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SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 8TH JANUARY, 2015

Agenda, Reports and Minutes for the meeting

Agenda No Item

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

2. **Reports**

Reports to Audit:

- a) Item 5 - Report on Value for Money for SHDC (Pages 3 - 30)
- b) Item 6 - The Annual Audit Letter for SHDC (Pages 31 - 38)
- c) Item 7 - Protecting the Public Purse Fraud Briefing 2014 (Pages 39 - 50)
- d) Item 8 - South Hams District Council Audit Committee Update (Pages 51 - 68)
- e) Item 9 - Internal Audit - Revision of and Progress Against the 2014/15 Plan (Pages 69 - 88)
- f) Item 10 - Strategic Risk Assessment - Six Monthly Update (Pages 89 - 116)

3. **Minutes** (Pages 117 - 124)

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Agenda Item 1

Please reply to: Darryl White
Service: Corporate Services
Direct Telephone: 01803 861247
E-Mail: darryl.white@southhams.gov.uk

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

Our Ref: CS/DW

cc: Cllr Ward (lead Executive Member for Support Services)
Remainder of the Council;
Usual press and officer circulation.

22 December 2014

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes, on **Thursday, 8 January 2015 at 10.00 am** when your attendance is requested.

Yours sincerely

Darryl White
Democratic Services Manager

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|--|
| <p>FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT DARRYL WHITE DEMOCRATIC SERVICES MANAGER ON DIRECT LINE 01803 861247</p> |
|--|

A G E N D A

1. **Minutes** – to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 18 September 2014 (pages 1 to 5);
2. **Urgent Business** - brought forward at the discretion of the Chairman;
3. **Division of Agenda** - to consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;
4. **Declarations of Interest** - Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;
5. **Report on Value for Money for SHDC** – to consider a report that summarises the findings from Grant Thornton’s work supporting their ‘Value for Money’ conclusions (pages 6 to 26);
6. **The Annual Audit Letter for SHDC** – to consider a report that summarises the key findings arising from the work that Grant Thornton has carried out at the Council for the year ended 31 March 2014 (pages 27 to 33);

7. **Protecting the Public Purse Fraud Briefing 2014** – to consider an Audit Commission report on protecting the public purse (pages 34 to 45);
 8. **South Hams District Council Audit Committee Update** – to consider a Grant Thornton report that provides the Committee with a report on progress in delivering their responsibilities (pages 46 to 62);
 9. **Internal Audit – Revision of and Progress Against the 2014/15 Plan** – to consider a report that informs Members of the principal activities and findings of the Council's Internal Audit team for 2014/15 to 30 November 2014 (pages 63 to 82);
 10. **Strategic Risk Assessment – Six Monthly Update** – to consider a report that presents the required six monthly update on the Strategic Risk Assessment (pages 83 to 108).
- N.B.** Legal and financial officers will not, as a general rule, be present throughout all meetings, but will be on standby if required. Members are requested to advise Member Services in advance of the meeting if they require any information of a legal or financial nature.

* * * * *

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

THIS AGENDA HAS BEEN PRINTED ON ENVIRONMENTALLY FRIENDLY PAPER

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

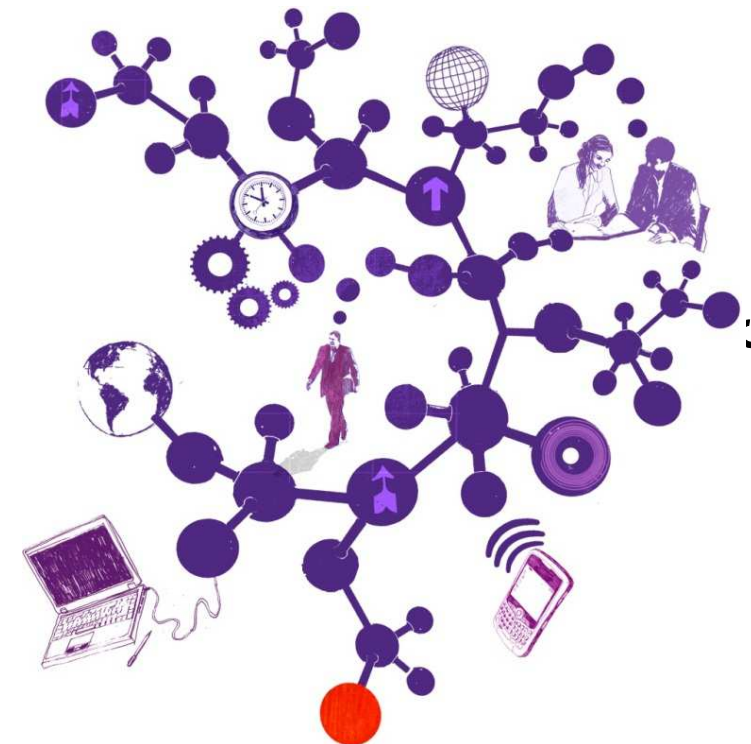
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Report on Value for Money for South Hams District Council

Page 3
Year ended 31 March 2014
Report date 25 November 2014

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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 the Council 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

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It complements our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (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 our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

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 (defined by the Audit Commission as "twelve months from the date of issue of the report").

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.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

responding to welfare reform; and
the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

On 18 December 2013, the government made a written statement on the provisional local government finance settlement key issues emerging from the announcement included:

- The Council's draft allocation for 2014/15 of Government Grant (Settlement Funding Assessment)
- Council Tax Freeze Grant funding for 2014/15 and 2015/16 will be built into the Spending Review baseline and will be on-going
- Council Tax threshold principles will be announced in the New Year.

The Minister announced that local authorities will face an overall reduction in spending power of 2.9%; and that no local authority would experience a decrease of more than 6.9%.

As a result the Council is predicted to suffer a 27% reduction in government funding over the four years from 2014/15 to 2018/19.

As part of its Medium term financial strategy 2014/15 to 2017/18 (MTFS) members acknowledged a £2.35m budget gap over the four financial years 2014/15 to 2017/18. For 2014/15 the gap was £582,000, this gap was closed as part the budget setting for the 2014/15.

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Executive Summary

Overall Risk Assessment

There were no significant risks identified during our VfM planning.

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

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Key findings

Securing financial resilience

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

- Key performance indicators
- Strategic financial planning
- Financial governance
- Financial control.

The Council reported a small deficit of £127k for 2013/14 principally arising from shortfalls of income from Car parks and the Dartmouth Ferry. The budget incorporated savings of £550k. The deficit represents 0.2% of the council's gross expenditure.

Usable reserves at 31 March were £10.3m, which is an increase on 31 March 2013, so overall, the Council's financial position at the year end remains healthy. However, the Council's forward-looking financial plan recognises the need for savings in 2014/15 of £0.69m and the medium term financial strategy recognises further budget pressures of £1.8m over the next four years. Delivery of these savings is highly dependent on the success of the T18 transformation programme, in partnership with West Devon Borough Council.

The Council has areas of spend that appear high in comparison with similar councils, such as Waste management, and highways and transport, the Council also does not generate as much income from the arts and tourism as its family group. The Council is aware of these through its use of the SPARSE benchmarking and is investigating the scope for these to be addressed. This will be explored in more detail as part of our financial resilience report, which will be presented at the next Audit committee meeting.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council's plans prioritise its resources reflecting the financial constraints. The T18 programme aims to streamline processes to improve efficiency & productivity. We have concluded that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

| | |
|--------------|--|
| Green | Adequate arrangements appear to be in place |
| Amber | Adequate arrangements, with areas for development |
| Red | Inadequate arrangements |

Overview of arrangements

| Risk area | Summary observations | High level risk assessment |
|--|---|----------------------------|
| Key Indicators of Financial Performance | The Council has some areas where gross expenditure is above average, no figures are available for compensating income gains. The Council's finance team undertake various benchmarking exercises of its costs, using data provided by the Rural services network (SPARSE data). | Amber |
| Strategic Financial Planning | The Council has a robust financial planning framework, that has delivered achievable plans in the past. | Green |
| Financial Governance | The Council has good governance arrangements with robust processes for risk management. However, the revised structure under the T18 programme is, as yet, untested. | Green |
| Financial Control | Financial control is good. The Council has a history of achieving its budgets. However, the recent re-structure of the finance department will see the joint financial systems being controlled with a reduced establishment. | Green |
| Prioritising Resources | The Council plans to prioritise its use of resources through the successful implementation of the T18 programme, together with West Devon Borough Council. | Green |
| Improving Efficiency & Productivity | The successful delivery of the T18 programme should achieve greater productivity and lead to more efficiency across both Council's | Green |

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Executive Summary

Next Steps

| Area for consideration | Recommendation | Responsibility | Timescale | Management response |
|-----------------------------|---|----------------|---|--|
| Financial Governance | The new structure under the T18 joint arrangements is untested. Appropriate monitoring arrangements need to be implemented to ensure that effective governance is maintained. | S151 Officer | On-going monitoring throughout the year | The new structure for Support Services has been in place since 29 September 2014. The S151 Officer will ensure that regular reports are presented to Members at the Executive, the Audit Committee and Full Council meetings, in accordance with the normal timetable. |

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Key Indicators

Introduction






This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

We have used the Audit Commission's geographical neighbours benchmarking group comprising the following authorities:






Chichester District Council
Cotswold District Council
Craven District Council
Derbyshire Dales District Council
Hambleton District Council
Lewes District Council
Malvern Hills District Council
North Devon District Council
Purbeck District Council
South Lakeland District Council
Suffolk Coastal District Council
Teignbridge District Council
Tewkesbury Borough Council
Wealden District Council
West Dorset District Council

Key Indicators of Financial Performance

| Area of focus | Summary observations | Assessment |
|--|--|---|
| Council Tax collection | Council tax collection rate was 98.8% in 2013/14 which is an increase on 2012/13. |  Green |
| NDR collection rates | NDR collection rates were 98.6% in 2013/14 which is an increase over 2012/13, which represents a good performance in a difficult financial climate. |  Green |
| Workforce | The number of days lost to sickness have fallen for 2013/14 by 14% to 9.4 days per full time equivalent. Long term sickness represents two thirds of the sickness |  Green |
| Performance against budgets (Revenue Capital & Savings) | The Council reported a small deficit of £127k for 2013/14 principally arising from shortfalls of income from Car parks and the Dartmouth Ferry. The budget incorporated savings of £0.69m. The deficit represents 0.2% of the council's gross expenditure. |  Green |
| Reserves balances | Usable reserves at 31 March were £10.3m ,which is an increase on 31 March 2013, so overall, the Council's financial position at the year end remains healthy. However, the Council's forward-looking financial plan recognises the need for savings in 2014/15 of £0.58m and the medium term financial strategy recognises further budget pressures of £1.8m over the next four years. |  Green |

Key Indicators







Audit Commission Key ratios – Overview

| Area of Spend | 2013/14 | 2012/13 | Average 2012/13 | Commentary | Assessment |
|--|---------|---------|-----------------|--|---|
| Working capital ratio | 4.03 | 4.16 | 4.21 | Proportion of current assets to current liabilities. The Council has cover for its current liabilities. |  Green |
| General Fund Balance | £1,707k | £2,534k | £2,821k | General fund balance is low compared to the average. Part of the decrease from 2012/13 is the transfer to Reserves of £1m to help fund the T18 programme.. |  Amber |
| Usable reserves to Gross revenue expenditure | 31% | 28% | 28% | The Council increased its Earmarked reserves in 2013/14 to provide investment into the T18 programme. The Council's usable reserves remain above that of its nearest neighbours. |  Green |
| Usable capital receipts | £4,497k | £5,302k | £5,047k | The council has a healthy level of usable capital receipts. This will allow the Council to continue to fund its capital plans over the foreseeable future. |  Green |
| Long term borrowing to tax revenue ratio | 0.00 | 0.00 | 0.62 | The council is debt free |  Green |

Source – Audit Commission Key ratio profiles






Key Indicators

Audit Commission VfM profile – Overview

| Area of Spend | 2012/13 | Average 2012/13 | Quartile | Commentary | Assessment |
|--|---------|-----------------|----------|--|---|
| Total net spend per head | 407.95 | 382.00 | Q3 | Spending per head of population is above the average. The Council's T18 programme should deliver savings against the net spend. |  Amber |
| Spend on council tax benefits and housing benefits administration per head | 16.15 | 11.25 | Q4 | The Council's costs of collection exceed the family average. This indicator is based on 2012/13 data and the costs of administration has reduced for 2013/14, The T18 programme will continue to make further savings and reductions |  Red |
| Spend on culture and sport | 24.37 | 39.93 | Q1 | As for most Devon districts, spending on leisure, culture and sport is below average. This reflects the nature of the area and the availability of alternative leisure opportunities. |  Green |
| Environmental services | 55.44 | 47.49 | Q4 | Specifically the Council's spending on waste management exceeds that of its nearest neighbours. There are a variety of reasons for this: <ul style="list-style-type: none"> - Collection methods between authorities differ which leads to a variance in costs. - Differing methods of allocating overheads included for depot costs. - Decisions on the type of materials collected for recycling. In a recent waste review of the South Hams waste service savings/income streams were identified which will start to decrease the cost per household. Further work is intended to review round numbers which should lead to a further decrease in costs. |  Red |
| Housing Services | 12.15 | 12.20 | Q3 | Spending on housing services is average for its family group. |  Green |
| Sustainable economy | 91.96 | 58.70 | Q3 | This represents a corporate priority, so spend is in line with expectation. |  Amber |

