anti Money Laundering Policy
Report of	Head of Finance and Audit/S.151 Officer Monitoring Officer Chief Internal Auditor
WARDS AFFECTED	All

Summary of report:

West Devon and South Hams Councils will do all that they can do to practically to prevent the Councils and their staff being exposed to money laundering, to identify the potential area where exposure may occur and to comply with all legal requirements especially with regard to the reporting of actual, alleged or suspected cases.

The Councils have followed previous CIPFA advice and approved Anti Money Laundering Policies on several occasions in the past, the most recent being approved for West Devon in February 2010 and for South Hams in December 2008.

However, the requirements of the individual policies differ with different officers responsible, limits and processes in place. This report is asking members of the Committee to recommend approval of an aligned policy (Appendix A) that has been written having regard to the legislation and any local circumstances.

Financial implications:

There are no direct financial implications arising from the report, although effective anti money laundering policies may help protect the Councils and their officers from future legal action.

RECOMMENDATIONS:

That South Hams District Council Audit Committee recommends to Council formal adoption of the revised Anti Money Laundering Policy;

Officer contact:

For further information concerning this report, please contact:

Allan Goodman, Chief Internal Auditor allan.goodman@southhams.gov.uk

1. BACKGROUND

- 1.1 The Proceeds of Crime Act 2002 (POCA) consolidated, updated and reformed criminal law with regard to money laundering.

- 1.2 In 2005, Chartered Institute of Public Finance and Accountancy (CIPFA) published Proceeds of Crime (Anti-money Laundering) – Practical Guidance for Public Service Organisations (CIPFA guidance 2005), upon which the Councils' original policy and guidance was based.
- 1.3 The stated purpose of that publication was to help to clarify the position of local authorities and other public service organisations within the framework created by the following legislation and regulations, and to give practical advice on their application:
- The Proceeds of Crime Act 2002 (POCA)
 - The Money Laundering Regulations 2003
 - The Terrorism Act 2000.
- 1.4 The impact on the public services of the provisions of the Proceeds of Crime Act 2002 (the POCA) (as amended by the Serious Organised Crime and Police Act 2005), and the Terrorism Act 2000 (the TA) (as amended by the Anti Terrorism and Security Act 2001 and the Terrorism Act 2006) remains largely unchanged since publication of the CIPFA guidance 2005.
- 1.5 However, in December 2007, in order to implement the requirements of the European Union 3rd Money Laundering Directive (the 3rd Directive):
- The UK Government published the Money Laundering Regulations 2007 (the 2007 Regulations), which became effective from 15 December 2007, and
 - Replaced the Money Laundering Regulations 2003 (the 2003 Regulations).

2. LEGAL PROVISIONS APPLYING TO THE COUNCILS

- 1.1 The following provisions apply to all public authorities and their staff, as they did before the 2007 Regulations;
- The full provisions of the TA;
 - The following offences under the provisions of the POCA:
 - concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland (section 327);
 - being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property (section 328);
 - acquiring, using or possessing criminal property (section 329)
 - doing something that might prejudice an investigation – for example, falsifying a document (section 342).
- 1.2 So long as a public authority does not undertake activities which might be interpreted, under POCA, as falling within the regulated sector, the following provisions do not apply to it:
- The offences of failure to disclose (under sections 330 and 331);
 - The offence of tipping off (under new section 333A).

1.3 CIPFA’s conclusion was based on the essentially service-orientated characteristics of treasury management in the public services, and the widespread absence of evidence of such activities being pursued “by way of business”, a prime test employed under the POCA. Nothing has happened in the intervening period to cause CIPFA to conclude otherwise.

3. THE COUNCILS’ ANTI MONEY LAUNDERING POLICIES

3.1 Both Councils’ have followed previous CIPFA advice and approved Anti Money Laundering Policies, the most recent being approved for West Devon in February 2010 and for South Hams in December 2008.

