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## WEST DEVON AUDIT COMMITTEE - TUESDAY, 15TH APRIL, 2014

Agenda, Reports and Minutes for the meeting

### Agenda No    Item

1.    **Agenda Letter (Pages 1 - 6)**

2.    **Reports**

Reports to Audit

- a)    Item 6 - Response to Grant Thornton Publication - Audit Committee Update for West Devon Borough Council; and update on the Future of Local Audit (Pages 7 - 20)
- b)    Item 7 - Constitution Review (Pages 21 - 26)
- c)    Item 8 - Internal Audit: Charter & Strategy - 2014/2015 (Pages 27 - 50)
- d)    Item 9 - Internal Audit: Plan for 2014/2015 (Pages 51 - 62)
- e)    Item 10 - Checklist from the Audit Commission Document: Protecting the Public Purse 2013 (Fighting Fraud against Local Government) (Pages 63 - 80)
- f)    Item 11 - Internal Audit - Progress against the 2013/2014 Plan (Pages 81 - 98)
- g)    Item 12 - External Audit Plan 2013/2014 (Pages 99 - 116)
- h)    Item 13 - Committee Update Progress Report (Pages 117 - 136)
- i)    Item 14 - Strategic Risk Assessment - 6 Monthly Update (Pages 137 - 140)

3.    **Minutes (Pages 141 - 146)**

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## AGENDA – AUDIT COMMITTEE – 15<sup>th</sup> APRIL 2014

### PART ONE – OPEN COMMITTEE

**1. Apologies for absence**

**2. Declaration of Interest**

Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda, then please contact the Monitoring Officer in advance of the meeting.

**3. Items Requiring Urgent Attention**

To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).

**4. Governance Review of the Local Government Pension Scheme**

Officers from Devon County Council will give a short presentation after which Members may wish to ask questions.

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### MINUTES

**5. Confirmation of Minutes**

Meeting held on 11<sup>th</sup> February 2014 (previously circulated)

### OPERATIONAL

**6. Response to Grant Thornton Publication – Audit Committee Update for West Devon Borough Council; and update on the Future of Local Audit**

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**7. Constitution Review**

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**8. Internal Audit: Charter & Strategy – 2014/2015**

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**9. Internal Audit: Plan for 2014/2015**

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**10. Checklist from the Audit Commission Document: Protecting the Public Purse 2013 (Fighting Fraud against Local Government)**

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**11. Internal Audit – Progress against the 2013/2014 Plan**

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<b>12. External Audit Plan 2013/2014</b>	
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**PART TWO – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED.**

The Committee is recommended to pass the following resolution:

**“RESOLVED** that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the Meeting on the grounds that exempt information may be disclosed as defined in the paragraph given below in bold type from Part I of Schedule 12(A) to the Act.”

<b>14. Strategic Risk Assessment – 6 Monthly Update</b>	
Report of the Head of Finance	129

**PLEASE NOTE:**

**All the appendices presented with this report are exempt under Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information.**

This document can be made available in large print, Braille, tape format, other languages or alternative format upon request. Please contact the Committee section on 01822 813662 or email [arose@westdevon.gov.uk](mailto:arose@westdevon.gov.uk)

## **STRATEGIC RISK ASSESSMENT**

### **Reports to Members**

Members will be aware of the requirement to take account of strategic risk in decision making. This note is designed to support Members consider strategic risks as part of the assessment of reports from officers.

There are an increasing number of issues that we have a statutory requirement to take into account which affect all aspects of the Council's policies and service delivery (e.g. Human Rights Act). There are also discretionary issues we choose to highlight in our reports (e.g. Financial Implications, and Impact on Council Priorities and Targets). Common Law duty requires Local Authorities to take into account all things they need to take into account! The Courts hearing Judicial Review applications make this their starting point in deciding whether any decision is reasonable.

Officers have a responsibility to assess the implications of recommendations to Members. Members should ensure that before making a decision they have undertaken a similar consideration relating to the risks associated with the report.

Examples of risk to be considered:-

#### **Statutory Requirement :**

- Equalities and Discrimination, particularly Race Equality. (Consider the impact on each of the following equality areas: Race, Religion and Belief, Gender, Sexual Orientation, Disability, Age)
- Human Rights
- Crime and Disorder
- Health and Safety
- Employment Legislation
- Data Protection
- Freedom of Information
- Corporate activity with an impact on Areas of Outstanding Natural Beauty, National Parks, Sites of Special Scientific Interest, and biodiversity

#### **Corporate Requirement :**

- Impact on Council's Reputation
- Impact on Priorities, Cross-Cutting themes, Targets and / or Commitments
- Impact on Standing Orders / Financial Regulations
- Impact on Council's Assets
- Financial Risks
- Compliance with National Policies and Guidance
- Impact on Sustainability

Members' attention is drawn to the Risk Assessment section within each report. Members are encouraged to consider whether the report has satisfactorily identified all likely negative impacts and mitigating action that will be taken. Members also need to consider the opportunities presented by actions, noting that any change entails an element of risk. The challenge is to effectively manage that risk.

## RISK SCORING MATRIX

Impact/Severity		Target impact	Stakeholder impact	Finance impact
1	Insignificant	Low impact on outcome & target achievement & service delivery	Low stakeholder concern	Low financial risk
2	Minor	Minor impact on outcome & target achievement & service delivery	Minor stakeholder concern	Minor financial risk
3	Moderate	Moderate outcome & target achievement & service delivery	Moderate stakeholder concern	Moderate financial risk
4	Serious	High impact on outcome & target achievement & service delivery	High stakeholder concern	High financial risk
5	Very serious	Very high impact on outcome & target achievement & service delivery	Very high stakeholder concern	Very high financial risk
Likelihood/Probability		Risk	Opportunity	
1	Very low	Negligible chance of occurrence; has not occurred	Possible opportunity yet to be investigated with low likelihood of success	
2	Low	Low chance of occurrence; has occurred infrequently but within internal control	Opportunity being investigated with low likelihood of success	
3	Medium	Equal chance of occurrence or non occurrence; could occur more than once and be difficult to control due to external influences	Opportunity may be achievable with careful management	
4	High	More likely to occur than not occur; has occurred more than once and difficult to control due to external influences	Good opportunity which may be realised	
5	Very high	Very high chance of occurrence but not a certainty; has occurred recently	Clear reliable opportunity with reasonable certainty of achievement	

**Risk score = Impact/Severity x Likelihood/Probability**

<b>Likelihood</b>	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
	0	1	2	3	4	5
<b>Impact</b>						



AGENDA  
ITEM

**6**

## WEST DEVON BOROUGH COUNCIL

AGENDA  
ITEM

**6**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15<sup>th</sup> April 2014</b>
<b>REPORT TITLE</b>	<b>Response to Grant Thornton Publication – Audit Committee Update for West Devon Borough Council; and Update on the Future of Local Audit</b>
<b>Report of</b>	<b>Head of Finance &amp; Audit and S.151 Officer</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

The purpose of this report is to provide members with the responses to the questions posed in the Grant Thornton Publication – Audit Committee Update for West Devon Borough Council which was presented to the February 2014 Audit Committee (Appendix A); and an update relating to the Government legislation (Local Audit and Accountability Act 2014) and Future of Local Audit following the disbanding of the Audit Commission and the new local public audit framework (Appendix B).

**Financial implications:**

None; within existing budgets.

**RECOMMENDATIONS:**

That the Audit Committee considers the Head of Finance & Audit’s responses to the question posed in the Grant Thornton publication – ‘Audit Committee Update for West Devon Borough Council’ (Appendix A), and the Update on the Future of Local Audit (Appendix B) .

**Officer contact:**

For further information concerning this report, please contact:

Lisa Buckle, Head of Finance & Audit and S.151 Officer [lisa.buckle@swdevovon.gov.uk](mailto:lisa.buckle@swdevovon.gov.uk)

Allan Goodman. Chief internal Auditor [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)

- 1. Grant Thornton – Audit Committee Update for West Devon Borough Council (Appendix A)**
  - 1.1 Grant Thornton presented their publication – Audit Committee Update for West Devon Borough Council to the February 2014 Audit Committee.
  - 1.2 This paper provided the Audit Committee with a report on progress in delivering Grant Thornton’s responsibilities as the Council’s external auditors. The paper also includes:

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

1.3 At the February 2014 Audit Committee, the Head of Finance & Audit offered to provide Members with a formal response to the suggested questions on the following topics:

- Council tax collection – data from value for money profiles;
- Local Government Pension Scheme;
- Local Government claims and returns 2011/12;
- Future Councillors – where next for politics?
- Spending Round 2013; and
- 2014/15 Code of Practice.

The Grant Thornton summaries and the Head of Finance & Audit's formal responses appear at Appendix A.

1.4 In addition Members requested copies of the material that Grant Thornton had made available on their website. The Chief Internal Auditor has forwarded these documents by email and provided paper copies where required.

## **2. DCLG - Future of Local Audit (Appendix B)**

2.1 On 9 May 2013 the Local Audit and Accountability Bill was introduced into Parliament. The Bill set out the Government's proposals to disband the Audit Commission and establish a new local public audit framework. On 30 January 2014, the Local Audit and Accountability Act 2014 received Royal Assent.

2.2 Appendix B provides a summary of the Bill. The key messages are:

### *Independent Auditor Appointment Panels (IAP)*

- An Audit Committee can only act as an IAP if it already has an independent chairman, although an IAP can draw on an Audit Committee's advice in carrying out its functions; and
- Several authorities may share an IAP.

### *Resignation and removal of auditors*

- The regulations set out the process to be followed if an authority wishes to remove its auditor, or if an auditor wishes to resign.

### *Eligibility and regulations of auditors*

- The names of those individuals assessed as competent to take primary responsibility for a local audit, on behalf of a firm eligible for local audit, will be published on the local audit register;
- In mirroring the regulatory framework for statutory audit, the recognised supervisory bodies for local audit will have in place rules and practices which must comply with specific guidance issued by the Financial Reporting Council.

## *Accounts and audit regulations*

- There was broad support for maintaining the current provisions, though also suggestions for particular improvements to the regulations.
- The Government intends to keep public inspection rights as they constitute an important local scrutiny and accountability measures.

2.3 The Government is working towards having finalised regulations on: the appointment of auditors and auditor resignation/removal, eligibility and regulation of auditors, and the conduct of local audit (consideration of report and recommendations of public interest reports). These will be ready to be laid in the summer.

### **3. LEGAL IMPLICATIONS**

3.1 Statutory powers: Accounts and Audit Regulations 2011 etc.  
Local Audit and Accountability Act 2014

### **4. FINANCIAL IMPLICATIONS**

4.1 None, within existing budgets.

### **5. RISK MANAGEMENT**

5.1 The risk management implications follow these considerations:

<b>Corporate priorities engaged:</b>	All
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011 Local Audit and Accountability Act 2014
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	No specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	No specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	Audit Committee 11 February 2014: Grant Thornton Publication - Audit Committee Update
<b>Appendices attached:</b>	<b>Appendix A:</b> Head of Finance & Audit Response to the Grant Thornton Publication <b>Appendix B:</b> Future of Local Audit: Responses (February 2014).

### STRATEGIC RISKS TEMPLATE

No	Opportunity Title	Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
	Opportunity	To ensure the Council is addressing any issues which arise from audit publications in the year - both from Central Government and from our external auditor's Grant Thornton.	3	1	3		The Council has the appropriate procedures in place to fulfil this requirement.	The Head of Finance and Audit

Direction of travel symbols ↓ ↑ ⇄

## Local Government Guidance

### Council Tax Collection – data from the value for money profiles

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

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

#### Issues for consideration:

- **Has your Head of Finance & Audit reviewed the costs and performance of your authority against similar organisations?**

Yes this has been reviewed. The Council's collection rate for 2012/13 was 97.2% against an average for comparator groups of 98%. During 2012/13 the Council migrated to a new revenues and benefits software system and this had an adverse impact on collection rates during 2012/13.

The cost of collection is £3.62 per head of population against an average of £5.26 per head of population for comparator groups, therefore costs are ranked (through the value for money profile tools) as being in the lowest 25%.

- **Where issues have been identified, has an action plan been implemented?**

The Transformation Programme 2018 will further reduce the costs of collection by service re-design.

**Local Government Pension Scheme**

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

The consultation closed on 27 September 2013.

**Issues for consideration:**

- **Has Head of Finance & Audit reviewed the consultation and assessed the potential impact?**

Yes the consultation has been reviewed. The consultation was around whether there should be fewer, larger pension funds and whether larger funds can access external management at lower costs. Historically, internal management has provided superior returns. Larger fund size would give local authorities the opportunity to use internal management to a greater extent than currently. Larger funds may provide the potential for improvements in scheme governance. Larger fund sizes may provide better opportunities for investment in certain asset classes. Larger funds will have bigger governance budgets, enabling better decision making.

- **Did your authority respond to the consultation?**

The Council supported the view of the Local Government Association which was expressed on local government's behalf collectively. This view was that provided such advantages are both demonstrated by other evidence submitted and can be cost effectively realised in a manner which minimises risk to local authorities, then reform which aims to result in fewer, larger funds should be supported. The Pension Fund is administered by Devon County Council.

**Local Government Claims and Returns 2011/12**

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

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

**Issue for consideration:**

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

The Council has grant procedures and controls in place to ensure grant schemes terms and conditions are complied with.

The last grant claims report from Grant Thornton was presented to the Audit Committee on 11 February 2014. It stated that two claims were audited with a total expenditure of £27.9 million and neither claim required amendment or qualification.

**Grant Thornton**

**'Future Councillors – where next for local politics?'**

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

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

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

**Issue for consideration:**

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

Specific financial refresher training is in the process of being organised for Members around May time this year and will focus specifically on budget setting and approval of the Final Accounts. Treasury Management training is also being organised for Members.

**Spending Round 2013**

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

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

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



**Issues for consideration:**

- **Has your authority reviewed your medium term financial plan in light of the Spending Round announcement and considered the action to be taken? We would emphasise that for West Devon Borough Council, the preparation of the 2014-19 MTFP is already in progress.**

Yes. The report to the Council on 18 February 2014 (Budget proposals 2014/15) set out the latest position. This showed a cumulative budget gap position of £458,000 by 2017/18, due to the savings from the Transformation Programme 2018 materialising in the 2016/17 financial year. This innovative Transformation Programme was approved by Members in response to the unprecedented scale of the financial challenges facing the Council.

- **How is your authority planning to work with other organisations in the public sector?**

The Council's Partnership Strategy sets this out in detail.

## Accounting and Audit Issues

### 2014/15 Code of Practice on Local Authority Accounting

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

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013-14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*

Head of Finance and Audit - Response

- local government reorganisations and other combinations: clarification of the Code’s requirements and alignment with other public sector bodies
- options for the “dry run” for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements. Both consultations closed on Friday 11 October 2013.

**Issue for consideration:**

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

Yes this work has been addressed by the Chief Accountant who has attended various training workshops on the new Code of Practice. For example, IFRS 13 Fair Value Measurement states that for operational assets needed to provide services directly to the public, the measurement should be based on existing use value. Assets not subject to service or other constraints should be measured at fair value under IFRS13.

## **1 Background**

- 1.1 On 9 May 2013 the Local Audit and Accountability Bill was introduced into Parliament. The Bill set out the Government's proposals to disband the Audit Commission and establish a new local public audit framework. On 30 January 2014, the Local Audit and Accountability Act 2014 received Royal Assent.
- 1.2 The proposed draft regulations and policy statements were positively received by the majority of respondents.

## **2 Independent Auditor Panels**

- 2.1 The draft regulations, extend the definition of an independent panel member, set out the minimum membership of an auditor panel, and apply several existing local authority enactments to panels. The regulations also give the panel the function of advising on whether to adopt a policy on procurement of non-audit work from the auditor, and on the content of such a policy.
- 2.2 The Government will consider with the sector the development of guidance on how best to utilise the perspective and expertise of audit committees. However, we believe that it is right to have independent oversight in this area, which the audit committee, as a committee of the authority, cannot provide. The Act already allows an audit committee to act as an auditor panel if it has an independent chair and majority for these purposes. An auditor panel may also draw on an audit committee's advice in carrying out its functions, as of course may the authority.
- 2.3 The Government supports efforts by local authorities to achieve better value for money through joint procurement and we can confirm that several authorities may share an auditor panel. The Government intends that, for authorities opting-in to arrangements for national procurement, the requirement to appoint an auditor panel will not apply. We will consider with the sector guidance on the experience and skills to look for when recruiting panel members, and how best to recruit them.
- 2.4 The Government agrees that policies on non-audit work should build upon and reflect existing ethical standards for auditors, and will consider making this clear in further guidance for auditor panels.

## **3 Resignation and removal of auditors**

- 3.1 The regulations set out the process to be followed if an authority wishes to remove its auditor, or if an auditor wishes to resign.
- 3.2 The Government expects that resignation or removal of an auditor will be a very rare occurrence. The timetable provided is intended to give a reasonable period for each part of the process to be completed, balanced with the need to provide for a timely subsequent reappointment.

#### **4 Eligibility and regulations of auditors**

- 4.1 This section sets the minimum criteria that a local audit qualification must meet in order to be recognised, and the thresholds for defining major local audits.
- 4.2 The Act allows the Secretary of State to make regulations setting out the minimum requirements that a qualification must meet in order to be recognised for the purposes of local audit. It is important to note that holding an appropriate qualification is necessary but not sufficient on its own for an individual to take a key responsibility for a local audit.
- 4.3 In mirroring the regulatory framework for statutory audit, the recognised supervisory bodies for local audit will have in place rules and practices which must comply with specific guidance issued by the Financial Reporting Council. This guidance covers the experience and other criteria that individuals must have before being permitted to take responsibility for carrying out a local audit. The names of those individuals assessed as competent to take primary responsibility for a local audit, on behalf of a firm eligible for local audit, will be published on the local audit register.
- 4.4 In applying the framework in the Companies Act 2006 to the regulation of local auditors, the Government believes that there are sufficient safeguards to ensure that individuals have appropriate technical skills and experience and that firms have in place appropriate support mechanisms to ensure that suitably experienced and qualified auditors deliver local audits to the right standard.
- 4.5 Draft regulations that define which bodies would have their audits defined as a 'major local audit', and therefore subject to audit quality monitoring from the Financial Reporting Council's Audit Quality Review team, seem appropriate to capture the audits of significant local bodies.
- 4.6 The Government's view is that the proposed income and expenditure thresholds will result in a population of a sufficient size to allow flexibility for the Financial Reporting Council to choose a sample of audits to review as part of its annual monitoring programme

#### **5 Consideration of public interest reports or written recommendations by a relevant authority**

- 5.1 This section relates to the arrangements for relevant authorities to consider public interest reports or written recommendations to bodies currently excluded from these requirements. The proposal set out the Government's intention to modify the requirement for Port Health Authorities, Internal Drainage Boards, and other persons or bodies referred to in paragraph 29 of Schedule 2 so that they must consider a Report or recommendation "as soon as is practicable", rather than within one month of receipt.
- 5.2 The consultation also proposed to apply existing legislation on arrangements for public meetings to bodies which are not currently subject to such legislation. The Government intends to modify the requirements as proposed since over 90% of respondents supported the proposal.

