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West Devon
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Council

WEST DEVON AUDIT COMMITTEE - TUESDAY, 24TH FEBRUARY, 2015

Agenda, Reports and Minutes for the meeting

Agenda No Item

1. **Agenda Letter (Pages 1 - 6)**

2. **Reports**

Reports to Audit:

- a) Item 5 - Report on Value for Money for West Devon Borough Council (Pages 7 - 26)
- b) Item 6 - Certification Work for West Devon Borough Council for year ended 31 March 2014 (Pages 27 - 30)
- c) Item 7 - West Devon Borough Council Audit Committee Update (Pages 31 - 44)
- d) Item 8 - Protecting the Public Purse - Fraud Briefing 2014 (Pages 45 - 56)
- e) Item 9 - Internal Audit - revision of and progress against the 2014/15 Plan (Pages 57 - 70)
- f) Item 10 - Three Year Internal Audit Plan 2015/16 to 2017/18 and Annual Internal Audit Plan - 2015/16 (Pages 71 - 86)
- g) Item 11 - Internal Audit: Charter & Strategy - 2015/16 (Pages 87 - 108)
- h) Item 12 - Treasury Management Strategy, Minimum Revenue Provision and Annual Investment Strategy for 2015/16 (Pages 109 - 140)
- i) Item 13 - Strategic Risk Assessment - 6 Monthly Update (Pages 141 - 166)

3. **Minutes (Pages 167 - 172)**

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Agenda Item 1

AGENDA – AUDIT COMMITTEE – 24th FEBRUARY 2015

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).

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MINUTES

4. Confirmation of Minutes

Meeting held on 25th November 2014 (previously circulated)

OPERATIONAL

- | | |
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| 10. Three Year Internal Audit Plan 2015/16 to 2017/18 and Annual Internal Audit Plan – 2015/16
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12. **Treasury Management Strategy, Minimum Revenue Provision and Annual Investment Strategy for 2015/16**
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13. **Strategic Risk Assessment – 6 Monthly Update**
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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 (if any).

If any, 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.”

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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

Likelihood	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
Impact						

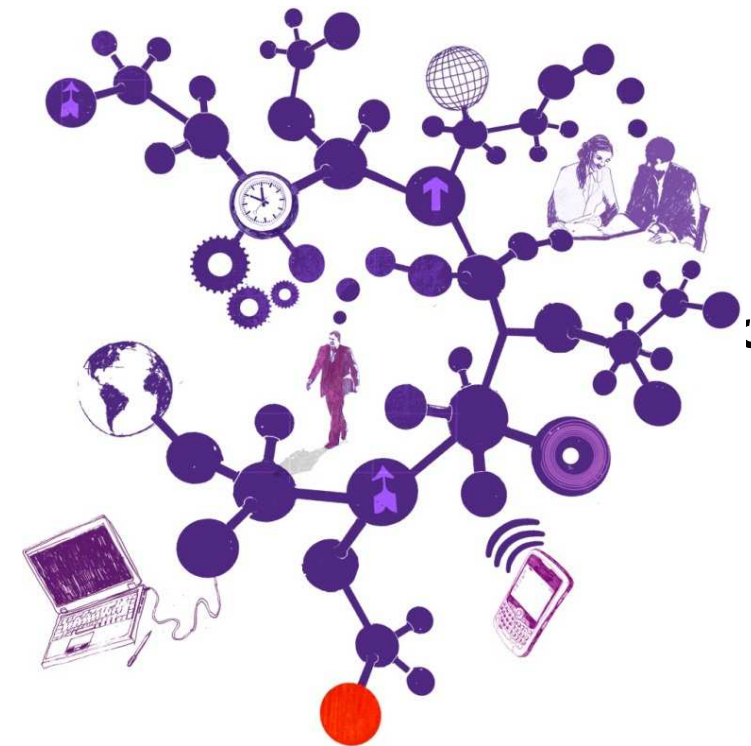
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Report on Value for Money for West Devon Borough Council

Page 7
Year ended 31 March 2014
Report date 25 November 2014

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

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Introduction

What is this report?

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

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

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

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

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report").

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

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

Our approach

The approach involves:

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

Our approach is designed to assess:

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

Introduction

What is this context?