3.2 However, the requirements of the individual policies differ with different officers responsible, limits and processes in place. This report is asking members of the Committee to recommend approval of an aligned policy that has regard to the legislation and any local circumstances.

3.3 The draft Joint Anti Money Laundering Policy is attached at Appendix A. The key changes when compared with the previous version are:

- Appointing the S.151 Officer (the Head of Finance and Audit) as the Money Laundering Reporting Officer (MLRO) at both Councils;
- Appointing the Councils’ Chief Accountants as Deputy MLRO for their respective Council;
- Non acceptance of cash above £10,000 in a single transaction; and
- Introducing procedures for Client identification in certain circumstances.

4. LEGAL IMPLICATIONS

4.1 The Legal implications are discussed in detail at sections 1 and 2 above.

5. FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications arising from the report, although effective anti money laundering policies may help protect the Councils and their officers from future legal action.

6. RISK MANAGEMENT

6.1 The risks are discussed in the table following section 7 Other Considerations.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	All
Statutory powers:	See sections 1 and 2 above.
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.

Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	See sections 1 and 2 above.

Background papers:	CIPFA Proceeds of Crime (Anti-Money Laundering) Practical Guidance for Public Service Organisations 2005: The Consultative Committee of Accountancy Bodies CCAB (www.ccab.org.uk) Anti-Money Laundering (Proceeds of Crime and Terrorism) – Guidance for Accountants; CIPFA: Combating Financial Crime 2009
Appendices attached:	Appendix A - Draft Joint Anti Money Laundering Policy

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity	To comply with the legislation and latest guidance covering prevention and reporting of money laundering.	-	-	-	↔	Approval of a revised Policy for identifying and reporting suspicions of money laundering activity in line with the related legislation and professional guidance.	S.151 Officer
2	Committing an offence under money laundering legislation.	The key risk for the Council and its employees results from non compliance with the legislation. There are criminal offences that in some circumstances may attract prison sentences and unlimited fines.	3	1	3	↔	The risk is mitigated by the various defences under the legislation, which include a report internally to the MLRO, externally to SOCA, and consent from the SOCA or MLRO; and Adoption of a Policy for identifying and reporting suspicions of money laundering activity. The Council provides appropriate guidance, and reminders to all employees, with targeted training to employees dealing with the receipt of funds or having contact with the public.	S.151 Officer

Direction of travel symbols ↓ ↑ ↔



**DRAFT JOINT ANTI MONEY LAUNDERING POLICY
JUNE 2012**

1. Introduction

- 1.1 The Councils will do all that they are practically able to do to prevent the Councils and their staff being exposed to money laundering, identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
- 1.2 This policy has therefore been adopted in order to introduce safeguards to help identify and report on instances where money laundering is suspected.
- 1.3 In summary:
- The Councils are committed to the prevention, detection and reporting of actual, alleged or suspected money laundering;
 - All employees must be vigilant for the signs of money laundering;
 - Any employee who suspects money laundering activity must report this promptly to the Money Laundering Reporting Officer (MLRO) – Section 151 Officer (the Head of Finance and Audit) or in his/her absence the relevant Deputy Section 151 Officer (Chief Accountant); and
 - Where the Councils are carrying out relevant business then the Client Identification Procedure must be followed.
- 1.3 This policy applies to all employees of both Councils and aims to maintain high standards of conduct, by preventing criminal activity through money laundering. The policy sets out the procedures which must be followed to enable the Councils to comply with its legal obligations.

2 What is Money Laundering?

- 2.1 Money laundering can be defined as the process of moving illegally acquired cash through financial systems so that it appears to be from a legitimate source.
- 2.2 Money laundering offences include:
- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland (section 327);
 - Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property (section 328);
 - Acquiring, using or possessing criminal property (section 329).
- 2.3 Other offences:
- Failure to disclose money laundering offences (sections 330-332);
 - Tipping off a suspect either directly or indirectly (section 333); and;

- Doing something that might prejudice an investigation – for example, falsifying a document (section 342).