### **Accounts and audit regulations**

- 5.3 There was broad support for maintaining the current provisions, though also suggestions for particular improvements to the regulations.
- 5.4 The Government intends to keep public inspection rights as they constitute an important local scrutiny and accountability measure. However, the Government also recognises that the low take-up of these rights may be due a lack of public information about them, as well as a consequence of the existing complex procedure for setting the inspection period. These issues will be addressed in the draft regulations proposed for consultation in May 2014.
- 5.5 The Government will give further consideration to the points raised by respondents in preparing the draft regulations for consultation.

### **6 The Government's next steps**

- 6.1 The Government is working towards having finalised regulations on: the appointment of auditors and auditor resignation/removal, eligibility and regulation of auditors, and the conduct of local audit (consideration of report and recommendations of public interest reports). These will be ready to be laid in the summer.
- 6.2 The Government also plans to issue a consultation on the other draft regulations in May. This consultation will cover: further regulations associated with smaller authorities, regulations to allow for the establishment of a sector-led body to procure/appoint local auditors, and Accounts and Audit regulations. The intention is to lay these regulations later on this year.

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<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15 April 2014</b>
<b>REPORT TITLE</b>	<b>Annual Review of the Council's Constitution</b>
<b>JOINT REPORT OF</b>	<b>Monitoring Officer and Democratic Services Manager</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

To consider a report which seeks to ensure that the Constitution is amended to reflect the changes that have either occurred in the Council over the previous year, or to implement any necessary changes to ensure that it is up to date, lawful and reflects the Council's current practices.

**Financial implications:**

There are no financial implications arising from this report.

**RECOMMENDATION:**

1. That the Committee **RECOMMENDS** to Council that the amendments to the West Devon Borough Council Constitution 2014 (as summarised in paragraph 2.2 of the report and fully outlined on the website) be approved; and,
  
2. That the Committee note the need for a detailed review to be undertaken on the Contract Procedure Rules and that these will be presented to a future Committee meeting.

**Officer contacts:**

Catherine Bowen, Monitoring Officer ([cbowen@westdevon.gov.uk](mailto:cbowen@westdevon.gov.uk) 01822 813600).

Darryl White, Democratic Services Manager ([darryl.white@swdevon.gov.uk](mailto:darryl.white@swdevon.gov.uk)) 01803 861247).

## 1. BACKGROUND

- 1.1 It is a constitutional requirement whereby each year, the Council (at its annual meeting) must formally adopt its Constitution for the forthcoming municipal year.
- 1.2 Changes to the Constitution are made throughout the year by the Council and through its consideration of recommendations arising from Committee minutes. Typical examples of such changes include:
- the temporary allocation of strategic planning functions from the Community Services Committee to the Resources Committee
  - the recently approved interim Executive Director model and allocation of Chief Executive/Head of Paid Service functions to the Executive Director (Communities); and
  - the Overview & Scrutiny Committee taking on responsibility for scrutinising the T18 Programme and providing a quality control function.
- 1.3 Such changes are effective from the date of approval and are made by the Monitoring Officer. In addition, the Monitoring Officer also has delegated authority to make minor (or legal) amendments to the Constitution during the course of the year. For clarity, these changes are made during the course of the year and are not shown as proposed amendments at this time.
- 1.4 The Council Constitution is fully updated every April to ensure that it is ready for adoption by Council at its Annual Meeting.

## 2. THE PROPOSED AMENDMENTS

- 2.1 As part of the annual review, officers are suggesting some amendments to the Constitution which are shown highlighted in yellow font on the Council's website ([www.westdevon.gov.uk](http://www.westdevon.gov.uk)). Due to the volume of papers, these have not been circulated with the agenda, but are available on request by contacting Member Services ([member.services@westdevon.gov.uk](mailto:member.services@westdevon.gov.uk)).
- 2.2 However, the main changes proposed to the Constitution are summarised as below:
- 2.2.1 **Part 2 – Article 7: Regulatory and Other Bodies and Part 2 – Article 9: Joint Arrangements:** to delete reference to the Shared Services Steering Group and replace it with details relating to the T18 Steering Group.
- 2.2.2 **Part 2 – Article 10: Officers:** to update the functions of the Monitoring Officer to enable the postholder to make decisions on Standards Complaints in accordance with the adopted procedures, and to extend the range of officers able to sign Council documents to facilitate signing of urgent documents.
- 2.2.3 **Part 2 – Article 8: Joint Arrangements:** discontinuance of the Shared Service Steering Group and establishment of the Steering Group for the T18 Transformation Programme



2.2.4 **Part 3 – Delegation Scheme:** to amend the terms of reference of the full Council to make it a requirement for any changes to the political composition of the Council to be reported to the next meeting for noting purposes. In addition, it is suggested that the Audit Committee be assigned responsibility for the Council's Data Protection Policy.

2.2.5 **Part 4 – Financial Procedure Rules:** to amend the rules whereby the lower limits in relation to the urgent use of Acquisitions and Asset Disposals be increased from £25,000 to £50,000 before there is a requirement for any Member involvement.

2.3 In respect of the Contract Procedure Rules, officers have advised that a detailed review is required. As a consequence, it is recommended that this be conducted in the ensuing months, with a report presented back to a future meeting of the Audit Committee.

2.4 It is recognised that, primarily as a consequence of the Boundary Review and the evolving Transformation Programme, there are likely to be more extensive and wide ranging amendments required to the Constitution during the annual review in spring 2015.

### 3. LEGAL IMPLICATIONS

3.1 The Local Government Act 2000 requires the Council to have (and to maintain) a Constitution.

3.2 The Monitoring Officer must review the Constitution annually and make recommendations to the Audit Committee, who in turn must recommend its adoption to full Council. Only the Council can approve and adopt the Council's Constitution.

### 4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications to this report

### 5. RISK MANAGEMENT

5.1 The risk management implications are shown at the end of this report in the Strategic Risk Template:

### 6. OTHER CONSIDERATIONS

<b>Corporate priorities engaged:</b>	All
<b>Considerations of equality and human rights:</b>	None directly arising from this report
<b>Biodiversity considerations:</b>	None directly arising from this report
<b>Sustainability considerations:</b>	None directly arising from this report
<b>Crime and disorder implications:</b>	None directly arising from this report
<b>Background papers:</b>	The suggested amendments to the Constitution



### 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	Fit for purpose Constitution	Failure to review the Constitution and approve the changes could lead to unlawful decisions being taken.	2	2	4	↔	The Council undertakes an annual review of the Constitution to ensure that it is up to date and reflects current practice and law.	Democratic Services Manager / Monitoring Officer

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AGENDA  
ITEM

8

## WEST DEVON BOROUGH COUNCIL

AGENDA  
ITEM

8

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15<sup>th</sup> April 2014</b>
<b>REPORT TITLE</b>	<b>Internal Audit: Charter &amp; Strategy – 2014/2015</b>
<b>JOINT REPORT OF</b>	<b>Chief Internal Auditor and S.151 Officer</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

The purpose of this report is to allow the Audit Committee to review and comment upon the Internal Audit Charter and Strategy for 2014/15.

The standards for proper practice for internal audit are contained in the Public Sector Internal Audit Standards (Institute of Internal Auditors and CIPFA). The Chief Internal Auditor maintains an Audit Manual which reflects these standards and sets out the procedures expected of the Council’s Internal Audit team.

Both the PSIAS and Audit Manual require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval. These documents are discussed in the report with the Charter attached at Appendix A and the linked Audit Strategy at Appendix B.

**Financial implications:**

None, within the existing budget for internal audit.

**RECOMMENDATIONS:**

It is recommended that the Audit Committee review and approve the Internal Audit Charter and Strategy 2014/15 and discuss the proposals for independent external assessment as required by the United Kingdom Public Sector Internal Audit Standards (PSIAS).

**Officer contact:**

Allan Goodman, Chief Internal Auditor. *Email:* [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)  
 Lisa Buckle, S.151 Officer and head of Finance & Audit

## 1. BACKGROUND

- 1.1 The Accounts and Audit Regulations, 2011 state that:  
*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices."*
- 1.2 For the purposes of the Regulations, proper practice is that contained in the Public Sector Internal Audit Standards (Institute of Internal Auditors (IIA) and CIPFA- Applying the International Standards).
- 1.3 The Chief Internal Auditor maintains an Audit Manual which sets out the standards and procedures expected of the team and this has been updated to reflect the requirements of the Public Sector Internal Audit Standards. It is not intended to present the latest version, Audit Manual 2014, to the Audit Committee because of the detailed nature of the document.
- 1.4 However both the Public Sector Internal Audit Standards and Audit Manual require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval.

### United Kingdom Public Sector Internal Audit Standards (PSIAS)

- 1.5 2013 saw the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that will apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adapted for the public sector.
- 1.6 The main changes are:
  - Replacing the Terms of Reference (ToR) with a 'Charter';
  - The mandatory nature of the PSIAS;
  - Defining of the 'Board' in relation to internal audit;
  - Including the role of the Monitoring Officer and Head of Paid Service in Internal Audit;
  - Requirement for the Chief Audit Executive (for South Hams the Chief Internal Auditor) to be appropriately qualified;
  - Use of Computer Assisted Audit Techniques (CAATs) – to be part of the planned Counter Fraud work for 2014/15; and
  - Quality assurance programme to include an external assessment. Only when this is completed can reports carry the phrase 'conducted in conformance with PSIAS'.

### *Proposals for an External Assessment*

- 1.7 In respect of the final bullet point above, the PSIAS state that any quality assurance external assessment must be discussed with the Audit Committee in relation to the form of the external assessment and the qualifications and independence of any proposed assessor.

- 1.8 Several of the Devon internal audit teams have approached a former Chief Internal Auditor and who is now a self employed consultant to carry out a validation of a self assessment, test checks and report on findings for a fee below £500. As the PSIAS require, this person is able to demonstrate competence in the professional practice of internal auditing and external assessment, and is a CIPFA qualified accountant.
- 1.9 An independent assessor, the PSIAS state, means not having a real or apparent conflict of interest and not being part of, or under the control of, the organisation to which the internal activity applies. This too applies to the person identified.
- 1.10 It is our intention to do the same, provided that the Audit Committee are content with this approach.

## **2. INTERNAL AUDIT: CHARTER - Appendix A**

2.1 The 2014/15 Charter has been updated having regard to the IIA's 2013 document Applying the IIA International Standards to the UK Public Sector, and the CIPFA equivalent 'Local Government Application Note for the UK Public Sector Internal Audit Standards'.

2.2 The Charter reflects the following:

- Statutory Requirements;
- Internal Audit's Purpose, Authority and Responsibility;
- Ethics and Independence;
- Audit Management;
- Scope of Internal Audit's Work;
- Audit Reporting;
- Audit Committee;
- Quality Assurance and Improvement; and
- Non Conformance and Review

## **3. INTERNAL AUDIT STRATEGY 2014/15 - Appendix B**

3.1 The Strategy is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities.

3.2 It should be kept up to date with the organisation and its changing priorities and communicate the contribution that Internal Audit makes to the organisation and includes:

- Internal Audit objectives and outcomes;
- How the Chief Internal Auditor will form and evidence his or her opinion on the governance, risk and control framework to support the system of Internal Control and Annual Governance Statement;
- How Internal Audit's work will identify and address significant local and national issues and risks;

- How the service will be provided, i.e. internally, externally, or a mix of the two; and
- The resources and skills required to deliver the Strategy.

3.3 The Charter says that the Strategy should be approved, but not directed, by the Audit Committee.

#### 4. LEGAL IMPLICATIONS

4.1 Accounts and Audit Regulations 2011.

#### 5. FINANCIAL IMPLICATIONS

5.1 None, within existing budgets.

#### 6. RISK MANAGEMENT

6.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template, following these other considerations.

<b>Corporate priorities engaged:</b>	All
<b>Statutory powers:</b>	Section 111 Local Government Act 1972; and Accounts and Audit Regulations 2011.
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	No specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	No specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	IIA 2013 document - Applying the IIA International Standards to the UK Public Sector; CIPFA document - Local Government Application Note for the UK Public Sector Internal Audit Standards 2013; West Devon Borough Council Internal Audit Manual - 2014
<b>Appendices attached:</b>	Appendix A – Internal Audit Charter; Appendix B – Internal Audit Strategy 2014/15



## 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	Requirements to provide an adequate and effective system of internal audit.	Audit's objectives and responsibilities may not reflect the Accounts and Audit Regulations requirements of providing an adequate and effective system of internal audit in accordance with the proper practices.	2	2	4	↔	<p>An Audit Charter and Manual documenting the audit responsibilities and processes are maintained and reflect the Public Sector Internal Audit Standards which set out the requirements that internal audit is expected to achieve.</p> <p>The Internal Audit Strategy presented to the Audit Committee annually is a high level statement of how the internal audit service will be delivered in accordance with the Charter.</p>	Chief Internal Auditor
2	Opportunity	To provide an adequate and effective system of internal audit operating in accordance with the proper practices contributes to the overall control environment (system of internal control and governance framework) and the Annual Governance Statement.	2	2	4	↔	<p>An internal audit plan considering all areas of risk to the Council contributes to the overall governance, risk and control framework and the required Annual Governance Statement.</p>	Chief Internal Auditor

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**West Devon Borough Council**

**Internal Audit**

**Charter 2014/2015**

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

### **Statutory Requirements**

The need for an Internal Audit Service is implied by the Local Government Act, 1972 (Section 151) which requires that:

*"...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."*

In the case of West Devon Borough Council, the Head of Finance & Audit is the Section 151 Officer. One of the ways this duty is exercised is through the work of Internal Audit.

Specifically, the Accounts and Audit Regulations, 2011 state that:

*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices."*

For the purposes of the Regulations, proper practice is that contained in the United Kingdom Public Sector Internal Audit Standards (PSIAS) and adherence to these standards is mandatory.

### **Internal Audit's Purpose, Authority and Responsibility**

The Institute of Internal Auditor's 2013 document 'Applying the IIA International Standards to the UK Public Sector' defines internal audit as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'

To meet this definition, Internal Audit undertakes examinations of systems in order to:

- establish the strengths and weaknesses in each system following a formal risk appraisal;
- test the controls to establish whether they are reliable or not; and
- report to management on the findings of such reviews in order to allow corrective action to be taken.

It is the responsibility of Internal Audit to review, appraise and report upon:

- the soundness, adequacy and application of internal control, risk management and corporate governance;
- the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds arising from:

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

- a) fraud and other offences;
  - b) error; and
  - c) poor housekeeping, i.e. reviewing economy, efficiency and effectiveness with which resources are employed.
- 
- the completeness, suitability, reliability and integrity of financial and other management information developed within the organisation (Data Quality);
  - the governance systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by management of the Council or externally. These include in particular the Council's Contract and Financial Procedure Rules;
  - risk management; and
  - whether operations are being carried out as planned and objectives and goals are being met.

### **Right of Access**

Internal Audit will be given right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Financial Procedure Rules within the Constitution.

## **Ethics and Independence**

Internal Audit should be independent of the activities that it audits.

### **Organisational Independence**

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Chief Internal Auditor should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Head of Paid Service, the S.151 Officer and the Chair of the Executive and/or the Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence. Any delegation of budgets for Internal Audit to service level must not compromise the scope of Internal Audit or the ability of Internal Audit to provide an annual opinion to the Audit Committee as part of the assurance for the Annual Governance Statement.

### **Status of the Chief Internal Auditor**

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

The position of the Chief Internal Auditor in the management structure should reflect the influence he or she has on the control environment and he or she should not report to or be managed at a lower organisational level than the corporate management team.

The Chief Internal Auditor should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

### **Ethics, and Independence of Auditors**

Each Internal Auditor must adhere to the PSIAS Code of Ethics and perform their work with honesty, diligence and responsibility. They:

- must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- notwithstanding employment by the Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

Should any of the above situations arise the Chief Internal Auditor should immediately be informed. A record of any interest shall be recorded in the Council's register of such interests. The Chief Internal Auditor shall, thereafter, assess the need to arrange for alternative arrangements to carry out the assignment.

In the exceptional circumstances that an internal audit contractor is used, steps will be taken to avoid or manage any perceived conflicts of interest e.g. using a contractor who also provides non internal audit services to the organisation will be either avoided or managed accordingly. A record of any interest shall be recorded in the Council's register of such interests.

## **Audit Management**

The PSIAS describe the role of the chief audit executive:

For the Council the chief audit executive is the Chief Internal Auditor, who will:

- be appropriately qualified;

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

- determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- produce a Strategy to explain how the service will be delivered and reflect the resources and skills required by the Chief Internal Auditor and auditors and how these have been assessed;
- regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- include in the plan the approach to using other sources of assurance if appropriate;
- be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Chief Internal Auditor is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Chief Internal Auditor should also have the opportunity for free and unfettered access to the Head of Paid Service. To ensure the independence of the Chief Internal Auditor, performance assessments should be countersigned by the Head of Paid Service and feedback sought from the Chairman of the Audit Committee.

In addition the Chief Internal Auditor will meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

### **The Scope of Internal Audit's Work**

Management has the responsibility to establish and assess risk and internal control so that its activities are conducted in an efficient and well ordered manner. Internal control comprises the whole system of procedures, both financial and otherwise, which are established by management to:

- safeguard its assets;
- ensure reliability of records;
- promote operational efficiency; and
- monitor adherence to policies and directives.

Internal Audit is an element of internal control, and its remit includes the entire control environment and governance framework.

If the Chief Internal Auditor or the Audit Committee considers that the level of audit resources or the Charter in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of internal audit, they should advise the Council accordingly.

The scope of audit work extends to services provided through partnership arrangements.

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

The Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit staff conduct the work to derive the required assurance themselves or rely on the assurances provided by other auditors. Where necessary, the Chief Internal Auditor will agree appropriate access rights in order to obtain the necessary assurances.

### **Audit Planning**

Internal audit work must be adequately planned, controlled and recorded in order to achieve the agreed objectives, to establish audit priorities and to ensure the effective use of audit resources.

The Chief Internal Auditor will prepare a risk-based audit plan designed to implement the Audit Strategy.