Nationally

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

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

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

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

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

Locally

The Comprehensive Spending Review covering 2015/16 included a number of announcements which impact upon the Council's budget for 2015/16 and beyond. These are summarised below:

- Although it is widely reported that Local Government funding overall will fall by 10% in 2015/16, the DCLG has provided indicative figures which show that in reality, West Devon's government funding will reduce by about 15.5% - this is due to a number of 'top slices' that the Government will make to provide pots of funding for specific areas mostly in the area of social services.
- Council Tax Freeze Grant for 2015/16 was equivalent to a 1% increase. The Council tax referendum threshold remains at 2% for 2014/15 and 2015/16.
- In 2015/16, a £400m top slice of New Homes Bonus will part fund a £2bn economic growth pot for Local Enterprise Partnerships (LEPs) – this will significantly reduce the Council's New Homes Bonus grant from 2015/16 onwards

The Council's gap for 2014/15 is £760k, and for the four years to 2017/18, the cumulative gap is £2.3m. This unprecedented level of reductions is the key reason that achieving value for money is critical to the Council's future plans. The T18 programme being progressed with South Hams District Council is fundamental to the achievement of plans

Executive Summary

Overall Risk Assessment

There were no significant risks identified during our VfM planning.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

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Key findings

Securing financial resilience

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

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

Overall our work highlighted that the Council underspent its budget in 2013/14 by £170k, and has demonstrated that it can achieve its savings targets. The Council's forward-looking financial plan recognises the need for substantial future savings, which will be achieved through the delivery of the T18 transformation programme with South Hams District Council.

The Council has areas of spend, such as housing benefit administration, economic development and planning services, that appear high in comparison with similar councils. This is based on the Value for Money Profile from the 2012/13 accounts. The Council is aware of these through its use of the SPARSE benchmarking and is investigating the reasons for these difference and the scope for any savings.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work highlighted that the Council has:

- prioritised its resources to take account of the tighter constraints it is required to operate within; and
- is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Executive Summary

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

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

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	The Council has a relatively low level of usable reserves. Although this is in accordance with the Council's plans, it does leave the Council vulnerable should it not achieve its planned savings.	Amber
Strategic Financial Planning	The Council has a robust financial planning framework, that has delivered achievable plans in the past.	Green
Financial Governance	The Council has good governance arrangements with robust processes for risk management. However, the revised structure under the T18 programme is, as yet, untested.	Green
Financial Control	Financial control is good. The Council has a history of achieving or exceeding its budgets. However, the recent re-structure of the finance department will see the joint financial systems being controlled with a reduced establishment.	Green
Prioritising Resources	The Council plans to prioritise its use of resources through the successful implementation of the T18 programme, together with South Hams District Council.	Green
Improving Efficiency & Productivity	The successful delivery of the T18 programme should achieve greater productivity and lead to more efficiency across both Council's	Green

Executive Summary

Next Steps

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

Key Indicators

Introduction






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

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

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






Babergh District Council
Craven District Council
Derbyshire Dales district council
Eden District Council
Forest of Dean District Council
Hambleton District Council
Malvern Hills District Council
Melton Borough Council
Mid Suffolk District Council
North Dorset district council
Ribble Valley District Council
Ryedale district Council
South Hams District Council
South Norfolk District Council
Tewkesbury Borough Council

Key Indicators of Financial Performance

Area of focus	Summary observations	Assessment
Council Tax collection	Council tax collection rate was 97.8% in 2013/14 which is an increase on 2012/13.	 Green
NDR collection rates	NDR collection rates were 99.2% in 2013/14 which is also an increase over 2012/13.	 Green
Workforce	<p>The number of days lost to sickness have fallen for 2013/14 Long term sickness has fallen by 69% and is now at the typical level following an increase in 2012/13. Short term sickness has been managed and this has resulted in a reduction of just over 50% from 2012/13.</p> <p>Sickness levels 2012/13 10.32 days per FTE 2013/14 3.93 days per FTE</p>	 Green
Performance against budgets (Revenue Capital & Savings)	<p>The Council underspent its budget in 2013/14 by £170k, and has demonstrated that it can achieve its savings targets. In 2013/14 the Council spent £490k on capital projects against the budgeted spend of £1,480k, the underspend resulted from lower spending on indoor sports and leisure facilities, affordable housing and improvement grants. The capital monitoring report identified that these capital budgets would not be spent in 13/14 and would be carried forward to 14/15.</p>	 Green
Reserves balances	<p>General Fund Revenue Reserves have decreased by £77k, and stand at £953k. This is a level which is considered prudent by the Council and represents over one month of continuing operations. The Medium Term Financial Strategy recommends a minimum level of general fund reserves of £750k</p> <p>Earmarked reserves at the 31 March 2014 were £1,930k having been increased by the contribution to the T18 reserve of £800k to cover the Council's investment into the T18 programme. In addition the Council has £0.743m in a capital receipts reserve which is available to fund future capital expenditure.</p>	 Green