3 To Whom Does it Apply and How Will they be Made Aware?

- 3.1 Any member of staff could potentially be caught by the money laundering provisions, if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This policy sets out how any concerns should be raised.
- 3.2 Whilst the risk to the Councils of contravening the legislation is low, it is important that all employees are familiar with their responsibilities. Serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.
- 3.3 The guidance, general and targeted training that will be provided is set out at section 6 of this policy.

4 Staff Concerns and Reporting?

Money Laundering Reporting Officer (MLRO)

- 4.1 The officer nominated to receive disclosures about money laundering activity within the Councils is the Section 151 Officer (the Head of Finance and Audit). In his/her absence such disclosures should be made to the relevant Deputy Section 151 Officer (Chief Accountant).

Reporting Procedures

- 4.2 Any employee who suspects money laundering activity must report their suspicion promptly to the MLRO, either by discussing the suspicion or using the appropriate money laundering form. A copy of the form is attached at Annex A and included with the guidance notes made available to employees.
- 4.3 The employee must follow any subsequent directions of the MLRO, and must not themselves make any further enquiries into the matter. They must not take any further steps in any related transaction without authorisation from the MLRO.
- 4.4 The employee must not disclose or otherwise indicate their suspicions to the person suspected of the money laundering. They must not discuss the matter with others or note on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation.

- 4.5 The MLRO must promptly evaluate any disclosure report, to determine whether it should be reported to the Serious Organised Crime Agency (SOCA).
- 4.6 The MLRO must, if they determine it necessary, promptly report the matter to SOCA on their standard form and in the prescribed manner.
- 4.7 The MLRO will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the SOCA.

5 Acceptance of Cash

- 5.1 Officers are precluded from accepting cash for individual; transactions above £10,000, and should complete a report to the MLRO in the circumstances where such amounts are tendered;
- 5.2 For the purposes of this requirement cash is defined as including notes, coins or travellers cheques in any currency.

6 Client Identification Procedures

- 6.1 Where the Councils are carrying out '*relevant business*' and as part of this:
 - Forms an ongoing business relationship with a client;
 - Undertakes a one-off transaction involving payment by or to the client of £10,000 or more;
 - Undertakes a series of linked one-off transactions involving total payment by or to the client(s) of £10,000 or more; or
 - It is known or suspected that a one-off transaction (or series of them) involves money laundering;

then the Client Identification Procedure (as set out below) must be followed before any business is undertaken for that client.

- 6.2 '*Relevant Business*' is defined as the:

- Provision, by way of business, of advice about the tax affairs of another person by a body corporate;
- Provision, by way of business, of accountancy services by a body corporate;
- Provision, by way of business, of audit services;
- Provision, by way of business, of legal services by a body corporate which involves participation in a financial or real property transaction (whether by assisting in the planning or execution of any such transaction or otherwise by acting for, or on behalf of, a client in any such transaction);

- Provision, by way of business, of services in relation to the formation, operation or management of a company or a trust;
- Activity of dealing in goods of any description, by way of business, whenever a transaction involves accepting a total cash payment of 15,000 euros (approximately £11,900 May 2012) or more; or
- Activity of dealing in and managing investments 'by way of business'.

6.3 Unlike the reporting procedure above, the Client Identification Procedure is restricted to those operating relevant business i.e. Financial Services and Legal Services. This requirement does not apply if a business relationship with the client existed before 1st March 2004.

6.4 Where the '*relevant business*' is being provided to another public sector body then officers responsible must ensure that you have signed, written instructions on the body's headed paper before any business is undertaken.

6.5 Where the '*relevant business*' is not a public sector body, then the officer responsible should seek:

- Additional evidence of identity, for example:
 - checking with the organisation's website to confirm their business address;
 - conducting an on-line search via Companies House; or
 - seeking evidence from the key contact of their personal identity and position within the organisation.