Key Indicators

Audit Commission VfM profile – Financial Resilience

| Indicator | 2012/13 | Average 2012/13 | Quartile | Commentary | Assessment |
|---|---------|-----------------|----------|--|---|
| Council Tax requirement | 6,860 | 7,864 | Q2 | Requirement is falling and is below the Group average. |  Green |
| Income from Sales, Fees and charges as a % of total spend | 29.84% | 24.35% | Q1 | This includes planning, leisure and transport related income. Income is above the average. |  Green |
| Reserves as a % of net current expenditure | 27.80% | 26.80% | Q2 | The level of reserves is above average.. |  Green |
| Spend on management and support | 49.60% | 39.00% | Q3 | The Council's spend on management is above average. This indicator is based on 2012/13 data and as part of the T18 Programme, the Council have carried out a Senior Management Review which has delivered savings of £350,000 across both Councils. |  Green |
| Net spend on Council tax collection per head | 6.03 | 5.18 | Q3 | Costs of collection are average. |  Green |

Source – Audit Commission Value for Money profiles

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Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
|---|--|---|
| Focus of the MTFP | <p>The Council has all its financial plans and processes in place and up to date. The Medium Term Financial strategy covers a four year horizon.</p> <p>Medium Term Financial Strategy is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements.</p> <p>T18 demonstrates that the Council has a long term focus and considered a number of scenarios.</p> |  Green |
| Adequacy of planning assumptions | <p>The MTFFS set s out clearly the assumptions considered, these are reasonable, however, the T18 planning modelled various assumptions.</p> <p>There is no planned reliance on short term fixes or one-off savings..</p> |  Green |
| Scope of the MTFP and Links to Annual Planning | <p>The annual budget is derived from the MTFP and is completed as part of the updating of the forecasts. The MTFP covers a four year horizon.</p> <p>Planning starts in the summer , nine months before the start of the financial year, and following discussions and consultation the annual budget and council tax is set in February.</p> |  Green |
| Review process | <p>Monitoring is presented quarterly. Members consider this as part of a comprehensive progress report.</p> <p>Should variances be identified, actions are put in place to address concerns.</p> <p>The progress report projects anticipated outturn for the whole financial year.</p> |  Green |
| Responsiveness of the Plan | <p>The Council monitors the budget on a quarterly basis, any deviations, positive or negative, are addressed through an action plan.</p> |  Green |

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Financial Governance

| Area of focus | Summary observations | RAG-Rating |
|---|--|---|
| Understanding of the financial environment | <p>The leadership team is fully up to speed with current financial position. Budget and required savings are considered and planned through management team and the Council. The MTFS sets out clearly the position of the Council.</p> <p>Progress reports are comprehensive and clearly set out the current financial position.</p> <p>Members have received some financial training.</p> |  Green |
| Executive & Member Engagement | <p>The Si51 officer is part of the management team. New arrangements are in place from October 2014, where the Council will share two Directors and four senior managers.</p> <p>The Audit Committee is very challenging. All reports receive thorough consideration. The Head of Finance and Audit and the Chief Internal Auditor are also on hand as are any of the report authors. Questioning is specific, not always managed by the chair. Any incomplete answers are challenged and brought back to the next meeting.</p> <p>The new structure under the T18 joint arrangements is untested. careful monitoring is needed to ensure the arrangements continue to deliver effective governance.</p> |  Amber |
| Overview for controls over key cost categories | <p>The leadership team are aware of current financial position and future implications as covered in key reports. Quarterly monitoring of the financial position demonstrates that there is control over costs and income.</p> <p>The Council makes use of SPARSE data and as a rural authority are aware of the higher costs of delivering services.</p> |  Green |

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Financial Control

| Area of focus | Summary observations | RAG-Rating |
|--|--|---|
| Budget setting & monitoring - revenue & capital | <p>The MTFP is monitored on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end position. Capital and Revenue budgets are included.</p> <p>There is no indication that the Council won't be able to deliver its statutory services and no indication from the budget that risks are overlooked.</p> |  Green |
| Savings plans setting & monitoring | <p>MTFS demonstrates that there is no reliance on short term fixes. The Council has achieved its savings targets in the past.</p> <p>Long term savings are being driven by the T18. transformation programme.</p> |  Green |
| Adequacy of Internal audit arrangements | <p>As part of the re-structuring process, Internal Audit management has been outsourced to the Devon audit partnership from October 2014. This has ensured the continuity of the in-house audit team, whilst achieving some savings, as anticipated by the T18 stage 1 plan.</p> |  Green |
| External audit conclusions | <p>External audit have not raised any high priority recommendations over internal or financial controls in recent years.</p> |  Green |
| Finance department resourcing | <p>The council is currently re-organising the Finance department (finance will be within the support services) to cover the joint provision of services with West Devon Borough Council.</p> <p>This is part of T18 project, which has re-engineered all the processes. Appointments have been made and the process of relocating and integrating the provision is underway. The merged department will see the joint financial systems being controlled with a reduced establishment and will be based at Totnes.</p> |  Green |
| Assurance framework/risk management processes | <p>Risk management is reported to the Audit committee on a regular basis and is discussed by members.</p> <p>The assurance framework, including the preparation of the Annual Governance Statement, has been reviewed and was found to be robust.</p> |  Green |

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Prioritising Resources

| Area of focus | Summary observations | RAG-Rating |
|---|---|--|
| Leadership and challenge in prioritising resources | <p>Members and management have addressed the challenges going forward through the planning and introduction of the T18 project. Historically, savings have been achieved .</p> <p>T18 project empowers management and leaders to change the way the Council (and West Devon) operates to achieve large savings across South Devon. The project has started and the phase 1 has begun with a big reduction in finance staff.</p> |  Green |
| Consultation with key stakeholders | <p>Budget setting is driven from services. Staff are heavily involved in cuts and savings proposals. Public meetings are held to discuss plans.</p> <p>Managers and their staff had to buy into the process in order to achieve the outcomes. This will be tested over the various phases of the T18 project.</p> |  Green |
| Basis for decision making | <p>Savings proposals are drawn from all services. High cost services are considered through use of SPARSE data benchmarking. Costs are usually a result of policy, rather than waste.</p> <p>All areas are supported by explanations</p> <p>Key partnership is with West Devon Borough Council and the agreed T18 project is based on a thorough understanding of the resources available for both Councils. The Council does not plan to rely quick fixes or one-off savings to bridge the budget gap. The T18 Programme has been set up to ensure sustainable delivery of services in, whilst achieving the necessary level of savings.</p> |  Green |
| Understanding impact and outcome of decisions | <p>T18 is being monitored closely, on a monthly basis, and any unintended consequences should be identified early. Appropriate actions will be undertaken to address any issues. The quarterly performance and Revenue and Capital budget monitoring reports detail current position and the impact of the Council's decisions.</p> |  Green |

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Improving Efficiency & Productivity

| Area of focus | Summary observations | RAG-Rating |
|--|--|---|
| Understanding costs | <p>The Council uses benchmarking data collated by SPARSE and as a rural authority is aware of the higher costs of delivering services. This allows comparison with other rural district councils.</p> <p>Whilst there are no systematic comparisons made by the Council, Services carry out their own benchmarking using the SPARSE network and uses the data that is produced to measure its services.</p> |  Green |
| IT Systems and data quality | <p>Neither Internal audit or the external auditor has raised concerns over the operation of the IT systems. Neither has there been any issues raised over the quality of the Council's data.</p> |  Green |
| Delivery of savings and service re-design | <p>The Council has achieved its Identified savings over the last three years. Future savings plans on achievable outcomes. The T18 project covers the efficiency plan savings which are identified and quantified.</p> <p>The Council has not used its reserves to fund its Revenue budget in 2013/14. In recent years the budget has always been achieved.</p> <p>The T18 programme is viewed as the primary driver to achieve the savings required by the Council. The organisation transformation was calculated to deliver 23% of the net revenue budget for both council's, this has been revised in the updated business case (December 2014) to 30 %.</p> |  Green |

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The Annual Audit Letter for South Hams District Council

Year ended 31 March 2014

21 October 2014

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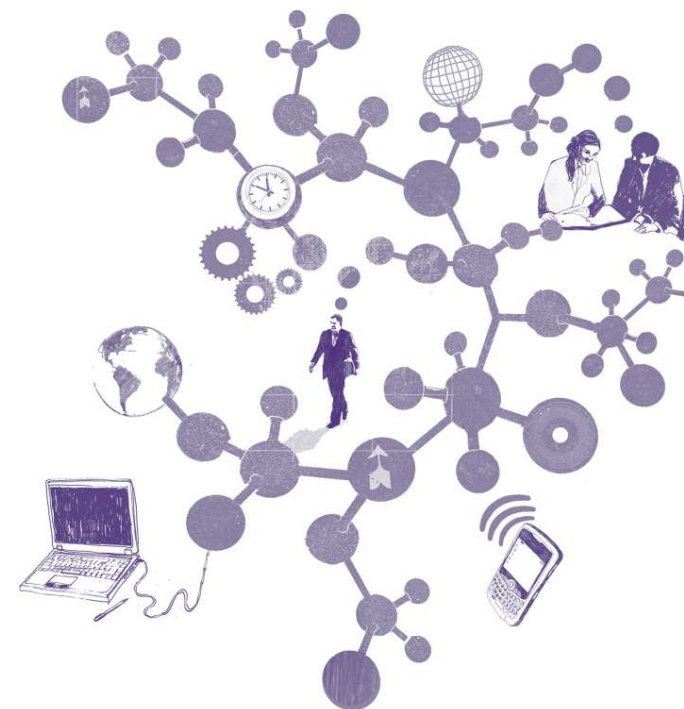
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Agenda Item 2b

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Appendices

- A Key issues and recommendations
- B Summary of reports and audit fees

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at South Hams District Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit committee on 3 April 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

| | |
|--|--|
| Financial statements audit (including audit opinion) Page 33 | <p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 18 September 2014 to the Audit Committee. We identified one accounting error affecting the Council's reported position. The presentation of the Council's capital financing required expanding to present the entries consistently in the financial statements. The associated adjusting entries did not result in a change to the Council's reported reserves at the year end. There were no unadjusted errors.</p> <p>We issued an unqualified qualified opinion on the Council's 2013/14 financial statements on 18 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p> |
| Value for Money (VfM) conclusion | <p>We issued an unqualified VfM conclusion for 2013/14 on 18 September 2014.</p> <p>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 2014.</p> |

Key messages

| | |
|--|---|
| Whole of Government Accounts | We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements. |
| Certification of grant claims and returns | We are required to certify one certification return for the Council, the Housing Benefit and Council Tax Benefit subsidy for 2013/14. At the time of writing this work is ongoing and we expect to report to the Department of Works and Pensions by the 30 November 2014 deadline. |
| Audit fee | Our fee for 2013/14 was £57,872, excluding VAT, which is an increase of £900 over our planned fee for the year. There is no longer a certification requirement in respect of business rates, which resulted in a need for additional audit work on material business rates balances and the disclosures in the financial statements. The Audit Commission approved a fee variation for this work, equivalent to 50% of the average cost by council type of LA01 certification in 2012/13. This amounted to an additional fee of £900 to cover the additional audit work required on business rates. |

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Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

| No. | Issue and recommendation | Priority | Management response/ responsible office/ due date |
|-----|---|----------|--|
| 1. | <p>It was noted that payroll was still administered by one individual. Further, from discussions with members of the finance and HR teams, there appeared to be insufficient medium term contingencies should that member of staff leave or become ill.</p> <p>Recommendation: We recommend that there is a segregation of duties within the payroll department whereby one member of staff is not wholly responsible for the processing of all the payroll.</p> | Medium | <p>In the short term a robust contingency plan has been put in place, to ensure that, both payroll is submitted on time and relevant returns are sent to HMRC, should issues arise with the member of staff currently responsible for preparing the payroll.</p> |

Appendix B: 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 | 57,872 |
| Grant certification fee ** | 10,302 | 9,328 |
| Total fees | 76,274 | 67,200 |

Fees for other services

| Service | Fees £ |
|--|--------|
| Review of T18 Project (A joint review with West Devon Borough Council) | 2,325 |

* The audit fees are set by the Audit Commission. As there is no longer a certification requirement in respect of business rates, there is a need for additional audit work on material business rates balances and the disclosures in the financial statements. The Audit Commission has approved a fee variation for this work, equivalent to 50% of the average cost by council type of LA01 certification in 2012/13. This amounted to an additional fee of £900 to cover the additional work required on business rates.