In preparing the plan, the Chief Internal Auditor should take account of the adequacy and outcomes of the organisation's governance, risk management, performance management and other assurance processes. Where the outputs from those processes are not judged to be sufficiently reliable, the Chief Internal Auditor should undertake his or her own risk assessment and consult stakeholders on the draft plan and revise the plan if appropriate.

Internal Audit plans will, in so far as is practicable, link back to the Council's corporate objectives, be coordinated with other internal review programmes and assurance streams, and be communicated to the senior management team and Audit Committee.

### **Other Work - Consultancy**

Internal Audit may also, where the resources and appropriate skills allow, provide additional services, including fraud-related and consultancy work. These services apply the professional skills of Internal Audit through a systematic and disciplined approach in line with the principles of the Council's Internal Audit Manual and may contribute to the opinion that Internal Audit provides on the governance, risk and control framework.

The Chief Internal Auditor must have regard to the impact on the approved audit plan and any potential conflicts of interest. The S.151 Officer must be informed and agree that such services are to be provided. Significant additional consultancy services not already included in the Audit Plan must also be approved by the Audit Committee.

### **Fraud and Corruption**

It is management's responsibility to maintain the internal control system and to ensure that the organisation's resources are properly applied in the manner and

**West Devon Borough Council**  
**Internal Audit Charter 2014/15**

on the activities intended. This includes responsibility for managing the risk of fraud and other illegal acts and informing the Chief Internal Auditor when fraud is suspected or identified.

The Chief Internal Auditor will feed such information into the audit team's work programme and the opinion on the governance, risk and control framework as appropriate. Internal Audit shall have regard to the possibility of such malpractice during their work and shall seek to identify serious defects in internal control, which might permit the occurrence of such an event.

However, Internal Audit has no responsibility for the prevention of fraud except for providing a counter fraud resource within the audit plan. Audit procedures cannot guarantee fraud or corruption will be detected.

Internal Audit will also act upon reports issued to it via the Council's Confidential Reporting (Whistleblowing) Policy.

Internal Audit shall upon discovery or upon gaining firm evidence, report reasonable suspicions to the appropriate level of management. The Council's Anti Fraud, Corruption and Bribery Policy and Strategy & related response plan requires that any suspected fraud or irregularity is reported to the Head of Finance & Audit for further investigation, and to the Monitoring Officer.

Once Internal Audit has completed its investigation it is management's responsibility, through reference if necessary to the Code of Conduct, to determine what further level of action to take and to ensure that controls are strengthened.

The framework for Internal Audit's involvement in fraud investigation and prosecution is set out in the Council's approved Anti Fraud, Corruption and Bribery Policy and Strategy.

**Audit Reporting**

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

Reports should be accurate, clear, concise, and constructive. They should be issued promptly and within laid-down timescales.

The aim of every internal audit report should be:



## **West Devon Borough Council** **Internal Audit Charter 2014/15**

- to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment;
- to prompt management to implement the agreed actions for change leading to improvement in governance, risk management, the control environment and performance; and
- to provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.

### **Audit Committee**

The Council's Audit Committee will act as the Board as defined in the United Kingdom Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Delegation Scheme) under three headings: Audit Activity; Internal Control and Financial Reporting.

The shared interests of the Audit Committee and Internal Audit suggest that there needs to be an effective working relationship between them.

That relationship has three elements:

- the approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan;
- using the results of Internal Audit's work to satisfy some of the Audit Committee's objectives (and vice versa); and
- aligning the operations of the Committee and Internal Audit, as far as possible without compromising their individual responsibilities, to make best use of resources.

The Chief Internal Auditor must balance being appropriately accountable to the Committee, helping the committee to be effective, with relationships with others e.g. the S.151 Officer.

To facilitate the work of the Committee, the Chief Internal Auditor will:

- attend its meetings, and contribute to the agenda;
- participate in the Committee's review of its own remit and effectiveness;
- ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework, and a summary of any unresolved issues.

The Chief Internal Auditor should also have the opportunity to meet privately with the Audit Committee.

### **Quality Assurance and improvement Programme**

The PSIAS states that a quality assurance and improvement programme must include both internal and external assessments.

The basis for internal assessments is set in the Strategy at Appendix B.

External assessments must be conducted at least once in five years by a qualified, independent assessor from outside of the Council.

The Chief Internal Auditor must discuss any proposals with the Audit Committee but the assessment may be in the form of full external assessment, or a self assessment with independent external validation.

The scope of any external review must be agreed in advance with the S.151 Officer or Chairman of the Audit Committee, and may also cover the work of the Audit Committee itself.

The results will be reported to the Audit Committee in the Chief Internal Auditor's annual report, as well as progress against any improvement plan.

### **Charter - Non Conformance and Review**

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Chief Internal Auditor will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.



**West Devon Borough Council**

**Internal Audit**

**Strategy 2014/2015**

## **West Devon Borough Council** **Internal Audit Strategy 2014/15**

### **Introduction**

The Accounts and Audit Regulations 2011 state that:

*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices."*

For the purposes of the Regulations, proper practice is that contained in the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Chief Internal Auditor to produce an Audit Strategy, which:

- Is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Terms of Reference and how it links to the organisational objectives and priorities.
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
  - Internal Audit objectives and outcomes;
  - how the Chief Internal Auditor will form and evidence his or her opinion on the control environment to support the Annual Governance Statement;
  - how Internal Audit's work will identify and address significant local and national issues and risks;
  - how the service will be provided, i.e. internally, externally, or a mix of the two; and
  - the resources and skills required to deliver the Strategy.
- Should be approved, but not directed, by the Audit Committee.
- The Strategy should be kept up to date with the organisation and its changing priorities;

### **Internal Audit Objectives and Outcomes**

The primary objective of the Internal Audit team is to provide an independent and objective opinion to the Council on the control environment and governance framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Council's Chief Internal Auditor aims to fulfil the statutory responsibilities for Internal Audit by:

- Identifying all of the systems, both financial and non financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- Creating an audit plan that will enable Internal Audit to carry out reviews covering all of the Audit Universe over a period of 5-years, prioritised through a risk assessment;
- Translating the 5-year audit plan into an annual plan by reassessing the risk for each audit area against emerging risks and the Council's Risk Registers;

## **West Devon Borough Council** **Internal Audit Strategy 2014/15**

- Undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- Providing managers with an opinion on and recommendations to improve the effectiveness of risk management, control and governance processes as to:
  - the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds;
  - the completeness, suitability, reliability and integrity of financial and other management information developed within Council (Data Quality);
  - the systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by management of the Council or externally. These include in particular the Council's Contract and Financial Procedure Rules;
  - whether operations are being carried out as planned and objectives and goals are being met.
- Providing managers with advice and consultancy on risk management, control and governance processes;
- Liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- Providing the Council through the Audit Committee with an opinion on internal control as a contribution to the System of Internal Control and Annual Governance Statement.

### **Opinion on Internal Control**

As stated above one of the key objectives of Internal Audit is to communicate to management within the Council information that provides an independent and objective opinion on their control environment and risk exposure, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. For routine work a written monthly report highlighting the 'opinions' communicated to managers and the performance of the Internal Audit team is to be provided by the Chief Internal Auditor copied to this officer. A formal monthly meeting must also be held to discuss issues arising and other matters.

The Chief Internal Auditor must report progress against the annual audit plan and any emerging issues and risks to the Audit Committee quarterly in a format agreed between the parties.

The Chief Internal Auditor must also provide a written annual report to the Audit Committee timed to support their recommendation to approve the Annual Governance Statement to the Council.

The Chief Internal Auditor's annual report to the Audit Committee must:

- (a) Include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;

## **West Devon Borough Council** **Internal Audit Strategy 2014/15**

- (b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the Annual Governance Statement;

And for the system of internal audit:

- (e) Compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- (f) Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

### **Planning including Local and National Issues and Risks**

The audit planning process is subject to a risk assessment at all stages of the process: the 5-year plan; annual plan and individual audit reviews.

Prioritising the 5-year plan is completed using a risk assessment scoring methodology that takes account of: the £k value; inherent risk (definition below); political sensitivity; when last audited; and the impact on other systems. This forms the basis of the resources allocated to each planned audit area.

Updating the original risk assessment above to create an annual audit plan includes taking account of emerging risks, both local and national, through consideration of the:

- Council's Risk Registers;
- Minutes of the Council, Committees and Senior Management Team;
- Issues arising from the previous year's audit reviews, including those covering the Risk Management and Corporate Governance frameworks (Annual Governance Statement);
- National issues highlighted by professional bodies such as CIPFA's Finance Advisory Network (FAN), National Anti Fraud Network (NAFN) or the Council's external auditor; and
- Liaison with other Internal Audit teams on a formal and informal basis.

Further planning and risk assessment is required at the commencement of each individual audit review to establish the scope of the audit and the level of testing required.

This considers:

- The objectives of the activity being reviewed;
- When it was last audited, the results of that review and whether the recommendations made have been implemented;
- Any changes to the system since the last audit;
- The results of an analytical review (comparison of the data for the year of audit with the previous year's equivalent, taking account of expected changes);

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- The inherent risk: the level of risk to the Council of the system if there were no controls in place, such as the vulnerability to fraud and if there are any known incidents of fraud, and the means by which the potential impact of risk is kept to a minimum;
- The quality, experience and morale of officers involved in the system; and
- Impact on the control environment of service reviews by managers and the results of any relevant performance indicators.

### **Provision of Internal Audit**

The Internal Audit service is provided on behalf of the Council by a small team of in-house auditors. Past benchmarking of the cost of Internal Audit when compared with other Councils has shown that it is a cost effective service that continues to meet the requirements of its stakeholders.

The Chief Internal Auditor has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidelines. The manual is regularly reviewed and updated to reflect changes in working practices and standards.

#### **Internal Audit Performance Management and Quality Assurance**

External performance assessment is discussed in the Charter at Appendix A.

The PSIAS and the Council's Audit Manual state that internal performance, quality and effectiveness should be assessed at two levels:

- For each individual audit; and
- For the internal audit service as a whole.

The documents also state that the Chief Internal Auditor should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:

- (a) Meeting its aims and objectives;
- (b) Compliant with the PSIAS;
- (c) Meeting internal quality standards;
- (d) Effective, efficient, continuously improving; and
- (e) Adding value and assisting the organisation in achieving its objectives.

This performance management and quality assurance framework must include, but not be limited to:

- A comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The Chief Internal Auditor should measure, monitor and report appropriately on the progress against these targets;
- Seeking user feedback for each individual audit and periodically for the whole service;

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- A periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self assessment);
- An action plan to implement improvements.

The following table shows the key performance indicators used by the service.

*Table 1: Internal Audit Key Performance Indicators*

	<b><u>Current Target, and, Frequency of Measure</u></b>
➤ Achievement of the annual audit plan.	95% Monthly
➤ Percentage of draft audit reports issued within 10 working days of the completion of the audit.	100% Annually
➤ Percentage of final audit reports issued within 10 working days of the discussion and agreement of the draft audit report.	100% Annually
➤ Customer Survey: Responses Received; Audit Planning - Consultation; Objectives Quality of Audit Report - Clarity; Accuracy; Value; Presentation	90% Annually 90% Annually
➤ Communication - Feedback; Helpfulness; Professionalism; Timeliness.	90% Annually
➤ The percentage of audit reports where the agreed recommendations were satisfactorily actioned, or follow up indicator to align with other audit teams to be agreed later with the Chairman and reported to the Committee; and	90% Annually
➤ Cost of Internal Audit provision.	£ against budget

Once collated the indicators must be reported to the S.151 Officer on either a monthly or annual basis in line with collection and to the Audit Committee quarterly and/or annually. Performance indicators should be presented with prior year's equivalent to aid comparison.

Performance indicators or targets may be amended from time to time with the prior agreement of the Audit Committee.

The Chief Internal Auditor needs to ensure that the performance and the effectiveness of the service improve over time, in terms of both the achievement of targets and the quality of the service provided to the user.



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### South Hams District Council (Shared Service)

The Internal Audit team consists of 2.9 whole time posts, the Chief Internal Auditor, Senior Auditor and an Auditor. These posts are employed by South Hams District Council but staff costs are shared on a proportionate basis with West Devon Borough Council, based on the internal audit team delivering an audit plan of 115 days to West Devon Borough Council. The shared internal audit service is providing an annual saving of £10,000 to West Devon Borough Council when compared with the previous arrangement.

Separate Charter and Audit Strategy Documents are presented to the South Hams Council's Audit Committee.

Increasing numbers of audits are either carried out as a joint exercise or separately but at the same time. The difference depending on how aligned the systems are and the level of audit budget is available at both sites.

### Collaboration with Teignbridge District Council (Shared Service)

A previous Shared Service Joint Steering Group accepted a proposal for the extension of the collaboration between the internal audit teams of South Hams and Teignbridge District Councils with exchange of audit resources, skills, training and key documents.

Details were presented in the related report to the Audit Committees, where members also accepted, in principle, the mutual assurance of the high priority of both Councils' audit plan in times of crisis, subject to the specific approval of the Chairman.

This arrangement has not been formally rescinded by members and therefore continues.

## **Resources and Skills**

### Resources

The PSIAS and the Council's Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management;
- The Chief Internal Auditor should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

The approved Internal Audit establishment for the Council consists of 2.9 whole time posts, the Chief Internal Auditor (33.5 hours per week), Senior Auditor and an Auditor.

The Chief Internal Auditor's post has now been formally reduced to 33.5 hours, which is the level operated through 2012/13. To minimise the impacts on the assurance provided to both Councils, the target for completion of 100% of the annual audit plan will be

## **West Devon Borough Council** **Internal Audit Strategy 2014/15**

decreased to 95% and with such it is considered that the level of staffing will prove to be adequate.

### **Specialist Areas**

From time to time, additional resources will be brought in to provide assurance on certain specialist areas such as Value Added Tax (VAT) and Income Tax (PAYE) at the discretion of the S.151 Officer in consultation with the Chief Internal Auditor. The Audit Committee will be kept informed.

### **Dealing with Alleged Fraud at Either Council**

The main threat to completing the targeted % of the annual audit plan is the requirement for Internal Audit to investigate fraud. A contingency budget is built into the audit plan to provide cover for such eventualities, as well as other unexpected tasks such as advice to managers on control or internal financial regulations, contributions to the setting up of new systems or unexpected additional work on planned audits.

The contingency budget may prove insufficient for large scale investigations. In the circumstances where this occurs and where there is likely to be an impact on the remainder of the annual audit, the Chief Internal Auditor must discuss the situation with the S.151 Officer to enable a decision to be made to seek additional temporary resources if appropriate. The same comment applies to other staffing shortages brought about by long term sickness absence, vacant posts etc.

The Audit Committee will be kept informed.

### **Skills**

The Chief Internal Auditor's duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for ensuring that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

Internal Audit staff must also be properly trained to fulfil all their responsibilities. The Chief Internal Auditor will periodically assess individual auditors against these predetermined skills and competencies using the Council's formal appraisal system.

Any training or development needs identified will be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored both within and outside of the appraisal process. A copy of the appraisal training programme will be sent to personnel with the appraisal as the corporate system requires.

Time will be allowed within the annual audit plan to allow internal audit staff to receive the relevant training.

In addition, the Chief Internal Auditor will allocate work to reflect the skills and experience required for the specific task, although it is essential that a balance is struck between

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knowledge and client relationships built through continuity and the need for audit staff to develop by auditing areas that they have not previously covered.

In some circumstances, there may be a skill shortage within the Internal Audit team as a whole e.g. specialist audit areas such as technical computer audit. Where this applies the advice of specialists should be sought from within the Council, from colleagues at Teignbridge District Council or other neighbouring Councils or the external auditor.

In extreme situations, the services of a specialist may need to be bought in but the Chief Internal Auditor will only do this with the consent of the S.151 Officer. The Audit Committee will be informed in such cases.

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<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15<sup>th</sup> APRIL 2014</b>
<b>REPORT TITLE</b>	<b>Internal Audit Plan - 2014/2015</b>
<b>Report of</b>	<b>Chief Internal Auditor and S.151 Officer</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

Internal audit is ‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’ – *Public Sector Internal Audit Standards*.

The purpose of this report is to provide Members with the opportunity to review and comment upon the internal audit plan for 2014/15. The plan aims to optimise the use of the scarce and finite audit time available and enable the Chief Internal Auditor to provide an opinion on the adequacy, effectiveness and reliability of the Council's system of internal control and governance framework, which will subsequently feed into the Annual Governance Statement.

**Financial implications:**

The internal audit costs for the year are as budgeted.

**RECOMMENDATIONS:**

It is recommended that Members consider and note the content of the Internal Audit Plan for 2014/2015 at Appendix A and make any relevant recommendations to Council.

**Officer contact:**

For further information concerning this report, please contact:  
 Allan Goodman, Chief Internal Auditor [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)  
 Lisa Buckle, S.151 Officer and Head of Finance & Audit

## **1. BACKGROUND**

- 1.1 The Accounts and Audit Regulations (latest 2011) and Section 54 of the Local Government Act 1972 provide the legal basis for the establishment of internal audit in local authorities. Paragraph 5 of the Act states that 'A relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems'.
- 1.2 The 'CIPFA Application Note for the United Kingdom Public Sector Internal Audit Standards' defines internal audit: Internal audit is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
- 1.3 The Standards require that the purpose, authority and responsibility of the service is set out in a Charter, an updated version of which is presented at this Committee meeting.
- 1.4 In addition, the Internal Audit Strategy states, at a high-level, how the internal audit service will be delivered and developed in accordance with the Terms of Reference. The Internal Audit Strategy 2014/15 accompanies this plan but under separate cover.

## **2. INTERNAL AUDIT PLAN FOR 2014/15**

- 2.1 The internal audit plan for the forthcoming year is considered each year by the Audit Committee.

### 5-year Audit Plan 2010/11 to 2014/15

- 2.2 A 5-year plan has been drawn up to cover the period 2010/11 to 2014/15 which was presented to and accepted by the Audit Committee in June 2010.
- 2.3 Once the relevant systems and processes were identified an assessment of risk was applied based on a statistical methodology derived from an Institute of Internal Auditors approach, that took account of the:
  - Value of transactions;
  - Complexity of the system;
  - Inherent risk (vulnerability to fraud or error);
  - Political sensitivity;
  - Time since last audit; and
  - Impact on other systems.
- 2.4 The resulting scores formed the basis of the priority rating, and the number of days to be spent on each system as a proportion of the days available.
- 2.5 A rating of H is audit work carried out annually as required in cases of high internal risk plus external influences such as the External Auditor or other

inspection regimes; M is to be audited several times over a 5-year period; and, L is a lower audit risk and frequency of coverage of once in five years.