Key Indicators







Audit Commission Key ratios – Overview

Area of Spend	2013/14	2012/13	Average 2012/13	Commentary	Assessment
Working capital ratio	2.25	2.43	3.78	Proportion of current assets to current liabilities. The Council has cover for its current liabilities, although this is less than its nearest neighbours.	 Green
General Fund Balance	£953k	£1,043k	£1,599k	General fund balance is low compared to the average, although the balance represents 34 days expenditure on services.	 Amber
Usable reserves to Gross revenue expenditure	12%	8%	27%	The Council increased its Earmarked reserves in 2013/14 to provide investment into the T18 programme. Although the Council's reserves remain well below the average.	 Amber
Usable capital receipts	£743k	£1,055k	£3,692k	The council has a low level of usable capital receipts.	 Amber
Long term borrowing to tax revenue ratio	0.22	0.25	1.78	The council has a small amount of external debt. Which is easily covered by its tax revenues annually.	 Green

Source – Audit Commission Key ratio profiles

Key Indicators






Audit Commission VfM profile – Overview

Area of Spend	2012/13	Average 2012/13	Quartile	Commentary	Assessment
Total net spend per head	407.16	340.18	Q4	Spending per head of population is above the average. The Council's T18 programme should deliver savings against the net spend.	 Amber
Spend on council tax benefits and housing benefits administration per head	20.58	10.27	Q4	West Devon's costs of collection exceed the family average. This indicator is based on 2012/13 data and the costs of administration has reduced for 2013/14, The T18 programme will continue to make further savings and reductions	 Red
Spend on culture and sport	16.64	31.10	Q1	As for most Devon districts, spending on leisure, culture and sport is below average. This reflects the nature of the area and the availability of alternative leisure opportunities.	 Green
Environmental services	44.64	42.45	Q3	Average costs of net service provision.	 Green
Housing Services	14.42	11.42	Q2	Homelessness is increasing, but costs remain close to average for the family group.	 Green
Sustainable economy	60.13	47.38	Q4	This represents a corporate priority, so spend is in line with expectation.	 Amber

Source – Audit Commission Value for Money profiles






Key Indicators

Audit Commission VfM profile – Financial Resilience





Indicator	2012/13	Average 2012/13	Quartile	Commentary	Assessment
Council Tax requirement	5,279k	5,529k	Q2	Requirement is falling and is below the Group average.	 Green
Income from Sales, Fees and charges as a % of total spend	7.5%	16.9%	Q4	This includes planning, leisure and transport related income. Income is below the average as the Council contracts out its leisure services and therefore does not collect the income direct.	 Amber
Reserves as a % of net current expenditure	7.7%	24.9%	Q4	The level of reserves are relatively low, but above the minimum level determined by the Council.	 Amber
Spend on management and support	22.8%	49.3%	Q2	The Council's spend on management is less than the average.	 Green
Net spend on Council tax collection per head	3.62	4.52	Q1	Costs of collection are above average.	 Amber