** This certification fee was revised by the Audit Commission as certification of council tax benefit is no longer required as part of the Housing Benefit Subsidy scheme.

Reports issued

| Report | Date issued |
|-----------------------------------|-----------------------|
| Audit Plan | 21 March 2014 |
| Audit Findings Report | 8 September 2014 |
| Certification report | Planned December 2014 |
| VfM – Financial Resilience Report | Planned November 2014 |
| Annual Audit Letter | 21 October 2014 |



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Protecting the Public Purse

Fraud Briefing 2014

South Hams District Council



Purpose of Fraud Briefing



Provide an information source to support councillors in considering their council's fraud detection activities



Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities



Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed



Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

Understanding the bar charts

Outcomes for the first measure for your council are highlighted in yellow in the bar charts. The results of your comparator authorities are shown in the green bars.



Outcomes for the second measure for your council are highlighted as a green symbols above each bar. The results of your comparator authorities are shown in the white triangles.



A '*' symbol has been used on the horizontal axis to indicate your council.

All data are drawn from council submissions on the Audit Commission's annual fraud and corruption survey for the financial year 2013/14.

In some cases, council report they have detected fraud and do not report the number of cases and/or the value. For the purposes of this fraud briefing these 'Not Recorded' records are shown as Nil.

Comparator group

Chichester
Cotswold
Craven
Derbyshire Dales
East Devon
Exeter
Hambleton
Lewes
Malvern Hills
Mid Devon
North Devon
Purbeck
South Hams
South Lakeland
Suffolk Coastal
Teignbridge
Tewkesbury
Torrige
Wealden
West Devon
West Dorset

Interpreting fraud detection results



Contextual and comparative information needed to interpret results



Detected fraud is indicative, not definitive, of counter fraud performance (*Prevention and deterrence should not be overlooked*)



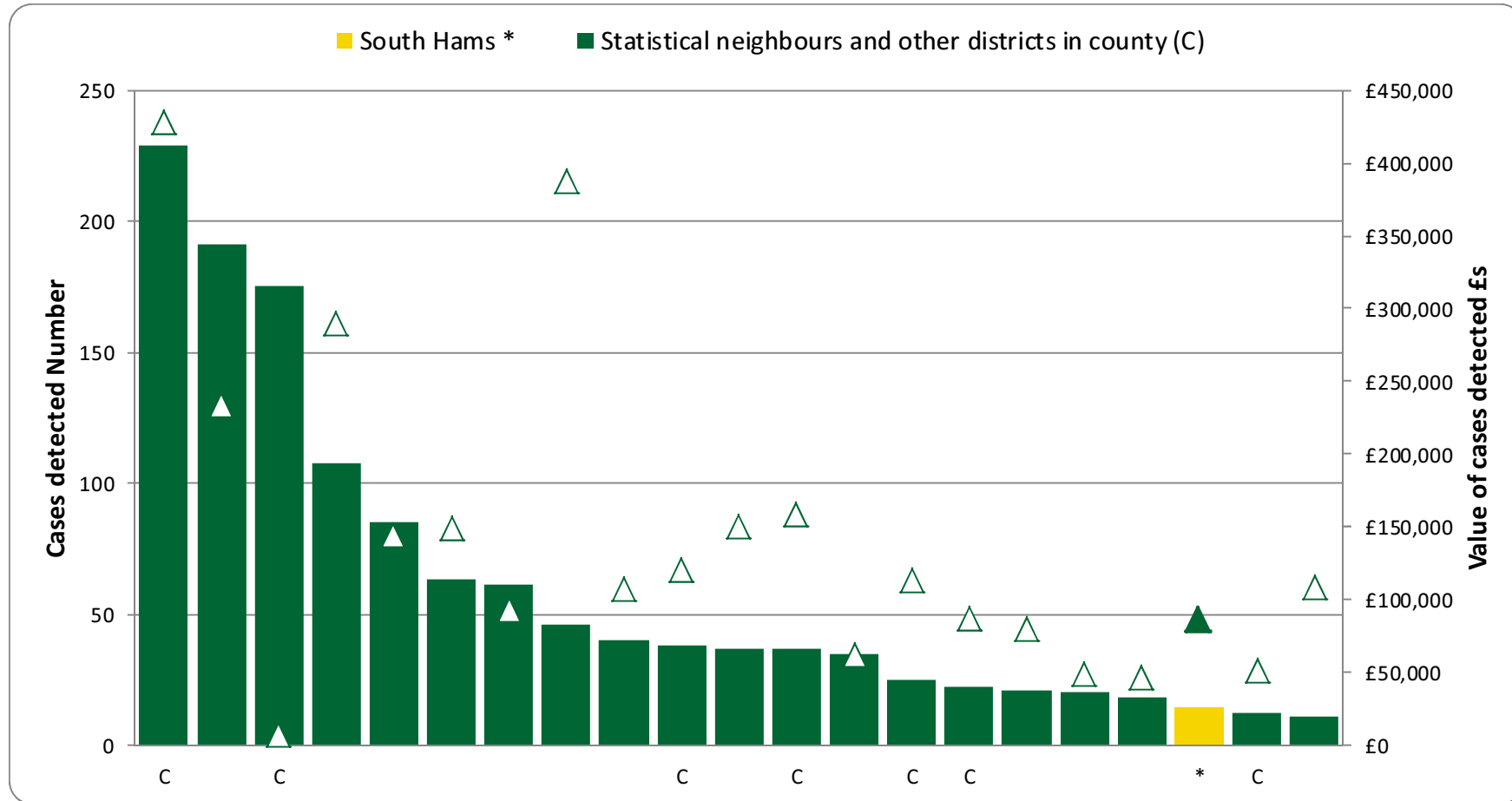
No fraud detected does not mean no fraud committed (*Fraud will always be attempted and even with the best prevention measures some will succeed*)



Councils who look for fraud, and look in the right way, will find fraud (*There is no such thing as a small fraud, just a fraud that has been detected early*)

Total detected cases and value 2013/14 (Excludes Housing tenancy fraud)

South Hams



South Hams detected 14 cases of fraud. The value of detected fraud was £86,388.

Average for statistical neighbours and county: 64 cases, valued at £143,449

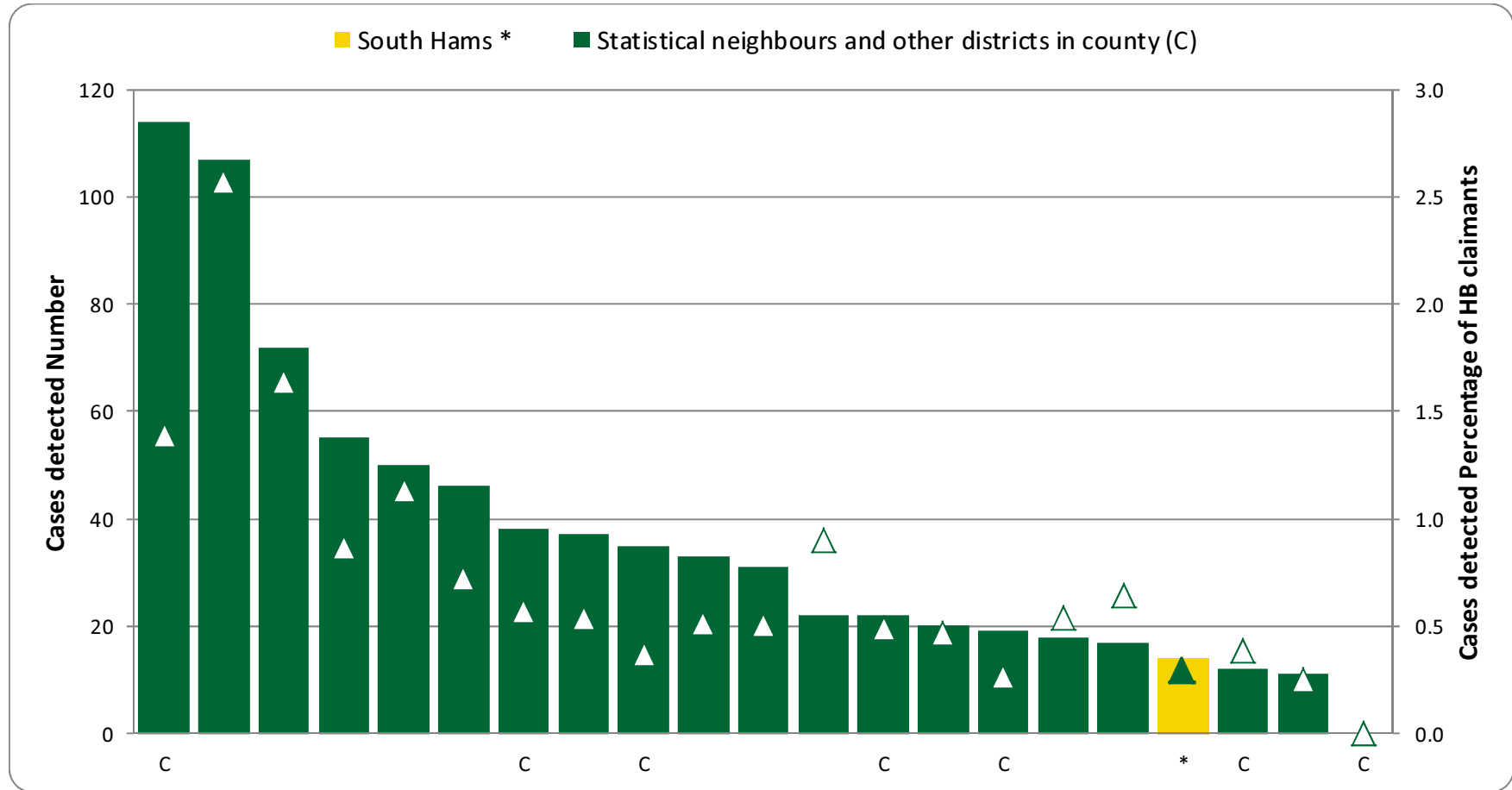


Housing Benefit (HB) and Council Tax Benefit (CTB) 2013/14

Total detected cases, and as a proportion of housing benefit caseload

South Hams

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South Hams detected 14 cases of this type of fraud. The value of detected fraud was £86,388.

Average for statistical neighbours and county: 38 cases, valued at £139,727



Councils without housing stock 2013/14

Housing tenancy fraud

4 per cent of social housing stock in London and 2 per cent outside London is subject to tenancy fraud

Second largest fraud loss to local government, £845 million

The Prevention of Social Housing Fraud Act 2013: criminalises tenancy fraud

Combined with housing associations the total loss in England, £1.8 billion

Councils have powers to investigate and prosecute tenancy fraudsters on behalf of housing associations

Should you be using this legislation and powers to work in partnership with local housing associations?

Other frauds 2013/14

South Hams

Procurement: South Hams did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 0 cases

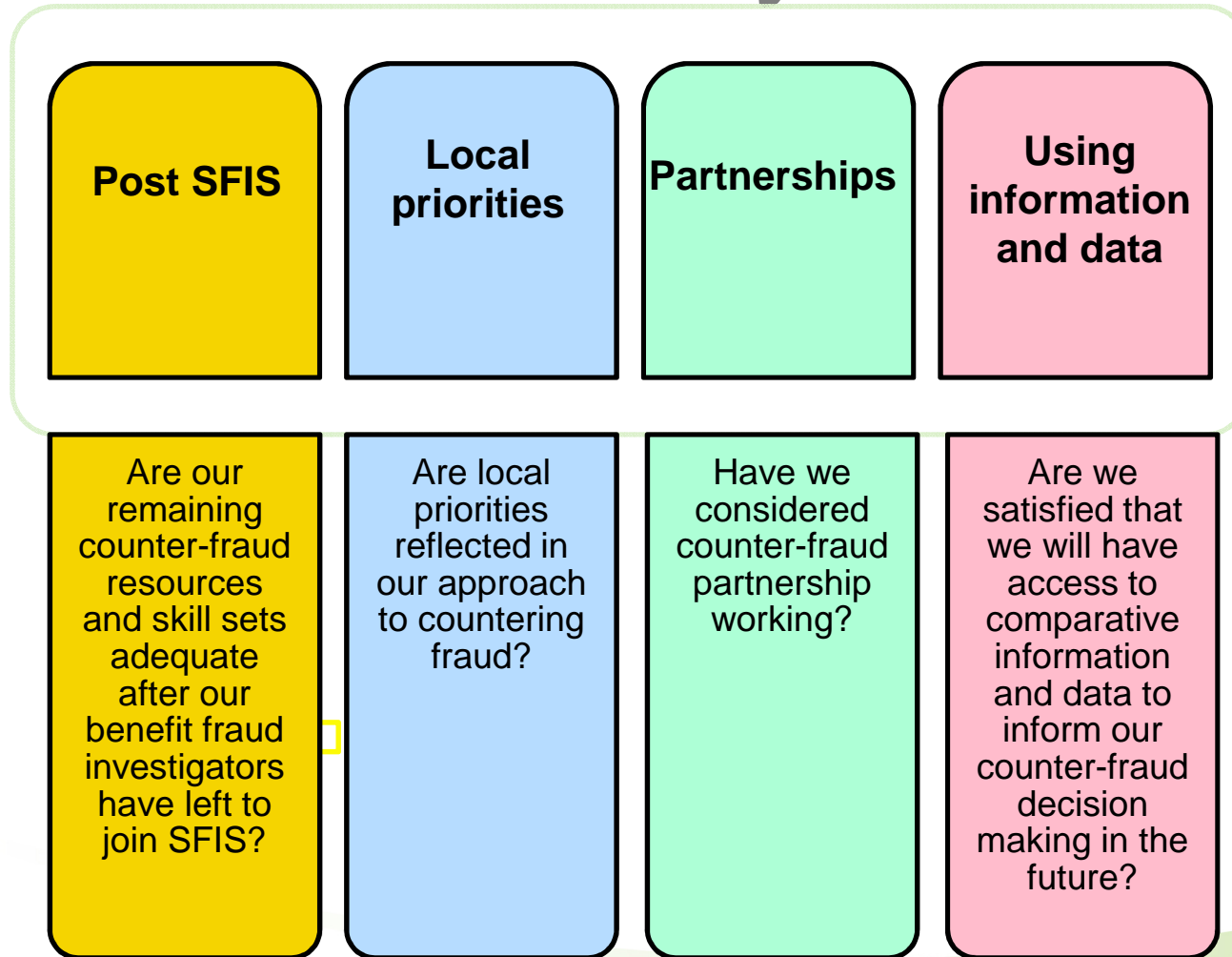
Insurance: South Hams did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 0 cases