#### Annual Audit Plan 2014/15 (Appendix A)

2.6 The 2014/15 annual plan has been developed from the 5-year Audit Plan 2010/11 to 2014/15 discussed above following an updated risk assessment using the criteria discussed at 2.3 to 2.5 above. In addition work is carried out to identify any emerging risks using information from: the Council/Committee minutes; external sources such as CIPFA, Grant Thornton and the remaining Audit Commission web site; the Council's risk register; and cumulative audit knowledge. Heads of Service were also invited to contribute to the annual audit plan.

2.7 Other factors that result in a variation to the original 5-year plan are:

- Where there has been, or expected to be, significant changes to a system e.g. new computer software;
- Legislative changes; and
- Adjustment of days for some individual audits to reflect the practicalities of carrying out the work;

2.8 Key differences with the 5 year audit plan are:

An increase of time budget of 35 days, but kept within the cost budget.

Added:

- Additional 11 days for the assurance related to the main financial systems;
- Corporate Governance/Annual Governance Statement – work previously carried out by Finance for West Devon;
- Shared services – review of recharging and any other related control/governance issues;
- Specific Counter Fraud activities – as previously reported to the Committee;
- Risk Management; and
- T18 Transformation Programme.

2.9 The Chief internal Auditor has consistently sought to increase the days available to the Council, whilst staying within the financial budget. This has been done cautiously, also having regard to the impact on South Hams audit plan. The 115 days for 2014/15 is considered to be the ceiling and no further increase is likely within the current financial budget.

2.10 The 2014/15 audit plan also sets out the proposed quarters in which the audit work will take place, although in certain areas this will always be flexible. In normal circumstances the timing and detailed work plans will be drawn up following consultation with the client managers.

### 3. LEGAL IMPLICATIONS

3.1 In accordance with the Constitution, it is the responsibility of the Audit Committee to consider the internal audit plan for the forthcoming year (Appendix A).

3.2 There are no direct legal implications of the internal audit plan.

### 4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications of the internal audit plan. The internal audit fees for the year are as budgeted.

### 5. RISK MANAGEMENT

5.1 The risk management implications follow this table:

<b>Corporate priorities engaged:</b>	The report meets all of the corporate priorities
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011 Section 54 of the Local Government Act 1972
<b>Considerations of equality and human rights:</b>	There are no considerations required of equality and human rights for this report
<b>Biodiversity considerations:</b>	There are no biodiversity considerations for this report
<b>Sustainability considerations:</b>	There are no sustainability considerations for this report
<b>Crime and disorder implications:</b>	There are no crime and disorder considerations for this report
<b>Background papers:</b>	Internal Audit Charter and Strategy 2014/15 5-Year Internal Audit Plan – Audit Committee June 2010
<b>Appendices attached:</b>	Appendix A – Internal Audit Plan 2014/15



## 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 relating to the provision of assurance to Members, managers and other stakeholders.	The audit plan and its coverage contribute to the Council's system of internal control and therefore provides reasonable assurance that service objectives will be met.	2	2	4	↔	<p>Audit plans include all areas of potential coverage and direct audit resources to the areas most beneficial to the Council, ensuring that the scarce audit resources are used in a way that provides the necessary assurance.</p> <p>The audit plan is reassessed through the year to compare emerging risks with the original risk assessment. Any emerging risk that is considered to require audit coverage during the year is included at the expense of the lowest priority areas.</p> <p>The revision is reported to senior managers, including the S.151 Officer, and Audit Committee.</p>	Chief Internal Auditor; and S.151 Officer
2	Opportunity relating to Internal Audit as a shared service	A shared internal audit service between South Hams and West Devon provides the opportunity for both Councils to employ a dedicated professional team at a reduced cost to the council tax payer.	2	2	4	↔	<p>Improved efficiency in audit coverage by aligning, where local circumstances permit, audit plans.</p> <p>Auditors are able to make use of research on a given topic for more than one audit, and share good practice observed with managers at both Councils.</p>	Chief Internal Auditor; and S.151 Officer

**STRATEGIC RISKS TEMPLATE (continued)**

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	Internal Audit forms part of the Council's system of internal control	The audit plan and its coverage may not contribute to the Council's system of internal control as required by the related guidance.	2	2	4	↔	<p>Identification of the Audit Universe and subsequent assessment of risk. The audit plan is presented for review and comment to senior managers (including the S.151 Officer), Audit Committee and the external auditor. The Audit Committee's role includes monitoring performance against the plan and action on significant issues identified. The audit plan is linked to the Council's priorities.</p>	Chief Internal Auditor; and S.151 Officer
4	Audit plans are risk based.	Audit plans do not direct audit resources to the areas most beneficial to the Council and so scarce audit resources are kept away from areas of high risk.	2	2	4	↔	<p>An assessment of risk was applied to an 'Audit Universe', based on a statistical methodology that took account of the:</p> <ul style="list-style-type: none"> <li>• Value of transactions;</li> <li>• Complexity of the system; Inherent risk (vulnerability to fraud or error);</li> <li>• Political sensitivity;</li> <li>• Time since last audit; and Impact on other systems.</li> </ul>	Chief Internal Auditor; and S.151 Officer

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Direction of travel symbols ↓ ↑ ↔



Internal audit is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes' – Public Sector Internal Audit Standards.

Objectives: the audit plan upholds the Council's priorities and as with every audit we are seeking continuous improvement of service, making best use of available resources to fulfil these priorities and deliver services with skill, competence and integrity.

<b>MAIN FINANCIAL SYSTEMS</b>
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*Equivalent systems are also included in the SHDC Audit Plan for 2014/15.*

	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
<b>Main Accounting System and Budgetary Control</b>	M	All	Accounts for the Council's activities and assists in meeting the budgets set by the Council. Linking systems and audits: Accounts: All financial systems; Budgets: Council Tax (Setting); Computer audit: Access to system.	4	4
<b>Creditor Payments</b>	M	All	Pays the Council's creditors promptly and accurately and processes other internal debit items. Walkthrough Test for 2014/15. Linking systems and audits: Main Accounting; Treasury Management; Council Tax (Refunds); NDR (Refunds); Housing Benefits; Petty Cash. Computer audit: Access to system.	2	2
<b>Payroll</b>	M	All	Ensures accurate calculation and timely payment of salaries and wages to employees. <b>To include Members Allowances.</b> Linking systems and audits: Main Accounting; Computer audit: Access to system.	3	5
<b>Council Tax</b>	H	All	Calculates, bills, accounts for and assists in recovery of cash paid by Council Tax payers. Linking systems and audits: Main Accounting; Housing Benefits; Cash Collection; Computer audit: Access to system.	3	6
<b>Business Rates (NDR)</b>	H	All	Calculates, bills, accounts for and assists in recovery of cash paid by Business Rates payers. Linking systems and audits: Main Accounting; Council Tax; Creditors; Computer audit: Access to system.	3	6

Continued Overleaf

**MAIN FINANCIAL SYSTEMS (continued)**

	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
<b>Housing Benefits and Council Tax Support</b>	H	All	Ensures accurate calculation and timely payment of Housing Benefits. Linking systems and audits: Main Accounting; Council Tax; Creditors; Computer audit: Access to system.	4	7
<b>Debtors</b>	L	All	Invoices, accounts for and assists in recovery of cash due to the Council. Linking systems and audits: Main Accounting; Cash Collection; Computer audit: Access to the system. Walkthrough Test for 2014/15.	2	2
<b>Treasury Management</b>	L	All	Manages the Council's cash flow and invests monies to maximise the interest earned. Walkthrough Test for 2014/15. Linking systems and audits: Main Accounting; Creditors; Cash Collection; Computer audit. Walkthrough Test for 2014/15.	3	2
				<b>(a) Total</b>	<b>34</b>

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**OTHER SYSTEMS AND AUDIT WORK**

	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
<b>CORPORATE SERVICES</b>					
<b>Recruitment</b>	L	All	To consider the controls in the recruitment process having regard also to the T18 Transformation Programme. Link to Payroll audit.	2	2
				<b>Total</b>	<b>2</b>

**ENVIRONMENTAL HEALTH & HOUSING**

<b>Community Safety and Emergency Planning</b>	L	All	Review of the requirements and the Council's arrangements for community safety. Also in the SHDC plan.	1	2
<b>Private Sector Housing Renewal</b>	M	Homes	Coverage will include system for providing disabled facilities grants & other related grant and loan schemes. Also included in the SHDC Audit Plan for 2014/15.	3	4
				<b>Total</b>	<b>6</b>

**ENVIRONMENT SERVICES**

<b>Car Parking</b>	M	Various	Audit covers car parking having regard to emerging risks, with pay and display, and penalty charges as key areas. Last audited 2010/11.	4	4
				<b>Total</b>	<b>4</b>

<b>OTHER SYSTEMS AND AUDIT WORK (continued)</b>					
	<b>Risk Factor</b>	<b>Council Priority</b>	<b>Description</b>	<b>Proposed Quarter</b>	<b>2014/15 Days</b>
<b>FINANCE AND AUDIT</b>					
<b>Capital Expenditure and Receipts</b>	M	All	Audit of expenditure of a capital nature to ensure that monies spent in line with the Capital Programme and Contract and Financial Procedure Rules.	4	4
				<b>Total</b>	<b>4</b>
<b>ICT and CUSTOMER SERVICES</b>					
<b>ICT/Computer Audit</b>	H	All	Using CIPFA Guidance, the audit to cover: <ul style="list-style-type: none"> <li>• Database Management</li> <li>• Environment Controls</li> <li>• Input Data and Running Files</li> <li>• Access control</li> <li>• Back-up &amp; Disaster Recovery</li> </ul> Also included in the SHDC Audit Plan for 2014/15.	4	3
<b>Local Welfare Support</b>	New	Various	Overview of the arrangements for this new but limited funding scheme. Joint audit with SHDC.	1	2
<b>Use of Internet and Email</b>	M	All	Review of the use of the Internet and E-mail with the aid of dedicated software, to ensure the Council's policy is adhered to.	2	3
				<b>Total</b>	<b>8</b>
<b>PLANNING, ECONOMY &amp; COMMUNITY</b>					
<b>Development Control</b>	M	Economy Housing Environment	Audit of the system for processing planning applications and the related financial transactions. Last audited 2010/11.	1	4
				<b>Total</b>	<b>4</b>
<b>NON FINANCIAL/CORPORATE REQUIREMENT</b>					
<b>Data Quality, including Performance Indicators</b>	H-	Various	Our work on the performance indicators is a requirement of the Council's Data Quality Strategy.	2	5
<b>Corporate Governance, System of Internal Control (SIC) and Annual Governance Statement (AGS)</b>		All	Audit of the Council's Local Code of Corporate Governance for 2013.14 and subsequent report with the S.151 and Monitoring Officer to the Audit Committee. The AGS is to be approved at a meeting of the Council on the recommendation of Audit Committee, who should seek to satisfy themselves that they have obtained sufficient, relevant and reliable evidence to support the disclosures made.	1	5

Continued overleaf

OTHER SYSTEMS AND AUDIT WORK (Continued)			Description	Proposed Quarter	2014/15 Days
Risk Factor	Council Priority				
<b>NON FINANCIAL/CORPORATE REQUIREMENT</b>			<i>Continued</i>		
Risk Management	M	All	Audit of the Council's risk management process. Budget also includes: Advice to the Risk Management Group.	4	3
Shared Services	H	All	A review of the process for the recharging of shared services with SHDC.	1	5
Sustainability			Audit in line with the audit programme produced by CIPFA. Joint audit work with SHDC.	1	4
T18 Transformation Programme	New	All	Audit work required relating to this key project for the Council. Joint audit with SHDC.	1/2/3/4	5
				<b>Total</b>	<b>27</b>
<b>COUNTER FRAUD</b>					
Specific Counter Fraud Work	New	All	As highlighted by the counter fraud arrangement checklists previously presented to the Audit Committee. A separate plan will be drafted and the Committee informed of the work carried out, but will include future presentation of the necessary checklists to Members.	2	3
				<b>Total</b>	<b>3</b>
<b>FOLLOW UP and CONTINGENCY</b>					
Follow Up Of Previous Year's Audits	Annual	Various	A revisit of the previous year's recommendations to ensure that the agreed actions have been implemented and are working satisfactorily.	1/2/3/4	5
Contingency (Unplanned)	Annual	All	An allowance for the unexpected audit tasks and control advice to managers, including investigation of any suspected irregularities.	1/2/3/4	5
				<b>Total</b>	<b>10</b>
<b>TOTAL: SYSTEMS AND AUDIT WORK</b>				<b>(b) Overall Total</b>	<b>68</b>
<b>AUDIT MANAGEMENT</b>					<b>Days</b>
Management and Supervision		All	Planning, monitoring and reporting on the Internal Audit plan to senior officers and members. Review of completed work and other supervisory/management tasks as required.	1/2/3/4	13
				<b>(c) Total</b>	<b>13</b>

<b>TOTAL RESOURCES REQUIRED 2014/15</b>	<b>From above (a) + (b) + (c)</b>	<b>115</b>
<b>RESOURCES AVAILABLE</b>		<b>2014/15</b>
Shared Service with South Hams District Council		115
<b>TOTAL RESOURCES AVAILABLE</b>		<b>115</b>

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AGENDA  
ITEM  
**10**

## WEST DEVON BOROUGH COUNCIL

AGENDA  
ITEM  
**10**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15<sup>TH</sup> April 2014</b>
<b>REPORT TITLE</b>	<b>Checklist from the Audit Commission Document: Protecting The Public Purse 2013 (Fighting Fraud against Local Government)</b>
<b>Report of</b>	<b>Chief Internal Auditor, and S.151 Officer</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

The purpose of this report is to inform members of the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse 2013 (Fighting Fraud against Local Government)' (November 2013).

This report links to the previous versions of the checklist presented to members and the National Fraud Authority's strategy 'Fighting Fraud Locally'.

**Financial implications:**

None, within existing budgets.

**RECOMMENDATIONS:**

It is recommended that the Audit Committee considers the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse 2013 (Fighting Fraud against Local Government)' (November 2013).

**Officer contact:**

**For further information concerning this report, please contact:**

Allan Goodman, Chief Internal Auditor [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)

Lisa Buckle, Head of Finance and Audit & S.151 Officer

**1. BACKGROUND**

1.1 This is the fifth year that the Audit Commission has published 'Protecting the Public Purse – Local Government Fighting Fraud' (September 2009, October 2010, November 2011, November 2012 and the latest November 2013).

1.2 The original report introduction said:

'Every pound lost through fraud affects citizens by increasing taxation and threatening essential service.....There has been a growing recognition of the damaging impact that fraud has on the UK economy and on citizens. This recognition has been matched by some important initiatives to combat fraud. Fighting fraud is high on the agendas of the government and most private and

public sector organisations. The newly formed National Fraud Authority is committed to measuring and analysing the incidence and impact of fraud across the UK'.

## **2. UPDATE FOR 2013**

2.1 Protecting the Public Purse 2013 focuses on the continuing progress by local government to protect tax payers by fighting fraud and is available on the Audit Commission web site: <http://www.audit-commission.gov.uk/2013/11/protecting-the-public-purse-2013/>

2.2 In 2012, the report said that the local government bodies are targeting their investigative resources more efficiently and effectively, but in 2013 fewer frauds were detected in local government compared with the previous year.

Local government detected 107,000 cases with a value of £178 million of which benefit fraud accounted for 2/3rds of the loss but only 44% of the cases.

West Devon's fraud return for 2012/13 reported that there were 20 benefit fraud cases of which one had a total value over £10k in overpaid benefits. Of these 4 were prosecuted. There were no identified cases of non-benefit fraud.

2.3 Among the report's recommendations it suggests that Councils use a checklist to review its counter-fraud arrangements – Appendix A.

2.4 The Council's Chief Internal Auditor presented the completed checklist to the April 2010, 2011, 2012 and 2013 Audit Committee meetings which reflected the Council's position at these times against each of the questions.

2.5 The 2013 Audit Commission's report included recommendations that Councils should:

- Actively pursue potential frauds identified through participation in the National Fraud Initiative (NFI) data matches;
- Actively promote a vigorous counter fraud culture;
- Develop a clear strategy to tackle fraud;
- Work in partnership to reduce fraud;
- Prepare effectively for the introduction of the Single Fraud Investigation Service;
- Allocate sufficient resources to tackling fraud; and
- Improve their use of data to measure their performance in tackling fraud.

## **3. COUNTER FRAUD – INTERNAL AUDIT 2013/14**

3.1 We carried out specific counter fraud audit work for West Devon and South Hams Councils as described in the 2013/14 audit plan and previous reports to the Audit Committee.

3.2 The audit and sample testing covered the following areas:

- Planning this and future years counter fraud work;
- Review of online counter fraud guidance;
- Promotion of Anti Fraud, Corruption and Bribery Policies;
- Review of National Fraud Initiative (NFI) data matching;

- Undertake pro-active counter fraud testing:
  - Cash transactions;
  - Vehicle disposal;
  - Rented and vacant units;
  - Comparison of the payrolls for both authorities;
  - Overtime payments; and
  - Physical verification of a sample of employees.
  
- Pro-active counter fraud testing using Computer Assisted Audit Techniques (CAATS):
  - Duplicate creditor payments;
  - Duplicate employees; and
  - Unusual suppliers or transactions.

3.3 We concluded that 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 (standard wording for Good opinion). No fraud was identified.

3.4 We have identified that, in most cases, action has been undertaken to review the data matching provided by the NFI. We would encourage management to review all the data promptly and conscientiously to ensure potential irregularities are cleared at the earliest opportunity.