6.6 With instructions from new clients or further instructions from a client not well known to the Councils, the officer responsible may seek additional evidence of the identity of key individuals in the organisation and of the organisation itself.

6.7 If satisfactory evidence of identity is not obtained at the outset then the business relationship or one off transaction(s) cannot proceed any further.

Record Keeping

6.8 Where the Councils are carrying out '*relevant business*' and as part of this: the '*relevant business*' is carried out then the client identification evidence and details of the relevant transaction(s) for that client must be retained for at least five years.

7 Guidance and Training

7.1 In support of this policy, the Councils will:

- Draft and publicise, on the Intranet and other relevant places, detailed guidance to officers to support this policy;

- Make all staff aware of the requirements and obligations placed on the Councils and on themselves as individuals by the Anti Money Laundering legislation; and
- Provide targeted training to those most likely to encounter money laundering e.g. cashiers or other officers accepting cash on behalf of the Councils.

As a minimum staff will be made aware of the:

- Money Laundering Regulations 2007
- Proceeds of Crime Act 2002, part 7
- Anti-Terrorism, Crime and Security Act 2001, section 117
- Terrorism Act 2000, sections 18 & 21a

8 Further Information

8.1 Further information can be obtained from the MLRO and the following sources:

- www.soca.gov.uk – website of the Serious Organised Crime Agency (SOCA)
- Proceeds of Crime (Anti-Money Laundering) Practical Guidance for Public Service Organisations – CIPFA: available for the Chief Internal Auditor;
- The Consultative Committee of Accountancy Bodies CCAB (www.ccab.org.uk) Anti-Money Laundering (Proceeds of Crime and Terrorism) – Guidance for Accountants
- www.lawsociety.org.uk – Money Laundering Guidance from the Law Society

REPORT TO THE MONEY LAUNDERING REPORTING OFFICER

Confidential Report of Suspected Money Laundering Activity

To: **Money Laundering Reporting Officer (MLRO)**
Deputy Money Laundering Reporting Officer

From: _____
[Name of employee]

Service: _____
[Post Title and Service]

Ext/Tel No: _____

URGENT: YES / NO

CONSENT - Required and By When: YES / NO Date:

Details of suspected offence:

Name(s) And Address(Es) Of Person(s) Involved:

[if a company/public body please include details of nature of business]

Nature, Value And Timing Of Activity Involved:

[Please include full details e.g. what, when, where, how. Continue on a separate sheet if necessary]

Nature Of Suspicions Regarding Such Activity: <i>[Please continue on a separate sheet if necessary]</i>

Has any investigation been undertaken (as far as you are aware)? <i>[Delete as appropriate]</i>	Yes / No
--	-----------------

If yes, please include details below:

Have you discussed your suspicions with anyone?	Yes / No
--	-----------------

If yes, please specify below, explaining why such discussion was necessary:

Please set out below any other information you feel is relevant:

Signed: _____ Dated: _____

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years imprisonment and an unlimited fine.

THE FOLLOWING PART OF THIS FORM TO BE COMPLETED BY THE MLRO

Date report received: _____

Date receipt of form acknowledged: _____

CONSIDERATION OF DISCLOSURE:

Action plan:

--

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity?

--

If there are reasonable grounds for suspicion, will a report be made to the SOCA? *[Delete as appropriate]*

Yes / No

**If yes, please confirm date and type of report to SOCA:
 And complete the box below:**

Details of liaison with the SOCA regarding the report:

Notice Period: from:

to:

Moratorium Period: from:

to:

Is consent required from the SOCA to any ongoing or imminent transactions which would otherwise be prohibited acts? *[Delete as appropriate]*

Yes / No

If consent is required, please confirm full details in the box below:

Date consent received from SOCA:

Date consent given by you to employee:

