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SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 16TH JANUARY, 2014

Agenda, Reports and Minutes for the meeting

Agenda No Item

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

2. **Reports**

Reports to Audit:

a) Item 5 - Transformation Programme 2018 (T18) (Pages 3 - 28)

b) Item 6 - Grant Thornton - Annual Audit Letter (Pages 29 - 42)

c) Item 7 - Grant Thornton - Audit Committee Update (Pages 43 - 54)

d) Item 8 - Grant Thornton - Certification Report 2012/13 (Pages 55 - 66)

e) Item 9 - Progress Against the Internal Audit Plan - 2013-14 (Pages 67 - 94)

3. **Minutes** (Pages 95 - 98)

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Agenda Item 1

Please reply to: Jo Doney
Service: Corporate Services
Direct Telephone: 01803 861466
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 Wright (Executive Member)
Remainder of the Council;
Usual press and officer circulation.

8 January 2014

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Thursday 16 January 2014 at 10.00 a.m.** when your attendance is requested.

Yours sincerely

Jo Doney
Member Support Officer

**FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT JO DONEY
MEMBER SUPPORT OFFICER ON DIRECT LINE 01803 861466**

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 19 September 2013 (pages 1 to 10);
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 they may have, including the nature and extent of such interests, in any items to be considered at this meeting;

5. **Transformation Programme 2018 (T18)** – to consider a report that summarises the findings of two project assurance reviews on the Council’s Transformation Programme 2018 plans (pages 11 to 36);
6. **Grant Thornton – Annual Audit Letter** – to consider the Annual Audit Letter which summarises the key findings arising from ascribed work carried out by Grant Thornton for the year ended 31 March 2013 (pages 37 to 50);
7. **Grant Thornton – Audit Committee Update** – to consider a report which outlines progress on the delivery of work provided to the Council by Grant Thornton (pages 51 to 62);
8. **Grant Thornton – Certification Report 2012/13** – to consider a report that summarises the overall assessment of the Council’s management arrangements in respect of the certification process and which draws attention to significant matters in relation to individual claims (pages 63 to 72);
9. **Progress Against the Internal Audit Plan – 2013-14** – to consider a report that sets out the principal activities and the findings of the Council’s Internal Audit Team for 2013/14 to 30 November 2013 (pages 73 to 99).

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.

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MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

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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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AGENDA
ITEM

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SOUTH HAMS DISTRICT COUNCIL

AGENDA
ITEM

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NAME OF COMMITTEE	Audit
DATE	16 January 2014
REPORT TITLE	Transformation Programme 2018 (T18)
Report of	Head of Finance and Audit
WARDS AFFECTED	All

Summary of report: The Council asked a team of independent external assessors to review the Council's Transformation Programme (T18) plans. This report summarises the findings of two project assurance reviews on the proposals.

Financial implications: There are no financial implications associated with this report.

RECOMMENDATION:

It is recommended that Members note the reports of the external quality assurance review team and the action plan which has been put in place in response to the findings in the reports.

Officer contact: Lisa Buckle, Head of Finance and Audit, lisa.buckle@swdevon.gov.uk

1. BACKGROUND

1.1 **Transformation Programme (T18).** Because of the unprecedented scale of financial challenges demonstrated in the Councils' Budget reports, Members have been considering a Transformation Programme (T18) which is viewed as the primary driver to achieve the savings required over the next few years.

1.2 This is a joint transformation programme with West Devon Borough Council with whom the Council has been sharing services with since 2007. The investment costs for South Hams District Council required for the T18 programme are £2.95 million, generating annual recurring revenue savings of £2.5 million. The Programme will be self-financing from the end of year 2 (2015/16) onwards. The payback period for the Programme is 2 years. Both Councils have now made the decision to proceed with the programme

1.3 The full Council report on the Transformation Programme 2018 is available on the following link:-
<http://www.southhams.gov.uk/CHttpHandler.ashx?id=6857&p=0>

2 EXTERNAL QUALITY ASSURANCE REVIEWS

- 2.1 The Council invited a team of independent external assessors to review the Councils' Transformation Programme plans. The assurance team visited both Councils and spent two days in a series of intensive meetings with Officers and Members examining the proposals.
- 2.2 The report of Grant Thornton is attached at Appendix A. The report states: "This approach (T18) is a corporate, long term, comprehensive savings programme across both Councils based on a different model of working i.e. more efficient interaction with customers through investment in IT and staff efficiencies. It has strong advantages over shorter-term approaches. It is more sustainable in the long term, provides a clear vision for all stakeholders: local residents, businesses, members and officers."
- 2.3 The report of the external review team is attached at Appendix B. The report concluded that the Councils' Transformation Programme 'is a well founded approach to delivering modern services at a substantially reduced cost.'

3. ACTION PLAN

- 3.1 The action plan below details the relevant findings in the assurance reports and how the Council will address these.

Report Finding	Management Response	Action by whom and by when
1) Market analysis regarding customer contact channel shift is not specific to the region. Suggest that the project team continues to analyse the potential and barriers to channel shift and undertake further local market analysis.	The assumptions used in the business case for self-serve savings are very conservative (Ranging from 1% to 17% depending upon the service area with an average of 7%). The national average is considerably higher. The project team have researched Geodemographic information such as the CACI (information technology company) profile of rural communities, which suggests that whilst residents are not dominated by modern technology, they will use on-line services several times a week, for example, managing bank accounts, purchasing groceries. Online services are seen as particularly helpful given the remote nature of some communities.	Head of ICT and Customer Services On-Going throughout the project
2) The project team should ensure customer related risk factors such as Broadband coverage are included.	The Digital Britain report shows that the ability to access services on-line is heavily related to the socio economic makeup of an area rather than connectivity.	Head of ICT and Customer Services

Report Finding	Management Response	Action by whom and by when
Signal strengths throughout the Districts are not reliable. Explore alternative arrangements such as G4 networks.	For example, Devon has higher connectivity rates that some inner city suburbs. The Government are investing in super fast broadband and 4G, the incoming generation of mobile signal, should become widely installed/adopted within the next 2-3 years. The project team are looking for technology that doesn't require constant connectivity but instead stores data ready for the next point of contact.	On-Going throughout the project.
3) To validate the accuracy of IT installation and running costs and maintenance and support costs.	The project team have undertaken a soft market testing exercise to look at the technology used by other leading authorities and have held discussions with many suppliers regarding our transformation plans. These costs have been validated as part of that process.	Head of ICT and Customer Services Already actioned
4) The management team should consider the level of reserves in comparison to other comparable sites.	Comparisons have been made with the Audit Commission's statistical nearest neighbours. This will be assessed again when the Accounts are closed in June 2014. The budget monitoring report in December 2013 showed a predicted underspend of £29,000 and the New Homes Bonus allocation for 2014/15 is predicted to be £1.365 million.	Head of Finance and Audit June 2014
5) The Councils should identify a clearly identified transformational lead officer and a member with specific responsibility for transformation.	The Corporate Director (TW) will be the transformational lead officer. The two Council Leaders will be the members with specific responsibility for transformation. The Steering Group will meet 2-3 times a year and the Programme Board will meet monthly.	Already actioned
6) Work up some specific examples of customer journeys.	Customer journeys have been documented and circulated.	Already actioned
7) Develop an overall risk strategy and a single risk register for the project with an action plan and clear deadlines for action.	The T18 Council report documents Risk Matrices. These will now be developed further into an overall risk strategy with a single risk register.	Corporate Director (AR) March 2014

Report Finding	Management Response	Action by whom and by when
8) Wider dissemination of the activity analysis and blueprinting process – maybe advantageous to open up the blueprint process to elected members.	The blueprinting process was for staff within each service area to identify the processes in their current format and how they will need to work in the new model. This was a twelve week piece of work. Members will be kept informed through Member workshops.	Head of ICT and Customer Services On-Going
9) The timetable is tight. Possibility to use reserves to edge the timetable back a little.	The project team will keep this under review as part of the programme monitoring. Any use of reserves will be considered, if and when appropriate and reported to Members.	Head of Finance and Audit On-Going

4. LEGAL IMPLICATIONS

4.1 There are no legal implications arising from this report.

5. FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising from this report.

6. RISK MANAGEMENT

6.1 The Risk Management implications of the Transformation Programme (T18) were set out in detail in the Council report of 4 November 2013 available below:
<http://www.southhams.gov.uk/CHttpHandler.ashx?id=6857&p=0>

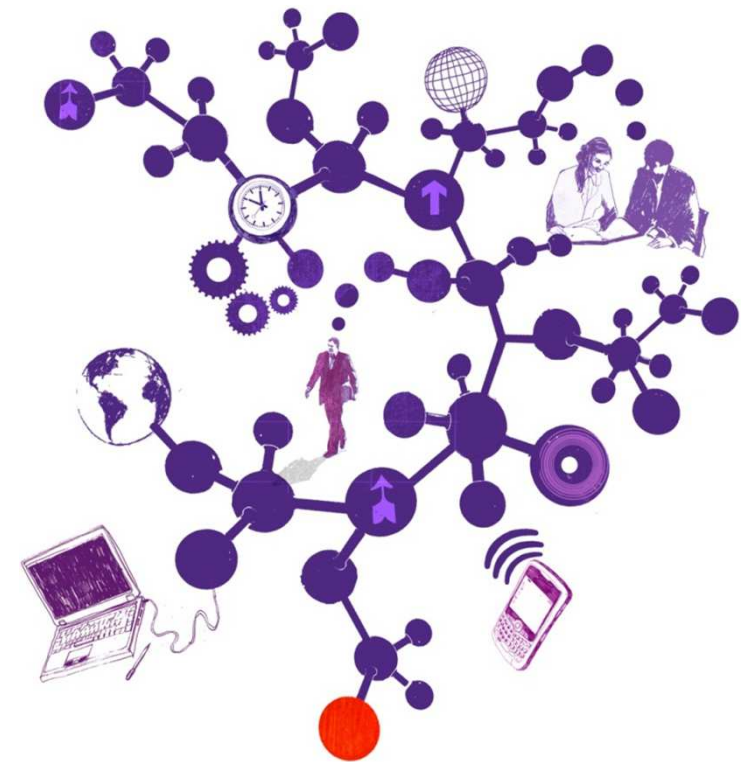
7. OTHER CONSIDERATIONS

Corporate priorities engaged:	The T18 report relates to the future delivery of the Councils' four corporate priorities
Statutory powers:	Local Government Act 1972, Section 151 Local Government Act 2003, Section 28
Considerations of equality and human rights:	There are no implications arising from this report.
Biodiversity considerations:	There are no implications arising from this report.
Sustainability considerations:	There are no implications arising from this report.
Crime and disorder implications:	There are no implications arising from this report.
Background papers:	Council report 31 October 2013 – T18
Appendices attached:	Appendix A - Grant Thornton report Appendix B – External assurance report

Review of South Hams District Council and West Devon Borough Council's Outline Business Plan for Transformation

October 2013

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Background and approach

Background

South Hams District Council and West Devon Borough Council are planning to move towards a new target operating model across both Councils through a 30 month transformation programme, named Transformation Programme 2018 (T18). At this stage a high level business case has been prepared by the senior management team across both Councils. This has set out to test whether this programme makes sufficient contribution to overall savings targets required by the councils to be taken to the next stage.

The T18 programme represents a fundamental change of working for the Councils. The key principles are centred around a significant change to the customer contact model:

- managing and reducing customer demand; and
- channelling as much customer contact as possible using the web/mobile technology

This will require a significant investment in ICT for the Councils in order for the savings to be realised. Notwithstanding this cost, the senior management team anticipate that savings will be generated through this change to working in relation to customer contact.

Also, as the majority of the Councils' costs relate to staffing, savings will be achieved through a headcount reduction arising from the implementation of this model.

The management team now would like to gain independent challenge on the high level business case and has selected three independent parties, including Grant Thornton, to perform this role. This will assist them in determining next steps in relation to the programme.

Approach

Our work has comprised the following:

Review of the high level business case

We have reviewed the high level business case dated 29 August 2013 v 2.03 to assess its general fitness for purpose and identify areas that the Councils should focus on. We have drawn on our experience of the local government sector and have referred to best practice in order to identify areas worthy of further consideration. Arising from this, we developed a list of questions to challenge the management team and assist them in ensuring that the documentation developed is sufficiently robust.

Attendance at the challenge event

We attended a challenge event which was held on Monday 14 and Tuesday 15 October 2013. This comprised of a series of interviews with the senior management team and various stakeholder groups. We also held meetings individually with the Section 151 Officer. The aim of this event was to seek assurance at this stage that the business case is fit for purpose and that no key areas has been overlooked.

Report

We were asked to comment specifically on the following areas following the above two stages:

- the assumptions made regarding the allocation of costs and savings between the two councils
- the governance structure for the T18 programme
- alternative approaches to addressing the funding gap that the councils may wish to consider if the T18 programme is not progressed, based on our local government client base

This report addresses the above points.

High level business case

Background

The Councils' approach to making savings is predicated on the success of the T18 programme. There are different approaches to meeting budget gaps being implemented throughout the public sector. This approach is a corporate, long term, comprehensive savings programme across both Councils based on a different model of working i.e. more efficient interaction with customers through investment in IT and staff efficiencies. It has strong advantages over shorter-term approaches. It is more sustainable in the long term, provides a clear vision for all stakeholders: local residents, businesses, members and officers. It allows better planning of resources, in particular staffing and accommodation resource which is particularly important for South Hams and West Devon as two Councils wanting to work more closely together to realise greater benefits. Corporate, strategic efficiency reviews have been proven to be more effective in cost reduction than the traditional annual 'salami slicing' approach i.e. by marginal cost reductions through cutting services or headcount in response to funding cuts.