Source – Audit Commission Value for Money profiles







Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	The MTFP is in place and the funding gap is identified and monitored. Options are explored during the budget setting process. These do consider degrees of delivery, The MTFS provides a financial framework for the Council's strategic planning and decision making, it incorporates key factors such as the changes in Government funding, spending plans and the level of savings that are likely to be needed to keep Council Tax affordable.	 Green
Adequacy of planning assumptions	The assumptions used in the setting of the MTFP are clearly set out, however, there is no realistic scenario planning, to explore the sensitivity of the assumptions. Options are explored during the budget setting process but these do consider degrees of delivery, true scenario planning would estimate the effects of parts of the proposed savings plan not occurring. The Council will consider this as part of the process in setting out the future MTFP's.	 Amber
Scope of the MTFP and Links to Annual Planning	The annual budget is derived from the MTFP and is completed as part of the updating of the forecasts. The MTFP covers a five year horizon and planning starts in the summer, nine months before the start of the financial year, and following discussions and consultation the annual budget and council tax is set in February.	 Green
Review process	<p>The Council monitors delivery on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end position.</p> <p>Capital and Revenue budgets are included and the report analyses any expected variances, together with any corrective actions identified.</p>	 Green
Responsiveness of the Plan	The plan is updated annually. The annual budget is monitored and flexed at each quarterly update.	 Green





Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	<p>The annual financial planning process involves members. The reporting of the progress and results are explained to members as part of the reporting progress. Members receive some financial training.</p>	 Green
Executive & Member Engagement	<p>Members of the Management team attend full Council and relevant committees (e.g. Audit Committee and Resources Committee), and financial detail is timely and accurately presented .</p> <p>The MTFP is presented to full Council, following the discussion by the Resources Committee. Members and officers are consulted on the identification of savings.</p> <p>The new structure under the T18 joint arrangements is untested. careful monitoring is needed to ensure the arrangements continue to deliver effective governance.</p>	 Green
Overview for controls over key cost categories	<p>The leadership team are aware of current financial position and future implications as covered in key reports. Quarterly monitoring of the financial position demonstrates that there is control over costs and income.</p> <p>The Council makes use of SPARSE data and as a rural authority are aware of the higher costs of delivering services.</p>	 Green
Budget Reporting (Revenue & Capital)	<p>The Council monitors delivery on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end position.</p> <p>Capital and Revenue budgets are included and the report analyses any expected variances, together with any corrective actions identified.</p>	 Green




Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring - revenue & capital	<p>The MTFP is monitored on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end position.</p> <p>Capital and Revenue budgets are included and the report analyses any expected variances, together with any corrective actions identified.</p>	 Green
Savings plans setting & monitoring	<p>Savings identified are all continuing, there are no items of a one-off nature. Cash flow is not a part of the Financial projections. However short term finance is available to cover any cash flow fluctuations. Long term savings are being driven by the T18. transformation programme.</p>	 Green
Adequacy of Internal audit arrangements	<p>As part of the re-structuring process, Internal Audit management has been outsourced to the Devon audit partnership from October 2014. This has ensured the continuity of the in-house audit team, whilst achieving some savings, as anticipated by the T18 stage 1 plan.</p>	 Green
External audit conclusions	<p>External audit have not raised any high priority recommendations over internal or financial controls in recent years.</p>	 Green
Finance department resourcing	<p>The council is currently re-organising the Finance department to cover the joint provision of services with South Hams District Council. This is part of T18 project, which has re-engineered all the processes. Appointments have been made and the process of relocating and integrating the provision is underway. The merged department will see the joint financial systems being controlled with a reduced establishment.</p>	 Green
Assurance framework/risk management processes	<p>Risk management is reported to the Audit committee on a regular basis and is discussed by members.</p> <p>The assurance framework, including the preparation of the Annual Governance Statement, has been reviewed and was found to be robust.</p>	 Green

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Leadership and challenge in prioritising resources	<p>Members have received a series of reports on 'Meeting the Financial Challenge' and following approval of 2013-14 budget, immediately started work on developing the strategy to close the budget gap from 2014-15 onwards. T18 project empowers management and leaders to change the way the Council (and South Hams) operates to achieve large savings across South Devon. The project has started and the phase 1 has begun with 30% reduction in finance staff."</p> <p>T18 demonstrated a wide ranging challenge to both councils deliverance of all services. Monitoring gives opportunities to flex the plan depending on changing circumstances. Although there is no benchmarking to judge activity, feedback from services is used to measure success of plans."</p>	 Green
Consultation with key stakeholders	<p>The savings exercise was done with extensive input at service level. Managers and their staff had to buy into the process in order to achieve the outcomes. This will be tested over the various phases of the T18 project.</p>	 Green
Basis for decision making	<p>Key partnership is with South Hams DC and the agreed T18 project is based on a thorough understanding of the resources available for both Councils. The Council does not plan to rely on quick fixes or one-off savings to bridge the budget gap. The T18 Programme has been set up to ensure sustainable delivery of services in, whilst achieving the necessary level of savings.</p>	 Green
Understanding impact and outcome of decisions	<p>T18 is being monitored closely and any unintended consequences should be identified early. Appropriate actions will be undertaken to address any issues. The quarterly performance and Revenue and Capital budget monitoring reports detail current position and the impact of the Council's decisions.</p>	 Green