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the SOCA, please set out below the reason(s) for non-disclosure:

[Please set out any reason for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed:

Other relevant information:

Signed: _____

Dated: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

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NAME OF COMMITTEE	Audit Committee
DATE	14 June 2012
REPORT TITLE	INTERNAL AUDIT – ANNUAL REPORT and OPINION ON THE ADEQUACY OF INTERNAL CONTROL 2011/12
Report of	Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to summarise and inform members of the principal activities of the Internal Audit section of Finance & Audit during 2011/12, by:

- Showing the progress made by the section against the 2011/12 audit plan reviewed by members in April 2011;
- Providing an Opinion on the adequacy of the Council’s control environment;
- Outlining any significant findings and the action taken by managers to address the recommendations; and
- Providing a summary of the main issues raised by individual audits.

The report links with the separate report to this Committee on the Effectiveness of the System of Internal Audit, and the three previous quarterly reports for 2011/12 on progress against the audit plan.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

It is recommended that the Audit Committee note this report and the Chief Internal Auditor’s Opinion on the Adequacy of Internal Control.

Officer contact:

Allan Goodman, Chief Internal Auditor
 Email: allan.goodman@southhams.gov.uk
 Telephone: 01803 861375

1. BACKGROUND

- 1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2011 (Minute reference A.30/10) and cover:

Purpose, Authority and Responsibility;
Independence;
Audit Management;
Scope of Internal Audit's Work;
Audit Reporting; and
Audit Committee.

- 1.2 The Audit Strategy was updated for 2011/12 and was approved by the Audit Committee in April 2011 (Minute reference A.39/10 refers) and covers:

Objectives and Outcomes;
Opinion on Internal Control;
Local and National Risk Issues;
Provision of Internal Audit; and
Resources and Skills.

Annual Governance Statement (AGS)

- 1.3 As part of the system required to allow the AGS to be signed by the most senior member and officer of the Council, reviewed by the Audit Committee (separate report to the Audit Committee of 17th July 2012) and approved by the Council, the head of internal audit must include an opinion of the adequacy and effectiveness of the control environment.
- 1.4 Details of any weaknesses that qualify this opinion and issues relevant to the preparation of the AGS must also be disclosed.
- 1.5 An annual Review of the Effectiveness of the System of Internal Audit must also support this Opinion. The Effectiveness of the System of Internal Audit has been reviewed and reported to this Committee under separate cover. The satisfactory result provides assurance for the Chief Internal Auditor's Opinion.

Chief Internal Auditor's Opinion on the Adequacy of Internal Control

- 1. The Chief Internal Auditor has concluded that the Council's overall control environment is adequate and effective for the purposes of the 2010/11 Annual Governance Statement.***
- 2. This opinion is based on the work done and opinions as set out in Appendix A, further details of which are included in Appendices B, C, D and E of this report.***
- Appendix A shows that of 30 reports issued carrying an Opinion: **3** were graded **Excellent**; **20 Good**, **7 Fair** and **0 Poor**.

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2011/12

Audit Plan 2011/12

- 2.1 The 2011/12 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2011 (A.40/10 refers).

Local and National Risk Based Amendments to the Plan

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 There was one minor amendment to the 2011/12 audit plan, with an extra 4 days used for shared services work at West Devon (recharged accordingly) instead of the computer audit review of the controls at South Hams for updating the Council's website.
- 2.4 As reflected in the report to this Committee on the effectiveness of the system of internal audit, 96% of the audit plan (including West Devon, 95% South Hams only) has been completed, with Building Control and Asset Management to 2012/13 audit plan (April 2012 Audit Committee).

Progress Against the Plan

- 2.5 The 2011/12 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.
- 2.6 The reporting of individual high priority recommendations is set out at **Exempt Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.
- 2.7 **Exempt Appendix C** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. This too forms part of the report to the S.151 Officer. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.
- 2.8 **Exempt Appendix D** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

Non Compliance with Contract or Financial Procedure Rules

- 2.9 There are no significant issues to bring to the attention of the Committee for 2011/12.