The programme approach is based on the Councils' officers working closely together with aligned goals. We have seen strong evidence that part of the work completed to date includes communications and involvement with officers across the two councils to explain the proposed project and the implications for individuals as well as the councils as a whole. It will be important to maintain this momentum as the project progresses. We have seen that one of the four workstreams is 'people' which should provide that dedicated focus.

Meeting the financial challenges

The budget gap over the next four years to 2017/18 combined for both Councils is £4.7m. The annual financial savings indicated in the high level business case (dated 29th August 2013) is £3.5m. The financial costs are estimated at £4.7 million, allowing a payback period of just over two years. The savings and costs have since been refined to show financial costs of £4.85 million and savings of £3.8million, still delivering a payback period just over two years. If the programme delivers according to the forecast, it is clear that the programme will at least deliver the savings required for both Councils, (when taken in conjunction with other savings already identified). The Councils have performed sensitivity analysis to establish the worse case scenario and the effect that this has on the payback period.

It is very important therefore to ensure that anything likely to impact on these forecasts is monitored carefully. The Councils have indicated in their timeline for the Programme the need to monitor costs and extent of benefit realisation. This will include the on-going testing of initial assumptions including the effect on the sensitivity analysis. We have seen that programme risks have been documented and their impact and mitigations articulated. These will need to be monitored carefully to identify at the earliest opportunity any factor that may cause the forecast data to become inaccurate and impact on the savings calculated.

The basis for savings is through:

- headcount reduction (see page 3): and
- managing customer contact through reduced demand and more efficient contact through the significant IT investment

We understand that the project team has carried out market analysis regarding customer contact channel shift (from face to face to IT based contact) on which savings are predicated. However, we understand that the analysis is not specific to this region. In our experience, channel shift is often more challenging for councils than expected. We suggest that the project team continues to analyse the potential and barriers to channel shift, for example by assessing take-up of existing online local council services.

The payback period of two years for the IT investment seems short compared to other projects that we have seen being implemented (with the average tending to be between three and five years). To validate the accuracy of this forecast, the following should be reviewed:

- installation and running costs – there may be unexpected costs of ownership
- maintenance and support costs - these are normally a significant part of the cost
- running costs – including internal staff costs related to these

We have seen that detailed calculations have been made in relation to all of the above. To provide a sense check for these figures, a site visit to another organisation that has implemented a similar system could provide insight into costs that may only be uncovered at later stages. We are aware that the project team have carried out site visits to other councils and are maintaining links with them. The Councils should ensure that particular attention is paid to the above key costs when referencing other sites.

High level business case

Use of reserves

The T18 programme forecasts depend on a call on both Councils' reserves. For South Hams, it is proposed to use £700,000 of the current balance on un-earmarked revenue reserves, leaving a balance of £1.8m. As South Hams' net budget is £9.3m, this remainder amount is within the 10% of the net budget and as such within the terms of the Council's financial strategy. In West Devon, the Council proposes to use £200,000 of the current un-earmarked reserves of £1.03m (leaving a balance of £830,000). Again this would be within the 10% of net budget parameter. However, the minimum level of un-earmarked reserves for West Devon is £750,000 which would mean that the level would not be significantly above the minimum which represents a risk, particularly if some element of cost is higher than expected.

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The management team should also consider the level of reserves in comparison to other comparable councils, as well as in relation to the levels set within their own financial strategies, when deciding whether to use this proportion of reserves. South Hams' level of un-earmarked reserves to gross revenue expenditure did not change significantly from 2011-12 to 2012-13 and was average in terms of reserve levels at 0.28 of gross revenue expenditure (i.e. when looking at other authorities in the Audit Commission's statistical nearest neighbour benchmark group). However, the Audit Commission tools show that West Devon's level of un-earmarked reserves as a percentage of gross revenue expenditure was low in comparison to other councils at the end of 2011-12 with a ratio of 0.08 whereas the overall average for districts was 0.24 and 0.26 for the nearest neighbour group. This presents a higher risk for West Devon which needs to be considered carefully.

The Head of Finance and Audit is aware of the risk and has stated that it is anticipated that West Devon will have an underspend in the 2013-2014 Accounts of between £75,000 to £100,000, which would mean that the level of Unearmarked Reserves would rise to between £905,000 to £930,000. In addition, she has pointed out that the ratio analysis undertaken by the Audit Commission for West Devon looks low in comparison to other councils as the Council has a very minimal capital programme and low asset base (as the ratio calculates the level of available capital resources which the Council has as well as the level of Unearmarked and Earmarked Reserves).

We are also aware that West Devon receives a very high level of annual New Homes Bonus in comparison to other neighbouring councils which it could use for the T18 project if the costs were to increase beyond estimates. However, this money is not absolutely guaranteed and therefore cannot be relied upon entirely.

Staff costs

Redundancy costs

The redundancy costs of £1,388,795 which represents the loss of 97 staff has been calculated using the following assumptions:

- redundancy will take place as per the timetable
- redundancy costs for all staff have been calculated and a mean average has been used
- vacant posts included
- average redundancy cost is £14,137

Although these are valid assumptions, sensitivity analysis provides the full potential cost implication. If costs were to increase to the upper quartile of say an average of £20,000 per employee, this has the effect of increasing the investment costs by £570,000 and increases the forecast payback period to two and a half years.

Pension strain

The pension strain has been calculated at £518,044 using the following assumptions:

- a mean average strain cost was calculated
- it was calculated that 28% of current staff will be over 55, and
- 83% of staff will be in the pension scheme
- calculation is average cost multiplied by probability that the redundant person is over 55 and in the pension scheme

However, the cost may increase depending on how many older/longer serving staff are made redundant but conversely the costs may reduce if the vacant posts are not filled.

Financial data

Ratios

Investment costs relating directly to staff numbers

The ratio for calculating the split of investment costs between SHDC and WDBC in respect of the following staff costs is 64% for SHDC and 36% for WDBC:

- workstation costs
- infrastructure
- redundancy
- pension strain
- training

This ratio is calculated based on the level of staff for each Council, removing the 'not in scope' items and making the appropriate adjustment for staff that complete work for both Councils. This calculation seems reasonable based on comparisons to others we have seen in the local government sector where a number of councils are making a joint investment.

Investment costs in relation to software and ICT implementation

A ratio of 50:50 for each council has been used for the following costs:

- software
- implementation and workstream development
- implementation of future model

We understand that the rationale for this is to reflect the individual cost to a District Council of implementing the new operating model. Regardless of the relative size of each Council, the same level of implementation effort is required. To support the management's recommendation, Members should give consideration to the following questions:

- is the benefit received by each Council equal?
- are the same facilities being provided to each Council?
- is the outcome the same for each Council?
- what is the level of materiality to each Council?

South Hams District Council				
Description	Value £	50% ratio £	64% ratio £	Difference £
ICT Costs	680,000	340,000	435,200	95,200
Implementation and Workstream Development	730,000	365,000	467,200	102,200
Implementation of future model	350,000	175,000	224,000	49,000
If using 64% ratio SHDC would pay more				<u>246,400</u>
West Devon Borough Council				
Description	Value	50% ratio	36% ratio	Difference
ICT Costs	680,000	340,000	244,800	- 95,200
Implementation and Workstream Development	730,000	365,000	262,800	- 102,200
Implementation of future model	350,000	175,000	126,000	- 49,000
If using 36% ratio WDBC would pay less				<u>- 246,400</u>

Cost difference

The table above (extracted from the high level business case) shows the difference in costs should 64:36 ratio be used for splitting both the software and implementation costs (as opposed to 50:50). Using this ratio SHDC would pay £246,400 more and WDBC £246,400 less than the current officer recommendation shown in the Councils' reports on T18.

Alternatively, if just the ICT costs were split 50%/50% and the Implementation costs were retained at 64%/36%, SHDC would pay £95,200 more and WDBC £95,200 less. In our experience, councils do not place great significance on the exact sharing of costs, even in cases such as this, where the individual councils are not of equal size. It is worth considering the outcomes for each council and the level of materiality in relation to the size of the project to determine the importance of the chosen allocation in relation to the overall project.

Accommodation

If two office bases are retained, there is an estimated loss of programmed efficiency savings (agile and remodelling) of between £400,000 and £500,000 as identified in Section 4.5 of the Council reports on T18.

Governance arrangements

General governance

We have reviewed the governance structure provided in the documentation. This outline structure follows the recognised standard good practice structure, comprising:

- Steering Group
- Project Board
- Programme areas

Each have documented terms of reference, ensuring clear aims and accountability. Meetings held twice monthly is usual for this stage of a project's development. A typical structure would also include the project team/office which reports into the Project Board (which we understand is in place – this is the Programme Board made up of the Senior Management Team), as well as a quality manager/team.

The Councils should ensure that there is a clear ownership of the project, by having a clearly identified transformational lead officer and a member with specific responsibility for transformation, so that both officer and member responsibility and ownership is defined and communicated.

We note that there is no defined project team in place at the moment, although the Councils have a shared Business Development team who are undertaking a large part of the work. We understand that those involved in the project are officers who perform their roles in addition to their substantive roles. As the project progresses, the management team may need to include some dedicated full time resource to it.

Board composition

Governance good practice does not stipulate that board membership across the two Councils should be split evenly, or in any specific way. The key factor is to ensure that the individuals representing each council are suitably trained, have sufficient experience to discharge their duties as effectively as possible and are able to represent their council to achieve the overall ambitions of the joint project.

The size of the board and steering group may be determined depending on the specific needs of the project. Larger groups are preferred in some cases where diversity of input is required in relation to strategy and development, which may only be achieved through a wider group. Smaller groups are preferred where the strategy is well defined and swift decision-making is of fundamental importance for the project's success. It also depends on the availability of suitable individuals for the roles. The senior management team of the councils must decide what the priorities are in relation to the project and the resource available to them.

Risks and issues

We have noted that within both Councils' Transformation Programme reports to both the Executive (SHDC) and the Resources Committee (WDBC): Progress to Date and Next Steps document dated 19th and 17th September 2013, there is an extract from the corporate risk register which follows the standard good practice format with responsibilities assigned. However, the councils should ensure that customer related risk factors are included, for example that broadband coverage is not sufficient, or that channel shift/digital inclusion is insufficient to achieve the planned savings. There is also a risk to the service level customers currently enjoy. We have seen the latest Key Performance Indicators for call answering, but future call response rates and other measures will need to be forecast. An action plan should also ideally be attached to the risk register so that mitigations are progressed.

We have not had sight of an overall risk strategy, issues strategy or quality management plan. The Council reports on T18 documented the Risk Matrices but these will need further work to develop into an overall risk strategy for the project with an action plan and clear deadlines for actions. Our understanding is that the Council will progress these further areas, once a Member decision has been reached on the T18 project. The management team should consider documenting these after the Member decision, to strengthen the project as these are key components of a robust governance framework, as the ability to manage risks impacts on the ability to achieve the desired level of savings.

Alternative approaches to addressing the funding gap

Alternative approaches

We are aware that the councils have considered various options in determining if there are any alternatives to T18. Other alternatives identified were to:

- generate significant increase in income/maximise other savings opportunities
- work with another shared service partner
- delegate delivery of services to another council
- outsourcing/separate company agreements
- stop delivering discretionary services
- reduce services of statutory activities

As mentioned at the outset, transformation programmes such as T18 provide greater opportunities for savings as the whole model of working is re-configured to meet the needs of the customer and cut out activity that does not add value or is performed by a more expensive resource. If such programmes are successful, they enable councils to focus on providing and improving the services their customers want, rather than having to face difficult decisions about service cuts and focus attention internally. The last two options listed above would not enable the councils to improve their efficiency and may create additional risks through reduced service provision.

Looking at increasing revenue opportunities is an area of efficiency that may be considered, as the councils are doing here, alongside the transformation programme. The extent of the potential market may not be sufficient to deliver the savings needed, they are subject to the fluctuations of demand in the market and there are political considerations which may mean that some income opportunities are not considered acceptable for example car parking charges. Therefore this cannot be relied on as a single approach to funding gaps.

If the T18 programme is not progressed, the councils may generate savings and more efficient working through widening the shared service network and either hosting or receiving services from others. We have discussed this with the Head of Finance and Audit who noted concerns about the long lead time for such projects and the time needed to build relationships with other councils. We understand that there is also a concern that savings from purely sharing services have largely already been achieved through the shared working of both Councils. However, in our experience, larger groups of councils are able to benefit from greater scale efficiencies through sharing back office services, revenues and benefits offices and other service areas such as leisure and community services.

Partnering with a private sector provider is another key route that many councils are taking in order to generate the levels of savings required by funding gaps. For example, there are many cases of Revenues and Benefits being outsourced in this way, in which council employees are transferred by TUPE to the provider organisation which can make substantial staff cost savings, particularly in relation to pension contributions. However, we are aware that West Devon's Revenues and Benefits service was previously outsourced and this was brought back in house and delivered via a shared service to achieve savings.

A number of councils have now become 'centres of excellence' in specific service areas and are acting as the outsource provider to others. This helps them increase revenue at the same time allowing others to benefit from their expertise and greater scale economies than usual shared service working not just with neighbouring councils but country-wide in some cases.