3.5 Other minor issues were reported to managers in a formal audit report.

#### 4. LEGAL IMPLICATIONS

4.1 Statutory powers: Accounts and Audit Regulations 2011 etc.

#### 5. FINANCIAL IMPLICATIONS

5.1 None, within existing budgets.

#### 6. RISK MANAGEMENT

6.1 The risk management implications follow these considerations:

<b>Corporate priorities engaged:</b>	All
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	No specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	No specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	<ul style="list-style-type: none"> <li>• Audit Commission report: Protecting The Public Purse 2013 (Fighting Fraud against Local Government);</li> <li>• National Fraud Authority's document</li> </ul>

	<p><i>Fighting Fraud Locally</i> considered by the September 2012 Audit Committee;</p> <ul style="list-style-type: none"> <li>• The Council's Anti Fraud, Corruption &amp; Bribery Policy and Strategy 2011;</li> <li>• Benefit Fraud Prosecution and Sanction Policy; and</li> <li>• Confidential Reporting (Whistle Blowing) Policy</li> </ul>
<p><b>Appendices attached:</b></p>	<p><b>Appendix A:</b> Completed checklist from Protecting The Public Purse 2013 (Fighting Fraud against Local Government)</p>

## STRATEGIC RISKS TEMPLATE

No	Opportunity Title	Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Demonstrating zero tolerance of fraud.	Communicating the Anti-Fraud stance to members, officers and the public may deter those that consider that an attempted fraud is work risking.	-	-	-	↔	The Council demonstrates its commitment to an Anti-Fraud culture, by the regular review, updating and approval of an Anti Fraud Strategy.	Chief Internal Auditor
2	The Council's response to suspected fraud is documented	Investigations are commenced promptly after suspicions are aroused.	-	-	-	↔	The approach to investigating suspected fraud is clearly laid out in the Council's Fraud And Corruption Response Plan appended to the Anti-Fraud and Corruption Strategy.  Early liaison with the police, where appropriate is clearly stated in the Council's Fraud And Corruption Response Plan.	Chief Internal Auditor
3	Preventative measures are in place	Preventative measures are in place, including a system of internal controls which are regularly reviewed.	-	-	-	↔	Controls are regularly reviewed by managers and Internal Audit on a risk basis, with vulnerability to fraud being a key part of the audit risk assessment.	Chief Internal Auditor

No	Risk Title	Risk Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
4	Risk of fraud.	Risk of fraud or corruption being perpetrated on the Council.	2	2	4	↔	Preventative measures are in place. These include a system of internal controls which are regularly reviewed, and a zero tolerance policy which is communicated to members, officers, stakeholders and the community.  The risk of fraud appears in the Council's risk register.	Chief Internal Auditor
5	Reporting suspected fraud is encouraged.	Fraud or corruption is not identified at an early stage.	2	2	4	↔	The Council's Confidential Reporting Policy (whistle blowing) encourages members, officers and the public to report suspected fraud without fear of reprisals. Internal control measures are in place.	Chief Internal Auditor
6	A professional approach to fraud investigation	Suspected fraud or corruption is not investigated in a sound professional way.	2	2	4	↔	Only appropriately trained officers are appointed to investigate suspected fraud.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

	Yes	No	2012 Response	2013 Update
<b>General</b>				
1. Do we have a zero-tolerance policy towards fraud?	Yes		<p>The Council's Anti-Fraud, Corruption and Bribery Policy and Strategy 2011 (incorporating the Housing Benefit Fraud Prosecution and Sanction Policy) states that the Council is committed to discouraging, preventing and detecting fraud and corruption where attempted on, or from within, the Council's organisation.</p> <p>The document appears on the Council's website and Intranet. A separate procedure document, 'Response Plan', has also been updated and made available to all staff via the Intranet.</p> <p>An item in the Council's 'Friday Flash' and Members' Bulletin was used to promote the Council's zero tolerance with a link to the revised Policy and Strategy; supported by the Audit Committee.</p> <p>Scanning for unforeseen events forms part of the Strategic Management Risk register and includes potential fraud.</p> <p>The risk registers are reviewed quarterly by the Risk Management Group which includes the Chief Internal Auditor and Monitoring Officer. Potential fraud risks will be fed into the Internal Audit teams counter fraud work.</p>	<p>Unchanged.</p> <p><i>Action:</i> The Anti-Fraud, Corruption and Bribery Policy and Strategy 2011 may benefit from a review in 2014/15.</p>
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	Yes		<p>The National Fraud Authority's document <i>Fighting Fraud Locally</i> was also discussed at the September 2012 Audit Committee, but the Audit Commission checklist is used for review.</p>	<p>Unchanged.</p>

	Yes	No	2012 Response	2013 Update
<b>General</b>				
3. Do we have dedicated counter-fraud staff?	Yes		A dedicated housing benefit fraud and visiting team cover revenues, benefits and housing. Counter fraud and corruption arrangements are a key part of the internal audit of the Council's financial systems and governance framework. The 2013/14 Internal Audit Plan includes specific resources for counter fraud work, in response to the action plan from the National Fraud Authority's document <i>Fighting Fraud Locally</i> .	Unchanged. The body of the report summarises the Counter Fraud work carried out in 2013/14.
4. Do counter-fraud staff review all the work of our organisation?	Yes		The internal audit plan covers all of the activities of the Council through a risk based audit approach. Vulnerability to fraud is one of the key components that determine the frequency of audit and resources used for any specific audit area.	In including days in the Internal Audit Plans for specific counter audit activities, a sub-plan was devised to direct the related work in an effective way.
5. Does a councillor have portfolio responsibility for fighting fraud across the Council?		No	New 2013.	No specific member but there is shared responsibility particularly through the Audit Committee who recommend approval of the policy, receive an update of any alleged fraud and this and similar review checklists.
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	Yes		Internal Audit plans are presented to the Audit Committee annually and monitoring reports on activities include fraud risks and a summary of any investigations and their outcomes. Quarterly reports advise the Committee of any suspected or actual fraud identified.	Unchanged. Internal Audit brought together a centralised list of fraud risks as part of the Internal Audit team's counter fraud work.



	Yes	No	2012 Response	2013 Update
<b>General</b>				
7. Have we assessed our management of counter-fraud work against good practice?	Yes		Audit Commission Protecting the Public Purse checklists were completed and presented to members in 2011, 2012 and 2013. The National Fraud Authority's document <i>Fighting Fraud Locally</i> was considered by the September 2012 Audit Committee.	Annual review carried out using the Audit Commission checklist Protecting the Public Purse, this being the latest.
8. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>• New staff (including agency staff)?</li> <li>• Existing staff?</li> <li>• Members?</li> <li>• Our contractors?</li> </ul>	Yes		The Council's commitment to the Anti-Fraud and Corruption Policy and Strategy is communicated to new staff at induction days and existing staff through the Intranet and leaflets on notice boards linked to the Whistle Blowing Policy. An item in the Council's 'Friday Flash' and Members' Bulletin was used to promote the Council's zero tolerance with a link to the revised Policy and Strategy, supported by the Audit Committee. Contractors – fraud risks are managed actively through set pricing schedules and checking of invoices. All Council contracts include our corruption & bribery warnings as standard (this is mandated along with full anti-fraud criteria for EU contracts in line with the directives).	As paragraph 1 and unchanged. <i>Action:</i> The Anti-Fraud leaflets may benefit from a refresh in 2014.

	Yes	No	2012 Response	2013 Update
<b>General</b>				
9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	Yes		<ul style="list-style-type: none"> <li>The Audit Commission’s data matching service (NFI);</li> <li>The dedicated Housing Benefit Fraud Team and Internal Audit subscribe to the National Anti-Fraud Network and receive ‘Intelligence Bulletins’ that alert readers to identified alleged frauds and scams. These are reviewed and forwarded to the relevant service to enable them to ensure the Council is not at risk of an equivalent fraud.</li> <li>The Council subscribes to the CIPFA Technical Information Service and other bulletins;</li> <li>Liaison with other audit and benefit teams particularly in Devon.</li> </ul> <p>In addition the Department for Work and Pensions Housing Benefits Matching Service is used on a monthly basis. Reference has been made to a private sector company that help businesses to manage credit risk and prevent fraud. Internal Audit shares data with neighbouring Council teams relating to fraud and the system weaknesses that allowed the fraud to be perpetrated.</p>	Unchanged, plus: The dedicated Housing Benefit Fraud Team has signed up to NFI’s flexible matching for 2013 (additional matching on certain higher risk data streams). At the time of this report the details have yet to be finalised but are likely to included Council Tax single person discount.
10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	Yes		As 9 above plus the Benefits Fraud Team have working arrangements and monitoring meetings with the Department for Work and Pensions (DWP), both Exeter and Plymouth offices.	As 9 above.

	Yes	No	2012 Response	2013 Update
<b>General</b>				
11. Do we identify areas where internal controls may not be performing as intended? How quickly do we then take action?	Yes		Internal audit process, results reported to managers, senior managers in detail and in summary to the Audit Committee. Vulnerability to fraud also consider at the start of each individual audit. Action taken quickly depending on the significance of the non performing control and whether other compensating controls are in place to maintain integrity. Internal Audit will carry out some counter fraud enquiries using Computer Assisted Audit techniques (CAATs).	Unchanged. Internal Audit has carried out some counter fraud enquiries using Computer Assisted Audit techniques (CAATs) to identify potential fraud as part of the 2013/14 Counter Fraud work.
12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative (NFI) and receive reports on our outcomes?	Yes		The Council takes part in the Audit Commission NFI. Action is taken and outcomes are reported to the Audit Committee by exception through normal reporting channels where appropriate. Members were updated with the Council's work on the NFI in September 2012. The results of the latest matched have been released to the Council by the Audit Commission (February 2013).	The Audit Committee will be updated with the results of the latest NFI data matching work which must be completed by the Council by the 31 <sup>st</sup> March 2014. Internal Audit monitored progress as part of the Counter Fraud work in September 2013.
13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	Yes		An updated Anti Money Laundering Policy and Procedure was approved by the Council upon the recommendation of the June 2012 Audit Committee, and published on the Council's Intranet and Website.	Unchanged.
14. Do we have effective arrangements for: <ul style="list-style-type: none"> <li>• Reporting fraud?; and</li> <li>• Recording Fraud?</li> </ul>	Yes		A separate procedure document, 'Fraud Response Plan', has also been updated and made available to all staff via the Intranet. This links to the Disciplinary Policy and Whistleblowing Policy.	Unchanged.

	Yes	No	2012 Response	2013 Update
<b>General</b>				
15. Do we have effective whistle blowing arrangements? In particular are staff: <ul style="list-style-type: none"> <li>Aware of our whistle blowing arrangements?</li> <li>Have confidence in the confidentiality of those arrangements?</li> <li>Confident that any concerns will be addressed?</li> </ul>	Yes		The Council's Confidential Reporting (Whistleblowing) Policy was updated by the Monitoring Officer in March 2009 and related Frequently Asked Questions added. These are available to all staff and members on the Intranet including the Staff Pages. In addition a leaflet on staff notice boards provides further guidance. As discussed at 7 above, an email to all staff reminded them of the Confidential Reporting (Whistle Blowing) Policy.	Unchanged.
16. Do we have effective fidelity insurance arrangements?	Yes		Fidelity Insurance cover is in place, with the 'Sums Guaranteed' linked for designated officers to the risk of loss. Reviewed annually by Internal Audit as part of the Treasury Management audit with results reported to the Audit Committee.	Unchanged.
	Yes	No	<b>2012 Response</b>	<b>2013 Update</b>
<b>Fighting Fraud with Reduced Resources</b>				
17. Have we reassessed our fraud risks in the light of the current financial climate?	Yes		Various guidance taken into account during audit planning – e.g. CIPFA's "Auditing in an Economic Downturn".	Unchanged.
18. Have we amended our counter-fraud action plan as result?	Yes		The CIPFA documents cover a number of different areas that are already included in the risk based annual audit plan. Counter fraud action plan to be produced for 2013/14 using the resource put aside for specific counter fraud work. The current financial climate will contribute to the risks.	Counter fraud action plan has been audited for 2013/14 using the resource put aside for specific counter fraud work
19. Have we reallocated staff as a result?		No	As 18 above.	Unchanged.

	Yes	No	2012 Response	2013 Update
<b>Some Current Risk &amp; Issues</b>				
<b>Housing Tenancy</b>				
20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	N/A	N/A	<p>The Council is part of the countywide Choice Based Letting Scheme (Devon Home Choice). Applicants are assessed and placed into bands depending on circumstances and housing need by the responsible Council.</p> <p>Officers registering the data in the system raise any irregularities in application with the Fraud Team. Applicants are able to bid for allocation to a property advertised by the Registered Providers (RP). Allocation offers are made by the RP to the applicant with the highest band/longest time in the band.</p> <p>The RP must verify that the details provided by the applicant are correct prior to allocation.</p>	<p>Unchanged.</p> <p>The Council supports a partnership lead by Plymouth City Council which was successful in securing grant funding from central government to tackle social housing fraud.</p> <p>The 'Devon Social Housing Fraud Team' (3 posts, one appointed and two being recruited) will investigate cases of possible social housing fraud on participating Devon Home Choice partner landlords and prosecute where appropriate.</p>
21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	N/A	N/A	<p>It is the responsibility of the Registered Provider (RP) to ensure that the social housing is occupied by those to whom it is allocated, but the Council confirms that the occupation has been completed as expected using the Landlords update on the Devon Home Choice website.</p>	<p>Unchanged.</p>

	Yes	No	2012 Response	2013 Update
<b>Some Current Risk &amp; Issues</b>				
<b>Procurement</b>				
22. Are we satisfied that procurement controls are working as intended?	Yes		<p>Audited annually without significant issues being raised.</p> <p>Relatively low value procurement covered in the annual creditor payment audit and service audits.</p> <p>Higher values in the annual capital expenditure audit.</p> <p>Contract Procedure Rules and other key procurement documents are readily available as is the advice of the Corporate Procurement Officer who is actively involved in all procurement over £30k.</p> <p>A system exists to 'waive' the rules in specific circumstances and depending on the value, with the approval of the statutory officers and Internal Audit as minimum but without the need for a full report to members.</p>	Unchanged.
23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	Yes		<p>The Contract Procedure Rules were updated and aligned with South Hams District Council's equivalent, approved by the Council on November 2011 upon the recommendation of the September 2011 Audit Committee. They reflect the guidance issued by the Office of Fair Trading.</p> <p>The guidance issued by the Office of Fair Trading, which includes reducing the risk of illegal practices such as cartels, will be considered at the next review, the results of which will be presented to members later in the year.</p>	<p>Unchanged.</p> <p><i>Action:</i> Contract Procedure Rules may benefit from a review and update during 2014.</p>

	Yes	No	2012 Response	2013 Update
<b>Some Current Risk &amp; Issues (continued)</b>				
<b>Recruitment</b>				
24. Are we satisfied our recruitment procedures:				
<ul style="list-style-type: none"> <li>Prevent us employing people working under false identities?</li> <li>Confirm employment references effectively?</li> <li>Ensure applicants are eligible to work in the UK?</li> <li>Require agencies supplying us with staff to undertake the checks that we require?</li> </ul>	Yes		Successful candidates are required to provide two forms of identity. Referees provided by the applicant are written to by the Council. Evidence of the right to work in the UK via a British passport is required or other relevant documentation in the exact terms expected by the Immigration, Asylum and Nationality Act 2006. Successful applicants are required to provide a National Insurance number. The Council's Agency contract requires the agency to undertake the same recruitment checks that the Council itself undertake.	Unchanged.
<b>Personal Budgets</b>				
25. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate safeguarding proportionate to risk and inline with recommended good practice?	N/A	N/A	No direct social care responsibilities.	Unchanged.
26. Have we updated our whistle blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	N/A	N/A	No direct social care responsibilities.	Unchanged.

	Yes	No	2012 Response	2013 Update
<b>Some Current Risk &amp; Issues (continued)</b>				
<b>Council Tax</b>				
27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	Yes		Controls are in place for awarding discounts. The NFI also covers this area with cases identified by the data matching and discount removed. The Council has carried out a rolling programme to review all single person discounts.	Prior to 2014/15 bills being issued, the Council has started a rolling programme to review all discounts and exemptions for Council Tax. See also paragraph 9 re the NFI.
<b>Housing Benefit</b>				
28. When we tackle housing benefit fraud do we make full use of: <ul style="list-style-type: none"> <li>• National Fraud Initiative (NFI)?</li> <li>• Department for Work and Pensions Housing Benefit matching service;</li> <li>• Internal data matching; and</li> <li>• Private sector data matching.</li> </ul>	Yes		Policies and procedures are in place as discussed in this checklist. Benchmarking with other local authorities of sanctions taken. A dedicated fraud hotline is available to the public who can anonymously give information about any fraudulent claimant - the Council investigates every report. Full use is made of the NFI and in addition the Department for Work and Pensions Housing Benefits Matching Service on a monthly basis. Reference was also made to a private sector company that helps businesses to manage credit risk and prevent fraud.	Unchanged. Members will be updated with the results of the latest NFI data matching at an Audit Committee in June 2014.



	Yes	No	2012 Response	2013 Update
<b>Some Current Risk &amp; Issues (continued)</b>				
<b>Emerging Fraud Risks</b>				
29. Do we have appropriate and proportionate defences against fraud risks: <ul style="list-style-type: none"> <li>• Business rates;</li> <li>• Local welfare assistance;</li> <li>• Council Tax reduction;</li> <li>• Grants?</li> </ul>	Yes		Internal controls are in place for business rates; discretionary housing payments; Council Tax support and Grants. These are all subject to review and testing by Internal Audit with the results reported to the relevant managers and a summary to the Audit Committee.	Unchanged. Local welfare assistance to be audited early in the 2014/15 audit plan.

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<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15<sup>th</sup> April 2014</b>
<b>REPORT TITLE</b>	<b>Internal Audit - Progress Against the 2013/2014 Plan</b>
<b>Report of</b>	<b>Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

The purpose of this report is to inform members of the principal activities and findings of the Council’s Internal Audit team for 2013/14 to the 28<sup>th</sup> February 2014, by:

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

**Financial implications:**

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

**RECOMMENDATIONS:**

The Committee is asked to consider and note the content of the monitoring report of the Internal Audit Plan for 2013/2014 and make any relevant recommendations to Council.

**Officer contact:**

**For further information concerning this report, please contact:**

Allan Goodman, Chief Internal Auditor 01803 861375 [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)

**1. BACKGROUND**

1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2013 (Minute reference \*AC 34 refers) and cover:

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

- 1.2 The Audit Strategy was updated for 2013/14 and was approved by the Audit Committee in April 2013 (Minute reference \*AC 34 refers) and covers:

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

- 1.3 At the September 2013 Audit Committee members accepted the view that the above documents remained fit for purpose and will be brought strictly into line with the new Public Sector Internal Audit Standards for 2014/15 (Agenda Item 6: Minute reference \*AC 18 refers).

## 2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2013/2014

### Audit Plan 2013/14

- 2.1 The 2013/14 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2013 (minute reference AC 35 refers).