Fraud, Corruption or Bribery

- 2.10 No actual, suspected or allegations of fraud, corruption or bribery have been identified during 2011/12, outside of benefit fraud. The Council informed the Audit Commission in their annual fraud survey that for 2011/12 there were 24 cases of benefit fraud with a total value of £49,731. Four of these cases were prosecuted.

3. LEGAL IMPLICATIONS

- 3.1 Statutory Powers: **Accounts and Audit Regulations 2003, 2006, 2011**

4. FINANCIAL IMPLICATIONS

- 4.1 None, within existing budgets.

5. RISK MANAGEMENT

- 5.1 The risk management implications follow this table :

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2003, 2006, 2011
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
Appendices attached:	Appendix A: Audit Plan 2011/12 – Progress Exempt Appendix B: Planned Audit 2011/12 – Final Reports: Detailed Items Exempt Appendix C: Planned Audit 2011/12 – Summary of Results Exempt Appendix D: Unplanned Audit 2011/12 – Summary of Results

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity of Make the Best Use of Scarce Audit Resource	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor places reliance upon the work of internal audit, resulting in no additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Chief Internal Auditor
2	Inappropriate Use of Scarce Audit Resource	The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Chief Internal Auditor on the System of Internal Control.	2	2	4	↔	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.	Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Links with External Audit	The external auditor placing no reliance upon the work of internal audit, resulting in additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	2	2	4	↔	Regular liaison with the external auditor. Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year. Regular monitoring of progress by the S.151 Officer and the Audit Committee.	Chief Internal Auditor
4	Assurance for the Annual Governance Statement	The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	2	2	4	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee. Audit approach adheres to the appropriate professional standards. Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2011/12 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	11	■	■	■	■		■			Summary to Audit Committee - June 2012
Creditor Payments	9	■	■	■	■		■			Summary to Audit Committee - June 2012
Payroll	10	■	■	■	■		■			Summary to Audit Committee - April 2012
Council Tax	12	■	■	■	■			■		Summary to Audit Committee - June 2012
Business Rates (NDR)	10	■	■	■	■			■		Summary to Audit Committee - April 2012
Benefits	20	■	■	■	■		■			Summary to Audit Committee - June 2012
Debtors	9	■	■	■	■		■			Summary to Audit Committee - June 2012
Treasury Management	7	■	■	■	■	■				Summary to Audit Committee - April 2012
Capital Expenditure	8	■	■	■	■		■			Summary to Audit Committee - June 2012
Fundamental Systems	96									
Email Monitoring	4	■	■	■	■	■				Summary to Audit Committee - November 2011
Internet Monitoring	4	■	■	■	■	■				Summary to Audit Committee - November 2011
Computer Audit	26	-	-	-	-	-	-	-	-	See the end of Appendix A.
Car and Boat Parking	9	■	■	■	■			■		Summary to Audit Committee - June 2012
Dartmouth Lower Ferry	9	■	■	■	■		■			Summary to Audit Committee - April 2012
Private Sector Housing Renewal	8	■	■	■	■		■			Summary to Audit Committee - April 2012
National & Performance Indicators incl. Data Quality	5	■	■	■	■		■			Summary to Audit Committee - November 2011
Salcombe Harbour	10	■	■	■	■		■			Summary to Audit Committee - April 2012
Grants - RDPE Rural Community LAGs	60	88 days used	-	-	-	-	-	-	-	244 project claims audited; plus 82 Management & Admin invoices.