The following pages provide more detail and examples of these alternative approaches, drawn from our client base, for reference purposes.

Conclusion

Summary of key points

We have assessed the outline business plan for the T18 Transformation Programme to determine its fitness for purpose. The key points of our review are summarised below:

Meeting the financial challenges

The projected savings calculated for this project show that these will more than cover the budget gap over the next few years. Sensitivity analysis has been carried out to ensure that the worst case scenario has been assessed for impact.

We have assessed the assumptions made in the outline business case and comment on the staff costs below. In relation to customer contact savings, further local market analysis into likely channel shift and digital inclusion would strengthen the assumptions made.

Use of reserves

The project will require both Councils to use reserves towards its financing. This will result in reserves falling to a level lower than average for similar councils throughout England, although reserves are still forecast to remain within the Councils' own tolerance limits.

Staff costs

We have assessed the redundancy costs and pension strain calculations within the high level business case. The costs have been calculated using reasonable assumptions and again sensitivity analysis has been used to ascertain the worst case scenario and the impact that this would have on the overall savings targets.

Ratios

We were asked to comment on the allocation of costs between the two Councils in relation to the investment costs. Staff related costs have been split 64:36 between them, but costs relating to ICT implementation have been split 50:50. The allocation seems reasonable based on the assumptions used and our knowledge of similar projects elsewhere in the sector. It is worth considering the outcomes for each Council and the level of materiality in relation to the size of the project to determine the importance of the chosen allocation in relation to the overall project.

Governance

The governance structure currently in place is broadly in line with best practice. It could be strengthened by having a clearly identified transformational lead officer and a member with specific responsibility for transformation, so that both officer and member responsibility and ownership is defined and communicated. At later stages in the project, additional resource may be needed to strengthen these arrangements.

Board composition is a matter for the Councils to decide what suits their needs. The size and representation from each Council is less critical than having individuals who are suitable and trained for the role.

We have reviewed the risk documentation and suggest that a single risk register is created to enable proper management of risks as these will be critical to the project's success. We also suggest that additional consideration is given to the risks in relation to customer contact as these could impact significantly on the savings potential of the project.

Appendix

Alternative delivery models

Alternative delivery models

Commissioning model and outsourcing delivery

A number of our clients are moving towards this model. This is fundamentally a different approach to how local services are provided. This system, whereby the council works with elected members, partners and residents to set the strategic priorities of the region in the context of the available resources, to agree a set of outcomes reflecting local needs and the full range of parties helps to achieve. Services are commissioned from a diverse range of providers and can be at different scales and run in different areas all at once. One of our clients has adopted this approach to underpin its transformation programme. It has partnered with a private sector outsourcing specialist for the delivery of two contracts. One covers New Support and Customer Services Organisation (NSCSO) and the other is Development and Regulatory Services (DRS). The council has a well-resourced procurement function and a commercial services manager who have worked to develop the contract so that the council derives the savings it requires and this increases incrementally throughout the lifetime of the contract. They created a Strategic Commissioning Board comprising the Chief Executive and three senior directors. This Board has overall responsibility for the management and leadership of the council, developing commissioning priorities and ensuring that local needs are met and that partner working is good. Overall performance rests here too.

The commissioning model requires fundamental questions to be asked about the future of local services during times of budget cuts. Is it necessary? What form will it take? How best to provide it? This model is all about who is best placed to deliver services in accordance with the priorities set by elected members. Internal and external delivery units are required for the new structure.

In our client's model, they have appointed six lead commissioners who cover collectively all areas. Their role is to translate the priorities set into commissioning strategies and delivery plans. They have also appointed an Assurance group to provide the important job of independent oversight and assurance to the board and members on governance and business practices. This group comprises six individuals drawn from finance and internal audit staff. The council chose this approach to allow flexibility and move away from the directorate silo approach, into a mixed economy. The senior management team was reshaped to enable:

- more leadership capacity to oversee new commercial relations
- delivery of service changes required by the Medium Term Financial Strategy
- support for the democratic decision making of the council

The council expects the NSCSO contract to deliver savings of £70m by the end of its 10-year life (18% of transferred budget) and £17m on DRS with an additional £9.8m of additional income to the council.

The income from the DRS contract includes planned growth of the Regeneration service with the aim of selling services increasingly to other councils/commissioners. There is also income from government initiatives like the New Homes Bonus.

Alternative delivery models

Outsourcing: a further example

Our clients, three neighbouring district councils, have entered into a partnership with a private sector supplier for the delivery of their joint revenues and benefits service. These councils had already made savings through economies of scale since setting up their shared service partnership for revenues and benefits over a period of six years. This was during a period of increased workload. They had reached a point where they needed to make further savings without compromising service quality and felt that they could not achieve this without external support. The advent of Universal Credit meant that up to 40 full time posts were at risk of redundancy which may have increased if greater budget cuts were needed in future.

Their previous attempts to grow the partnership through a wider local government network had not been successful. Although they knew their service offering was strong and tradable, they recognised that they were not skilled in taking this to market. They decided to approach private sector providers with proven expertise in this field.

The business case is predicated on £3m savings across the three organisations over the five year lifetime of the contract. The council employees have been transferred via TUPE arrangements to the supplier, meaning that it now becomes responsible for their salary and on-costs including their pension arrangements which are based approximately on 19% employer contributions, making a significant saving. All former council staff will retain their Local Government pension scheme membership where relevant.

Key success factors

- know your requirements – understand your own requirements and capabilities through assessment and prioritisation of risk
- evaluate your ability and appetite to work in a collaborative partnership
- do your research – perform extensive due diligence as part of the vendor selection process. This should cover financial and operational performance, capability assessment, a key personnel audit and assessment of cultural and strategic fit
- define roles and responsibilities across the partnership
- clearly define roles and responsibilities across the parties for both operational delivery and overarching management of the relationship
- ensure defined roles are maintained or changes only made by mutual agreement
- take actions to ensure that accountabilities for operational matters are understood by both parties throughout

Alternative delivery models

Shared services

The shared service model involves entering into a collaboration, usually with other councils and increasingly with other organisations in the public sector such as the police. Our clients typically have shared services across counties for service areas, in particular regulatory services where they most benefit from scale economies. Greater benefits are derived from wider shared service working i.e. across three or more organisations, to benefit from greater scale economies. For example, the seven councils within Worcestershire operate a shared service partnership across some services county-wide which has delivered significant savings.

Benefits

there is greater control over process and outcomes which can lead to reduced risk, if your processes are sufficiently robust. This may be particularly relevant for key areas of service delivery

- cultural fit may be better among a group of public sector organisations
- greater flexibility due to not being tied into a fixed term contract

Risks

- the opportunity for scale economies without the backing of an experienced supplier with strong capacity may be reduced
- IT investment remains the responsibility of the council
- the risks of maintaining own processes may be higher than using an experienced outsource supplier

Key success factors

- all participants should have an established trust of one another, built up over a period of time
- there should be a clear vision, shared across all partners
- each individual partner's role should be known and understood by all
- there should be the ability for all to compromise where necessary, for example on goal alignment
- there should be flexibility concerning the contract terms as, over time, technology or partner needs may change and need to be incorporated

Alternative delivery models

Trusts and social enterprises

The councils may wish to consider setting up an arm's length delivery vehicle, such as a trust, to run specific discretionary services. A number of our clients have created trusts, for various purposes. A common factor is the existence of an asset that the council finds expensive to maintain and does not have the capacity and/or expertise to run the venture as successfully as it would like. This asset is therefore transferred into the trust vehicle.

One of our clients has set up a trust to run its local theatre. A charitable trust company has been created. The objective was to seek additional funding streams as the traditional routes of funding were no longer as generous as in previous years. It also had the aim of exposing the Theatre to greater expertise from the worlds of art and commerce. The trust is non profit making and the building remains fully owned by the council. All surpluses made will be re-invested. It has retained a degree of control through having two seats on the board of the trust, alongside a number of individuals chosen for their relevant experience in this area. Staff of the theatre are now solely employed through the trust. It is too early to determine the savings levels achieved, but the council is now able to focus on other areas of service delivery and, apart from a fixed annual grant, has no other expenditure in relation to the theatre.

Similar considerations are followed for social enterprises. These are usually set up where there is trading of goods and services which may make a profit and be reinvested in the organisation. Some councils have used this approach to run their street markets, allowing local traders to run the operation, at arm's length from the council itself.

Benefits

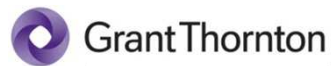
- the council leaves the running of the trust to a third party and can focus on other service delivery
- the Trust is not bound by the council's strategic priorities allowing greater freedom
- due to its charitable status, there are tax advantages relating to the running of a trust
- trusts attract wider funding options such as lottery funding
- unlike a private company, surpluses can be reinvested

Risks

- it may not be politically acceptable for the council
- the trust is not directly accountable to members and residents due to its arm's length nature, so if closure decisions are made, the council has lost that control
- staff may be on less beneficial terms and conditions
- assets may be transferred to the detriment of the council
- tax exemptions may not survive the lifetime of the trust as legislation changes

Key success factors

- be clear about what the objective of the trust will be – is it to make more money for the council? Or free up resource? Or both?
- articulate the goals and communicate to the wider stakeholder group so that there are no surprises
- understand the motives of the trust and how that aligns to the council's.
- understand the implications of bringing the function back in-house if required



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SOUTH HAMS DISTRICT COUNCIL - 31 OCTOBER 2013

WEST DEVON BOROUGH COUNCIL - 4 NOVEMBER 2013

TRANSFORMATION PROGRAMME 2018 (T18)

EXTERNAL QUALITY ASSURANCE REVIEW & FINDINGS

1 Summary of Report:

1.1 This report summarises the findings of a project assurance review on the councils' T18 proposals. Following an intensive series of meetings over two days with council officers and members the report suggests that T18 is a well founded approach to delivering modern services at a substantially reduced cost. It identifies a few key issues that need to be managed carefully to maximise the prospects of success.

2 THE REVIEW

2.1 From the start it has been clear to the officers and members of both councils that the T18 proposals represent a root and branch reconfiguration of the two councils' services and the way they are delivered. It is to their credit that they sought a detached view of the proposals as a health check of the project in advance of taking key decisions to progress or not.

2.2 The form of the review was to invite three individuals with known relevant experience to familiarise themselves with the documentation of the project, over two days on site, to meet key officers, the leadership, union and staff representatives and open forums of elected members and finally to report back on their findings.

2.3 The team was asked specifically to provide an objective opinion for Members whether or not T18 should deliver the estimated savings via the reconfiguration of services and the more joined up use of ICT that the project proposes. At the same time we were tasked to comment on the risk management aspects of the project and any alternative approaches that might come out of our work.

2.4 The team comprised:-

Ian Lowrie OBE – Ex joint Chief Executive of Adur District and Worthing Borough Councils

John Rogers - Head of Systems Thinking and Customer Access, Transformation, Wiltshire Council

Heather Goldie – Grant Thornton; commissioned separately to report on financial aspects of T18

2.5 The review commenced with distribution to the team of relevant papers in the week leading up to the onsite interviews which were conducted on 14 & 15 October. This report was prepared and agreed within the team shortly afterwards and the findings are now presented to the two councils to assist the decisions they are about to make.

2.6 Before proceeding to the findings themselves, the team would like to thank all participants for the open and friendly way in which they engaged with us.

3 THE FINDINGS

3.1 The issues and discussions we had when on site predictably covered a very wide range of topics and perceptions of T18 and its implications, success or failure. To make this report more digestible we have structured these comments under the headings that our consultees wished to express their views upon. However, it is important also to recognise that the other crucial comparator you need to measure views of T18 against is the fundamental purpose of the two councils. Aligning fundamental purpose and T18 together is a powerful way to build engagement and support from customers, members and staff. In other words, the councils should not be side tracked from the requirement to serve their communities with real value for money services and support for those communities by any of the components of T18, however deserving of concern they are.

3.2 T18 is a comprehensive programme: a genuine transformation, not simply tweaking. It includes:

- New ways of working – agile
- Upgraded infrastructure
- New service design
- New (additional) ways for customers to access service
- New ways for councillors, communities and officers to work together
- New IT applications
- New job roles and structures
- New management processes

3.3 These changes will all take place together in a relatively short period of time. This gives the opportunity for them to reinforce one another, but will also require deft coordination and close attention to the factors which are essential to success.

Changing the way services are delivered

3.4 The work that has gone on to date has examined many highly detailed aspects of various services provided to customers. The heart of T18 suggests a different grouping of tasks to deliver first class services at each of the stages of service in a coordinated manner; eg front line, case handling and specialist. There is an appreciation of the end to end costs of delivering the service and this should be a factor when allocating tasks to roles – rework is almost always more expensive overall than getting it completed in full first time (or in the fewest possible steps).

3.5 This highly analytical work is being translated into service blueprints which will then form the basis of the new services and what the ICT specification will need to support and deliver. Some of the comments and concerns we picked up did not appreciate how much has already gone into the design of the T18 model and there is still more to do. This suggests the need for a wider dissemination of the activity analysis and blueprinting process so that others can see that they are not being rushed into something that has not been thought through. It may also be advantageous to open up the blueprint process to elected members to widen the understanding of T18 and to build in their perspective on the service design stage.