Improving Efficiency & Productivity

Area of focus	Summary observations	RAG-Rating
Understanding costs	<p>The Council makes use of SPARSE data and as a rural authority is aware of the higher costs of delivering services. The Council has visited other Councils with significant shared services such as Vale of White Horse to carry out specific benchmarking. Whilst there are no systematic comparisons made by the Council, it is part of the SPARSE network and uses the data that is produced to measure its services.</p>	 Green
IT Systems and Data quality	<p>Neither Internal audit or the external auditor has raised concerns over the operation of the IT systems. Neither has there been any issues raised over the quality of the Council's data.</p>	 Green
Delivery of savings and service re-design	<p>The Council has achieved its Identified savings over the last three years. Future savings plans on achievable outcomes. The T18 project covers the efficiency plan savings which are identified and quantified. Monitoring reports are delivered regularly to Committees and the Resources Committee.</p> <p>The Council has not used its reserves to fund its Revenue budget in 2013/14. In recent years the budget has always been achieved.</p> <p>The T18 programme is viewed as the primary driver to achieve the savings required by the Council. The organisation transformation is calculated to deliver 30% of the net revenue budget for both council's.</p>	 Green

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Grant Thornton

Lisa Buckle
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30 January 2015

Dear Lisa

Certification work for West Devon Borough Council for year ended 31 March 2014

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

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

We have certified one claim for the financial year 2013/14 relating to expenditure of £14.1 million. Further details of the claims certified are set out in Appendix A.

There was only one issue arising from our certification work that we wish to highlight for your attention, this is included at Appendix A. In all other respects, we are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2013/14 for the Council is based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. The indicative scale fee set by the Audit Commission for the Council for 2013/14 was £6,600 (£8,090 in 2012/13). Due to the additional testing that we were required to undertake, we sought authorisation from the Audit Commission to increase the fee charged to £7,500. This was approved. Certification fees are detailed in Appendix B.

Testing of Non-HRA rent rebate cases identified one case where backdating had been applied, yet no request to backdate had been received. No loss of subsidy accrued. This resulted in additional testing on the remaining population that could be affected by the error, no further errors were identified. As a result of the additional testing an additional fee has been requested from the Audit Commission.

Yours sincerely

Barrie Morris
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£14,063,232	Yes	Nil	Yes	<p>The Council does not update all the system parameters each year, specifically for types of claim for which that no cases are expected, e.g. Polygamous marriages.</p> <p>However, in order to ensure a claim, if received, is not miscalculated, all amounts should be updated on the system at the start of the year.</p>

Appendix B: Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 expected fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	8,090	6,600	7,500	-590	Additional £900 as a result of additional testing.
National non-domestic rates return (NNDR3)	2,560	n/a	n/a	-2,560	No requirement to certify this return in 2013/14
Total	10,650	6,600	7,500	-3,150	

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West Devon Borough Council Audit Committee Update