Economic and third sector: South Hams did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 0 cases

Internal: South Hams did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 10 cases, valued at £8,958

*Correctly recording fraud levels is a central element in assessing fraud risk.
It is best practice to record the financial value of each detected case*

Questions elected members and decision makers may wish to ask



Any questions?



South Hams District Council Audit Committee Update

Year ended 31 March 2014

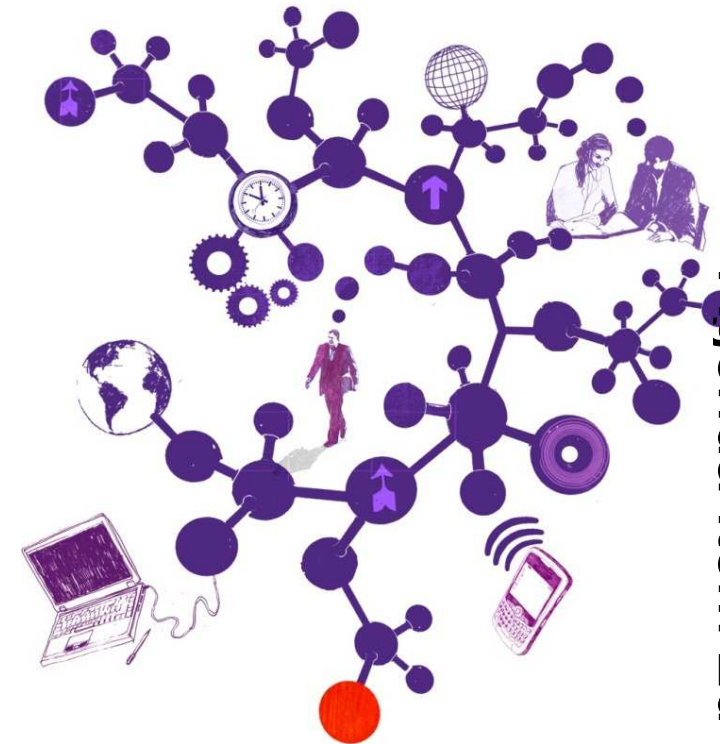
8 January 2014

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Agenda Item 2d

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 | 4 |
| Progress at 15 December 2014 | 5 |
| Emerging issues and developments | 7 |
| Glossary | 16 |

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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; and
- 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

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 either your Engagement Lead or Audit Manager.

| | | | |
|---------------|-----------------|-----------------|--|
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| Steve Johnson | Audit Manager | M 07880 456134 | steve.p.johnson@uk.gt.com |

Position at 15 December 2014

| Work | Planned date | Complete | Comments |
|--|-----------------------|----------|--|
| <p>2014/15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014/15 financial statements.</p> | 12 March 2015 | Not due | Initial planning work will be undertaken to enable the audit plan to be presented at the March 2015 Audit Committee. |
| <p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <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 • proposed Value for Money conclusion. | January/February 2015 | Not due | Our initial review of the Council's controls and our early substantive testing will be undertaken in February/March 2015. This work will be managed in tandem with our work for West Devon Borough Council. Minimising the disruption to the council's finance team. |
| <p>2014/15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. | July 2015 | Not due | The audit of the 2014/15 financial statements will be undertaken in July and August 2015 and reported to the September Audit Committee to meet the 30 September 2015 deadline. |

Position at 15 December 2014 (continued)

| Work | Planned date | Complete | Comments |
|--|--|-------------------------------|---|
| <p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises a review of whether the Council has:</p> <ul style="list-style-type: none"> • 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. • 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. | January 2015 to September 2015 | Not due | <p>An interim risk assessment will be made as part of the Audit planning in January/February 2015.</p> <p>The detailed work will continue through to September 2015, when we are required to give our VfM conclusion.</p> |
| <p>Other areas of work</p> <p>Certify the Council's Whole of Government accounts (WGA) return</p> <p>Grant claims and certification.</p> <p>We anticipate that the only claim that will require certification for 2013/14 will be the Housing benefit and council tax subsidy.</p> | <p>September 2015</p> <p>June 2015 November 2015</p> | <p>Not due</p> <p>Not due</p> | <p>Work will commence in September 2015</p> <p>Work will commence in June 2015 and be completed in November 2015</p> |

Emerging issues and developments

Code changes – have your say

Accounting and audit issues

At the end of July, the CIPFA/LASAAC released the [2015/16 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 changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- Changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closed on Friday 10 October 2014. The final version of the updated code will be issued shortly.

CIPFA/LASAAC have also launched a second stage consultation on [simplifying and streamlining the presentation of local authority financial statements](#). This will be issued before the preparation of the 2014/15 financial statements

Emerging issues and developments

CIPFA LAAP updates

Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Issue for consideration

Has your Finance Community of Practice Lead and audit reviewed the guidance and assessed the potential impact for your authority?

Management comment

The Council will assess the impact of the 2015/16 Code of Practice on Local Authority Accounting as part of its standard timetable for Accounts preparation. The Council will also attend the various seminars on Final Accounts preparation which are run by Grant Thornton and FAN (Finance Advisory Network).

The Council undertook an exercise to streamline its Accounts for 2013/14 and any further streamlining from the CIPFA publication will be made.

LAAP Bulletin 99 - Local Authority Reserves and Balances - The LAAP Bulletin maintains that the many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. The Finance Community of Practice Lead may choose to express advice on the level of balances in cash and or as a percentage of budget (to aid understanding). The level of Reserves is reported on as part of the Budget reports to the Executive and the Council.

Emerging issues and developments

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: http://www.grant-thornton.co.uk/Global/Publication_pdf/Where-growth-happens-the-high-growth-index-of-places.pdf

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEAs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

New routes to housing development

Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available from your engagement lead or audit manager.

Emerging issues and developments

Anti - fraud and corruption update

Grant Thornton

Key current issues include:

Single Fraud Investigation Service (SFIS) - The SFIS will bring together all investigative capacity in relation to benefits and tax credits under the control of the Department of Work and Pensions. However a number of local authorities have expressed concern that such a transfer will cause them to lose the capacity to readily investigate other issues such as employee fraud and corruption allegations.

Corruption risk - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that Audit Committees were unable to fulfil the function of reducing risks in many authorities.

Non-benefits fraud - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London Districts, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your audit manager.

Emerging issues and developments

Right to report

Local government guidance

The Local Government Minister signed a signed a Parliamentary order on 6 August 2014 allowing the press and public to film and digitally report from all public meetings of local government bodies. The new rules will apply to all public meetings, including town and parish councils and fire and rescue authorities. The Local Government Secretary, Eric Pickles, said:

"Half a century ago, Margaret Thatcher championed a new law to allow the press to make written reports of council meetings. We have updated her analogue law for a digital age... This will change the way people see local government, and allow them to view close up the good work that councillors do"

Issue for consideration

- Have members considered the implications of the Parliamentary order for conducting Council meetings and facilitating public and media access thereto?

Management comment

A report from the Democratic Services Manager was considered by Council on 2nd October 2014. This work is being led by the Monitoring Officer.

Auditing Parish Councils

Local government guidance

On 17 July 2014 the Audit Commission wrote to the Department for Communities and Local Government (DCLG) to express its concerns about the complexity of the government's new arrangements for parish council audits. Responding to DCLG's consultation on local audit regulations, the Commission suggests they will place a much greater burden on parish councils and their clerks than the government intends.

Currently all circa 10,000 parish Councillors have an Audit Commission appointed auditor. Post Audit Commission closure, scheduled for March 2015, new arrangements are due to come into place from 2017. Under the new arrangements the default option for all parishes will be to appoint their own auditors, with fees set by the market, although:

- auditors at parishes below a certain size, and subject to other prescribed conditions, will not carry out work unless members of the public ask questions or make objections – instead parishes in this category will have to publish specified information on their own website or the website of their district council;
- if a sector led body comes forward, and is accepted by the government, parishes can opt for this body to appoint their auditors for them.

The Audit Commission's Chairman, Jeremy Newman said that

- “we need to find a way to overcome some fundamental practical problems about how smaller local authorities, such as parish councils, should be held to account;
- the government wants high quality and cost-effective assurance that promotes transparency. It is trying to reduce the burden on authorities, but its proposals will do the opposite. The government needs to either keep the current assurance arrangements in place, or accept that the small spending levels of these bodies, coupled with their closeness to their communities, means that external audit is disproportionate.”

Emerging issues and developments

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Issue for consideration

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

Management comment

On 18 July 2013 the Executive received a report from the estates manager on the Strategic Asset Review (SAR). An update on the SAR was reported to the Executive on 11th December 2014 as part of the Capital Programme Monitoring report.

Emerging issues and developments

The National Fraud Initiative

Local government guidance

On 12 June 2014 the Audit Commission released its national report, [The National Fraud Initiative \(NFI\): National Report \(June 2014\)](#) highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".

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The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

Issue for consideration

- Are members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?

Management comment

A separate report "Protecting the Public Purse - Fraud Briefing 2014" is on the audit committee agenda today.

Glossary

| Abbreviation | Detail |
|--------------|--|
| CEO | Chief Executive Officer |
| CIPFA | Chartered Institute of Public Finance Accounts |
| DCLG | Department for Communities and Local Government |
| FD | Finance Director |
| IFRS | International Financial Reporting Standard |
| LASAAC | Local Authority (Scotland) Accounts Advisory Committee |
| LAAP | Local Authority Application Panel |
| LEP | Local Enterprise Partnership |
| NFI | The National Fraud Initiative |
| SAR | Strategic Asset Review |
| SFIS | Single Fraud Investigation Service |
| VFM | Value for Money |



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|--------------------------|---|
| NAME OF COMMITTEE | Audit Committee |
| DATE | 8th January 2015 |
| REPORT TITLE | INTERNAL AUDIT – REVISION OF and PROGRESS AGAINST THE 2014/15 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 2014/15 to the 30th November 2014, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2014/15 annual internal audit plan, as approved by this Committee in April 2014.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee notes the progress made against the 2014/15 internal audit plan, and the key issues arising.

Officer contact:

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Email: Robert.Hutchins@swdevon.gov.uk

Lisa Buckle, S.151 Officer – 01803 861413

1. BACKGROUND

- 1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference A.32/13) 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 2014/15 and was approved by the Audit Committee in April 2014 (Minute reference A.32/13 refers). It covers:

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

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2014/15

Audit Plan 2014/15

- 2.1 The 2014/15 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2014 (A.33/13 refers).

Local and National Risk Based Amendments to the Plan/T18 Transformation

- 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 The blueprinting model connected with the T18 Transformation programme reduced the resources available for internal audit to 2.6 whole time equivalents (from 2.9) reducing the audit plan from 630 days to 567 days. The September meeting of the committee received a revised plan which showed the areas that would be removed from the plan to accommodate this reduction; these areas were considered to be "lowest risk" of the areas in the plan and included:

- Cemeteries and Burials;
- Public Health incl. Water Sampling;
- Grounds Maintenance;
- Housing Strategy;
- Development Control – Enforcement;
- Electoral Registration;
- Allocation of HQ Costs; and
- Drawing Office.

Resources and Skills

- 2.4 Sickness to the 30 November 2014 is 1 day (2013/14 equivalent 0 days).
- 2.5 In 2014/15 to date, 7 days training has been provided to the audit team.