### Local and National Risk Based Amendments to the Plan

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 There are no proposed amendments to the Plan at present.
- 2.4 Overspends on the estimated time for individual audits occur as the time in the audit plan is an estimate based on risk and generally not the amount of time needed to do the work required. All efforts are made to 'cut our cloth according to our means', but in some circumstances where control issues are identified, a risk based assessment is carried out. This constitutes consideration, depending on the significance, of whether additional time should be spent and if so where the work is to be charged, either contingency or by change to the audit plan.
- 2.5 The following table sets out the significant overspends on time budgets (3.5 days or more) on individual audits as totalled in Appendix A, and the reasons for the overrun:

Audit	Planned Days	Days Used	Reason for Overspend
-	-	-	None over 3.5 days
-	-	5	As para 2.4 - Culmination of overspends below 3.5 days for finalised audits
<b>Total</b>	-	<b>5</b>	<b>Overspend to date</b>

### Resources and Skills

2.6 Sickness to the 28<sup>th</sup> February 2014 is 4 days (2012/13 equivalent 13 days).

2.7 In 2013/14, training has been or is being provided to the audit team as follows:

#### Chief Internal Auditor

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

#### Senior Auditor:

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

#### Auditor:

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

### Progress against the Plan

2.8 The 2013/14 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.

2.9 **Appendix B** provides a summary of the main issues raised for audits where a final audit report has been issued and action agreed.

### Non Compliance with Contract or Financial Procedure Rules

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

### Fraud, Corruption, Bribery and Whistle Blowing

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

### Internal Audit 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 2013/14.

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

Indicator	Target Annual %	Actual Annual %	Comments
Audits completed from 2012/13 combined audit plan.	90	96	As reported to the Audit Committee June 2013. (West Devon 100%)
<b>Audits at the 28<sup>th</sup> February 2014 at various stages of completion from 2013/14 audit plan and their 2012/13 equivalents.</b>			
WDBC	95%	87%	(81% at August 2012).
SHDC	95%	92%	(81% at August 2012).
Combined plan	-	91%	(85% at August 2012).

### Internal Audit – Shared Services

2.14 The following has been achieved since the last Audit Committee:

Shared service with South Hams District Council:

- Progress on the 2013/14 audit plan reported to the West Devon Audit Committee. A growing number of audits are being completed across the two sites at the same time including the recharging of shared service costs, Council Tax, Business Rates, and Payroll etc.

Teignbridge

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

### **3. ISSUES from DECEMBER 2013 and FEBRUARY 2014 AUDIT COMMITTEES**

3.1 The Committee requested further information on the following:

#### **DECEMBER 2013**

3.2 Minor issue relating to the Local Welfare Support Scheme were raised and oral feedback provided at the February 2014 meeting.

#### **FEBRUARY 2014**

### **3.3 Grant Thornton Publications (Agenda Item 8)**

Grant Thornton presented an update to the Committee, which included at agenda page 59 a list of material from their website that members may find useful.

The Chief Internal Auditor agreed to supply the Committee with the summaries from these reports. An e-mail has been sent to members with these documents and an invitation for members to request a printed copy.

The Head of Finance & Audit agreed to provide members with answers to the questions posed on agenda pages 62 to 66.

### **4. LEGAL IMPLICATIONS**

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

## 5. FINANCIAL IMPLICATIONS

5.1 None, within existing budgets.

## 6. RISK MANAGEMENT

6.1 The risk management implications follow this table:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	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; WDBC 5-year Audit Plan 2010/11 to 2015/16.
<b>Appendices attached:</b>	<b>Appendix A:</b> Audit Plan 2013/14 <b>Appendix B:</b> Planned Audit 2013/14 – Final Reports: Detailed Items

### 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. This will result in 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.	2	2	4	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee.  Audit approach adheres to the appropriate professional standards.  Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail, should significant resource issue arise.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2013/14 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
						Excell'nt	Good	Fair	Poor	
MAS & Budgetary Control	2	■								95% complete
Creditor Payments	4	■	■							Draft report issued: 18.12.2013
Payroll	4	■	■	■	■		■			Summary to Audit Committee - April 2014
Council Tax	6	■	■	■	■		■			Summary to Audit Committee - April 2014
Business Rates (NDR)	6	■	■	■	■		■			Summary to Audit Committee - April 2014
Benefits	7	■	■							Draft report issued: 03.03.2014
Migration of Data to Northgate	3	■	■	■	■		■			Summary to Audit Committee - September 2013
Debtors	2	■	■							Draft report issued: 18.12.2013
Treasury Management	2	■	■	■	■	■				Summary to Audit Committee - April 2014
<b>Main Financial Systems</b>	<b>36</b>									
Contracts	4	■	■	■	■		■			Summary to Audit Committee - April 2014
Homelessness and Housing Enabling	4	■								47% completed.
Private Sector Housing Renewal	4	■	■	■	■		■			Summary to Audit Committee - December 2013
Customer Services/Cash Collection	2	■								10% completed.
Use of Internet and Email	3	■	■	■	■		■			Summary to Audit Committee - December 2013
ICT / Computer Audit	3									
<b>Other Systems &amp; Audit Work</b>	<b>20</b>									
Data Quality incl. PIs	5	■	■	■	■		■			Summary to Audit Committee - April 2014
Corporate Governance System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Review of the Code of Corporate Governance presented to June 2013 Audit Committee under separate cover. Report to the July 2013 Audit Committee for recommendation to Council of the Annual Governance Statement.

Progress Against the 2013/14 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
Risk Management	2	■	■							Draft report issued: 04.03.2014
Safeguarding Children Shared Services	3	■	■	■	■		■			Summary to Audit Committee - April 2014
Shared Services	5	■	■	■	■		■			Summary to Audit Committee - September 2013
Use of Agency Staff	3	■	■	■	■			■		Summary to Audit Committee - December 2013
<b>Non Financial</b>	<b>23</b>									
Specific Counter Fraud Work	3	■	■	■	■		■			Summary to Audit Committee - April 2014
<b>Counter Fraud</b>	<b>3</b>									
Follow Up of Previous Year's Audits	5	2.4 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	5	5.8 days used	-	-	-	-	-	-	-	Minor control and governance issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies. <ul style="list-style-type: none"> <li>• Review and process of 11 Exemption applications from Contract Procedure Rules;</li> <li>• Additional individual internet and e-mail monitoring as requested my managers;</li> <li>• Audit Commission fraud survey;</li> <li>• Contribution to update of report writing guidance;</li> <li>• Car parking – fee setting governance;</li> <li>• Finance shared service – related work and advice. Share of T18 initially charged in full to SH, to be adjusted at year end;</li> <li>• Letter to member of the public re Planning post, printing and stationery;</li> <li>• Contractors published accounts;</li> <li>• Use of DWP CIS system – advice;</li> <li>• Discretionary Housing Payments;</li> <li>• Audit Commission: Protecting the Public Purse 2013 checklist.</li> </ul>
<b>Follow Up &amp; Contingency</b>	<b>10</b>									

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Progress Against the 2013/14 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
Management & Supervision	13	11.5 days used	-	-	-	-	-	-	-	Planning; Monitoring; Supervision; File Review; Preparing Reports for, and attending, the Audit Committee; Preparing and co-ordinating the Audit Committee workshop; Meetings with the Section 151 Officer; Meetings with the Section 151 and Monitoring Officers; Liaison with the external auditor; etc
<b>Management &amp; Supervision</b>	<b>13</b>									
<b>Overall Total</b>	<b>105</b>									

## Planned Audit 2013/14 – Final Reports

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.

### September 2013 Audit Committee

**Migration of Data to Northgate** 24<sup>th</sup> May 2013 **Good**

**Building Control (Follow Up of 2012/13)** Issued 16<sup>th</sup> July 2013 **Unchanged at Good.**

**Shared Service Recharges** Issued 17<sup>th</sup> July 2013 **Good**

### December 2013 Audit Committee

**Use of Agency Staff** Issued 16.08.2013 **Fair**

**Use of Internet and Email** Issued 06.09.2013 **Good**

**Data Protection &**

**Freedom of Information (Follow Up of 2010/11 Audit)** Issued 23.10.2013 **Data Protection – Fair; Freedom of Information - Good**

**Private Sector Housing Renewal** Issued 29.10.2013 **Good**

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

### April 2014 Audit Committee

Subject	Audit Findings	Management Response
<p><b>Contracts</b> Issued 19.11.2013</p>	<p><b>Good</b> Much work has also been carried out by officers and members to improve management of the contracts, e.g. the Leisure contract repairs and maintenance. These actions have taken the opinion to a low level Good. Areas where controls could be strengthened further include:</p> <ul style="list-style-type: none"> <li>• Monitoring the financial performance of the contractors and Parent Companies for Waste and Grounds Maintenance and reviewing the Performance Bond for Waste Management;</li> <li>• Continuing to make progress on the agreement with the waste contractor on the treatment of Rectification and Default Notices;</li> </ul> <ul style="list-style-type: none"> <li>• Comparing the prices charged for bulky waste collection with other Devon Councils, and considering whether income could be increased. There has been no increase since the start of the contract in 2010; and</li> <li>• With the assistance of the Legal service establish a comprehensive list of all contracts let by the Council and the location of the original contract (to supplement the record held by Legal that they hold in store).</li> </ul>	<p>Managers will contact the Finance &amp; Audit team to arrange for a review of the relevant accounts deposited with Companies House and Legal in relation to the Bond.</p> <p>A Deed of Settlement has been drawn up between the two parties to formalise the trade off between the costs to the Council of the property uplift and the costs to the Contractor of the defaults covering the period 1 April 2011 to 31 December 2012. It also states that months outside of this agreed period can be charged for respectively by both parties. <i>Update: The Deed has been duly signed. We are currently arranging a meeting as per the deed to discuss future arrangements.</i></p> <p>The issue will be raised on the agenda of the Informal Waste Group.</p> <p>The Monitoring Officer will put the issue on the Agenda for the next Risk Management Group for discussion on an approach to be taken.</p>

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

Subject	Audit Findings	Management Response
<p><b>Payroll</b> Issued 27.11.2013 Joint report South Hams District Council (SHDCC)</p>	<p><b>Good</b> The Payroll section is able to meet its objectives in providing accurate payments to staff in a timely manner. There were a number of issues identified during the audit that will improve the controls over the operation of the service.</p> <p><b>Joint</b> - The key issues identified included:</p> <ul style="list-style-type: none"> <li>• Heads of Service are not required to confirm the accuracy of the Establishment in relation to their service;</li> </ul> <ul style="list-style-type: none"> <li>• We noted that a small number of changes to the payroll (e.g. overtime sheets, leavers' forms and deductions) had been authorised by an appropriate person but the list of authorised officers needed to be updated to include this individual.</li> </ul> <p><b>WDBC</b> - The key issues identified included:</p> <ul style="list-style-type: none"> <li>• There are a variety of overtime sheet templates in use across WDBC; and</li> <li>• New employees are required to complete an on-line medical questionnaire which is analysed by an external company on behalf of the Council. Since the previously paper questionnaire moved on-line, the Council has not seen the form and so cannot verify that all questions are appropriate nor whether a data protection statement is included.</li> </ul>	<p>Agreed in principle. However it is felt that not all Heads of Service, particularly those of larger services, would necessarily be aware of what grade and hours all their staff should be on. Most Heads of Service feel that their Middle managers are the more appropriate officers to confirm the accuracy of the Establishment. The regular meetings between Heads of Service and their Finance Buddies to review budgets, as well as the regular reconciliation of the Establishment to the budget, carried out jointly by the Personnel Officer (Resourcing) and the Accountant (SW), are felt to provide more meaningful checks of the accuracy of payroll bills and the establishment.</p> <p>Authorised signatories are to undergo the normal annual review shortly when the position of the officer involved will be re-considered.</p> <p>The template will be emailed directly to those officers who regularly submit timesheets. Agreed to review the on-line form to confirm that all questions asked are appropriate; and, ask the company to confirm that an appropriate data protection statement is included when collecting the data and that the requirements of the Data Protection Act are being met.</p>

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

Subject	Audit Findings	Management Response
<p><b>Safeguarding (Children)</b>            Issued 25.11.2013            Joint report South Hams District Council (SHDC)</p>	<p><b>Good</b>            We have recognised that, in the majority of cases, action has been undertaken by officers to identify and to progress issues identified under the Local Safeguarding Children Boards self evaluation tool.            There were a number of issues identified during the audit that will improve the controls over the safeguarding objectives.</p> <ul style="list-style-type: none"> <li>• The Councils need to raise the profile of safeguarding and include general and specific training for staff and members and the use of a central register; and</li> <li>• We have raised a general reminder to ensure that the Councils include safeguarding as part of its involvement with external service providers.</li> </ul>	<p>We are currently reviewing the files and records held.</p> <p>As identified safeguarding is included in the main procurement process, but only for large contracts. Plans are in place for us to review;</p> <ul style="list-style-type: none"> <li>• Court and council appointed bailiffs and how the Protection from Harassment Act applies;</li> <li>• Safeguarding awareness for temporary contract staff;</li> <li>• Requirements for short term and low value contracts; and</li> <li>• Liaise with legal regarding tendering for contracts and the ongoing review of safeguarding policies and procedures and other contractual obligations with contractors.</li> </ul>
<p><b>Data Quality and Performance Indicators</b>            Issued 17.12.2013</p>	<p><b>Good</b>            We were able to confirm that the method of collection for indicators remains consistent, although there are still some areas where actions are required:</p> <ul style="list-style-type: none"> <li>• The Council's Data Quality Assurance Strategy requires review and update, although management have confirmed action is planned by the end of 2013.</li> <li>• Although the Council's have agreed to stop the recording of some indicators there are still calls by some government departments for these to be completed</li> </ul>	<p>An updated strategy has been drafted and approved by Senior Management Team (SMT).</p> <p>Action plans agreed for a small number of the individual performance indicators.</p>



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

Subject	Audit Findings	Management Response
<b>Treasury Management</b> Issued 18.12.2013	<b>Excellent</b> Controls over Treasury Management investments, and the long-term loan taken out by the Council, are in place and operating satisfactorily.  Management understand that they are being cautious in their approach to investment, which is in most part due to the financial climate.	One minor issue was discussed relating to future storage of records and action agreed.
<b>Counter Fraud Work</b> Issued 06.01.2014	<b>Good</b> We reported further details of the counter fraud work in the Audit Commission checklist 'Protecting the Public Purse 2013', which appears on the agenda of this Audit Committee (April 2014).  A small number of recommendations were made to the relevant managers.	Action plan agreed.
<b>Council Tax</b> Issued 12.02.2014	<b>Good</b> We have given the audit opinion of Good in acknowledgement of the fact that most items in last year's audit reports have been implemented and also that many of the SHDC and WDBC procedures are now aligned. <ul style="list-style-type: none"> <li>• Limited separation of duties;</li> <li>• Access rights were not up to date with several leavers and officers moving within the Councils still having access to the revenues system; and</li> <li>• The need to consider procedures for the timely and efficient review of accounts in credit and the raising of refunds.</li> </ul>	See NDR (Business Rates) below.  It has been agreed that ICT will now remove leavers. Revenues and Benefits are each to independently make regular reviews of access rights to their part of the system.  New procedures have been emailed to staff in Customer Services and Revenues which should improve the efficiency with which credit balances are processed. In addition, checks have been made on credits as part of the 2014/15 billing runs.

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

Subject	Audit Findings	Management Response
<p><b>NDR (Business Rates)</b> Issued 26.02.2014</p>	<p><b>Good</b></p> <p>We have given the audit opinion of Good in acknowledgement of the fact that most items in last year's audit reports have been implemented and also that many of the SHDC and WDBC procedures are now aligned.</p> <p>The main issues raised include:</p> <ul style="list-style-type: none"> <li>• The risks to the Business Rates Pool membership of significant valuation changes to large liability business properties;</li> <li>• Limited separation of duties and the need to consider procedures for the timely and efficient review of long term suppressions, cash transfers and accounts in credit; and</li> <li>• Reviewing, updating and aligning policies and procedures for the granting of discretionary reliefs and for recovery and enforcement.</li> </ul>	<p>The Valuation Office has provided a list of outstanding appeals for both Councils. These have been taken account of when completing the government return NDR1 for 2014/15 (section relating to back dated appeals).</p> <p>The current size of the team does not offer any scope for further separation of duties. However under T18 there may be more opportunities if responsibilities are devolved to other teams.</p> <p>We will try to ensure that we carry out as much monitoring as resources allow, which will include specific areas that confirm the consistency and quality of customer service, as well as cash transfers between accounts and suppressions.</p> <p>Indeed the review of cash transfers between accounts is now up to date.</p> <p>The Revenues Manager will discuss future changes with the Chief Revenue Accountant with a view to moving towards a single process.</p> <p>The intention is to continue with a review of mandatory reliefs in 2014/15.</p>

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

Subject	Comments
<b>Compliance Review of the Code of Corporate</b>	Member report setting out the work done to review the Council's compliance with its Code of Corporate Governance, in line with the CIPFA/SOLACE guidance, presented to the June 2013 Audit Committee. Issues raised are included in the Annual Governance Statement which was presented to the Audit Committee at the meeting of July 2013.
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2013 Audit Committee. The Committee recommended approval of the AGS to the Council. The AGS was published in September 2013, following an update to the Statement at the September 2013 Audit Committee agenda.
<b>Exemptions to Financial Procedure Rules</b>	See table at Appendix A.

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

### September 2013 Audit Committee

Shared Services Recharges 2012/13 - Mainly implemented.

### December 2013 Audit Committee

Use of Internet and Email 2012/13 - Mainly implemented  
 Data Protection & Freedom of Information 2010/11 - Some implementation  
 Private Sector Housing Renewal 2012/13 – Mainly implemented.

### April 2014 Audit Committee

Subject	Comments
Treasury Management - 2012/13	Cleared – no recommendations made.
Business Rates (NDR) - 2012/13	Mainly implemented. 7/19 issues repeated relating to separation of duties and process alignment.
Council Tax - 2012/13	Mainly implemented. 5/14 recommendations repeated mainly in the area of separation of duties and compensating controls.
Data Quality and Performance Indicators - 2012/13	Mainly implemented. Update of the Strategy being the most significant of the 5/20 repeated.
Payroll - 2012/13	Mainly implemented. 4/8 recommendations repeated and included in the summary of the 2013/14 report.

## Planned Audit 2012/13 – Follow Up of Previous Audits by Written Confirmation

Subject	Comments
Main Accounting and Budgetary Control	To be followed up with 2013/14 audit.
Benefits	To be followed up with 2013/14 audit.
Procurement	Revised implantation dates agreed.
Academy to Northgate Migration	Followed up with 2013/14 Council Tax, NDR and Benefits audits.
Inventories	Memo sent, no reply received. Reminder sent and meeting to be arranged.
Creditors	Followed up with 2013/14 audit.
Debtors	Followed up with 2013/14 audit.
Commercial Rents	Memo sent, no reply received. Meeting to be arranged.
Building Control	Follow up with Teignbridge Internal Audit. New report issued with 3 revised implementation dates.
Contract Management (Follow Up of 2011/12 audit)	Some points cleared remainder followed up with 2013/14 audit.
Environment Management	Memo sent. Two revised implementation dates agreed.