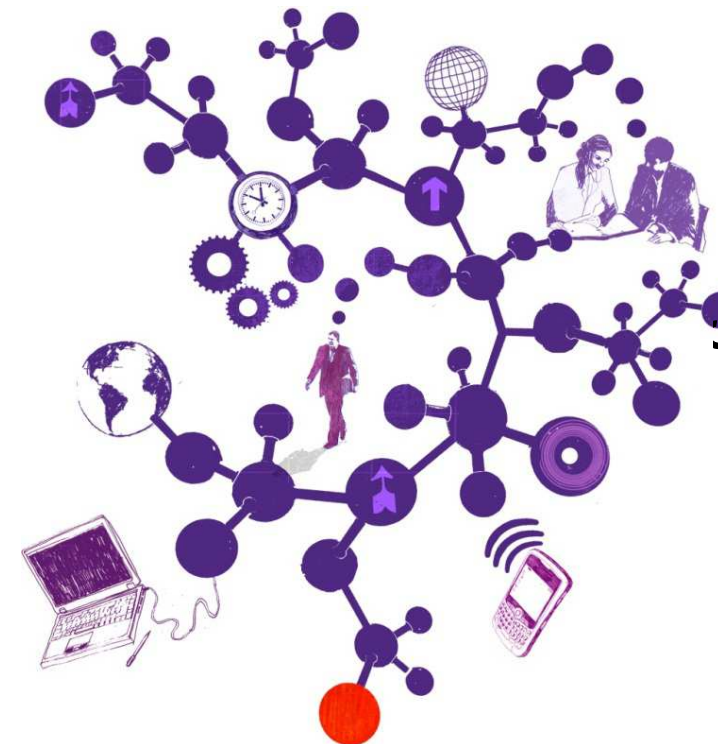
Year ended 31 March 2015

24 February 2015

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Agenda Item 2c

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

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Introduction

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

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

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- **Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities**
- 2020 Vision, exploring finance and policy future for English local government
- Pulling together the Better Care Fund
- Where growth happens, on the nature of growth and dynamism across England

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.

Barrie Morris	Engagement Lead	T 0117 305 7708	barrie.morris@uk.gt.com
Steve Johnson	Audit Manager	M 07880 456134	steve.p.johnson@uk.gt.com

Position at 23 January 2015

Work	Planned date	Complete?	Comments
<p>2014/15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014/15 financial statements.</p>	28 April 2015.	In progress	Initial planning work is currently being undertaken to enable the audit plan to be presented at the April Audit Committee.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed work for the Value for Money conclusion. 	January to April 2015.	In progress	Our initial review of the Council's control's and our early substantive testing will be undertaken between January and April 2015.
<p>2014/15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2015	Not yet due	The audit of the 2014/15 financial statements will be undertaken between July and September 2015 and reported to the September Audit Committee to meet the 30 September 2015 deadline.

Position at 23 January 2015 (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises a review of whether the Council has:</p> <ul style="list-style-type: none"> • proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. • proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. 	February 2015 to September 2015.	Not yet due	<p>An interim risk assessment will be made as part of the Audit planning in February 2015.</p> <p>The detailed work will continue through to September 2015, when we are required to give our VfM conclusion.</p>
<p>Certify the Council's WGA accounts</p>	September 2015.	Not yet due	To be completed as part of the final accounts audit
<p>Grant claims and certification.</p> <p>We anticipate that the only claim that will require certification for 2014/15 will be the Housing benefit and council tax subsidy claim.</p>	June 2015 to November 2015.	Not yet due	Work will commence in June 2015 and will be completed by November 2015.

Rising to the challenge

Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

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

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

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

Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>.

The reports asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

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

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Issue for consideration:

- What plans has your s151 Officer put in place to address the earlier close date?

Management response:

- A detailed timetable for the 2014-15 Closedown of Accounts process is in place and this will be reviewed to see where earlier deadlines could be achieved in future years.

Financial sustainability of local government

Local government guidance

In November the National Audit Office published their report on the [Financial Sustainability of Local Government](#).

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

Kerslake report on Birmingham City Council

Local government guidance

Sir Bob Kerslake published his report, [The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council](#), on 9th December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

Page 42.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.
- The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.
- Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.
- In moving from a 20,000 people organisation in 2010 to a 7,000 people one by 2018 the Council needs fit for purpose workforce planning.
- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midland MBCs to make the combined authority a reality that delivers jobs and prosperity to the region.

Issue for consideration:

- Has West Devon Borough Council considered whether there are lessons or issues from the report that it also needs to action?

Management response:

- The Council will review the Kerslake report on Birmingham City Council to address this recommendation.