The increased use of ICT

3.6 Many of our consultees expressed anxieties about the increased dependence upon ICT, whether it will do what it says on the tin and whether it can be made to work within time and cost limits and across two councils too. The other main concern expressed was that there are many council customers who do not have the skills, equipment or desire to access the councils on line.

3.7 Our view of the ICT aspects of T18 are partly influenced by the fact that the two councils already have a track record of investment in ICT and that much of the joint infrastructure is already in place. However, as this has been done in a relatively piecemeal way there are huge inefficiencies in systems that cannot talk to each other or transfer documents etc. Whilst recognising the risks and uncertainties of an entirely new joined up system, it is this that will deliver the services more efficiently and with fewer staff.

3.8 Another thing to note is that all the component tasks that will be handled within the ICT environment are entirely familiar to council systems. The innovation is the installing them across two councils joined up with each other from the start. Clearly the failure of major ICT system procurements in the public & private sectors has coloured some perceptions of how this will be made to work. So it is one of the key risk factors and this will inform some of the comments we make later in this report about timescale and risk. Nevertheless, it is central to delivering modern services at substantially reduced cost. This obviously places a huge premium on getting the specification and tendering process for the ICT suppliers right; in addition, once the essential functionality requirements are met, the ethos of the suppliers is the key factor: will they work with the councils effectively as a partner?

3.9 A visit organised for elected members to view the integrated arrangements at Wiltshire provided a practical example of how such systems can work successfully alongside each other and across organisational boundaries.

3.10 Finally, the concern about those who cannot use ICT systems needs to be dealt with. The proposal does not stop either of the councils providing services in the traditional ways; by telephone or face to face. Mobile staff will be able to help customers get their needs right first time, rather than clogging up any of the systems with queries or revisions. The new joined up ICT should add better integrated services to support them and at the same time gives access to those systems for those who choose to use them themselves. High-quality self-service options on digital channels will create capacity for people who need supported delivery via telephone or face to face – so channel shift will enable savings while improving access.

Mobile working

3.11 Agile and locality staff, with the right equipment to enable them to work with the new ICT systems out in the field, is a creditable example of the ability to enhance service at the same time as reducing cost. However, we did pick up strong concerns about the networks currently available to support the technology as visualised. Our personal experience of the lack of mobile signals during our visit underlined this concern.

3.12 Some reassurance can be taken from the project staff we met that alternative arrangements are being explored, possibly that installation of 4G networks will assist and that investigations are

underway into how wifi hotspots can be achieved in local communities at very low cost and how mobile staff in other organisations succeed in operating in difficult reception areas eg the AA, Fire & Rescue etc.

Financial costs

3.13 At face value the financial costs of T18, totalling some £4.7million represent a major sum for district councils. However, when set against the potential savings, assuming they are realised, it represents a really sound invest to save proposal. But it does mean that the estimates and assumptions need to be tested throughout the life of the project as the actual costs unfold along the way.

Financial savings

3.14 In a similar vein to the costs, the savings need equivalent scrutiny. We spent a substantial portion of our time testing not only the figures but also the nature of the reconfiguration of services to understand how they will function well at less cost. At one level of course the savings are very predictable; ie if the number of staff is reduced as proposed then the salary bill will go down accordingly. The final net savings figure will then depend upon the final investment costs and the outcome of the actual redundancy costs against the estimates.

3.15 The salary budget reduction is almost a given each time one of the project phases is completed and the redundancy costs will be one side or the other of the estimate. In addition, the councils are already holding vacancies open, or filling them on a temporary basis, so that this risk (and its cost) is being managed down from now. In this way therefore the savings estimate seems robust in broad terms.

3.16 Our exploration of the estimates from the bottom up was also undertaken. This revealed a very thorough exercise, in partnership with the consultants Ignite and iESE.

3.17 Grant Thornton will be presenting a more detailed report on the financial aspects of T18.

People & human resources issues

3.18 Many of our discussions made reference to the people issues surrounding T18. This is natural when so many of the outcomes of the project depend upon a redesign of officer roles into different skill sets, more focused on the customer journey and the fact that the savings depend upon needing less staff in total. However, as the councils are currently deeply involved in the service design and blueprinting stage of T18 it was not yet possible to consider or comment in detail on the nature of the new jobs. All we can say is that the process for service design is intensive and impressive in its scale and attention to detail and should lead to a rational approach to the job specifications required in the T18 customer environment.

3.19 There is a great deal in T18 for staff to feel positive about. T18 has not caused the need to reduce spending in line with reduced budgets, which is driven by external pressures. It is, instead, an innovative route to a better future that has made a virtue of the challenges. For the four out of five staff who continue (those are respectable odds!), the new model offers opportunities for development, a high value placed on customer-facing and locality-based roles, and potential to be

part of an exemplar for small rural councils' service delivery. It also places the councils in the driving seat of their futures, rather than becoming victims of external circumstances.

3.20 Representatives of staff did express concern that the new specification of "required skills" could dispossess existing staff of the opportunity to continue working for the councils and the impact it may have on the selection process. Our observation on this view is that regardless of the change in the profiling of the T18 customer service environment there will still be a need for direct experience, knowledge of the area and an understanding of the technicalities of each service. Therefore, whilst we support a wide trawl of staff for the new staff structure, it is the existing staff who will be best placed to occupy the new roles as long as they approach positively the possible need for flexibility in the new arrangements. As a corollary to this the councils will not wish to create redundancies unnecessarily in view of their cost.

3.21 Finally, we also discussed briefly the possible new employment entity, the rationale for which is to symbolise the transition to new ways of working and new roles. We did not have time to go into this in depth but have reservations about the value of creating a new employment entity if it is merely symbolic. These reservations would be reduced if it is seen as a prelude to a longer term move to an alternative service delivery model or wider group of stakeholders..

Risks and managing them

3.22 It is obvious to all involved with both councils that T18 will change customer culture in a fundamental way. As a result it is entirely appropriate that the T18 process and its documentation include a specific and comprehensive risk management process. This should and will be a regular and systematic part of project review through the T18 timetable. We are satisfied that risk and its management are already being given careful consideration as a fundamental part of the project and its management.

3.23 In the time we spent looking at this a few items of risk came up that we believe need particular attention if T18 is to be delivered successfully. They may require more specific scrutiny in the risk management process:-

ICT cost and specification – The procurement of a successful ICT system to underpin the new customer service arrangements is mission critical. Many of our consultees referred to examples elsewhere where cost, effectiveness or timescale had not worked. We have expressed the vital nature of the blueprinting exercise feeding accurately into the specification elsewhere in this report. It is essential.

Mobile signals & solutions – We believe the locality workers, agile working arrangements and potential for staff to go to the customers under T18 are exciting and positive aspects of delivering really good and modern services. However, signal strengths throughout the districts are not reliable. This risk needs very careful scrutiny with specific actions to ensure that there are sound and practical steps to make this critical part of the customer network effective.

Savings – A major driver for T18 is to deliver savings. Much work has gone into the estimation of savings via the activity analysis etc. However, the costs of procuring the ICT

systems and the actual outcome of the staff savings, redundancy etc will need very close risk monitoring as the project progresses.

Governance – The councils have had great success in operating in their shared environment over recent years with a high degree of “separateness”. Such is the scale and fundamental nature of T18 that we believe the councils should consider a more regular series of more formalised meetings with leading members of both authorities to review T18 progress (recognising there is a high level of existing informal contact). This would protect the councils from unexpected outcomes and prepare for any difficulties in T18 that might require a more integrated discussion and collective compromise.

Service delivery/reputation – Implementing a project as all-embracing as T18 is bound to create some disruption to what is regarded as “normal service”. The councils have generally high standards in current performance indicators. The risk of them dipping below current levels in the short term needs to be acknowledged and the management of key messages built into the process.

Timetable & Implementation

3.24 Overall our view of the T18 proposals is that the timetable is tight. However, when the financial prospects of both councils are so challenging, time is clearly of the essence. And it is also true to say that getting a major organisational change completed in a short time does cut down the risk of it feeling like an endless period of uncertainty. However, the councils will need to balance the urgency of the financial context against the certainty of successful implementation of T18.

3.25 It is creditable that the project plan seeks to achieve a great deal in a short space of time. However, many of the comments and concerns we heard from our consultees seemed to be founded on a belief that T18 would happen overnight.

3.26 In fact, despite the pace of the project, the T18 timetable still runs over a number of years and there are tight but realistic estimates for the numerous stages of its implementation. The review team does have some anxiety about the achievability of the service design stage being so tightly programmed alongside the systems procurement activities, as it is so important for the right systems being acquired. Some members suggested using reserves to edge the timetable back a little to ease this possible pressure point.

3.27 The review team makes no recommendation on this thought, but would only comment that it could be one option for mitigating some of the inherent risks in any innovation based on major ICT acquisitions.

Is there an alternative?

3.28 One aspect of our brief was to assess whether or not there appeared to be any realistic alternative to the T18 proposals that might deliver similar benefits and savings.

3.29 The only specific suggestion we heard was for the councils to add further partners to its shared services arrangements. However, as the two councils have already taken substantial savings from

these arrangements, the addition of extra partners would not produce the level of financial benefit needed and would generate substantial additional management and governance effort (and cost).

3.30 Another observation that occurred to the team during the review was the fact that the only substantive alternative was written into the papers that have been put to the councils already. Namely this describes a period of severe and growing shortage requiring the councils to make draconian cuts to services and closure of many activities. This ends up providing further justification for making T18 work rather than looking elsewhere. Therefore, the only alternative might be to adjust the timetable if that helps to manage risk or to deal with any specific local issues.

Communications

3.31 It will be clear from the comments so far in this report that there are a few aspects of T18 that are of substantial concern to those that we listened to. As our consultees were all part of the councils' working arrangements this does suggest a need for even more communication activity than has taken place to date. Whilst recognising that much has been done already, our view is that continued involvement of staff and more elected members in the early stages of the design of the new arrangements would enhance the design process itself. It would also help to disseminate a deeper understanding of the culture change that T18 represents.

3.32 In addition to these general comments, some more specific suggestions that occurred to our team were:-

- Include a small number of elected members in the blueprint activities.
- Programme a series of strong internal and external messages that focus on the channel-shift aspects of T18 to demonstrate that the direct on-line integrated services are in addition to existing channels. Facilitated access via other routes will be maintained for those who are not able or willing to use them.
- Maximise and publicise the lessons from site visits or information from other working examples of the T18 style of working, making them practical demonstrations wherever possible.
- Work up some specific practical case examples of how services will operate under T18 so that the customer journey can be understood "in colour" rather than in theoretical flow charts.
- Producing and disseminating some clear messages on the timetable that clarify the sensible stages that are part of the project plan, ie that despite the need to achieve savings in the near future, there is a very clear and thorough series of project stages to be completed before major decisions and detailed arrangements are implemented.

4 CONCLUSIONS

4.1 From this short but intensive review we are of the opinion that the T18 project is a well thought out and innovative way of transforming the services that the two partner councils provide to their communities, at the same time as delivering substantial savings. There are sound reasons to accept the estimated costs and savings at this stage, but these will need to be carefully monitored and managed as the realities of each of the stages unfolds.

4.2 Naturally there are risks with any project of this scale or complexity but we believe there are sound attitudes and systems built into the T18 project to manage them successfully, with a few points of extra emphasis ed in this report.

4.3 Finally, a degree of wider involvement of members in the T18 processes would help the understanding, design and acceptance of the T18 proposals as well as informing the essential communications activity.

Ian Lowrie OBE

John Rogers

21 October 2013



The Annual Audit Letter for South Hams District Council

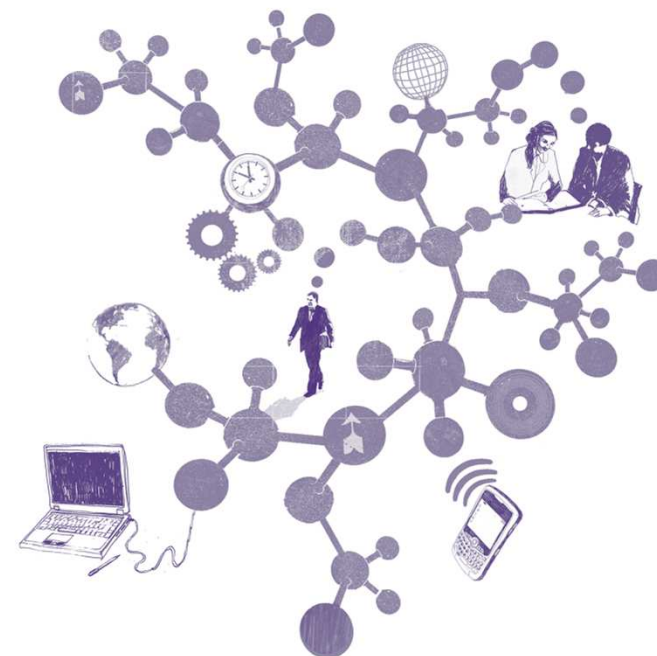
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Agenda Item 2b

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Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at South Hams District Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012-13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 19 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012-13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Council was below the £300 million audit threshold set by the National Audit Office (NAO) for Whole of Government Accounts and therefore a full review was not required. We issued the shortform assurance statement to the NAO by the 4 October deadline.

Our certification work is on-going and key findings will be reported in our Certification report following completion of all work.

Executive summary (continued)

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

We noted that the quality of the financial statements was good but recommended that the Council review the processes in place for identifying capital expenditure following incorrect capitalisation of expenditure.