# The Audit Plan for West Devon Borough Council

**Year ended 31 March 2014**

15 April 2014

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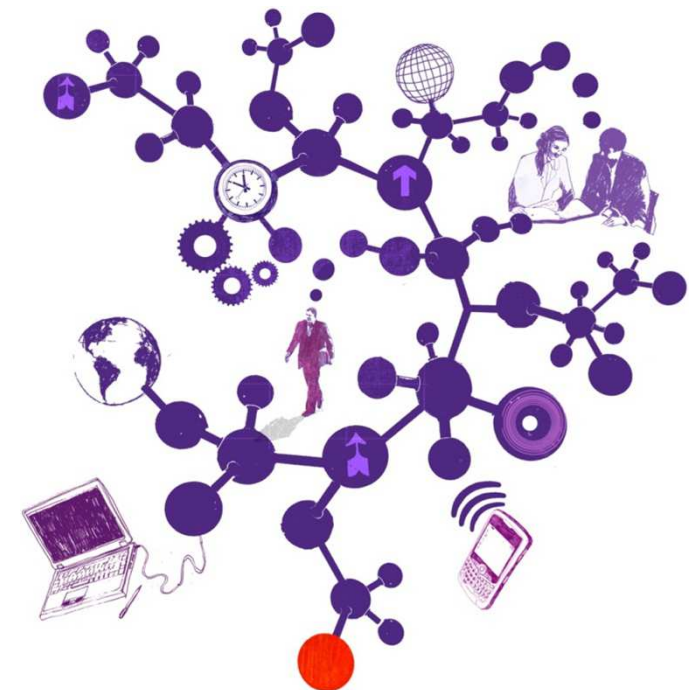
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Agenda Item 29

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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# Contents

## **Section**

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of interim work
8. Value for Money
9. Logistics and our team
10. Fees and independence
11. Communication of audit matters with those charged with governance

## **Appendices**

- A. Action plan

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Transformation programme 2018 (T18)

- The Council, together with South Hams District Council, is currently undergoing transformation under the T18 project.
- Part of that plan is re-design of the management structure which will reduce the joint management team from ten to seven.
- The resulting reduction in capacity will provide a major challenge for both Council's.

### 2. Accounting for NDR

- The introduction of local accounting for National Domestic rates (NDR) introduces a new approach to the treatment of business rates.
- The approach introduces the need to provide for appeals.
- The Council also participates in the Devon NDR pool to help reduce the impact of variances in NDR collected across Devon.

### 3. Achieving savings

- The Council has surpassed its financial plans in recent years. However, the Council faces further reductions in the funding it receives in future years.
- The MTFP recognised a £458k budget gap over the four financial years 2014/15 to 2017/18.

## Our response

- We will :
  - ✓ monitor the Council's progress with T18,
  - ✓ continue to discuss the changes with management; and
  - ✓ review the Council's reporting of achieved savings.

- We will liaise with the Council's finance team to agree:
  - ✓ the Council's approach to specific significant appeals
  - ✓ the presentation in the financial statements;
  - ✓ the assumptions used to provide for appeals; and
  - ✓ the appropriate disclosure of pool arrangements in the financial statements.

- We will review the Council's savings plans as part of our VfM work
- We will review the Council's financial forecasts and estimates as part of our risk planning for the audit of the financial statements
- We will update our assessment of the Council's financial resilience.



# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

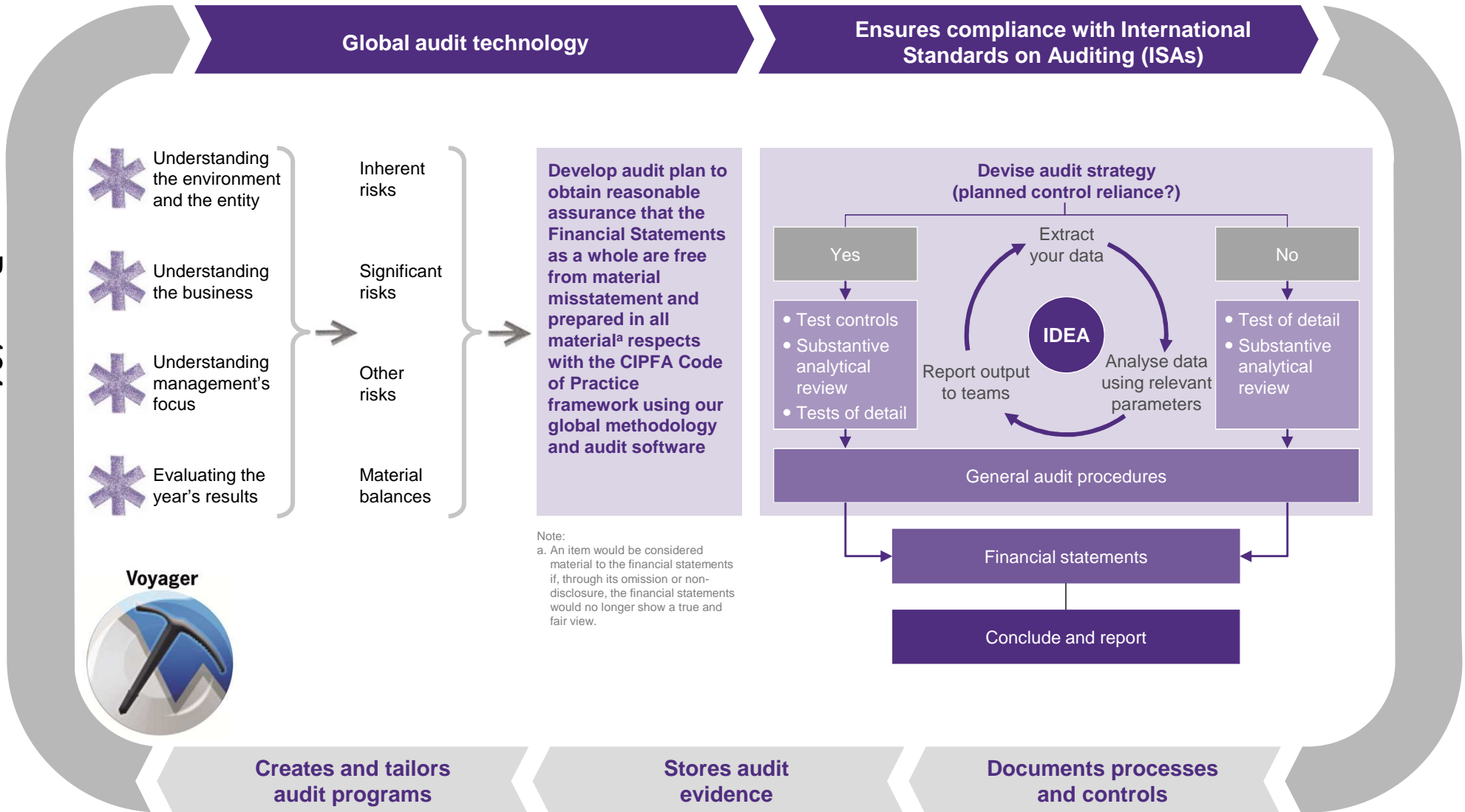
## Developments and other requirements

<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Clarification of Code requirements around PPE valuations</li> <li>• Changes to NDR accounting and provisions for business rate appeals</li> <li>• Transfer of assets to Academies</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>
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## Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements.</li> </ul>
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# Our audit approach



Note:  
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review and testing of revenue recognition policies</li> <li>Testing of material revenue streams</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review and testing of revenue recognition policies</li> <li>Testing of material revenue streams</li> </ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management</li> <li>Testing of journal entries</li> <li>Review of unusual significant transactions</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management</li> <li>Testing of journal entries</li> <li>Review of unusual significant transactions</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transaction</li> <li>• Substantively test a sample of operating expenses</li> </ul>	<ul style="list-style-type: none"> <li>• Agree creditors to the ledger</li> <li>• Review unusual amounts</li> <li>• Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transaction</li> <li>• Substantively test a sample of remuneration transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Predictive analytical review</li> <li>• Reconcile year end HMRC return to ledger</li> <li>• Review unusual amounts</li> <li>• Confirm accounts disclosures</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transaction</li> <li>• Substantively test a sample of welfare claims</li> <li>• Verifying system parameters</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical Review</li> <li>• Review the reconciliation of the housing benefit system to the general ledger</li> <li>• Agree the Housing Benefit claim to the accounts</li> </ul>

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<b>Internal audit</b>	We have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.  We will continue to review the findings of internal audit to inform our audit planning.
<b>Walkthrough testing</b>	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These relate to: <ul style="list-style-type: none"> <li>• Operating expenses and creditors</li> <li>• Employee remuneration</li> <li>• Welfare expenditure.</li> </ul>	From our work we noted that: <ul style="list-style-type: none"> <li>• The operating expenses cycle is working as expected</li> <li>• Payroll is currently delivered under a shared service by South Hams District Council whereby only one member of staff is involved with the monthly payroll, this means there is inadequate segregation of duties. However, we note that there is strong budgetary review of costs that would detect any possible material errors</li> <li>• The welfare benefits cycle is operating as expected.</li> <li>• The property, Plant and Equipment walk through will be completed as part of the year end procedures.</li> </ul>
<b>Review of information technology controls</b>	Our information systems specialist has arranged to perform a review of the general IT control environment in May 2014.	Following completion of this work, we will confirm whether there are any material weaknesses which are likely to adversely impact on the Council's financial statements.

## Results of interim audit work

	Work performed	Conclusion
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses but highlighted two areas where we consider that a change would move the Council arrangements towards best practice (see conclusion/summary).</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first 11 months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that require to be reported.</p>	<p>There are two areas we have identified where arrangements could be moved towards best practice:</p> <ul style="list-style-type: none"><li>• Senior management should not have access to post journals to the accounting system – It was noted that the Head of Finance and Audit has the authorisation to post journal, although no posting were made in the period.</li><li>• Authorisation of journals posted by the Chief Accountants - journals posted by the Chief Accountants, should not be authorised by subordinate members of the finance team.</li></ul> <p>No significant issues were noted from the testing of journal entries to date. Further work will be undertaken to test journal entries for the remainder of the 2013/14 financial year.</p>

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

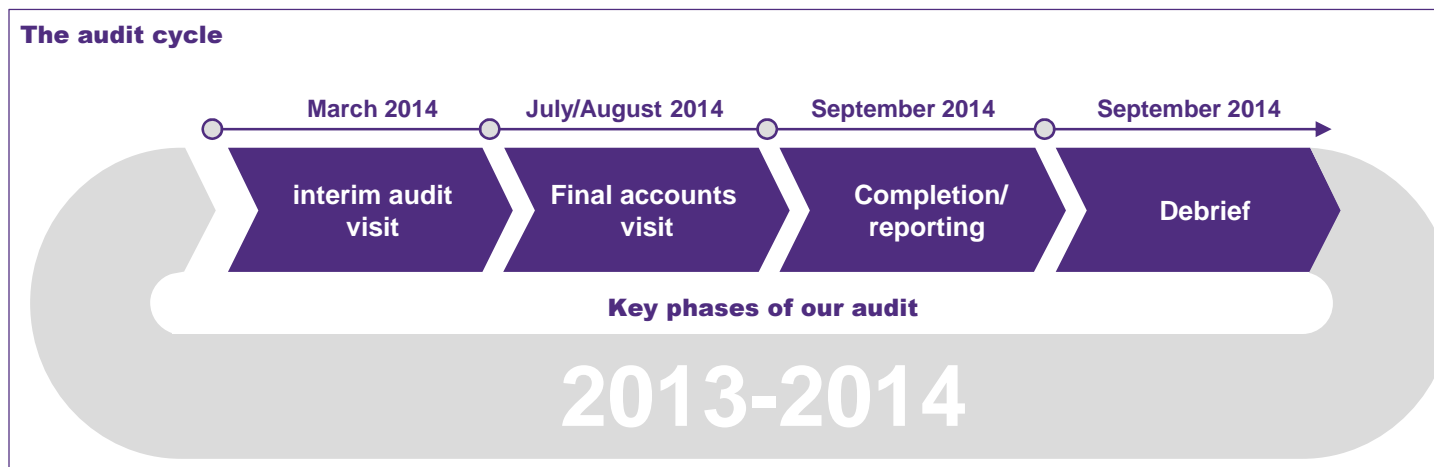
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. As in 2012/13 the Financial Resilience of the Council's finances remains the only risk identified.

We will undertake work to ensure that as well as addressing high risk area it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. We do not plan to undertake any other specific reviews to support our VfM conclusion.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will issue a separate report in respect of Financial resilience.

# Key dates



Date	Activity
January 2014	Planning
17 March 2014	Interim site visit
15 April 2014	Presentation of audit plan to Audit Committee
July/August 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Head of Finance & Audit
September 2014 (TBA)	Report audit findings to those charged with governance (Audit Committee)
September 2014 (TBA)	Sign financial statements opinion



# Fees and independence

## Fees

	£
Council audit	51,628
Grant certification	7,787
<b>Total fees (excluding VAT)</b>	<b>59,415</b>

## Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The Grant certification fee is subject to revision by the Audit Commission to take account of reduced testing required for the audit of NDR and Council Tax Benefit.

## Fees for other services

Service	Fees £
No other services were provided in the year.	nil
<b>Total fees (excluding VAT)</b>	<b>nil</b>

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Appendices

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	There is a lack of segregation of duties in the preparing and processing of payroll.	M	There are compensating controls within the Council that would identify any errors in the processing of payroll	n/a
2	Senior management should not have access to post journals	L	Agreed. Access will be withdrawn.	immediate
3	Journals should not be authorised by subordinate members of staff	L	Disagree. Where possible journals are authorised by the other Chief Accountant. However, at times as a result of leave or sickness the authorisation is delegated to one of the accountants. This is considerate adequate.	n/a



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# Audit Committee Update for West Devon Borough Council

**Year ended 31 March 2014**

15 April 2014

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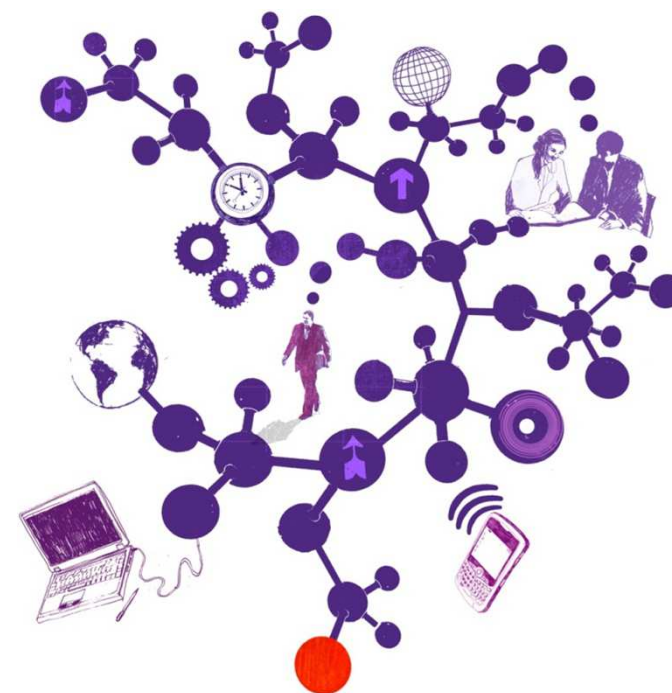
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Agenda Item 2h

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



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# Introduction

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

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

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

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

## Progress at 28 February 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 Accounts Audit Plan</b> 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 2013-14 financial statements.</p>	March 2014	Yes	Audit plan is on the agenda for this meeting.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	Spring 2014	Yes	<p>Work started on the 17 March 2014.</p> <p>Work is completed and our findings are reported in the audit plan.</p>
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council 's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	Summer 2014	Not yet due	The opinion on the Council's statement of accounts and VfM conclusion will be given at the Audit committee meeting in September 2014.

## Progress at 28 February 2014

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b>            We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.</p> <ul style="list-style-type: none"> <li>• <b>The Council has proper arrangements in place for securing financial resilience.</b> 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.</li> <li>• <b>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b> The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</li> </ul>	March to September 2014	Not yet due	The Interim risk assessment has been undertaken. The only significant matter, as in 2012/13, is the Financial Resilience of the Council's finances. The detailed risk assessment work is planned for April 2014.
<p><b>Other areas of work</b>  <b>Grant claims and certification.</b>            We anticipate that the only claim that will require certification for 2013/14 will be the Housing benefit and council tax subsidy.</p>	June 2014 September 2014	Not yet due	The Audit Commission has confirmed that the National non-domestic rates return (NNDR3) no longer requires auditing.

# Emerging issues and developments

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## Councils must continue to adapt to meet the needs of local people

### Local government guidance

#### Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issues to consider:

How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

# Emerging issues and developments

## Councils choosing their auditors one step closer

### Local government guidance

#### Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

#### Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

# Emerging issues and developments

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## Helping the High Street

### Local government guidance

#### Support for UK high streets

On 6 December 2013, the Communities Secretary set out a £1 billion package of support for UK high streets, the stated objectives being to:

- support business and the private sector to have a greater stake in their high streets;
- make it easier to diversify town centres;
- ensure town centres remain accessible to visitors;
- promote the use of technology to modernise town centres.

Key elements of the strategy include:

- a £1,000 discount in 2014/15 and 2015/16 for retail premises with a rateable value of up to £50,000 – including shops, pubs, café and restaurants;
- capping the Retail Price Index (RPI) increase in bills to 2% in 2014/15;
- extending the doubling of Small Business Rates relief to April 2015;
- a reoccupation relief for 18 months with a 50% discount for new occupants of retail premises empty for a year or more;
- assisting business cash flow by allowing businesses to pay their bills over 12 months (rather than 10)

Issues to consider:

- Has the Council assessed the local economic impact of the measures announced by the Communities Secretary?
- Has the Head of Finance & Audit assessed the impact of the measures on the Council's finances and the 2014/15 and 2015/16 budgets?

# Emerging issues and developments

## Councils keep New Homes Bonus

### Local government guidance

#### Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training ;
- Allowing councils outside London to keep all of their **New Homes Bonus** and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

Issues to consider:

- Has your Head of Finance & Audit assessed the implications and potential financial impact for the Council of the help for housing building measures announced in the Autumn statement?



# Emerging issues and developments

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## 79% of Councils anticipate Tipping Point soon

### Grant Thornton

#### 2016 tipping point? Challenging the current

This report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf) is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

#### Issues to consider:

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Has the Head of Finance & Audit completed the checklist and reported it to the Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Head of Finance & Audit reviewed these case studies and considered whether there is scope to adopt these?