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Progress Against the 2011/12 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Follow Up of Previous Year's Audits	10	10 days used	-	-	-	-	-	-	-	See table at Appendix C.
Contingency (Unplanned)	50	52 days used	-	-	-	-	-	-	-	See table at Appendix D.
Corporate Governance	8	■	■	■	■	-	-	-	-	Presented to joint meeting of Audit and Standards Committees – April 2012
Exemptions to Contract or Financial Procedure Rules	4	2.5 days used	-	-	-	-	-	-	-	9 Exemption applications received 2011/12 with 7 approved.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	AGS recommended to the Council for approval following report to the Audit Committee - July 2011. Published September 2011.
Risk Management / Business Continuity	5	■	■	■	■		■			Summary to Audit Committee - June 2012
West Devon Borough Council	85 + 4	89 days used	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee
Dartmouth Town Council	5	■	■	■	■	-	-	-	-	Summary to Audit Committee - September 2011
Other Essential	307									
Elections	8	■	■	■	■		■			Summary to Audit Committee - April 2012
CST/Cash Collection	8	■	■	■	■			■		Summary to Audit Committee - November 2011
Public Conveniences	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Recycling	9	■	■	■	■		■	■		Summary to Audit Committee - September 2011
Leisure Client and Tourism	8	■	■	■	■			■		Summary to Audit Committee - September 2011
Travel and Subsistence	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Building Regulations incl Other Building Control Work	10	-	-	-	-	-	-	-	-	Carried forward to 2012/13.
Employment Estates	8	■	■	■	■			■		Summary to Audit Committee - September 2011
Stores	5	■	■	■	■			■		Summary to Audit Committee - April 2012

Progress Against the 2011/12 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Advice to Information Compliance/Other Groups	3	0.4 day used	-	-	-	-	-	-	-	
Asset Management	7	-	-	-	-	-	-	-	-	Carried forward to 2012/13.
Shared Services	8	■	■	■	■		■			Summary to Audit Committee - June 2012
Other	90									
Audit Administration	20	27 days used	-	-	-	-	-	-	-	Office move; additional staff briefings compared with previous year; update to Windows 2007 etc.
Audit Management, including Audit Planning	15	18 days used	-	-	-	-	-	-	-	
Audit Monitoring against the Plan, including Reports to Management and Audit Committee	20	11 days used	-	-	-	-	-	-	-	
Training	10	5 days used	-	-	-	-	-	-	-	
Miscellaneous e.g. Financial Regulations etc.	5	2 days used	-	-	-	-	-	-	-	Revised Contract Procedure Rules; Anti Fraud and Corruption Strategy, to September 2011 Audit Committee. Anti Money Laundering
Total	70	63 used								
Overall Total	601									
Included above:										
Installation & Healthcheck	7	■	■	■	■		■			Summary to Audit Committee - June 2012
Computer and Network Management & Security	9	■	■	■	■		■			Summary to Audit Committee - June 2012
Change Control	7	■	■	■	■		■			Summary to Audit Committee - June 2012
<i>Other Reviews</i>	3 - 3 = 0	-	-	-	-	-	-	-	-	Planned work to review controls over the Council's website superseded by project within 2015 Transformation Programme. Days used for shared services work at West Devon.
Computer Audit	26									

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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT FOLLATON HOUSE, TOTNES ON 14 JUNE 2012

Members in attendance			
* Denotes attendance		∅ Denotes apology for absence	
*	Cllr I Bramble	*	Cllr L P Jones
∅	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
*	Cllr A S Gorman		

Members also in attendance
Cllr M J Hicks (Deputy Leader)

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Finance and Audit, Chief Internal Auditor, Risk and Health and Safety Advisor and Member Support Officer; Also: Audit Manager and District Auditor (Audit Commission)

A.01/12 MINUTES

The minutes of the meeting of the Audit Committee held on 5 April 2012 and the joint meeting of the Audit and Standards Committee held on 5 April 2012 were confirmed as a correct record and signed by the Chairman.

A.02/12 DECLARATIONS OF INTEREST

Members 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.03/12 AUDIT COMMISSION – AUDIT COMMITTEE UPDATE 2011/12

Members were informed that there was no further update but that the Audit Commission was finalising its work on the IT risk assessment and would be commencing work on the Housing Benefit subsidy claims.