The Council continues to face significant financial challenges over the medium term following further reductions in government funding and is seeking to address a budget gap of £2.35 million over the next four year period from 2014-15. The Council has a very good understanding of the financial challenges being faced and is proactively planning to address these issues through a significant transformational change programme which aims to deliver a new operating model. However, there remain uncertainties and risks, and the Council should ensure appropriate monitoring and reporting of performance against agreed saving plans.

Acknowledgements

This Letter has been agreed with the Head of Finance and Audit and will be presented to the Audit Committee on 16 January 2014.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, ahead of the national deadline of 30 June 2013. Access was provided to electronic working papers to support our work from the start of our audit fieldwork, which commenced 22 July 2013.

Issues arising from the audit of the accounts

One adjustment of £293,000 affecting the Council's net expenditure reported in the Comprehensive Income & Expenditure Statement was made to the financial statements. This change related to errors in capitalising expenditure on property, plant and equipment but had no impact on the Council's general fund.

A small number of adjustments were also made to improve the disclosures within the financial statements.

Annual governance statement

The Council's Annual Governance Statement (AGS) complied with requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC) and contained the elements as prescribed in Delivering Good Governance in Local Government: Framework.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 19 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012-13 accounts on 19 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that whilst the Council faces significant financial challenges due to further reductions in government funding leading to a budget gap of £2.35 million over the next four year period from 2014-15 to 2017-18, the Council has a very good understanding of the financial challenges being faced and is proactively planning to address these issues through a significant transformational change programme which aims to deliver a new operating model. Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and concluded that adequate arrangements are in place.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Certification of grant claims and returns

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

For the financial year 2012-13, there are two claims and returns that require certification, with a value of £55 million.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

Our work with regard to the National Non-Domestic Rates Return is complete and this was certified without amendment or qualification.

Our work on the certification of the Housing and Council Tax Benefits claim is on-going and the key messages from our certification work will be reported in our certification report due to be issued on completion of work on this claim.

Page 40 Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan	Actual fees
Audit Fee	£56,972	£56,972
Grant certification fee*	£12,300	£12,300
Total fees	£69,072	£69,072

* Certification work is still on-going. The final fee will be reported to Members later in the year as part of the annual certification report.

Fees for other services in 2012-13

Service	£
VAT and employment tax advice	£8,000
Review of client response to HMRC	£2,500

* Please note that we were engaged to undertake the VAT and Employment Tax advice before our formal appointment as the Council's external auditors.

Reports issued

Report	Date issued
Audit Plan	March 2013
Audit Findings Report	September 2013
Certification report	Planned for November 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013



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Audit Committee Update for South Hams District Council

Year ended 31 March 2014

16 January 2014

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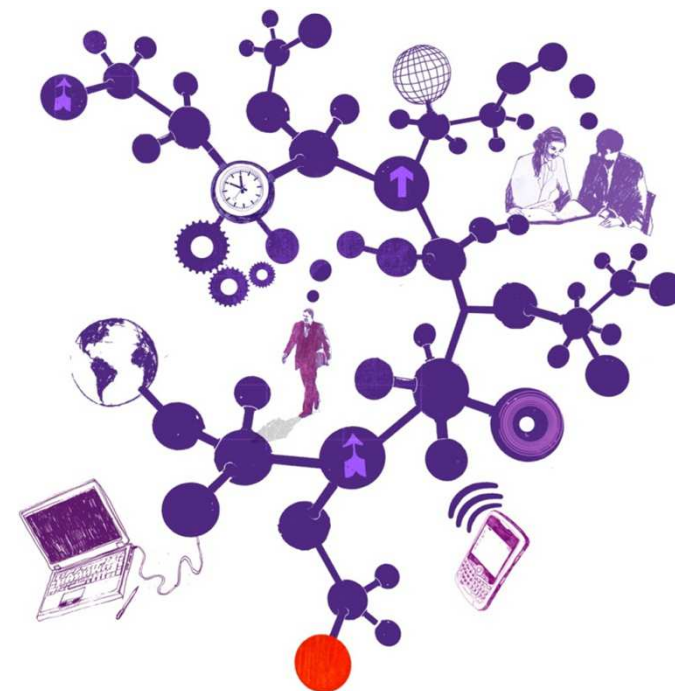
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Agenda Item 2c

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact your Engagement Lead or Audit Manager.

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Progress at 31 December 2013

Work	Planned date	Complete	Comments
2012-13 Audit	By 31 October 2013	Yes	Audit complete and annual audit letter produced and copied to this committee.
Certification Work 2012-13.	By 30 November 2013	Yes	We audited two claims for 2012/13. The 2012/13 Certification report is on the Audit committee agenda.
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	March 2014	Not due	This will be produced to inform our work on 2013/14 audit, taking account of developments in local government accounting requirements and reflecting on the audit process from 2012/13.
2013-14 Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing. 	Spring 2014	Not due	Not yet due.

Progress at 31 December 2013

Work	Planned date	Complete	Comments
2013-14 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts. 	Summer 2014 September 2014	Not due Not due	Not yet due.
2013-14 Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises: <ul style="list-style-type: none"> • a detailed review of financial resilience • a review of arrangements for securing economy and efficiency • a follow up of recommendations made last year. 	Spring Summer 2014	Not due	Not yet due.

Emerging issues and developments

Local government guidance

Council tax collection – data from the value for money profiles

The Audit Commission has released a briefing on Council Tax Collection which uses the data held in the VFM profiles tool. The VfM profiles can be used to consider:

- how the cost and rate of collection compares to different comparator groups
- how changes over time compare to the overall trends described in the briefing
- how council tax collection may be affected by local arrangements in the council tax reduction scheme.

Issues for consideration:

- Has your Head of Finance & Audit reviewed the costs and performance of your authority against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Local Government Pension Scheme

The Department for Communities and Local Government has launched a 'Call for Evidence' on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

The consultation closed on 27 September 2013.

Issues for consideration:

- Has Head of Finance & Audit reviewed the consultation and assessed the potential impact?
- Did your authority respond to the consultation?

Local government claims and returns 2011/12

In June 2013, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

The Audit Commission concluded that:

- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

Issue for consideration:

- What procedures does your Head of Finance & Audit have in place to ensure that grant schemes terms and conditions are complied with and that claims and returns are completed accurately?

Emerging issues and developments

Grant Thornton

'Future Councillors – where next for local politics?'

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: *Future Councillors – where next for local politics?* Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians. The report is a response to this discourse gap.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

Issue for consideration:

- Are your elected members taking a greater role in financial planning and has the authority ensured that members are trained for the task?

Emerging issues and developments

Grant Thornton

Spending Round 2013

It was announced in the June 2013 spending round that the local government resource budget will be reduced by 10 percent in 2015-16.

As Paul Dossett, Head of Local Government at Grant Thornton UK LLP, wrote on informationdaily.com, the Chancellor 'seemingly acknowledged local government's capacity to deliver the scale of savings achieved so far. No other spending department received such positive affirmation. The Chancellor's actions imply that local government leaders are more capable of meeting the national challenge than other parts of the public sector. Over the past three years, local government members and senior officers have tightened their organisational belts and most have shown they are able to deliver significant change. The government is placing continued reliance on their resourcefulness in order to help meet the fiscal shortfalls facing the broader public sector, and many in the sector recognise this.'

'In his speech, the Chancellor recognised the benefits that more collaborative working can bring, although not on the lines subsequently suggested by the LGA. The Chancellor called for more joined-up working between police forces, and between police forces and local authorities - with a £50m innovation fund to be established to support this work. He also called for greater collaboration between health and social care services, with £200m to be transferred to local authorities from the NHS in 2014-15, and a £3.8bn pooled budget in 2015-16. In addition, £35m is to be made available to local authorities in 2015-16 to help prepare for reforms to the system of social care funding, including the cap on care costs from April 2016. There is also the £200m additional funding to the Troubled Families programme being managed by the department for Communities and Local Government.'

Issues for consideration:

- Has your authority reviewed your medium term financial plan in light of the Spending Round announcement and considered the action to be taken? We would emphasise that for South Hams District Council, the preparation of the 2014-19 MTFP is already in progress.
- How is your authority planning to work with other organisations in the public sector?

Emerging issues and developments

Accounting and audit issues

2014/15 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2014-15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013-14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*
- local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies
- options for the "dry run" for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements.

Both consultations closed on Friday 11 October 2013.

Issue for consideration:

- Has your Head of Finance & Audit reviewed the proposed amendments and assessed the potential impact?



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Certification report 2012/13 for South Hams District Council

Year ended 31 March 2013

16 January 2014

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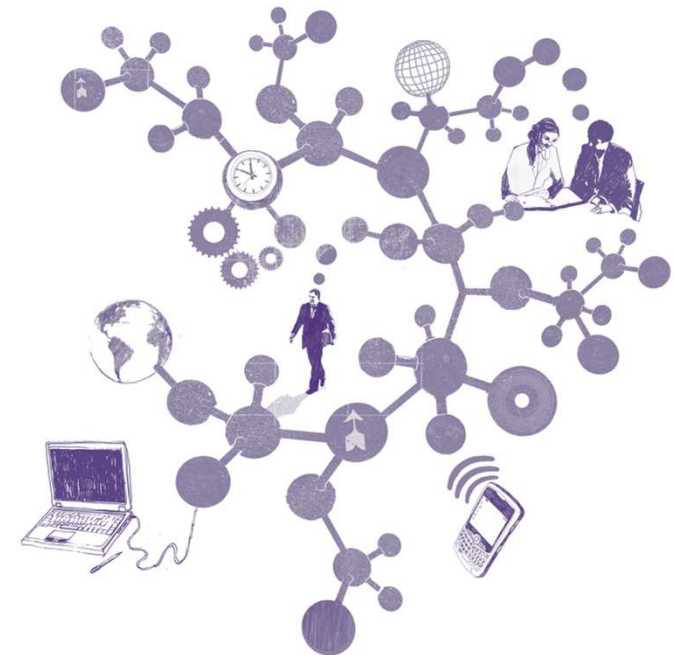
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Section 1: Executive summary

01. Executive summary

02. Results of our certification work

Executive summary

Introduction

We are required to certify certain of the claims and returns submitted by South Hams District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £55.2 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Audit Plan issued to the Council in March 2013.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted and certified on time.	● Green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	The Housing Benefit and Council tax Benefit Subsidy claim required amending and qualification.	● Amber
Supporting working papers	Working papers and evidence provided were good, which enabled certification within the deadlines.	● Green

The way forward

We have made no recommendations that require consideration by the Audit Committee.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
16 January 2014

Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work

Results of our certification work

Key messages

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £55.2 million.

Both claims were submitted by the Council and Certified by Grant Thornton within the set deadlines. Neither claim required amendment or qualification.

Details of the certification of all claims and returns are included at Appendix A.

Significant findings

An error occurred as a result of a parameter change resulting in the incorrect treatment of Council tax Benefit as a Social security benefit. As a result the Council needs to amend its uprating indicator, to update the analysis of the benefit and to run a mass recalculation of the affected claims to recalculate the benefit. It is not expected that benefit paid, and therefore subsidy claimed, will change.

The Council should ensure that all parameter amendments are applied correctly and that there is a robust assurance process for ensuring that updates are applied appropriately.

We identified one error in benefit entitlement which led to additional testing. No further errors were identified. We were required to send a qualification report to DWP.

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £12,300, which is the amount Grant Thornton have charged for the year.

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Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	2	100%	2	100%	
Claims certified on time	100%	2	100%	2	100%	
Claims certified without amendment	100%	1	50%	1	50%	
Claims certified without qualification	100%	1	50%	1	50%	

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Appendices

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value (£)	Amended	Amendment (£)	Qualified	Comments
Housing and Council Tax Benefit	28,571,228	Yes	378	Yes	An error occurred as a result of a parameter change resulting in the incorrect treatment of Council tax Benefit as a Social security benefit. We identified one error in benefit entitlement which led to additional testing. No further errors were identified. We were required to send a qualification report to DWP.
National non-domestic rates return	26,623,149	No	n/a	No	None

Appendix B: Fees

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Claim or return	2011/12 fee (£) *	2012/13 indicative fee (£)	2012/13 actual fee (£) **	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	11,278	10,300	10,300	-978	
National non-domestic rates return	617	2,000	2,000	1,383	Based on full testing carried out in 2010/11
Reporting	567			-567	Reporting time has ben incorporated within fee charged for each claim.
Total	12,462	12,300	12,300	-162	

* 2011/12 actual fee less 40% fee reduction to make it comparable to the 2012/13 fee.

** 2012/13 indicative fee is based on the 2010/11 fee reduced by 40%



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NAME OF COMMITTEE	Audit Committee
DATE	16 January 2014
REPORT TITLE	INTERNAL AUDIT - PROGRESS AGAINST THE 2013/14 PLAN
Report of	Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2013/14 to the 30th November 2013, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2013/14 annual audit plan, reviewed by this Committee in April 2013.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee considers the progress made against the 2013/14 Internal Audit Plan and comment on the summary of issues arising.

Officer contact:

Allan Goodman, Chief Internal Auditor - 01803 861375

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1. BACKGROUND

1.1 The Terms of Reference (Charter) for Internal Audit was presented to the Audit Committee in April 2013 (Minute reference A.28/12) and covers:

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 2013/14 and was approved by the Audit Committee in April 2013 (Minute reference A.28/12 refers). It covers:

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

Public Sector Internal Audit Standards (PSIAS)

- 1.3 At the September 2013 Audit Committee members accepted the view that the above documents remained fit for purpose and will be brought strictly into line with the new Public Sector Internal Audit Standards for 2014/15 (Agenda Item 10: Minute reference A.17/13 refers).