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December 2014.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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Protecting the Public Purse

Fraud Briefing 2014

West Devon Borough Council



Purpose of Fraud Briefing



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



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



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



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

Understanding the bar charts

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



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



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

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

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

Comparator group

Babergh
Craven
Derbyshire Dales
East Devon
Eden
Exeter
Forest of Dean
Hambleton
Malvern Hills
Mid Devon
Mid Suffolk
North Devon
North Dorset
Ribble Valley
Ryedale
South Hams
South Norfolk
Teignbridge
Tewkesbury
Torrige
West Devon

Interpreting fraud detection results



Contextual and comparative information needed to interpret results



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



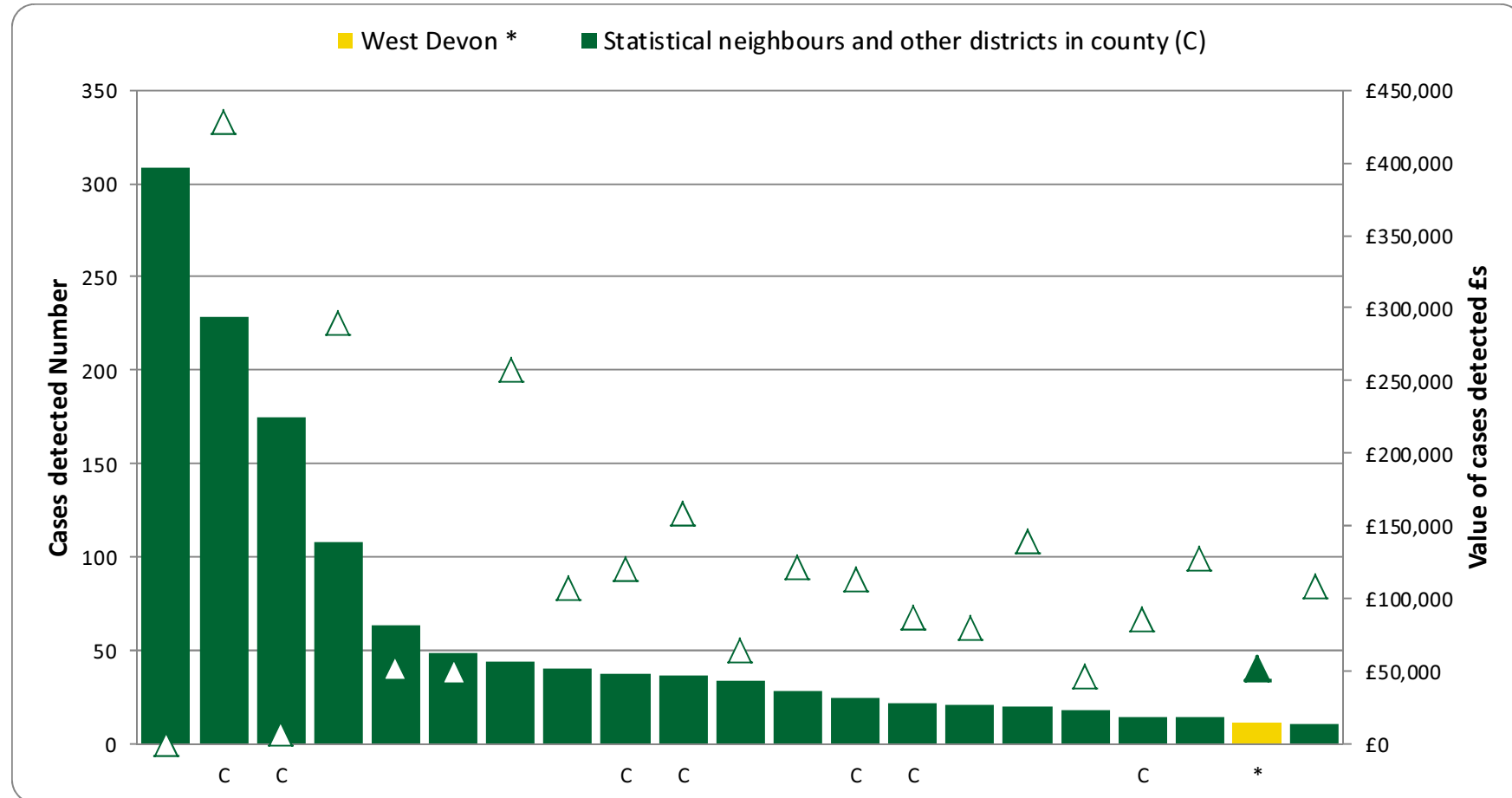
No fraud detected does not mean no fraud committed (*Fraud will always be attempted and even with the best prevention measures some will succeed*)



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

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

West Devon



West Devon detected 12 cases of fraud. The value of detected fraud was £51,932.
Average for statistical neighbours and county: 65 cases, valued at £122,447