Progress against the Plan

- 2.6 The 2014/15 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.
- 2.7 The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.
- 2.8 **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

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

Fraud, Corruption, Bribery and Whistle Blowing

- 2.10 The Council became aware of two potential frauds involving Council Tax refunds, one for each authority. The fraud related to a person paying their annual Council Tax for a new property, using a potentially fraudulent payment method, and then subsequently requesting a refund stating they had vacated the property. Revenue staff have been made aware of the issue and additional controls were agreed between Audit and Revenues to ensure similar cases are only refunded back using the original payment method.
- 2.11 The frauds were reported on the National Action Fraud website and correspondence has been received from The National Fraud Intelligence Bureau (NFIB) that there might be sufficient viable lines of enquiry for a possible police investigation.

Performance Indicators

- 2.12 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 2014/15.

2.13 Progress made against the plan is considered to be good; we remain confident that the key elements in the revised plan will be delivered by the end of March 2015.

Internal Audit – Shared Services

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

Shared service with West Devon

- Progress on the 2014/15 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.

Working with Devon Audit Partnership (DAP)

- The audit team attended a DAP development day in Exeter. The team were able to meet with colleagues from other audit teams and develop relationships to aid in skills sharing.

3. LEGAL IMPLICATIONS

3.1 Statutory Powers: **Accounts and Audit Regulations 2011**

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications follow this table:

| | |
|---|---|
| Corporate priorities engaged: | All/Corporate |
| Statutory powers: | Accounts and Audit Regulations 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: | <p>Appendix A: Audit Plan 2014/15 – Progress to 30th November 2014.</p> <p>Appendix B: Planned Audit 2014/15 – Final Reports: Detailed Items.</p> <p>Appendix C: Planned Audit 2014/15 – Summary of Results.</p> <p>Appendix D: Unplanned Audit 2014/15 – Summary of Results.</p> |

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 2014/15 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 | ■ | | | | | | | | 19% completed. |
| Creditor Payments | 11 | ■ | ■ | ■ | ■ | | | ■ | | See summary below |
| Payroll | 10 | ■ | ■ | | | | | ■ | | Draft report issued 25/11/2014 |
| Council Tax | 14 | ■ | ■ | ■ | ■ | | | ■ | | See summary below. |
| Business Rates (NDR) | 12 | ■ | ■ | ■ | ■ | | | ■ | | See summary below. |
| Benefits | 15 | ■ | | | | | | | | 73% completed |
| Benefits Debtors | 5 | | | | | | | | | |
| Debtors | 10 | ■ | | | | | | | | 40% completed |
| Treasury Management | 4 | | | | | | | | | |
| Capital Expenditure & Receipts | 11 | ■ | ■ | ■ | ■ | | ■ | | | See summary below |
| Fundamental Systems | 105 | | | | | | | | | |
| Salcombe Harbour | 10 | ■ | ■ | | | | ■ | | | Draft report issued 17/10/2014. |
| Dartmouth Lower Ferry | 9 | ■ | ■ | ■ | ■ | | | ■ | | See summary below. |
| Street Scene - Car and Boat Parking | 9 | | | | | | | | | |
| Private Sector Housing Renewal | 8 | ■ | ■ | ■ | ■ | | ■ | | | See summary below. |
| Data Quality & Performance Indicators | 5 | ■ | | | | | | | | Strategy only. |
| Use of Email & Internet | 10 | ■ | ■ | ■ | ■ | | ■ | | | |
| Computer Audit (see below) | 26 | - | - | - | - | - | - | - | - | |
| Grants - RDPE Rural Community LAGs | 20 | 16 days used | - | - | - | - | - | - | - | |

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Progress Against the 2014/15 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 | 7 | 4.5 days used | - | - | - | - | - | - | - | Minute reference E.28/12 refers. 5 project and 5 management claims audited. |
| Follow Up of Previous Year's Audits | 10 | 2 days used | | | | | | | | |
| Contingency – advice guidance and other unplanned work | 54 | 31 days used | | | | | | | | Includes:- <ul style="list-style-type: none"> • Advice / guidance on new creditors system work • SH election duties • Support re Oct payroll issue |
| Corporate Governance | 8 | | | | | | | | | |
| Exemptions to Contract or Financial Procedure Rules | 5 | 3 days used | | | | | | | | 12 Exemption applications received and processed to November 2014, of which 12 accepted. |
| System of Internal Control (SIC) & Annual Governance Statement (AGS) | 5 | ■ | ■ | ■ | ■ | - | - | - | - | Reports to the July and October 2014 Audit Committees for approval of the Annual Governance Statement. |
| Risk Management / Business Continuity | 3 | | | | | | | | | |
| West Devon Borough Council | 112 | - | - | - | - | - | - | - | - | Separately reported to WDBC, plan reduced by two audit engagements. |
| Other Essential (Revised) | 301 | | | | | | | | | |
| Coast Protection | 5 | ■ | ■ | ■ | ■ | | | ■ | | |
| Flood Defence and Land Drainage | 6 | ■ | ■ | ■ | ■ | | ■ | | | |
| Environmental Initiatives including AONB | 6 | ■ | ■ | | | | ■ | | | |
| Land and Investment Properties | 7 | ■ | ■ | | | | ■ | | | |
| Democratic Representation including Members | 6 | ■ | ■ | | | | ■ | | | See summary below |
| Community Safety | 4 | ■ | ■ | ■ | ■ | ■ | | | | |
| Housing Standards | 3 | ■ | ■ | ■ | ■ | | ■ | | | See summary below |

Progress Against the 2014/15 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 | |
| Pest Control | 1 | ■ | ■ | ■ | ■ | ■ | | | | |
| Beach Cleaning | 6 | ■ | ■ | ■ | ■ | | ■ | | | See summary below |
| Non distributed costs including Redundancies | 5 | | | | | | | | | |
| Local Welfare Support | 2 | | | | | | | | | |
| Economic Development | 5 | ■ | ■ | ■ | ■ | ■ | | | | See summary below |
| Advice to RM/ Information Compliance/Other Groups | 3 | 0 days used | - | - | - | - | - | - | - | |
| Shared Services | 5 | ■ | ■ | ■ | ■ | | ■ | | | See summary below |
| Sustainability | 4 | ■ | ■ | ■ | ■ | | ■ | | | |
| T18 Transformation Programme | 5 | 1.4 days used | | | | | | | | |
| Counter Fraud Work | 10 | ■ | | | | | | | | 95% completed. Includes issue regarding bank account changes. |
| Other (Revised) | 83 | | | | | | | | | |

| | | | | | | | | | | |
|--|-----------|--|--|--|--|--|--|--|--|-------------------------------------|
| Computer audit (referred to above) | | | | | | | | | | |
| Installation & Healthcheck | 7 | | | | | | | | | Planned for 4 th quarter |
| Computer & Network Management and Security | 9 | | | | | | | | | Planned for 4 th quarter |
| Change Control | 7 | | | | | | | | | Planned for 4 th quarter |
| Other Reviews including Internet Controls | 3 | | | | | | | | | Planned for 4 th quarter |
| Computer Audit | 26 | | | | | | | | | |

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

| | | | | | | | | | | |
|---|------------|-----------------------|---|---|---|---|---|---|---|---|
| Overheads | | | | | | | | | | |
| Audit Administration | 15 | 9.5 days used | - | - | - | - | - | - | - | Includes team briefings, staff voice etc. |
| Audit Management, including • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit committee | 46 | 31 days used | - | - | - | - | - | - | - | Includes attendance at Audit Committee. |
| Training | 12 | 8 days used | - | - | - | - | - | - | - | |
| Miscellaneous e.g. CPR, FPR etc. | 5 | 1.1 days used | - | - | - | - | - | - | - | Update of CPR |
| Total (Revised) | 78 | 27.8 days used | | | | | | | | |
| Overall Total (Revised) | 567 | | | | | | | | | From 630 days |

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| RESOURCES AVAILABLE (Revised) | | 2014/15 |
|-------------------------------------|---|------------|
| | | Days |
| Chief Internal Auditor | <i>From 234 days in the original plan</i> | 117 |
| Senior Auditor | | 261 |
| Auditor | | 261 |
| Partnership Audit Management | <i>New</i> | 35 |
| Sickness | <i>From -18 days in the original plan</i> | -15 |
| Bank Holidays | <i>From -24 days in the original plan</i> | -21 |
| Annual Leave | <i>From -84 days in the original plan</i> | -71 |
| TOTAL RESOURCES AVAILABLE | <i>From 630 days in the original plan</i> | 567 |

Planned Audit 2014/15 – 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 2014/15 – Final Reports Issued

September 2014 Audit Committee

| Subject | Audit Findings | Management Response |
|--|--|---|
| <p>Page 81</p> <p>Creditor Payments</p> | <p>Audit Opinion Fair</p> <p>Conclusions Our conclusion is that the creditors system is fulfilling the purpose for which it is intended. Invoices presented to the Council are being processed and paid.</p> <p>However there are some areas where controls can be further improved to both receive the full benefit of a more automated system for processing invoices and to reduce the risk of incorrect payments being made.</p> <p>The main issues are;</p> <ul style="list-style-type: none"> • Ensuring that the scanning of invoices using Kofax is operating correctly; • Ensuring that service users understand their role in processing invoices and have received adequate training to allow them to fulfil this; and • A number of the invoices we sampled had had orders raised after the invoice was received, reducing the financial control of purchases and increasing the possibility of duplicate payments. | <p>We asked our supplier of the Kofax system to investigate the issues raised in the audit, but did not find any problems with the software. None of the issues raised are unusual or unexpected.</p> <p>A series of Quick Win training video will be produced to remind / train staff on the key elements involved in raising orders, processing invoices and making payments.</p> |
| <p>Council Tax</p> | <p>Audit Opinion – SHDC & WDBC Fair</p> <p>Conclusions The system is operating with generally satisfactory controls but there are still some areas where these can be improved,</p> | <p>The audit findings have been agreed in principle.</p> |

| | | |
|--|---|---|
| | <p>some relating to previously reported issues. In a number of cases management have stated that tasks are not being completed due to other demands on staff resources. Managers need to ensure that key tasks are completed promptly and effectively. Action has recently commenced to resolve this by bringing in additional resource to address some areas (specifically recovery). We are aware that officers are constantly seeking to improve those parts of the system which it is within their control to do so.</p> | <p>However, there have been a number of changes to personnel working within the section and the opportunity to address some of the issues has been limited.</p> <p>Identified issues will be addressed, but some actions may be delayed until resources allow, and this may not be until after the annual billing for 2015.</p> |
| <p>Business Rates (Non Domestic Rates)</p> <p>Page 82</p> | <p>Audit Opinion – SHDC & WDBC Fair</p> <p>Conclusions The system is operating with generally satisfactory controls but there are still some areas where these can be improved, some relating to previously reported issues. The main issues raised are around access and recovery and include:</p> <ul style="list-style-type: none"> • Limited separation of duties linked to the need to consider procedures for the timely and efficient review of long term suppressions; and • Management and review of the suspense account within the system. | <p>The audit findings are agreed.</p> <p>The issues regarding separation in duties will be considered when responsibilities are reassigned under the T18 programme</p> <p>We intend to include these reconciliations in the Monitoring Programme.</p> |
| <p>Capital Expenditure and Receipts</p> | <p>Audit Opinion Capital Expenditure – Good Capital Receipts – Good</p> <p>Conclusions Capital Expenditure An effective system is in place which is generally operating satisfactorily to control capital expenditure.</p> | <p>The findings from the audit were agreed.</p> |

| | | |
|--|---|--|
| | <p>However some issues were identified where controls could be strengthened, the most significant of which is the lack of agreement of the contractors final certificate for the Dartmouth Lower Ferry Slipway.</p> <p>A number of more minor issues were also noted, mostly relating to recordkeeping and the coding of some expenditure.</p> <p>Capital Receipts Controls are in place and operating over the disposal of assets, this being demonstrated by the one property disposal during the year.</p> <p>We were able to substantiate all capital grants and receipts to supporting documents.</p> | <p>With regards the Lower Ferry, the Engineering Manager drafted a report on the situation to the Senior Management Team (SMT) for discussion at their meeting of the 10th September 2014.</p> <p>The Engineering Manager's Recommendation were agreed and additional works took place during September.</p> |
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 83 Dartmouth Lower Ferry</p> | <p>Audit Opinion Fair</p> <p>Conclusion The majority of the recommendations made in last year's internal audit report have been implemented, and controls have improved in many areas, but some weaknesses remain in spite of the best efforts of the ferry management and staff.</p> <p>The service has introduced a new ferry system, using electronic cards, which will improve some of the system weaknesses but as the system is new it also has a number of teething issues that need to be developed before it can provide fully adequate controls.</p> | <p>The audit findings have been noted and agreed. We are working to develop the new system to ensure that the control framework is effective and reliable.</p> <p>Many of the teething issues were caused by some of the digital ticket cards having manufacturing faults within the embedded digital chip.</p> <p>The faulty cards have been replaced and the digital ticket system is now working well for the customers.</p> <p>We are now developing the control framework and new</p> |