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2013/14

Audit Plan 2013/14

- 2.1 The 2013/14 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2013 (A.29/12 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 either through the contingency days or by changes to the plan, depending on the significance.
- 2.3 There is one proposed amendment to the Plan accepted at the September 2013 Committee:

Audit	Plan Days 2013/14	Plan Days Update	Reason for Change
Leisure Contract (Management of)	0	9	The Chief Internal Auditor has accepted the Corporate Risk Management Group's request to revisit this high profile contract. Last audited in 2011/12.
Allocation of HQ Costs	4	0	Low priority audit: in part covered by shared services recharge audit, and lesser coverage in the Main Accounting System.
Council Tax Collection	5	0	Low priority audit: can receive lesser coverage in the Council Tax audit if time allows.

- 2.4 Overspends on the estimated time for individual audits occur as the time in the audit plan is an estimate based on risk and generally not the amount of time needed to do the work required. All efforts are made to 'cut our cloth according to our means', but in some circumstances where control issues are identified, a risk based assessment is carried out. This constitutes consideration, depending on the significance, of whether additional time should be spent and if so where the work is to be charged, either contingency or by change to the audit plan.
- 2.5 The following table sets out the significant overspends on time budgets (3.5 days or more) on individual audits as totalled in Appendix A, and the reasons for the overrun:

Audit	Planned Days	Days Used	Reason for Overspend
-	-	-	None over 3.5 days
-	-	-9	As para 2.4 - Culmination of overspends below 3.5 days for finalised audits
Total	-	-9	Underspend to date

Resources and Skills

- 2.6 Sickness to the 30th November 2013 is 2 days (2012/13 equivalent 6 days).
- 2.7 In 2013/14 to date, training has been or is being provided to the audit team as follows:

Chief Internal Auditor

- Smartsheet Overview (Internal)
- Update re changes to Council Tax and Business Rates (NDR) (Internal)

Senior Auditor:

- Information Security and Cybercrime (IIA Exeter)
- Update re changes to Council Tax and Business Rates (NDR) (Internal)

Auditor:

- Smartsheet Overview (Internal)
- Update re changes to Council Tax and Business Rates (NDR) (Internal)

Progress against the Plan

- 2.8 The 2013/14 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.
- 2.9 **Appendix B** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.

2.10 **Appendix C** 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

2.11 There are no significant issues to bring to the attention of the Committee so far this year.

Fraud, Corruption, Bribery and Whistle Blowing

2.12 No actual, suspected or allegations of fraud, corruption or bribery have been identified so far this year, and there are no known whistle blowing reports.

Performance Indicators

2.13 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2013/14.

2.14 At this stage in the year, the key indicator 'Completion of 2013/14 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2012/13 combined audit plan.	90	96	As reported to the Audit Committee June 2013.
Audits at the 30th November 2013 at various stages of completion from 2013/14 audit plan and their 2012/13 equivalents.			
SHDC	95	68%	(59% at November 2012).
WDBC	95	60%	(59% at November 2012).
Combined plan	-	68%	(62% at November 2012).

Internal Audit – Shared Services

2.15 The following has been achieved so far this financial year:

Shared service with West Devon

- Progress on the 2013/14 audit plan reported to the West Devon Audit Committee. A growing number of audits are being completed across the two sites at the same time e.g. recharging shared service costs.

Teignbridge

- Exchange of audit programmes, advice, official guidance and best practice; and
- Liaison over various corporate documents.

3. ISSUES from SEPTEMBER 2013 AUDIT COMMITTEE

3.1 The Committee requested further information on several topics, namely:

3.2 Minute A.14/13 ANNUAL GOVERNANCE STATEMENT: Update of Data Quality Strategy

An updated Data Quality Strategy was presented to the Senior Management Team (SMT) in December 2013 for approval.

3.3 Minute A.16/13 NEW BUDGET PROCESS AND MONITORING – NEXT STEPS: That the Chief Internal Audit Manager and Head of Finance and Audit provide details to the next Audit Committee on the costs associated with:

3.4 Cemeteries and Burials

'It was discussed that re-locating costs in relation to cemeteries and burials to Town and Parish Councils be considered. The Chief Internal Auditor agreed to consider this from a statutory perspective'.

Cemeteries

The District Council owns a cemetery at Ivybridge and has also been given responsibility for the maintenance of eight other closed cemeteries within the district. Management of the cemeteries is mainly the responsibility of the Head of Assets.

Closed Churchyards

Church of England churchyards may be closed to further burials by issue of an 'Order in Council'. Once closed by such Orders no further burials may take place in the churchyard, apart from the burial of cremated remains or in existing family reserved graves. Closure enables the Church of England, in accordance with statutory provisions, to transfer responsibility for maintenance of the churchyard over to the local authority.

The budgeted costs associated with maintaining these assets for 2013/14 include grounds maintenance of £18,800 and repairs and maintenance of £11,000 excluding support service recharges.

Ivybridge Cemetery

The District Council has appointed the Town Council, at Ivybridge, as its agent to carry out the District Council's functions as burial authority. The agreement commenced on 2008 for a period of ten years to 2018.

The Town Council are responsible for the administration and management of the cemetery and providing repairs and maintenance to areas such as the Chapel, railings, fences, walls, gravestones and grass cuttings.

Burials

Under Public Health (Control of Disease) Act 1984, the Council has a duty to arrange for the burial or cremation of the body of any person found dead in the district where it appears that no other suitable arrangements will be made for the disposal of the deceased.

The Council is usually called upon where people have died without family or friends to make the necessary arrangements. The costs incurred can be claimed from the deceased estate. Any monies remaining after the deduction of funeral and administration fees are forwarded to the Treasury Solicitor.

For the current financial year the Council has spent £2,886 directly on three funeral costs and recovered £525 from estates.

A routine internal audit is planned for Cemeteries and Burials in 2014/15.

3.5 Community Safety

Net operating costs for Community Safety for 2013/14 are budgeted at £33,800 (£38,300 after support service and other recharges).

Section 17 of the Crime and Disorder Act 1998 placed a statutory duty on councils to work with partners to reduce crime and disorder, whereas the responsibility for crime reduction had previously been solely with the police.

The Council is working with the police and other agencies, which include County and local Councils, fire service, probation service, health service and the voluntary sector, to make the community an even safer place to be.

These partners make up the South Devon and Dartmoor Community Safety Partnership, which includes Teignbridge and West Devon, and is working to deliver solutions to reduce crime, fear of crime and anti-social behaviour. (Source: the Council's website).

A routine internal audit is planned for Community Safety in 2014/15.

3.6 Pannier Markets

The Chief Internal Auditor confirmed with the Car Parks Operations Manager that the Council does not provide the stalls for the pannier market participants to rent and therefore has no responsibility for their setting up or taking down.

3.7 Wembury Marine Centre

Wembury Marine Centre was constructed by South Hams District Council and opened in 1994. Its operation and management are

governed by a formal partnership agreement and lease. There are two elements to this:

1. Under the terms of the agreement, the building maintenance and running costs (electricity, rates, phone, alarm, repairs etc) are shared equally by 4 organisations – South Hams Council, Devon County Council, National Trust and Devon Wildlife Trust. The budget is held by South Hams. This year, each organisation is contributing £1250 as its share of the total building running costs of £5,000.
2. The budget for staffing costs is held by Devon Wildlife Trust, which employs the education officer on behalf of the partnership. Under the terms of the agreement, the staffing costs are shared by South Hams Council, Devon County Council and Devon Wildlife Trust, with additional contributions from Plymouth University, South West Water and Wembury Parish Council. The SHDC budgeted contribution is £8,700 (reduced from £11,700 in the 11/12 budget) of which £5,275 is towards staff costs total costs of some £35,000.

The Wembury agreements are open ended. The only way they can be altered or terminated is by joint agreement of the parties.

This summer season, the Centre has received some 18,000 visitors and run educational activities and events involving 4,000 people. The work of the education officer has been augmented by a team of four full-time volunteers during the season, supported by a wider group of up to 20 local occasional volunteers.

The Council is represented on the Partnership group by the AONB Manager, who is able to answer any further enquiries.

4. LEGAL IMPLICATIONS

- 4.1 Statutory Powers: **Accounts and Audit Regulations 2011**

5. FINANCIAL IMPLICATIONS

- 5.1 None, within existing budgets.

6. RISK MANAGEMENT

- 6.1 The risk management implications follow this table:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2011
Considerations of equality and human rights:	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:	No specific crime and disorder issues arising from this report.
Background papers:	CIPFA Local Government Application Note for the united Kingdom Public Sector internal Audit Standards 2013; CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2014/15.
Appendices attached:	Appendix A: Audit Plan 2013/14 – Progress to 30th November 2013 Appendix B: Planned Audit 2013/14 – Summary of Results Appendix C: Unplanned Audit 2013/14 – 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 to 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 gains assurance from the work of internal audit. The result is no additional charges being requested 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 may gain no assurance from the work of internal audit, potentially resulting in requests for 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.	3	2	6	↔	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, should significant resource issue arise.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2013/14 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	13	■								10% complete – budget setting only audited to date
Creditor Payments	11									
Payroll	10	■	■	■	■		■			Summary to Audit Committee - January 2014
Council Tax	14	■								40% completed.
Business Rates (NDR)	12	■								33% completed.
Benefits	15									
Benefits Debtors	5	■								90% completed.
Debtors	10	■								80% completed.
Treasury Management	7	■	■							Draft report issued: 06.11.2013
Capital Expenditure	10									
Fundamental Systems	107									
Salcombe Harbour	10	■	■							Draft report issued: 11.11.2013
Dartmouth Lower Ferry	9	■	■							Draft report issued: 26.11.2013
Street Scene - Car and Boat Parking	9									
Private Sector Housing Renewal	8	■	■	■	■		■			Summary to Audit Committee - January 2014
Data Quality & Performance Indicators	5	■	■							Draft report issued: 29.10.2013
Use of Email & Internet	10	■	■	■	■		■			Summary to Audit Committee - January 2014
Computer Audit	26									
Grants - RDPE Rural Community LAGs – Accountable Body	50	42 days used	-	-	-	-	-	-	-	84 - Project claims audited; plus 22 - Management & Admin invoices.

Progress Against the 2013/14 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	
Coastal Communities Fund – Accountable Body	-	3.7 days used	-	-	-	-	-	-	-	Minute reference E.28/12 refers
Follow Up of Previous Year's Audits	6	3.9 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	55	43 days used	-	-	-	-	-	-	-	See Appendix C
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	5	2.4 days used	-	-	-	-	-	-	-	11 Exemption applications received and processed April to November 2013, of which 10 accepted.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	6	■	■	■	■	-	-	-	-	Report to the July and September 2013 Audit Committees for recommendation to Council of Annual Governance Statement. Approved and published.
Risk Management / Business Continuity	5	■								50% completed.
West Devon Borough Council	105	■	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee.
Other Essential	317									
Beach and Water Safety	4	■	■	■	■		■			Summary to Audit Committee - September 2013
Countryside Recreation and Management	5	■	■	■	■		■			Summary to Audit Committee - January 2014
Outdoor Sports and Recreation	8	■	■	■	■		■			Summary to Audit Committee - January 2014
Emergency Planning and Business Continuity	8	■	■	■	■		EP ■	BC ■		Summary to Audit Committee - January 2014
Food Safety	8	■	■	■	■		■			Summary to Audit Committee - January 2014
Licensing	8	■	■	■	■		■			Summary to Audit Committee - September 2013
Pollution Reduction	8	■	■	■	■		■			Summary to Audit Committee - September 2013
Allocation of HQ Costs	4 - 4	X	X	X	X	X	X	X	X	Suspended in favour of Leisure Management.
Council Tax Collection	5 - 5	X	X	X	X	X	X	X	X	Suspended in favour of Leisure Management.
Leisure Contract (Management of)	9	■	■	■	■		■			Summary to Audit Committee - January 2014

Progress Against the 2013/14 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	
Planning Policy including S.106 Agreements	8	■	■	■	■			■		Summary to Audit Committee - January 2014
Community Development including Grants and Loans	8	■	■	■	■		■			Summary to Audit Committee - September 2013
Advice to RM/ Information Compliance/Other Groups	3	1.3 days used	-	-	-	-	-	-	-	
Contract Management	6	■	■	■	■			■		Summary to Audit Committee - September 2013
Freedom of Information and Data Protection	8	■	■	■	■		FOI ■	DP ■		Summary to Audit Committee - January 2014
Partnership Management	8	■	■	■	■			■		Summary to Audit Committee - September 2013
Safeguarding Children	5	■	■	■	■		■			Summary to Audit Committee - January 2014
Shared Services	5	■	■	■	■		■			Summary to Audit Committee - September 2013
Use of Agency Staff	5	■	■	■	■			■		Summary to Audit Committee - January 2014
Counter Fraud Work	10	■	■							Draft report issued: 23.09.2013
Other	124									
Audit Administration	20	14.7 days used	-	-	-	-	-	-	-	
Audit Management, including Audit Planning	20	11 days used	-	-	-	-	-	-	-	
Audit Monitoring against the Plan, including Reports to Management and Audit Committee.	15	10 days used	-	-	-	-	-	-	-	
Training	15	2.25 days used	-	-	-	-	-	-	-	
Miscellaneous e.g. Financial Regulations etc.	5	0 days used	-	-	-	-	-	-	-	
Other	75									
Overall Total	620									

Planned Audit 2013/14 – Final Reports Issued

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

Opinion Definitions

Excellent

The areas reviewed were found to be well controlled; internal controls are in place and operating effectively. Risks against the achievement of objectives are well managed.