After consultation, the Audit Commission had agreed the work programme and fees scales for 2012/13 audits of health and local government bodies and letters had been sent out.

With regard to Payment by Results schemes, the Audit Commission had published a briefing paper which considered the potential issues arising from local authorities using this method when commissioning and paying for services. The briefing paper outlined five key principles that any such scheme would need to meet in order to succeed. These being:

- A clear purpose;
- A full understanding of the risks;
- A Well-designed payment and reward structure;
- Sound Financing; and
- Effective Management and evaluation.

The purpose of the briefing paper had been to start the debate. The Audit Manager agreed to send the full briefing paper to the Head of Finance and Audit.

It was then:

RESOLVED

That the report be noted.

A.04/11

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2011/12

Members considered a report that provided them with assurance that the System of Internal Audit was in place and effective. In order to produce the Annual Governance Statement, the Council required the Chief Internal Auditor to review the effectiveness of the system of internal audit.

During the discussion, the following points were raised:

Assessing Fraud Risks:

The Chief Internal Auditor informed that there had been no increase in fraud as a result of the economic downturn outside of the realm of benefits, and this area was considered by a dedicated Benefits Fraud Team.

Members wished for this topic to be revisited at its meeting in September 2012 as it had been highlighted at the annual workshop that this was a key area to report on.

Local Action Groups:

It was noted that the authority received £5,000 per Local Action Group (LAG) for auditing services, but that this did not adequately reimburse the Council for the officer time expended. However, the authority was mindful that local community projects did benefit considerably from the grant funding. The Chief Internal Auditor agreed to keep the Committee informed.

It was then:

RESOLVED

That the Audit Committee had considered the findings on the effectiveness of the system of internal audit 2011/12 and found it to be satisfactory.

A.05/11 **JOINT ANTI-LAUNDERING POLICY**

Members considered a report that sought approval of an aligned policy with West Devon Borough Council which had been written with regard to legislation and local circumstances. The key changes from the previous policy were:

- Appointing the S.151 Officer (Head of Finance and Audit) as the Money Laundering Reporting Officer (MLRO) at both Councils;
- Appointing the Council's Chief Accountants as Deputy MLRO for their respective Council;
- Non acceptance of cash above £10,000 in a single transaction;
- Introducing procedures for Client identification in certain circumstances.

During the discussion, the following points were raised:

Money Laundering:

Members were informed that they would not report e.g. commercial establishments paying non domestic rates in cash, unless there was a 'suspicion' of money laundering, and not by virtue of the transaction being in cash.

Tax Avoidance:

It was noted that cash payments might be tax avoidance, but that it was not the role of the authority to determine this as they were not an investigating authority.

It was then:

RECOMMENDED

That Council be **RECOMMENDED** to formally adopt the revised Anti Money Laundering Policy.

A.06/12 **INTERNAL AUDIT – ANNUAL REPORT AND OPINION ON THE ADEQUACY OF INTERNAL CONTROL 2011/12**

Members considered a report that informed them of the principal activities of the Internal Audit section of Finance and Audit during 2011/12.

Locality Funds:

Members questioned what controls were in place to ensure that the Sustainable Community Locality Grant Fund was spent legitimately and as intended. The Chief Internal Auditor agreed to report back on this issue to a future meeting of the Committee.

In light of the Committee wishing to discuss elements of the exempt appendix, it was:-

RESOLVED

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following items of business in order to avoid the likely disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act.

Members then discussed the exempt appendices, which had been presented as part of the report.

It was then:-

RESOLVED

That the public and press be readmitted.

It was then:-

RESOLVED

That the report and the Chief Internal Auditor's Opinion on the Adequacy of Internal Control be noted.

(Meeting commenced at 10.30 am and concluded at 11.45 pm)

Chairman