| | | |
|---|---|--|
| | | <p>business reports.</p> <p>The issues raised during the audit will help us in ensuring that an appropriate control framework is maintained.</p> |
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 84</p> | <p>Private Sector Housing Renewal</p> <p>Audit Opinion Good</p> <p>Conclusions 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.</p> <p>Officers continue to review opportunities to work more efficiently whilst still delivering a high quality service to customers.</p> <p>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. We have concluded that there was no evidence of fraudulent grant applications within the sample reviewed.</p> <p>The level of completion, accuracy and review of files remains generally satisfactory, although we did identify a number of minor administrative errors at both Councils. The errors appear to have arisen during a period when newly appointed officers in the BSU were learning procedures. Errors have reduced as the officers have gained greater experience, but we have reported them in order that senior officers can ensure that the misunderstanding of some processes does not persist.</p> | <p>The findings in the audit report have been agreed.</p> <p>Staff involved in the process have been verbally reminded of the need to adhere to procedures and guidance / training has been provided where required.</p> |

| | | |
|--|---|---|
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 85</p> <p>Democratic Representation including Members</p> | <p>Audit Opinion Good</p> <p>Conclusions <i>Members' Allowances</i> We have concluded that the payment of Members' allowances is operating satisfactorily.</p> <p><i>Travel and Subsistence</i> The payment of Members' travel and subsistence claims is generally well managed by Member Services, with a number of improvements to controls made since our previous audit of 2008/09. However we have identified some areas where these controls can be further strengthened, for example:</p> <ul style="list-style-type: none"> • Ensuring that Members sign formal meeting attendance lists; and • Confirming the mileage claimed for a sample of individual journeys each month. <p>We were able to confirm that many of the agreed recommendations in our previous audit report have been implemented, with only a small number of issues Outstanding.</p> | <p>The findings from the audit report have been agreed. An officer from Member Services does not always attend Task & Finish Groups, training sessions etc, and it is on these occasions that attendance lists may not be completed.</p> <p>It will be ensured that lead officers for meetings are sent an attendance list template where this is the case.</p> |
| <p>Housing Standards</p> | <p>Audit Opinion Good</p> <p>Conclusions The Council appears to be meeting its statutory duties with regards Housing Standards.</p> <p>Files are accessible and generally well maintained on the case management software, including copies of correspondence, evidence of housing inspections and</p> | <p>The audit findings have been agreed in principle. A risk-based inspection programme will be drawn up, but the frequency of inspections, particularly for low risk premises, will largely be determined by the resources available.</p> |

| | | |
|--|--|--|
| | <p>relevant certificates received etc.</p> <p>Whilst adequate processes are in place to manage HMO licence application and inspections, there is scope to improve these, principally:</p> <ul style="list-style-type: none"> • Completing the planned risk-based HMO inspection programme. | |
| <p>Beach and Street Cleaning</p> <p>Page 86</p> | <p>Audit Opinion Good</p> <p>Conclusions Based on the work carried out the Council appears to be meeting its statutory duties with regards beach and street cleaning.</p> <p>However we did identify some areas where it may be beneficial to improve controls and also where there may be opportunities to generate further income, including:</p> <ul style="list-style-type: none"> • Ensure that the contractor used to remove fly tips is procured in line with Contract Procedure Rules; and • Consider additional opportunities to offer a cleansing service to external organisations and landowners, including of beaches, for a fee. <p>We were able to confirm that most of the agreed actions to our recommendations in the 2008/09 Beach Cleaning and 2010/11 Street Cleansing audit reports have been implemented.</p> | <p>The findings from the audit are agreed. It is sometimes difficult to undertake effective procurement as quantities and locations cannot be predicted.</p> <p>However, the advice of the Council's Procurement Officer will be sought, but as a minimum three quotes will be obtained annually.</p> <p>Additional income opportunities are already sought where the potential exists, specifically on Grounds Maintenance and Street Cleansing services where there is a natural efficiency. Income opportunity is limited by resource capacity (as additional works should be carried out outside of normal working hours where there is an impact on Council Tax services). Where potential is identified then business cases will be put forward.</p> |
| Shared Services | <p>Audit Opinion Good</p> | |

Conclusions

The recharging of salary and travel costs between the two authorities continues to be calculated correctly, with some non material errors. During 2013/14 SHDC recharged WDBC £1.87 million and WDBC recharged SHDC £932,000.

Some errors for 2013/14 in the order of £9,000 were identified and reported to the relevant finance officers at both authorities, but these were not material and would not have a significant impact on the overall value of recharged costs. These errors were corrected in 2014/15.

We have raised some issues in the detailed appendix to the report, the most significant area being:

- Expanding further the analysis and sharing of expenditure for items such as training & continuing professional development, recruitment, and other administration costs; and
- A policy for the recharging of ICT is to be further developed to ensure that existing arrangements are robust.

The findings in the Audit report have been Agreed.

All costs (including those referred to) will be considered to determine if they need to be included in re-charges and how costs will be shared.

Planned Audit 2014/15 – 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. |

Unplanned Audit work – 2014/15

General

| Description | Main Issues |
|--|--|
| <p>Minor enquiries and issues investigated, including some planned work, which by its nature does not require a report.</p> <p>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; • Advice and review of updated finance software including ordering system and creditor payments; • Dartmouth Ferry – advice and assistance re new software; • T18 Transformation – various; • Advice re RDPE LAGs Accountable Body; and • Minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies. |

| |
|----------------|
| AGENDA ITEM |
| 10 |

SOUTH HAMS DISTRICT COUNCIL

| |
|----------------|
| AGENDA ITEM |
| 10 |

| | |
|--------------------------|---|
| NAME OF COMMITTEE | Audit Committee |
| DATE | 8 January 2015 |
| REPORT TITLE | Strategic Risk Assessment - 6 monthly update |
| Report of | Finance Community of Practice Lead |
| WARDS AFFECTED | All |

Summary of report:

In accordance with the Joint Risk Management Policy adopted by South Hams District Council on 10 May 2012 and by West Devon Borough Council on 17 May 2012, this report provides the required 6 monthly update to Members. The report includes the current corporate strategic risk assessment and a summary of the management and mitigation actions to address the identified risks.

Financial implications:

There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Council from future losses.

RECOMMENDATIONS:

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

Officer contact: Lisa Buckle – lisa.buckle@swdevon.gov.uk
or by 'phone on 01803 861413

1. BACKGROUND

- 1.1 The Council at its meeting on 10 May 2012 resolved to adopt the Joint Risk Management Policy.

1.2 The Joint Risk Management Policy requires the Senior Management Team to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis. It also stipulates that a member of the Senior Management Team will provide update reports to the Audit Committee on a six monthly basis. This is the responsibility of the Finance Community of Practice Lead (S151 Officer).

2. STRATEGIC RISK REGISTER

2.1 The risks currently monitored by SMT are set out as follows:

- Appendix A - Strategic Financial and Asset Risks, Strategic Management Risks, Strategic Staffing Risks, Corporate Issues Risks,
- Appendix B - Transformation Programme 2018 Risks

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

2.3 The final attachment within Appendices A and B summarises the strategic risks, identifying the key risks at the point of the review. The tables are living documents and will regularly change in response to issues arising. Members should note that while risk is assessed collectively within SMT, the judgments in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.

2.4 It is suggested that the Committee's attention is focussed on those risks with the highest score i.e. the risks with a score above 16. While members are invited to focus on the key risks, members are welcome to review any of the risks identified, including questioning whether the risk is appropriately scored, or whether further mitigating actions are required.

3. LEGAL IMPLICATIONS

3.1 The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management.

3.2 There are no direct legal implications arising from the report although a strategic focus on risk management is good practice.



4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications of the report, although effective corporate risk management may help protect the Council from future losses.

5. OTHER CONSIDERATIONS



| | |
|---|---|
| Corporate priorities engaged: | All |
| Statutory powers: | None specifically identified. |
| Considerations of equality and human rights: | Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place. |
| Biodiversity considerations: | Factored into individual risk assessments where appropriate. |
| Sustainability considerations: | Factored into individual risk assessments where appropriate. |
| Crime and disorder implications: | Factored into individual risk assessments where appropriate. |
| Background papers: | Joint Risk Management Policy. |
| Appendices attached: | Appendix A - Strategic Financial and Asset Risks, Strategic Management Risks, Strategic Staffing Risks and Corporate Issues Risks Appendix B - Transformation Programme 2018 Risks |



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| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------|--------------------------------|--|--------|------------|------------|---|---|--|---|----------|
| CI07 | Meeting community expectations | Scale of community interest in the potential for neighbourhood planning/ wider engagement in the planning process and corporate capacity/ funding availability to support community aspirations in current financial climate | 4 | 4 | 16 |  |  | Working with members to review current approach. Strategic Planning Team developed “toolkit” to enable communities to plan for themselves with minimum support from us. Learning being captured from early experiences. Clear communications essential which need to be owned by officers/members corporately. | Group Manager – Universal Customer Services | |



Page 93



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|---------|-------|-------------|--------|------------|------------|--------|-------|--|---|----------|
| Page 94 | | | | | | | | Current capacity issues in terms of managing scale of demand and level of expectation within some communities. | Group Manager – Universal Customer Services | |
| | | | | | | | | Ensuring major planning applications are determined within Government set timeframes to support the national growth agenda but also respecting community expectations. Also risk Councils will not meet Government targets for major applications. | Group Manager – Universal Customer Services | |





| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|---------------|---|---|--------|------------|------------|---|---|---|------------------------------------|--|
| Page 95 17 | Recycling of leaf sweeping - waste reclassification | Reclassification of this waste by the Environment Agency could see it become recoverable rather than recyclable material. This will reduce recycling rate by about 5% in West Devon and 1% in South Hams and reduce income by around £20,000 and £3,000 respectively. The Waste Disposal Authority expects the change to be within this financial year. | 4 | 5 | 20 |  |  | Financial pressure is currently being considered. | Group Manager, Commercial Services | Update. Devon County Council have directed West Devon's leaves into the county contract resulting in a loss of annual income of £20,000 from 1 April 2015. Reclassification is an on-going threat for both Councils. |
| | | | | | | | | | Group Manager, Commercial Services | |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|---------------|---------------------------|--|--------|------------|------------|---|---|---|--------------|---|
| Page 96 18 | Changes to Business Rates | <p>The Business Rate Retention scheme was introduced on 1 April 2013. This new scheme allows the Councils to keep a share of business rates income. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area.</p> | 4 | 3 | 12 |  |  | <p>The possible effects of such a fall of income are mitigated by the Councils membership of the Devonwide pooling scheme, which significantly reduces the risk to income volatility.</p> | S151 Officer | <p>Work continues to be undertaken to financially model any implications for each quarter. Budget monitoring reports to the Executive (October 14) and Resources Committee (December 14) outline the latest position.</p> |
| | | <p>Prudent appeals provisions have been made in both Councils' Accounts for 2013-14.</p> <p>SHDC has withdrawn from the Pooling arrangements for 2015-16 due to the risk of business rates appeals (Council October 2014).</p> | | | | | | | | |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|-----------------------|--------------------------|---|--------|------------|------------|---|---|--|------------------------------------|--|
| Page 97 ²³ | Compost Protocol Changes | It is likely to become national policy that only compost that reaches the Quality Protocol can be classified as recycling. This has negative implications for both councils in terms of budget pressures. For South Hams, additional operation costs will be taken into account under the waste review. | 3 | 4 | 12 |  |  | Financial pressure is currently being considered. | Group Manager, Commercial Services | The impact of this chance is likely to affect us in 2015. We continue to lobby and are working closely with other devon authorities and the County Council to achieve the best outcome both operationally and financially. |
| | | | | | | | | Devon County Council are overseeing a consultant's report on any other potential options for West Devon. | Group Manager, Commercial Services | A report from Eunomia (waste consultant) commissioned by Devon County Council, is helping to inform the process and a further paper will be taken to the Community Services Committee in due course. |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------|---------------------------------|--|--------|------------|------------|---|---|---|---|--|
| 25 | 5 Year Land Supply - South Hams | Risk of speculative development without a 5 year land supply, following Riverside ruling. Housing Position Statement was agreed by Executive on 6th March 2014 and then Council on the 20th March. Following K5 appeal decision new housing position statement being prepared, indications are that SH currently has a land supply of 4.4 years. | 4 | 3 | 12 |  |  | Council is recommended to agree that the Council has 5.1 years of housing land supply as evidenced by the Housing Position Statement. | Group Manager – Universal Customer Services | Following K5 appeal decision new housing position statement being prepared, indications are that SH currently has a land supply of 4.4 years |
| | | | | | | | | Pro-active action to facilitate progress at Sherford | Executive Directors | |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------------------------|---|---|--------|------------|------------|---|---|---|------------------------------------|----------|
| 66 ₂₉ 99 | Implementation of the South Hams Waste Review | The postponed changes to the 14/15 waste review will be implemented in Autumn 2015 to coincide with the new fleet introduction and intended round changes as part of the T18 programme. The operational reasons for holding this piece of work may impact on the delivery of the full saving for 15/16 however it is anticipated that this can be mitigated by the increased efficiencies being achieved through the round reviews. | 3 | 3 | 9 |  |  | Ensure that the round review and review implementation programme is managed through the T18 transition process and that these are in place for Autumn 2015. | Group Manager, Commercial Services | |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------|--|---|--------|------------|------------|---|---|---|---------------------------|--|
| FA03 | Future major asset and service pressures | Major future cost pressures, particularly in terms of future Repairs and Maintenance. Key areas to address include leisure assets, operational bases and employment estates. Capacity issues to address major cost pressures. | 4 | 3 | 12 |  |  | Improved corporate focus on strategic asset management and a key element of the Transformation Programme. Regular meetings of the Asset Management Group. | Head of A | Developed the Transformation Plan (T18) |
| FA04 | Robustness of medium term financial strategy and service blue-prints | Not achieving financial savings as anticipated. External change to the national economic environment which may | 4 | 3 | 12 |  |  | Corporate engagement in the development of the medium term financial strategy in the context of the Transformation Programme. | Strategic Management Team | Developed the Transformation Plan (T18) with savings of £3.37 million for SHDC (£5 million combined saving with WDBC). |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|----------|-------------------------------------|---|--------|------------|------------|---|---|---|-------------------------------------|---|
| Page 101 | | impact on our funding expectations. Implications of changes to the funding of local government through locally collected Business Rates and Revenue Support Grant. Achieving anticipated income targets in the current financial climate. | | | | | | Latest budget reports presented to both Councils in December 2014. | S151 Officer | Transformation Challenge Award funding of £700,000 has been awarded from the Government to T18. |
| | | | | | | | | Robust horizon scanning to monitor changes in Government policy. | Executive Directors | |
| | | | | | | | | Monitoring of corporate income streams and revenue budgets. | S151 Officer | |
| | | | | | | | | Working Group established to explore further income generation. Reports to Members in 2014. | Head of EH&H; Head of A; Head of ES | |
| FA06 | Funding of future capital programme | Availability of capital resources and options of using funding streams, such as New Homes Bonus | 4 | 4 | 16 |  |  | Review of potential opportunities to support further capital programme. | New management team | Developed Transformation Plan (T18). Strategic Asset Reviews undertaken in 2013. |
| | | | | | | One of the objectives of the Strategic Asset Review Transformation | Head of A; S151 Officer Executive | | | |



| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------|------------------|--|--------|------------|------------|---|---|--|--|--|
| MT02 | Project delivery | Failure to deliver projects on time and within budgets | 4 | 3 | 12 |  |  | Project is to identify opportunities for the disposal of assets and the generation of capital receipts. Disposals will be progressed in line with the Disposal Programme of Works which was presented to the Executive in SHDC in July 2013 and the Resources Committee in WDBC in December 2013. | Directors | Three year Capital Programme for 2015/16 to 2017/18 presented to Executive on 11 December 2014 setting out Capital Projects and how they will be financed. |
| | | | | | | | | Monitoring the corporate project and the Transformation Programme. Refreshed service blue-prints ensuring that risks are identified and appropriate | Executive Directors New Management Team | Developed Transformation Plan (T18) |

| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------------------|---|--|--------|------------|------------|---|---|--|---------------------------|---|
| | | | | | | | | mitigating/ management actions taken. | | |
| | | | | | | | | In response to long term financial constraints and capacity pressures, Connect Strategy and Transformation Programme have been reviewed. | Executive Directors | |
| Page 103 MT04 | Reduction in customer satisfaction and/or drop in service standards | Scale of change may result in disruption/ reduction in service levels. Loss of Member and/or public support/ confidence in changes | 5 | 2 | 10 |  |  | Locally relevant PIs developed and acknowledged need for greater corporate focus on performance management. | Strategic Management Team | Action to improve determination speed of major applications in view of recent Government announcements. |
| | | | | | | | | Regular monitoring of service standards, delivery plans and transformation programme at both management and senior member level | Executive Directors | |
| | | | | | | | | External and internal communication included within the Transformation | Executive Directors | |

| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|----------|--|---|--------|------------|------------|---|---|---|---------------------------|-------------------------------------|
| Page 104 | | | | | | | | Programme. Members and customers advised of service delivery issues that occur during change. | | |
| | | | | | | | | Monitoring and learning from complaints, ombudsmen outcomes and legal challenges. | Executive Directors | |
| | | | | | | | | Specific mitigation measures to address individual service standards/ performance concerns. | Strategic Management Team | |
| MT05 | Failure to realise benefits from change programmes | Transformation Programme or its constituent projects fail to deliver the projected benefits | 5 | 2 | 10 |  |  | Benefits have been identified in transformation programme and benefit realisation recorded and monitored. Risks associated with failure of any project within the programme | Executive Directors | Developed Transformation Plan (T18) |

| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|----------|---------------------|---|--------|------------|------------|---|---|---|---------------------|--|
| Page 105 | | | | | | | | will be mitigated as part of the corporate project management approach. | | |
| | | | | | | | | Learn from best practice in other shared service authorities and Councils undertaking transformational change | Executive Directors | |
| | | | | | | | | Project risks and issues identified and monitored through governance arrangements. | Executive Directors | |
| | | | | | | | | 2015 Transformation Programme was formally closed in September 2013 | Executive Directors | |
| MT07 | Management capacity | In the context of reduced management capacity as a response to financial pressures. | 4 | 4 | 16 |  |  | Executive Director Model introduced in 2014. | Executive Directors | Commissioned external support for key projects and service activities. |

| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------------------------|---|---|--------|------------|------------|---|---|---|---------------------------|---|
| Page 106 ⁰¹ | Officer Capacity to deliver Programmes and projects | Officer capacity to implement the Connect Strategy and associated delivery plans, and the T18 Transformation Programme, in tandem with service-based policy development, project delivery and day-to-day delivery (service blueprints). Possible on-going reduction in capacity in response to budget pressure, at the same time as customer and community expectation increases. | 5 | 4 | 20 |  |  | Developed Transformation Programme and simplified connect strategy arrangements. | Executive Directors | Commissioned external support for key projects and service activities |
| | | | | | | | | Refreshed service based 'blue prints' to align service activity with corporate activity. | Strategic Management Team | |
| | | | | | | | | Short-term injection of resources to address capacity concerns, where needed. | Executive Directors | |
| | | | | | | | | In the context of financial pressures, SMT have introduced a presumption against filling vacant posts until assessed against risk management criteria that justifies expenditure. | Executive Directors | |

| Code | Title | Description | Impact | Likelihood | Risk Score | Status | Trend | Mitigating Actions | Ownership | Comments |
|------|----------------------|---|--------|------------|------------|---|---|--|---------------------------|-------------------------------------|
| T02 | Loss of Staff Morale | Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity. | 4 | 4 | 16 |  |  | Review and regularly monitor staff communication arrangements. Ongoing negotiations with the Union on T18. | Executive Directors | Developed Transformation Plan (T18) |
| | | | | | | | | Address training and development needs through the appraisal process and ongoing mentoring. | Strategic Management Team | |
| | | | | | | | | Comprehensive staff development programme implemented. | Strategic Management Team | |
| | | | | | | | | Prioritise addressing morale issues. | Executive Directors | |
| | | In view of long term financial challenge, there is significant organisational change to address external pressures | | | | | | Strategic Management Team | | |

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TRANSFORMATION PROGRAMME T18 - STRATEGIC RISKS TEMPLATE

APPENDIX B

(as per the Council report on 18 December 2014 - Future Operating Model Opportunities and a revised T18 Business Case)

| 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 | | | |
| T1 | Financial Risk - Funding | <p>Funding availability for initial investment to implement the Programme. The Council reports of 31/10/13 (SHDC) and 04/11/13 (WDBC) set out an Investment and Financing Strategy for the Programme</p> <p>The revised investment costs at SHDC are £4.61 million, to realise annual combined recurring savings of £3.37 million. The Programme has a payback period of 2 years and 6 months</p> | 5 | 2 | 10 | ↓ | <p>Investment and the availability of resources have been profiled in the context of an updated business plan</p> <p>Continue to explore external funding opportunities, such as Transformation Challenge Funding & Delivering Differently programme</p> <p>Investment costs will be funded from Reserves as set out in each Council's Investment and Financing Strategy</p> | Executive Directors; Finance Professional Lead |
| T2 | Financial Risk - Costs | Higher than anticipated costs and/or lower than anticipated savings arising from the Programme. Key variable risk is the cost of staff redundancies and experience, following recruitment to Phase 1a and SMT, has shown that these costs are projected to increase | 4 | 4 | 16 | ↑ | <p>Increase visibility of financial limitations to budget holders and Workstream Leads</p> <p>Ongoing monitoring of costs and savings within the Programme. Sensitivity analysis undertaken</p> <p>In recognition of uncertainty of some costs, introduce contingency sum into detailed business plan and review after each phase, particularly in relation to staff change costs</p> | Executive Directors; Finance Professional Lead |

| 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 | | | |
| T3 | Financial Risk - Unexpected external costs | Unexpected external cost pressures which divert funding from the Programme and delays delivery | 3 | 3 | 9 | ↔ | Use of Unearmarked Reserves to address the risk of a delay in delivery of the Programme. Each month of delay could cost between £50,000 (at the start of the programme) to £320,000 (at the end) as a combined figure | New Senior Management Team |
| T4 | Technology Risk - Integrated ICT solution issues | Integrated ICT solution proves less successful than anticipated. Business continuity and connectivity in remote rural areas will be key to successful implementation | 4 | 2 | 8 | ↔ | <p>Develop effective working relationships with core technology supplier to enable partnership approach</p> <p>Set up appropriate project level controls to ensure effective governance and communication</p> <p>Develop/update business continuity plans</p> <p>Ensure solution design & implementation considers connectivity requirements/challenges</p> | Executive Directors; ICT Professional Lead |
| T5 | Management Risk - capacity to deliver | Management capacity to deliver the Programme | 4 | 3 | 12 | ↑ | <p>Programme identified as the key corporate priority</p> <p>Commission external support as required to ensure the Programme is delivered in line with the timetable</p> <p>Fund appropriate transition arrangements</p> | Executive Directors |

| 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 | | | |
| T6 | Management Risk - Maintaining shared vision | Maintaining the shared vision for the Programme during a period of significant changes | 4 | 4 | 12 | ↑ | Effective communication strategy to engage with members, staff and other stakeholders embedded within the Programme. Corporate agreement to appropriate handover period to maintain the programme and its aims and objectives | Executive Directors, Senior Members & New Management Team |
| T7 | Management Risk - Organisational transition | Managing organisational transition to the new operating model, in particular reduction in customer satisfaction and/or drop in service standards | 4 | 2 | 8 | ↔ | Decision taken in 2013 to implement T18 Programme. Transition Plan for each phase to document and create sufficient organisational capacity to achieve Programme timeframes Managing ongoing individual service performance | Executive Directors Group Managers |
| T8 | Management Risk - Effective and robust programme management | Establishing an effective and robust programme management arrangement given the complexity of the Programme | 4 | 2 | 8 | ↔ | Establish appropriate member and officer Programme governance arrangements Ensure key milestones and programme interdependencies identified | Executive Directors & New Management Team |
| T9 | Management Risk - Inappropriate existing management skill sets | Inappropriate existing management skill sets across the organisations in relation to the new model | 4 | 3 | 12 | ↔ | Establish appropriate selection process to the model. Training will take place in relation to the new performance management framework | Executive Directors; |

| 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 | | | |
| T10 | Management Risk - Loss of key staff | Loss of key staff during implementation of the Programme | 4 | 4 | 16 | ↑ | <p>Establish effective working arrangements to facilitate knowledge transfer across team members including appropriate handover periods.</p> <p>Ensure detailed transition plan is developed which includes knowledge transfer plan</p> | Executive Directors & New Management Team; |
| T11 | Political commitment | On-going political commitment to ensure that the Programme is delivered in the context of major external change and the inevitable challenges that will emerge during a major programme | 4 | 2 | 8 | ↔ | <p>Ongoing liaison with Members to maintain shared vision</p> <p>Ensure that the new model delivers and retains separate Council identities</p> <p>Raise awareness of the scale of organisational change and the impact on existing arrangements for both Members and Staff</p> <p>Managing interest from potential partners in terms of securing critical project timescales and taking account of organisational capacity</p> | Executive Directors |