Good

The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.

Fair

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

Poor

Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

Planned Audit 2013/14 – Final Reports Issued

September 2013 Audit Committee

Beach and Water Safety Issued 30th May 2013 **Good**
Building Control (Follow Up of 2012/13) Issued 16th July 2013 **Unchanged at Good.**
Partnership Management Issued 6th June 2013 **Fair**
Shared Service Recharges Issued 17th July 2013 **Good**
Pollution Reduction Issued 17th July 2013 **Good**
Community Grants and Loans Issued 18th July 2013 **Good**
Sherford (Follow Up of 2012/13) Issued 25th July 2013 **Unchanged at Good.**
Purchase Cards (Unplanned) Issued 25th July 2013
Licensing Issued 31st July 2013 **Good**
Contract Management Issued 8th August 2013 **Fair**

Subject	Audit Findings	Management Response
Emergency Planning and Business Continuity Planning Issued 12.08.2013 1	Emergency Planning - Good Business Continuity - Fair We have concluded that the Council is meeting its statutory duty under the Civil Contingencies Act 2004. Areas identified to further improve the Council's preparedness include: <ul style="list-style-type: none"> • The Council's Major Emergency Procedures document is now out of date in terms of some key officers and contact details; • There should be a formal mechanism for ensuring that the Council's Business Continuity Plan, either at a corporate level or at a service level, is reviewed annually and includes new risks as they are identified; • Consideration should be given to requesting the Council's insurers to once again take part in the planned table top exercise to test the Business Continuity Plan (BCP); and • The Business Continuity arrangements for ICT provision should be reviewed in the light of the recent disruption caused by a power cut, as well as individual services reviewing what procedures could be put in place in the event of the computer network not being available. 	<p>The initial section of the Major Emergencies Response Guide (Action on receipt of a major emergency call) is being reviewed to ensure that key information, such as contact details, is up to date.</p> <p>Agreed</p> <p>It is intended to carry out an exercise in early 2014 and is appropriate to ask the insurers to run the exercise, allowing SHDC staff to take part, rather than to be managing it.</p> <p>The ICT BCP is reliant on the receipt of individual service BCPs, and the outcome of the Asset Strategy review and T18. Services are to state how long they could deliver essential services without any IT.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Use of Agency Staff Issued 16.08.2013 Joint report West Devon Borough Council (WDBC)</p>	<p>Fair An audit opinion of Fair has been given because, although there are procedures in place to manage the recruitment of agency staff these are sometimes not followed by services. Similarly all payments to staffing agencies should be supported by an audit trail of hourly rates etc but these are not always in place. Members at both WDBC and SHDC requested information on the costs of using agency staff during 2012/13. In response reports were taken to the Corporate Priorities & Resources Committee on 4th October 2012 (SHDC) and the Overview & Scrutiny Committee on 15th January 2013 (WDBC). The reasons for the increase in the number of agency staff currently being engaged appear to be justified in the short to medium term, but is not normally the most effective solution in the long term where skilled or professional staff are required. For other services, it continues to provide a cost effective means of covering short-term absences and for the T18 project, utilising agency staffing arrangements to cover vacancies even in the longer term will also be a more cost effective approach than permanently filling posts.</p>	<p>Annual reports are being taken to members as requested, with a report going to SHDC Corporate Performance & Resources Scrutiny Panel on 03/10/2013 and to WDBC Overview & Scrutiny Committee on 29/10/2013. As a new agency staff contract is to be signed imminently then it is appropriate to draw up and publish some revised vetting principles for recruiting agency staff. The vetting principles will cover all stages of the process from where and how to obtain approval for engagement to payment of invoices and will address the issues raised in the audit report. The new vetting principles will be brought to member's attention in the above monitoring reports of and then will be brought to the attention of Heads of Service and Middle Managers.</p>
<p>Use of Internet and Email Issued 06.09.2013 Joint report West Devon Borough Council (WDBC)</p>	<p>Good We are pleased to be able to report that the majority of internet access is conducted within the guidelines adopted by the Council. The Councils' have provided ICT Policies and Acceptable Use Agreements for users accessing computer systems, including the internet and email, but there are small anomalies between the two authorities' documents that may impact on control and enforcement of these policies. Audit examination of the use of emails confirmed that the email content was not deemed to be inappropriate and no further action was required.</p>	<p>Although the two policies are satisfactory there is a need to align the guidance. Some work has been undertaken and we expect this to be completed in early 2014, subject to other service requirements.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Food Safety Issued 30.08.2013</p>	<p>Good The Food Safety service is delivered by experienced staff, with appropriate procedures and policies in place, based on the Food Standards Agency's 'Framework Agreement on Local Food and Food Controls by Local Authorities' and associated Codes of Practice. We are aware that the Council's Food Safety service is generally considered as being well run when reviewed by external professional bodies such as the FSA, but this opinion could be at risk if the requirements of the FSA Codes of Practice are not being met and best practice cannot be consistently demonstrated. Our testing demonstrated that the majority of expected controls are in place. Officers carry out inspections, undertake enforcement where required, deliver a food sampling programme and are also able to offer advice, either as part of an intervention, or more informally through seminars etc. However the service is at risk of failing to meet the FSA Codes of Practice in some areas, principally due to limited staff resource as food premises inspections are often not being completed within the required timeframe, most significantly including those premises rated as high risk (Category A or B). The DEHO (Commercial) and the Head of Service are currently developing a suite of performance indicators for use in monitoring the quality and effectiveness of the service, which we would support.</p>	<p>A review is currently being undertaken of priorities and how best to maximise professional resources by examining new ways of working. This will form part of the forthcoming service review and T18 project. In the meantime an overview is to be kept on the situation and use of a contractor will be considered for backfilling to ensure that staff have capacity to undertake statutory inspections.</p> <p>These are currently being developed</p>
<p>Countryside Recreation and Management Issued 26.09.2013</p>	<p>Good One recommendation only made relating to the quality of completion of a small number of travel claims charged to this budget.</p>	<p>The issues are noted and officers will be informed to ensure that travel claims are completed fully and accurately in future.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Outdoor Sports and Recreation Issued 26.09.2013</p>	<p>Good A number of improvements have been put into place following our previous audit reports. However, there are still some areas where further actions can be taken to strengthen controls:</p> <ul style="list-style-type: none"> • The Council does not appear to have a formal agreement with the tenant of a Park for the collection of income and management of its facilities; • The formalisation of agreements over management of the play areas within the district has been completed, although a couple of agreements need to be finalised, along with the organisations' monetary contributions; and • Negotiations have taken place over the change in management arrangements for a two bowling clubs - one agreement is near completion, although action is still needed on the other. 	<p>We will complete a supplementary agreement regarding the management of the park.</p> <p>We will review the agreements and ensure that a Heads of Agreement is in place for all organisations by the end of the financial year, to include the true costs of maintaining these sites, and reflect this in a report to members for their consideration.</p> <p>One lease is now with the Legal team and should be completed shortly. The completion of the lease for the other club has had more difficulties and we will need to look at the future options for this site.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Planning Policy including S.106 Agreements Issued 21.10.2013</p>	<p>Fair Procedures are in place to record S106 monies due and to monitor their use, but these are not always being followed and for some parts of the process alternative systems have been developed;</p> <ul style="list-style-type: none"> • Several officers across different services are responsible for updating various elements of the S106 register, but this is not always done, thus the central record remains incomplete. • The Affordable Housing and Natural Environment & Recreation teams no longer input data to the central S106 register, but instead each maintain their own separate registers; • Whilst the Business Support Manager is responsible for monitoring financial triggers across all schemes, there appears to be some misunderstanding about which officers are responsible for monitoring non-financial covenants to be delivered by developers, e.g. setting up a management company, completing landscaping works etc.; and • There is no regular reporting to members on the receipt and use of S106 monies, other than obtaining approval for release of monies in line with Financial Procedure Rules. <p>In our review of a sample of S106 agreements we noted the following issues:</p> <ul style="list-style-type: none"> • Standard agreement templates are not always being used; • One agreement did not include a monitoring fee payable by the developer, where inclusion would be expected; • There is no record of the calculation of interest due where this is payable against a late payment by the developer; and • In one case the developer did not appear to have been asked to pay the Council's legal fee usually charged when drawing up a S106 agreement. 	<p>There is a need to review procedures for S106 Agreements within Planning in conjunction with what other services might contribute. A meeting will be held with key officers (Affordable Housing Officer, Natural Environment & Recreation Manager, Finance etc) to discuss who should be responsible for what parts of the process with the aim of completely reviewing procedures. If SmartSheet can be used to manage the S106 Register this would assist as multiple officers can have input and an audit trail is maintained. At the above meeting membership of the S106 Officer Group will be discussed with a view to it re-commencing.</p> <p>In order not to duplicate work, members will be directed to the information which it is planned to publish on the Council's website</p> <p>Work is in progress to complete the review of the S106 agreement template.</p> <p>A copy of the indexation calculation is now included in letters or with invoices to developers requesting payment of overdue S106 monies. Procedures have been reviewed. Legal fees must now be paid prior to a contract being signed and sealed. The Business Support team manage this process.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Data Protection & Freedom of Information Issued 23.10.2013 Linked to a 'follow up' audit at WDBC.</p>	<p>Fair - Data Protection Good – Freedom of Information The opinions confirm that the Council's response to the legislation is positive, but there are areas where controls would benefit from update: Matters Relating to Both Data Protection and Freedom of Information An Information Access Policy to be drafted as a shared document with WDBC and presented to members for approval. Data Protection The Monitoring Officer, who currently acts as the Data Protection Officer in what was intended to be a temporary arrangement, advised us that there has been insufficient staff resource within Legal services to carry out a number of the recommendations made in the 2010/11 audit report. The appropriate future management of Data Protection is part of on-going discussions between Legal services and the Head of ICT & Customer Services. In the meantime the Data Protection Officer intends to out-source the completion of some tasks, such as reviewing and updating Data Protection policies and procedures. Freedom of Information (FOI) A number of actions from the 2010/11 audit report remain outstanding due to limited staff resource, the most significant of which are:</p> <ul style="list-style-type: none"> • Reviewing, updating and publicising the Council's FOI Policy and procedures, as shared documents with WDBC; and • Updating and publishing the Council's Publication Scheme. 	<p>Agreed, to be completed by the 31st March 2014.</p> <p>A consultant is to be engaged to review all Data Protection documentation and guidance, including the Policy and Codes of Practice which will be re-issued as joint documents.</p> <p>Agreed, to be completed by the 31st March 2014.</p> <p>Agreed, to be completed by the 30th June 2014.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Private Sector Housing Renewal Issued 29.10.2013 Joint report West Devon Borough Council (WDBC)</p>	<p>Good Work is more or less complete in aligning processes and procedures for managing and administering mandatory and discretionary grants and loans across WDBC and SHDC. Both authorities now operate to the same model whereby the Business Support Unit administers the grants and loans on a day to day basis, with the Environmental Health Officers providing professional support. There are only a small number of areas where differences now remain, but it may be beneficial to consider aligning these for ease of management and also because where there are differences it may be that one authority has a stronger control in place than the other. For example, at SHDC Land Charges are required to provide written confirmation that they have placed a charge on a property as requested by the Business Support Unit, whilst at WDBC such confirmation is not sought nor received. The sections continue to review opportunities to work more efficiently whilst still delivering a high quality service to customers. Our testing found that controls over the evaluation and payments of Disabled Facilities Grants and discretionary Private Sector Housing Renewal grants and loans are working satisfactorily, with an anti-fraud emphasis. There was no evidence of fraudulent grant applications within the sample reviewed. The level of completion, accuracy and review of files remains generally satisfactory, although we did identify a number of minor administrative errors at both authorities where, for example, evidence of controls were not held on the computer software.</p>	<p>This procedure is to be reviewed for the best approach and brought into line across the two authorities.</p> <p>Action plan agreed.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Leisure Contract (Management of) Issued 08.11.2013</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 88</p>	<p>Good</p> <p>Many of the issues raised in our previous audits have been dealt with and cleared e.g. Performance and Pension Bonds are now in place albeit the latter is due for renewal on 14th March 2014. However, there are several ongoing issues that are included in the detailed appendices to the report, the most significant of which are:</p> <ul style="list-style-type: none"> • The lack of a 'Dual Use' agreement for one Centre has resulted in amounts due to the Council remaining unpaid. Neither the school involved nor Devon County Council accepts liability for the education use of the facility, based mainly around the method of calculation of the recharge. Both have been invoiced. Officers feel that a stalemate has been reached and need to look to senior managers and politicians to consider the options available; • The Council's 1990 agreement for the joint operation of a sports and fitness centre and swimming pool with a local charity, at Totnes Pavilion is out dated. Work on a new agreement is ongoing by all relevant parties to improve this position; and • Officers have started to consider the work required in bringing the current contract towards its conclusion (December 2016), including a guide by the Contracts Solicitor on what is required by the contract in the lead of to its end. We recommend early dialogue with the parties involved in some areas; <p>Linked to this, and at the request of the Risk Management Group, we have produced a list of lessons learned from this contract to feed the process for future contracts and therefore suggest its presentation to the Strategic Leisure Review Member/Officer Group.</p>	<p>The Natural Environment and Recreation Manager (RK) will take a report to the Senior Management Team (SMT) setting out the issues and options. SMT will also be asked to consider future arrangements for the Leisure Centre, post current management contract, in respect of the school and its use and role.</p> <p>No expenditure will be incurred by the Council towards access software until a supplementary agreement is signed by the charity. However, it is thought that the charity is currently changing its legal status and the Natural Environment and Recreation Manager will discuss the legal implications for the Council with the Contracts Solicitor.</p> <p>Agreed, it would be beneficial for the document to be combined with the list of lessons learned (following paragraph) ahead of the dialogue with the parties involved.</p> <p>Agreed, the combined document can then be used as a 'travelling draft', version controlled, for other officers to contribute to.</p>

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Safeguarding Children Issued 25.11.2013 Joint report West Devon Borough Council (WDBC)</p>	<p>Good We have recognised that, in the majority of cases, action has been undertaken by officers to identify and to progress issues identified under the Local Safeguarding Children Boards self evaluation tool. There were a number of issues identified during the audit that will improve the controls over the safeguarding objectives.</p> <ul style="list-style-type: none"> • The Councils need to raise the profile of safeguarding and include general and specific training for staff and members and the use of a central register; and • We have raised a general reminder to ensure that the Councils include safeguarding as part of its involvement with external service providers. 	<p>We are currently reviewing the files and records held.</p> <p>As identified safeguarding is included in the main procurement process, but only for large contracts. Plans are in place for us to review;</p> <ul style="list-style-type: none"> • Court and council appointed bailiffs and how the Protection from Harassment Act applies; • Safeguarding awareness for temporary contract staff; • Requirements for short term and low value contracts; and • Liaise with legal regarding tendering for contracts and the ongoing review of safeguarding policies and procedures and other contractual obligations with contractors.

Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Payroll Issued 27.11.2013 Joint report West Devon Borough Council (WDBC)</p>	<p>Good The Payroll section is able to meet its objectives in providing accurate payments to staff in a timely manner. There were a number of issues identified during the audit that will improve the controls over the operation of the service.</p> <p>Joint - The key issues identified included:</p> <ul style="list-style-type: none"> • Heads of Service are not required to confirm the accuracy of the Establishment in relation to their service; <p>• We noted that a small number of changes to the payroll (e.g. overtime sheets, leavers' forms and deductions) had been authorised by an officer who was not formally approved to do so but who was the appropriate person to do it.</p> <p>SHDC - The key issues identified included:</p> <ul style="list-style-type: none"> • Regular checks are not made of driving licence and insurance documents for those officers who drive their own vehicles on behalf of the Council. The Council may be at risk of a financial penalty or an insurance claim should an incident occur involving an employee and it cannot be demonstrated that appropriate checks were made. 	<p>Agreed in principle. However it is felt that not all Heads of Service, particularly those of larger services, would necessarily be aware of what grade and hours all their staff should be on. The regular meetings between Heads of Service and their Finance Buddies to review budgets, as well as the regular reconciliation of the Establishment to the budget, carried out jointly by the Personnel Officer (Resourcing) and the Accountant (SW), are felt to provide more meaningful checks of the accuracy of payroll bills and the establishment. Authorised signatories are to undergo the normal annual review shortly when the position of the officer involved will be re-considered.</p> <p>The Health & Safety Officer, in liaison with HR Manager, will consider the best means of introducing checks of appropriate documentation (driving licences and insurance) of those staff driving their own vehicles on behalf of the organisation and arrange for these to be implemented.</p>

Planned Audit 2013/14 – Work Complete (No Audit Report)

Subject	Comments
Exemptions to Financial Procedure Rules	See table at Appendix A.
RDPE Rural Communities – LAGs and Coastal Communities Fund	See table at Appendix A, SHDC is the 'accountable body'. Auditing in line with the approach required by the funding body.
System of Internal Control (SIC), and Annual Governance Statement (AGS)	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2013 Audit Committee. The Committee recommended approval of the AGS to the Council. The AGS was published in September 2013, following an update to the Statement at the September 2013 Audit Committee agenda.

Planned Audit 2013/14 – Follow Up with 2013/14 Audits

September 2013 Audit Committee

Beach and Water Safety 2008/09 - Mainly implemented.
 Partnership Management 2011/12 and 2007/08 - Implemented.
 Shared Services Recharges 2012/13 - Mainly implemented.
 Pollution Reduction 2008/09 - Implemented.
 Community Grants and Loans 2008/09 - Mainly implemented.
 Licensing 2009/10 - Implemented.

January 2014 Audit Committee

Subject	Comments
Payroll – 2012/13	Mainly implemented. With the exception of the checking of driving licence and insurance documents for those officers who drive their own vehicles on behalf of the Council, outstanding recommendations not actioned were outside of the control of the team.
Private Sector Housing Renewal – 2012/13	Implemented
Use of Email & Internet – 2012/13	Mainly implemented. 1/7 repeated relating to alignment of policies.
Countryside Recreation and Management – 2008/09	Implemented
Outdoor Sports and Recreation – 2008/09	Implemented
Emergency Planning and Business Continuity – 2006/07	Mainly implemented. Similar issues raised in 2013/14 relating to the Business Continuity Plan.
Food Safety – 2006/07	Mainly implemented. Need for an up to date Food Safety Strategy and Annual Plan raised again in 2013/14.
Leisure Contract (Management) – 2001/12 and 2012/13 Follow Up	Mainly implemented. Outstanding issues relating to dual use agreements and Totnes Pavilion repeated.
Planning Policy including S.106 Agreements – 2009/10 and 2010/11 Follow Up	Mainly implemented. Two issues raised in 2013/14 that are similar to that previously identified.

Planned Audit 2013/14 – Follow Up with 2013/14 Audits

Subject	Comments
Freedom of information and Data Protection – 2007/0	Mainly implemented. 15/32 recommendations repeated due to resource issues.

Planned Audit 2013/14 – Follow Up of 2012/13 Audits

Subject	Comments
Main Accounting System and Budgetary Control	Memo sent 29/11/2013. Awaiting reply.
Main Accounting System and Budgetary Control	Memo sent 30/10/2013. Awaiting reply.
ICT Cost Effectiveness	Memo sent 30/10/2013. Awaiting reply.
Treasury Management	Reminder only sent. Followed up with annual audit November 2013.
Debtors	Reminder only sent. Followed up with annual audit November 2013.
Benefits	Reminder only sent. To be followed up with annual audit January 2014.
Council Tax	Reminder only sent. Followed up with annual audit November 2013.
Payroll	Reminder only sent. Followed up with annual audit October 2013.
Capital Receipts and Grants	Cleared
Salcombe Harbour	Reminder only sent. Followed up with annual audit October 2013.
Non Domestic Rates	Reminder only sent. Followed up with annual audit November 2013.
Insurance	Memo sent 19/06/2013. Awaiting reply. Meeting to be arranged.
Data Quality and Performance Indicators	Cleared ahead of annual audit.
Dartmouth Lower Ferry	Discussions 01/05/2013. Recommendations implemented other than the known issues with the ticketing system which cannot be addressed in the short term. Annual audit due September 2013.
Private Sector Housing Renewal	Memo sent 22/04/2013. One item outstanding addressed with the annual audit in August/September 2013.
Leisure Client (Follow Up)	Memo sent 22/04/2013. No reply received but audit brought into the 2013/14 plan in this report.
Building Maintenance	Recommendations implemented other than the known issues relating to the software which cannot be addressed in the short term.
Major Developments - Sherford	Updated and new report issued.
Building Control	Follow up with Teignbridge Internal Audit. New report issued with 3 revised implementation dates.
Use of Internet and Email	Followed up with annual audit.
Corporate Management Costs	Cleared.
Travel and Subsistence (Follow Up)	All but 2 recommendations cleared; these to be followed up with the 2013/14 Payroll audit.

Unplanned Audit – 2013/14

General

Description	Main Issues
<p>Minor enquiries and issues investigated, including some planned work, which by its nature does not require a report. Resourced from the contingency line of the audit plan.</p>	<ul style="list-style-type: none"> • General procurement and disposal rules advice; • General ICT issues; • General Finance issues; • Document retention enquiries; • Additional individual internet and e-mail usage information as requested by managers; • Assistance to the external auditors on specific tests for the audit of the accounts; • Salcombe Harbour – advice and assistance; • Audit Commission fraud survey; • Contribution to update of report writing guidance; • Various housing processes; • Various street scene issues; • Audit Committee Scrutiny budget review; • Benefits payment run process; • Finance team service sharing; • T18 Transformation Programme – including Process mapping and Blueprinting; • Leisure Contract – Lessons Learned document • Assistance re HMRC inspection; • Numerous other minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies.

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 16 JANUARY 2014**

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

Other Members in attendance and participating
Cllrs M J Hicks, R J Tucker, Cllr L A H Ward and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Finance and Audit, Chief Internal Auditor and Member Services Manager
Items 5, 6, 7 & 8	A.21/13, A.22/13, A.23/13 and A.24/13	Audit Manager - Grant Thornton Engagement Lead - Grant Thornton

A.19/13 MINUTES

The minutes of the meeting held on 19 September 2013 were confirmed as a correct record and signed by the Chairman.

A.20/13 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.21/13 TRANSFORMATION PROGRAMME (T18)

The Head of Finance and Audit presented a report, along with the Engagement Lead (Grant Thornton) that summarised the findings of two project assurance reviews on the T18 proposals.

Members discussed the report, and particularly the alternative approaches identified which could be complementary to the Transformation Programme. Members also noted the comments about governance. The Head of Finance and Audit advised the Committee that the project steering group would be holding its first meeting on 27 January 2014.

In conclusion, the Vice Chairman expressed the view that it was excellent that an independent assurance panel had endorsed the Transformation Programme.

It was then:

RESOLVED

That the report be noted and welcomed.

A.22/13

GRANT THORNTON – ANNUAL AUDIT LETTER

The Engagement Lead (Grant Thornton) presented the Annual Audit Letter for South Hams District Council. He took Members through the key parts of the letter, and advised the Committee that officers had responded positively to issues raised. He had concluded that the financial management of the authority was strong and that there would be challenges to face in the future.

It was then:

RESOLVED

That the report be noted and welcomed.

A.23/13

GRANT THORNTON – AUDIT COMMITTEE UPDATE

The Audit Manager (Grant Thornton) presented the Audit Committee Update for the year to 31 March 2014, which set out progress to 31 December 2013. The update referred to a number of publications and the Chief Internal Auditor agreed to provide those publications to each Member of the Audit Committee. It was also agreed that a formal report be taken to the next Audit Committee meeting which included an executive summary of each publication. The 'Emerging Issues and Developments' section of the report included suggested questions that the Audit Committee could direct to officers. In response to questions, the Head of Finance and Audit outlined current performance in respect of council tax collection and agreed that the Value for Money profile would be included in a future report as it set out detailed information in graph form. She also noted that it was important to compare like for like organisations.

In terms of the pension scheme, questions were being prepared for a meeting, likely to be held in March, with a representative from the Devon Pension Scheme. In terms of general knowledge, the Members of the Committee agreed that further training for Members, targeted specifically on financial matters, would be beneficial. The Executive Portfolio Holder for Finance and Audit advised that a 'fast fact guide' was being worked on that would enable Members to have key financial information at their fingertips.

To conclude, and in response to a question relating to the impact of forthcoming changes, the Head of Finance and Audit advised that changes to business rates would be the main change to the accounts closedown procedures and that work would be required with Grant Thornton on particular elements, such as how to account for backdated business rates appeals.

It was then:

RESOLVED

That the report be noted and welcomed.

A.24/13 GRANT THORNTON – CERTIFICATION REPORT 2012/13

The Engagement Lead (Grant Thornton) presented this report and took Members through the key messages within. He advised that an issue had been raised in respect of a particular indicator within the system, and that no element of materiality was allowed for. If an error was found then additional checks would be undertaken but in this case no further errors had been identified. In conclusion, there had been a minor error but generally this had been a positive report with a clean bill of health for the Council.

It was then:

RESOLVED

That the report be noted and welcomed.

A.25/13 INTERNAL AUDIT – PROGRESS AGAINST THE 2013/14 PLAN

The Chief Internal Auditor presented a report that informed Members of the principal activities and findings of the Council's Internal Audit team for 2013/14 to 30 November 2013.

He took Members through the key parts of the report and appendices and responded to any questions that arose. During discussion, Members noted that employment of agency staff could sometimes be a false economy although the Chief Internal Auditor advised that the new contract enabled the Council to use bespoke agencies for professional posts. Members also had a detailed discussion on the certification of travel claims and there was some concern over the position of the Council in respect of third party claims following road traffic accidents involving staff in their private cars on Council business, if appropriate measures were not in place to check licence and insurance details for staff. The Chief Internal Auditor would look into this matter and advise the Committee, specifically to establish whether in law officers signing a certificate on their travel claim to confirm that these documents are in place is sufficient.

To conclude, the Chief Internal Auditor advised that there had not been an update from the HMRC investigation.

It was then

RESOLVED

That the progress made against the 2013/14 Audit Plan be noted and has been commented on.

(Meeting commenced at 10.00 am and finished at 12.15 pm)

Chairman