# Emerging issues and developments

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## Alternative Delivery Models – are you making the most of them?

### Grant Thornton

#### Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Issues to consider:

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

# Emerging issues and developments

## Welfare reforms – what you think of it so far?

### Grant Thornton

#### Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Issues to consider:

- Has the Head of Benefits kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

# Emerging issues and developments

## Estimating the impact of business rate appeals

### Accounting and audit issues

#### Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Issues to consider:

- Is your Council confident of obtaining the information it needs from the VOA?
- Has your Council recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your Council provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your Council planning to revisit its provision and contingent liability before the audit opinion is issued?

# Emerging issues and developments

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## Reporting the costs of public health

### Accounting and audit issues

#### Changes to SeRCOP – new public health line

SeRCOP for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

Issue to consider:

- Is your Head of Finance & Audit confident that he can provide accurate information and a robust audit trail for the public health line within cost of services?

# Emerging issues and developments

## Accounting for pensions

### Accounting and audit issues

#### Accounting for and financing the local government pension scheme costs

##### Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

##### Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the Council into the pension fund
- the agreement between the actuary and the Council as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a Council agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

# Emerging issues and developments

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## Accounting for pensions

### Accounting and audit issues

Issues to consider:

- Is the Council confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If the Council considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

# Emerging issues and developments

## Changes to the public services pension scheme

### Accounting and audit issues

#### Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Issues to consider:

- Is the Council aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the Council taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the Council liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?





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**NOT FOR PUBLICATION**

**EXEMPT INFORMATION – Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information). Note that ‘person’ may include a corporate body. (Applies to ALL appendices).**

## WEST DEVON BOROUGH COUNCIL

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>15 April 2014</b>
<b>REPORT TITLE</b>	<b>Strategic Risk Assessment - 6 monthly update</b>
<b>Report of</b>	<b>Head of Finance and Audit</b>
<b>WARDS AFFECTED</b>	<b>All</b>

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**Summary of report:**

In accordance with the Joint Risk Management Policy adopted 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, Head of Finance & Audit**

[lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk) or by 'phone on 01822 813644

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**1. BACKGROUND**

- 1.1 The Council at its meeting on 17 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 Head of Finance and Audit.

## **2. STRATEGIC RISK REGISTER**

2.1 The risks currently monitored by SMT are set out in five tables (Appendix 1) as follows:

- Table 1 - Strategic Financial and Asset Risks
- Table 2 - Strategic Management Risks
- Table 3 - Strategic Staffing Risks
- Table 4 - Corporate Issues Risks.
- Table 5 – Transformation Programme 2018

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. The risk tables refer to both shared risks as well as risks affecting only one Council, on the basis that there is a benefit in understanding risks faced across the two organisations and an opportunity to share learning from managing those risks. 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 Appendix 1 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. HIGH RISK ISSUES IDENTIFIED BY SMT**

3.1 Based on SMT's review of the attached risk tables, the high level risks are as follows (i.e. those with a risk score of 16 and above. For more detail please refer to the confidential risk tables attached):

### Strategic Financial and Asset Risks

FA06 (16) – Funding of the future capital programme.

### Strategic Management Risks

MT07 (16) - Management capacity to respond to the level of external demand which is generated by a combination of national policy changes as well as customer/community requirements. This risk also relates to the capacity of staff as identified in ST01 (see below).

### Strategic Staffing Risks

ST01 (20) - Officer capacity to implement the Connect Strategy/associated delivery plans and the Transformation Programme, in tandem with service-based policy development, ongoing project implementation and day-to-day delivery.

ST02 (16) – The potential loss of staff morale, including key staff leaving, coupled with the risk of inadequate provision of resources for training and re-skilling during an ongoing period of significant change.

### Corporate Issues Risks

CI07 (16) - Meeting community expectations in relation to Localism, particularly within the planning process.

CI23 (16) – Compost Protocol changes and the potential impact on recycling performance and costs.

### Transformation Programme 2018

T18 23 (2-25) – Senior Management restructure and the appointment process fails to deliver senior management capability needed to ensure the success of the T18 model.

### Resolved Risks

- 3.2 The Councils retain a register of all the risks that have been judged to have been resolved. These have not been repeated in the Appendices as they are all under a risk score of 16 and are deemed to be resolved. These are kept under review and if the risk score changes they will reappear back on the risk registers.
- 3.3 Members may also wish to note that the strategic political risks associated with major organisational change to embed shared services are now judged by SMT to have largely been mitigated. Therefore the risks in this part of the register are deemed to be low or resolved.

### Transformation Programme 2018

- 3.4 The Transformation Programme 2018 potentially addresses many of the strategic risks facing both the Councils; however a large scale change programme also generates significant risks for the Councils. These are detailed in the report.

#### 4. LEGAL IMPLICATIONS

- 4.1 The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management.
- 4.2 There are no direct legal implications arising from the report although a strategic focus on risk management is good practice.
- 4.3 An assessment has been carried out as to whether the public interest in withholding the information in Appendix 1 outweighs the public interest in disclosing it. For most parts of the Risk Register, the public interest lies in non-disclosure due to the potential commercial/financial/legal nature of some of the risks identified.

#### 5. FINANCIAL IMPLICATIONS

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

#### 6. OTHER CONSIDERATIONS

<b>Corporate priorities engaged:</b>	All
<b>Statutory powers:</b>	None specifically identified.
<b>Considerations of equality and human rights:</b>	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
<b>Biodiversity considerations:</b>	Factored into individual risk assessments where appropriate.
<b>Sustainability considerations:</b>	Factored into individual risk assessments where appropriate.
<b>Crime and disorder implications:</b>	Factored into individual risk assessments where appropriate.
<b>Background papers:</b>	Joint Risk Management Policy.
<b>Appendices attached:</b>	APPENDICES – NOT FOR PUBLICATION Table 1 - Strategic Financial and Asset Risks Table 2 - Strategic Management Risks Table 3 - Strategic Staffing Risks Table 4 - Corporate Issues Risks. Table 5 – Transformation Programme 2018

# Agenda Item 3

At a Meeting of the **AUDIT COMMITTEE** held at the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the 15<sup>th</sup> day of **APRIL 2014** at **11.00 am**.

**Present:** Cllr D K A Sellis – Chairman  
Cllr T J Hill Cllr M Morse

Head of Finance  
Chief Internal Auditor  
Chief Accountant  
Monitoring Officer  
Committee & Ombudsman Link Officer

**In attendance:** Mr B Morris – Grant Thornton  
Mr S Johnson – Grant Thornton

**AC 36 APOLOGIES FOR ABSENCE**

Apologies for absence were received from the Vice-Chairman, Cllr J B Moody, and from Cllr K Ball.

**\*AC 37 GOVERNANCE REVIEW OF THE LOCAL GOVERNMENT PENSION SCHEME**

Mrs C Thompson and Mr D Harris gave a presentation on the Local Government Pension Scheme in Devon.

The Committee was advised that the Pension Scheme through employee contributions and income from long term investments would be able to meet its financial commitments for at least the next 25 years. A note of caution, however, was expressed that with reducing employee numbers through re-organisation across local government meant that pension fund income from contributions reduced.

It was agreed that the presentation document be circulated to all Members and staff of the Council through the Members' Bulletin.

A copy of the presentation is attached to the signed copy of these Minutes.

**\*AC 37 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 11<sup>th</sup> February 2014, were confirmed and signed by the Chairman as a correct record.

**\*AC 38 RESPONSE TO GRANT THORNTON PUBLICATION – AUDIT COMMITTEE UPDATE FOR WEST DEVON BOROUGH COUNCIL; AND UPDATE ON THE FUTURE OF LOCAL AUDIT**

Arising from Minute No CS 35 – 2013/2014, the Head of Finance presented a report (page 7 to the Agenda) on the response to the questions raised by Grant Thornton in their publication – Audit Committee Update for West Devon Borough Council which was presented to the Committee at its meeting in February 2014. The report also sought to update the Committee on the Local Audit and Accountability Act 2014 and the future of Local Audit following the disbandment of the Audit Commission.

During the Committee's meeting in February 2014, Grant Thornton presented their paper – Audit Committee Update for West Devon Borough Council from which the Head of Finance offered to provide the Committee with a formal response to specific questions. The formal response to the questions was presented in Appendix A to the report (page 11 to the Agenda), a copy of which is attached to the signed Minutes.

The Local Audit and Accountability Act 2014 received Royal Assent on 30<sup>th</sup> January 2014 and a summary was presented at Appendix B to the report (page 17 to the Agenda). The key messages were:

- (i) Independent Auditor Appointment Panels (IAP)  
An Audit Committee could only act as an IAP if it already had an independent chairman, although an IAP could draw on an Audit Committee's advice in carrying out its functions. Several authorities could share an IAP.
- (ii) Resignation and removal of auditors  
The regulations set out the process to be followed should an authority wish to remove its auditor, or if an auditor wished to resign.
- (iii) Eligibility and regulations of auditors  
The names of those individuals assessed as competent to take primary responsibility for a local audit, to be published in a local audit register. In mirroring the regulatory framework for statutory audit, the recognised supervisory bodies for local audit will have rules in place and practices which must comply with specific guidance issued by the Financial Reporting Council.
- (iv) Accounts and audit regulations  
There was broad support for maintaining current provisions but also the suggestions for particular improvements to the regulations. The Government also intended to keep public rights of inspection and they constituted important local scrutiny and accountability measures.

The Committee accepted that the requirements on the Council would not be clear until guidelines were issued by Government in May 2014, and asked to be updated at the Committee's next meeting.

It was **RESOLVED** that the report with Appendices A and B be received and noted.

## **AC 39**

### **ANNUAL REVIEW OF THE COUNCIL'S CONSTITUTION**

The Monitoring Officer and the Democratic Services Manager presented a joint report (page 20 to the Agenda) seeking the Committee's approval to request Council approval to adopt the updated Constitution. The Constitution had been amended during the year to reflect that changes that had occurred which had affected the Council and to incorporate any changes necessary to ensure that the Constitution was up-to-date, lawful and reflected the Council's current practices.



The proposed main amendments, as detailed in paragraph 2 of the Officers' report and shown highlighted on the Council's web site, are:

**Part 2 – Article 7: Regulatory and Other Bodies and Part 2 – Article 9: Joint Arrangements:** delete reference to the Shared Services Steering Group and replace it with details relating to the T18 Steering Group.

**Part 2 – Article 10: Officers:** to update the functions of the Monitoring Officer to enable the postholder to make decisions on Standards Complaints in accordance with the adopted procedures, and to extend the range of officers able to sign Council documents to facilitate signing of urgent documents.

**Part 2 – Article 8: Joint Arrangements:** discontinuance of the Shared Services Steering Group and establishment of the Steering Group for the T18 Transformation Programme.

**Part 3 – Delegation Scheme:** to amend the terms of reference of the full Council to make it a requirement for any changes to the political composition of the Council to be reported to the next meeting for noting purposes. In addition, it is suggested that the Audit Committee be assigned responsibility for the Council's Data Protection Policy.

**Part 4 – Financial Procedure Rules:** to amend the rules whereby the lower limits in relation to the urgent use of Acquisitions and Asset Disposals be increased from £25,000 to £50,000 before there is a requirement for any Member involvement. The Committee was advised that this simplified the existing arrangements and the limit above £50,000 remained unchanged, requiring Member approval.

Officers had been advised that a detailed review of the Contract Procedure Rules was required and had commenced, it was proposed that this be carried out during the ensuing months with a report being presented to the Committee's meeting in June 2014.

It was **RESOLVED** to **RECOMMEND** that:

- (i) the proposed amendments to the West Devon Borough Council Constitution as summarised above and in paragraph 2 of the Officers' joint report and highlighted on the Council's web site be approved and adopted; and,
- (ii) Community Engagement and Corporate Planning Framework be transferred from the Community Services Committee to the Resources Committee to enable one committee only to consider the new 'Our Plan' which will replace the Connect Strategy and which will draw together service areas currently under the remit of the separate committees.

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It was **FURTHER RESOLVED** that:

- (i) the need for a detailed review of the Contract Procedure Rules be undertaken and that a report on the review be presented to the Committee's meeting June 2014; and,
- (ii) the Overview & Scrutiny Committee be offered training in relation taking on the responsibility for scrutinising the T18 Programme and providing a quality control function.

**\*AC 40**

**INTERNAL AUDIT: CHARTER & STRATEGY 2014/2015**

The Section 151 Officer and the Chief Internal Auditor presented a joint report (page 24 to the Agenda) requesting the Committee to review and comment on the Internal Audit Charter and Strategy for 2014/2015. Two appendices were presented with the report: Appendix A – The Internal Audit Charter (page 29 to the Agenda); and Appendix B – Internal Audit Strategy 2014/2015 (page 38 to the Agenda).

The Internal Audit Charter (Appendix A), formally Terms of Reference, had been updated having regard to the Institute of Internal Auditors (IIA) 2013 publication "Applying the IIA International Standards to the UK Public Sector", and CIPFA equivalent "Local Government Application Note for the UK Public Sector Internal Audit Standards".

The Internal Audit Strategy 2014/2015 (Appendix B) was a high level statement of how the internal audit service would be delivered and developed in accordance with the Charter and how it linked with organisational objectives and priorities.

The United Kingdom Public Sector Internal Audit Standards (PSIAS) was introduced in 2013 and applied to the whole of the public sector. The PSIAS was based on the Institute of Internal Auditors Standards but with a small number of additional requirements. One such requirement was for the Council to appoint an independent and suitably qualified person to undertake an external assessment of the quality assurance programme. The Committee was advised a number of the Devon Internal audit teams had approached a former Chief Internal Auditor to carry out such work.

It was **RESOLVED** that the Internal Audit Charter & Strategy for 2014/2015 be approved and adopted and that the proposals for an independent assessment as required by the United Kingdom Public Sector Internal Audit Standards be noted.

**AC 41**

**INTERNAL AUDIT PLAN – 2014/2015**

The Chief Internal Auditor and the Section 151 Officer presented a joint report (page 47 to the Agenda) on the proposed Internal Audit Plan for 2014/2015. The Plan, which was presented as Appendix A to the report (page 53 to the Agenda), aimed to make the best use of resources to enable the Chief Internal Auditor to provide an opinion on the adequacy, effectiveness and reliability of the Council's internal control and governance framework. Such work would provide assurance for the Annual Governance Statement.

The Chief Internal Auditor further reported that the internal audit plan was probably now at capacity for the resources available to action it.

It was **RESOLVED** to **RECOMMEND** that the Internal Audit Plan for 2014/2015 as presented at Appendix A, be approved and adopted.

**\*AC 42 CHECKLIST FROM THE AUDIT COMMISSION DOCUMENT: PROTECTING THE PUBLIC PURSE 2013 (FIGHTING FRAUD AGAINST LOCAL GOVERNMENT)**

The Chief Internal Auditor and the Section 151 Officer presented a joint report (page 58 to the Agenda) on the position of the Council in relation to the checklist in the Audit Commission's publication "Protecting the Public Purse 2013 (Fighting Fraud against Local Government) (November 2013)". This was the fifth publication of the checklist.

The fraud return for the Borough Council for 2012/2013 showed that there were 20 benefit fraud cases of which one had a total value of over £10,000 in overpaid benefits. Of the 20 benefit fraud cases, 4 were prosecuted. There were no identified cases of non-benefit fraud.

Presented with the report at Appendix A (page 64 to the Agenda) was the Council's completed Checklist for 2013. The Appendix detailed the Checklist information given in 2012 updated for 2013 and this provided comparable data for Committee scrutiny.

It was **RESOLVED** that the report and Appendix be received and noted.

**AC 43 INTERNAL AUDIT – PROGRESS AGAINST THE 2013/2014 PLAN**

The Chief Internal Auditor presented a report (page 75 to the Agenda) on the principle activities and findings of the Council's Internal Audit team for 2013/2014 up to the end of February 2014. This was the third quarterly report for the 2013/2014 Internal Audit Plan.

Two appendices were presented with the report. Appendix A (page 82 to the Agenda) detailed in tabular form the audits completed, the Internal Audit opinion and comments and those audits in progress but nearing completion. Appendix B (page 85 to the Agenda) detailed the final reports of those audits undertaken and completed. Eight final reports had been issued, seven of which had been rated "Good" with the eighth rated as "Excellent".

The Internal Audit Plan was on course to be completed within the given timeframe.

The Chairman mentioned that some awareness training on safeguarding issues would be welcomed.

It was **RESOLVED** to **RECOMMEND** that the report be noted.

**\*AC 44 THE AUDIT PLAN FOR WEST DEVON BOROUGH COUNCIL**

Grant Thornton presented a report (page 93 to the Agenda) on the audit activity carried out by the Council's external auditors in preparation for the Annual Audit of Accounts. The preparatory work had focussed on risks and two significant risks had been identified and the work to mitigate these risks, both completed and pending, was

detailed in the report at page 99 to the Agenda. Three additional risks of lesser significance had also been identified and work planned to resolve these was set out on page 100 to the Agenda.

It was **RESOLVED** that the external auditor's report be received and noted.

**\*AC 45      AUDIT COMMITTEE UPDATE FOR WEST DEVON BOROUGH COUNCIL**

Grant Thornton presented a report (page 110 to the Agenda) on the progress being made in delivering their responsibilities as the Council's external auditors. The report detailed the planned and completed audit activity as at 21<sup>st</sup> March 2014 and the emerging issues and developments that the Audit Committee should be made aware of.

It was **RESOLVED** that the external auditor's report be received and noted.

**AC 46      STRATEGIC RISK ASSESSMENT – 6 MONTHLY UPDATE**

The Head of Finance and Audit presented a report (page 129 to the Agenda) giving a 6 monthly update on the Council's Strategic Risk Assessment in accordance with the Joint Risk Management Policy adopted by the Council on 17<sup>th</sup> May 2012. The report included the current corporate strategic risk assessment together with a summary of the management and mitigation actions taken or proposed to address the identified risks.

Appendix 1 presented with the report comprised 5 tables and contained exempt information under Paragraph 3 of the Local Government Act 1972 (Section 100(A)(4)). The tables included a summary of mitigating and management actions either undertaken or proposed to manage the identified risks. The tables referred to both shared risks and those affecting only one Council on the basis of the benefit in understanding the risks across both Councils and how they might be addressed.

The Committee's attention was drawn to those risks with a rating of 16 or above as identified by the Council's Senior Management Team and the actions being taken to address those risks. Those risks were alluded to in paragraph 3.1 of the officer's report but given in greater detail within the exempt Appendix 1.

It was **RESOLVED** to **RECOMMEND** that the report and the Appendix be received and noted as presented.

(The Meeting terminated at 1.20 pm.)