| 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 | | | |
| T12 | Political Risk - national and local elections 2015 | Potential impact of national/local elections in 2015 | 3 | 2 | 6 | ↔ | <p>Monitor national direction of travel and focus on the flexibility of the model in relation to any local government changes affecting both future governance and funding availability</p> <p>Ongoing engagement with Members focusing on the benefits of the Programme, particularly improved customer interaction, rather than solely a response to budget reductions</p> | Executive Directors |
| T13 | Staffing Risk - Officer capacity and staff morale | Officer capacity and retention of staff morale during significant change | 4 | 3 | 12 | ↔ | <p>Effective communication strategy embedded as part of the Programme</p> <p>Maintain the pace of the change to ensure that key staff are not lost from the organisations</p> | Executive Directors; |
| T14 | Staffing Risk - Major cultural change | Securing successful implementation of major cultural change in relation to the development of skills and approaches to working arrangements within the new operating model | 4 | 2 | 8 | ↔ | <p>Support cultural change with a comprehensive corporate training and development programme and develop recruitment, induction, appraisal and performance management frameworks</p> <p>Communication strategy embedded as a key element of the Programme</p> <p>Procure external skills to respond to expertise or capacity gap - T18 budgets include external assistance for the Programme</p> <p>Ensure new systems and processes are resilient and sustainable</p> | Executive Directors; |

| 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 | | | |
| T15 | Staffing Risk - Potential Union/Staff responses | Potential Union/staff response to elements of the Programme | 4 | 2 | 8 | ↔ | <p>Ongoing engagement with key staff stakeholder groups and develop corporate understanding of those issues which are essential to successful implementation of the Programme and therefore the organisations must be subject to change</p> <p>Communicate potential staff benefits within the model such as developing skills and achieving better work/life balance through agile working</p> | Executive Directors; & New Management Team |
| T16 | Asset Risk - accommodation costs and rental receipts drop | Anticipated costs of accommodation changes increase and rental receipts from additional letting of HQs not achieved in current economic climate | 4 | 2 | 8 | ↔ | <p>Cautious rental assumptions within the business plan</p> <p>Ongoing monitoring of the business plan assumptions and adjustments of marketing strategies accordingly</p> | Executive Directors; & New Management Team |

| 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 | | | |
| T17 | Customer/Community Risk - Potential of greater exclusion for some customers | Although improved access to services through technology is a benefit for many, there is a risk of greater exclusion for some customers | 4 | 2 | 8 | ↔ | <p>Promote digital by choice rather than digital by default</p> <p>Roll out of rural broadband & enhanced mobile connectivity will reduce risk of digital exclusion</p> <p>Monitor levels of use of each access channel in tandem with customer satisfaction as part of monitoring Programme success measures</p> <p>Supporting vulnerable customers and those unwilling to use technology forms a key part of the operating model</p> | Executive Directors and work stream leads |
| T18 | Customer/Community Risk - Disruption/reduction in service levels | Scale of organisational change results in disruption/reduction in service levels and loss of support/confidence in the Programme | 5 | 2 | 10 | ↔ | <p>Transition Plan will form part of the Programme Plan</p> <p>Monitor service delivery and provide short term injections of capacity to ensure service performance maintained, particularly during transition</p> <p>Ensure appropriate handover periods</p> | Executive Directors; & New Management Team |
| T19 | Customer/Community Risk - Operating Model | Operating Model and technology not working as anticipated and creating customer/community dissatisfaction | 5 | 2 | 10 | ↔ | <p>Test the approach/technology before introducing to the customer/community</p> | Executive Directors; New Management Team and work stream leads |

| 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 | | | |
| T20 | Senior Management Team (SMT) Restructure | Appointment process fails to deliver senior management capability needed to ensure success of the T18 model | 5 | 4 | 20 | ↑ | To design sufficient capacity into the senior management structure under review and evaluate at the end of years 1 and 2 | Members and New Management Team |
| T21 | Senior Management Team Restructure - open competition | The decision to restructure the team using open competition has been made and the arguments for it well established | 4 | 3 | 12 | ↔ | Ensure that appropriate transition plan is in place to deal with changes to the Senior Management Team | Executive Directors; & New Management Team |
| T22 | Capacity to deliver | Overall capacity to deliver significant change in the timescales expected 1b timescales in particular are demanding considering the extent of change and the level of appropriately skilled resource available | 4 | 4 | 16 | ↔ | Detailed capacity planning, work prioritisation and phased delivery with a revised contingency built in to the updated business case | Executive Directors and work stream leads |
| T23 | Programme Definition Precision | Some areas of the programme lack sufficiently detailed scope definition and this leads to delivery omissions | 4 | 3 | 12 | ↔ | Ensure all project definitions in place and approved by appropriate stakeholders | Executive Directors and work stream leads |

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 8 JANUARY 2015**

| 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 | | |

| Members in attendance and participating |
|--|
| Cllrs J M Hodgson, T R Holway and L A H Ward |

| Members in attendance and not participating |
|--|
| None |

| Item No | Minute Ref No below refers | Officers and Visitors in attendance |
|----------------|-----------------------------------|--|
| All Items | | S151 Officer, Head of Devon Audit Partnership, Principal Accountant, Democratic Services Manager, Senior Auditor, Grant Thornton Audit Manager, Grant Thornton Engagement Lead |

A.22/14 MINUTES

The minutes of the meeting held on 18 September 2014 were confirmed as a correct record and signed by the Chairman.

A.23/14 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.24/14 REPORT ON VALUE FOR MONEY FOR SHDC

The Committee was presented with a report that summarised the findings from Grant Thornton into their work supporting their Value for Money (VfM) conclusion, which was required as part of their statutory external audit responsibilities.

In discussion, the following points were raised:-

- (a) Members expressed their concerns regarding the implications of the welfare reforms, particularly in the context of the budgetary pressures faced by the NHS;
- (b) The Committee was concerned at the comments in the presented agenda report whereby 'the Council did not generate as much income from the arts and tourism as its family group.' In response, the S151 Officer advised that the fact that the Council did not directly provide Tourist Information Centres itself would be part of the reason that income figures looked lower in comparison to the family group. Members were of the view that it would be opportune to re-consider the Council's commitments in these areas, especially when considering the increased corporate onus on income generation. In recognising the need for more extensive analysis of these figures, the Committee requested that the Council's income and expenditure figures for arts and tourism be presented to its next meeting;
- (c) The improvements in workforce sickness performance were welcomed by the Committee;
- (d) When questioned, the S151 Officer confirmed that she would report back to Members on the comments regarding both the 'spending per head of population' and the 'spend on council tax benefits and housing benefits administration per head' being above the average;
- (e) The Committee was of the view that the spend on Sustainable economy appeared to be quite high;
- (f) The Grant Thornton observations in respect of the Audit Committee being very challenging, with all reports receiving thorough consideration, was welcomed by Members.

It was then:

RESOLVED

1. That the Committee thank the External Auditors for their comprehensive report;
2. That the Council notes that 'on all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending March 2014'; and
3. That the Council also notes that the external auditors consider that 'the Council's expenditure on waste management, highways and transport appears high in comparison with similar councils and also that the Council does not generate as much income from arts and tourism as others, but that we have good arrangements for risk management.'

A.25/14 THE ANNUAL AUDIT LETTER FOR SOUTH HAMS DISTRICT COUNCIL

The Committee considered Grant Thornton's Annual Audit Letter, which summarised the key findings arising from the work that they had undertaken at the Council for the year ended 31 March 2014.

In discussion, reference was made to:-

- (a) the certification of grant claims and returns. As an update, Grant Thornton representatives informed that the certification return for the Council had been submitted to the Department of Work and Pensions (DWP) before the deadline and the DWP conclusions were that there was no overriding impact;
- (b) a segregation of duties within the payroll department. The Committee was assured that there was now a segregation of duties within the payroll department whereby one member of staff was no longer wholly responsible for the processing of the entire payroll.

It was then:

RESOLVED

That the report be noted.

A.26/14 PROTECTING THE PUBLIC PURSE FRAUD BRIEFING 2014

A paper was presented which outlined to the Committee the purpose of fraud briefing as follows:-

- To provide an information source to support Members in considering their council's fraud detection activities;
- To extend an opportunity for Members to consider fraud detection performance, in comparison to similar local authorities;
- To give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed; and
- To be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud.

In discussion, the Committee sought clarification on the total detected cases and value of fraud 2013/14 figures. In reply, officers confirmed that there were two main reasons to explain these figures. Firstly, the policy limits set by each council before cautions and penalties could apply varied (the Council had set its limit at £1,000) and there were two particularly complex precautions (amounting to £38,000) which were included in the figures. Taking this into account, the Committee queried if there was merit in reviewing whether the threshold was set at an appropriate level and would welcome receipt of a briefing note, which also included comparative information for neighbouring authorities.

It was then:

RESOLVED

That the report be noted.

A.27/14 SOUTH HAMS DISTRICT COUNCIL AUDIT COMMITTEE UPDATE

The Committee considered a progress report from Grant Thornton which included:-

- a summary of emerging national issues and development that could be relevant; and
- a number of challenge questions in respect of the emerging issues which the Committee could wish to consider.

In discussion, reference was made to:-

- (a) a Grant Thornton paper on topical issues for local government. The Committee noted the comments whereby Grant Thornton had produced a paper which considered 'good practice in councils' approaches to delivering affordable housing' and requested that Members receive a copy. A non-Committee Member proceeded to advise that Totnes Town Council was currently considering investing some monies in affordable and social housing projects and would welcome the opportunity to explore partnership working opportunities with the Council;
- (b) corruption risk. In response to a request, officers confirmed that they would make electronic copies of a report on 'corruption in UK Local Government' available to the Committee;
- (c) parish council audits. A Member highlighted the government's proposed new arrangements for parish council audits and expressed his strong support for the comments of the Audit Commission. The Member was of the view that these comments, which suggested that this would place a much greater burden on parish councils and clerks than was intended, should be endorsed by the Council.

It was then:

RESOLVED

1. That the report be noted;
2. That the Audit Commission's opinion, as expressed in its letter of 17 July 2014 to the Department for Communities and Local Government (DCLG), concerning the complexity of the governments new arrangements for parish council audits be strongly supported, as they will place a much greater burden on parish councils and especially clerks, which will be disproportionate. Therefore, the Committee **RECOMMEND** to the Council that a letter of representation should be sent on behalf of the Council to the DCLG expressing support for this view; and
3. That the Grant Thornton produced paper which considers 'good practice in councils' approaches to delivering affordable housing' be circulated to Members.

A.28/14

INTERNAL AUDIT – REVISION OF AND PROGRESS AGAINST THE 2014/15 PLAN

A report was considered by the Committee which informed of the principal activities and findings of the Council's Internal Audit team for 2014/15 to 30 November 2014 by:-

- providing a summary of the main issues raised by completed individual audits; and
- showing the progress made by Internal Audit against the 2014/15 annual internal audit plan, as approved by the Committee in April 2014 (Minute A.34/13 refers).

In discussion, reference was made to:-

- (a) the decision to remove the Development Control – Enforcement area from the Audit Plan. Such was the nature and profile of this subject matter, some Members questioned whether this should be defined as a 'low risk' and therefore re-instated into the Plan. In reply, officers confirmed that the Audit Plan was an evolving document and that it would be reviewed at the next meeting;
- (b) the potential fraud outlined in the presented agenda report. Officers provided an update on this matter and confirmed that the matter was in hand;
- (c) the recent Audit Committee Member seminar. Those Members who had attended the seminar with Devon Audit Partnership advised that they had found it to be a useful and informative session.

It was then:

RESOLVED

That the progress made against the 2014/15 internal audit plan and the key issues arising be noted.

A.29/14 **STRATEGIC RISK ASSESSMENT – SIX MONTHLY UPDATE**

The Committee considered a report which presented the six-monthly Strategic Risk Assessment update. In so doing, the report included the current corporate strategic risk assessment and a summary of the management and mitigation actions to address the identified risks.

In discussion, reference was made to:-

- (a) the risk matrix. Officers informed that the matrix used by the Council was a recognised industry standard;
- (b) the recycling of leaf sweeping – waste reclassification. The Chairman expressed his concerns at the cost implications to the Council arising from this reclassification by the Environment Agency. As a consequence, the Chairman felt that the Council should write to the Department for Communities and Local Government to express our strongest opposition to such re-classification. In the debate, other Members felt that there were potentially justifiable reasons for this re-classification (e.g. other pollutants within the materials) and concluded that further information should be sought in this regard before a formal recommendation was made to the Council;
- (c) the compost protocol changes. A Member emphasised the potential income stream opportunities related to this risk (e.g. through anaerobic digestion) and hoped that this would be investigated further;
- (d) the officer capacity to deliver programmes and projects and the loss of staff morale risks. The Committee felt that these were both critical risks and should therefore be particularly closely monitored and cited the planning service as an example where officer capacity was noticeably less than it needed to be. In reply, the Committee also noted the comment whereby the transition plan during the T18 Programme needed to be pitched at the right level to ensure the appropriate transfer of knowledge was in place.

It was then:

RESOLVED

That the strategic risks have been reviewed and the Committee would welcome receipt of further information regarding the recycling of leaf sweeping – waste reclassification.

(Meeting commenced at 10.00 am and finished at 11.40 am)

Chairman

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