Councils without housing stock 2013/14

Housing tenancy fraud

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

Second largest fraud loss to local government, £845 million

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

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

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

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

Other frauds 2013/14 West Devon

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

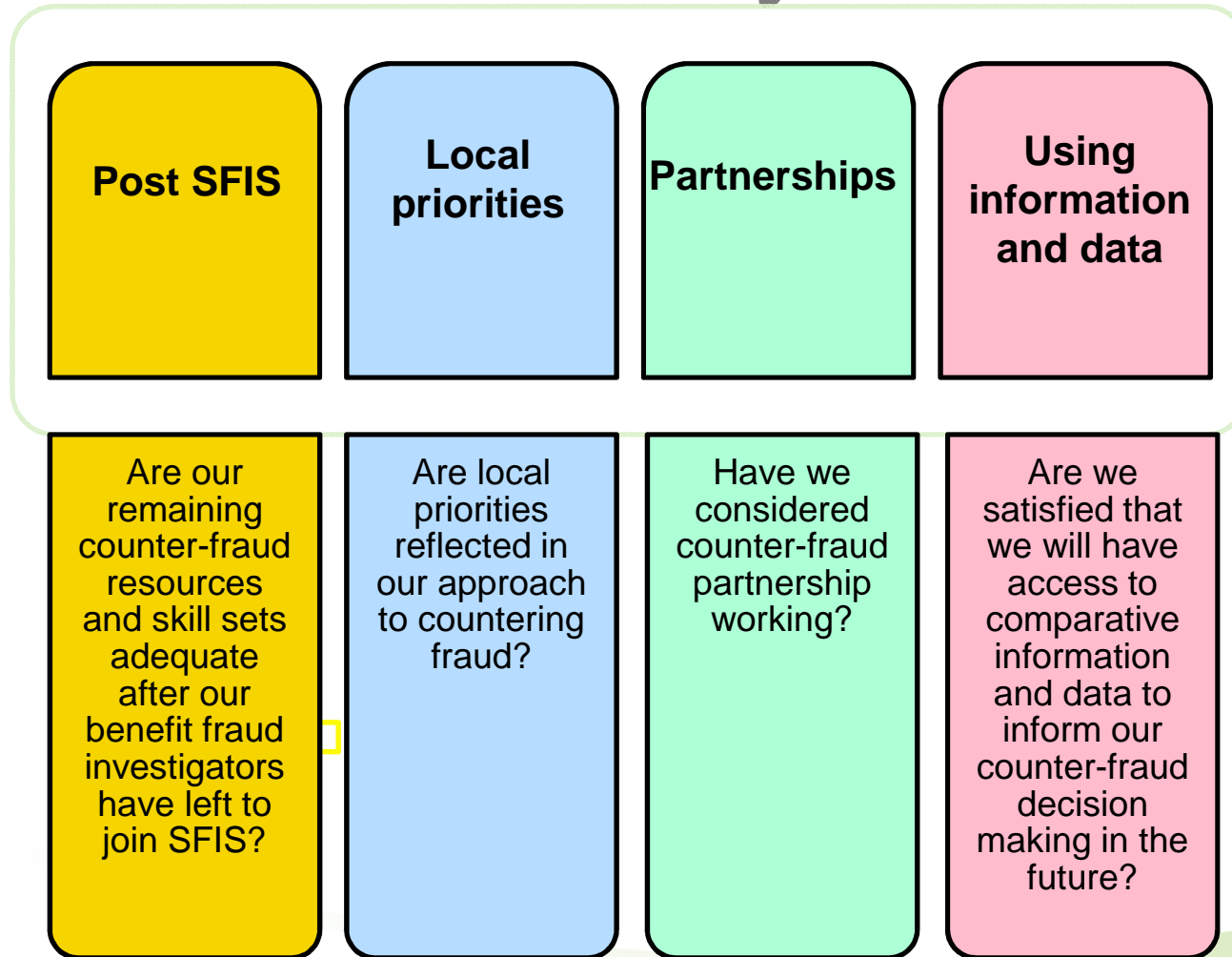
Insurance: West Devon did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 0 cases

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

Internal: West Devon did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 12 cases, valued at £7,506

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

Questions elected members and decision makers may wish to ask



Any questions?



NAME OF COMMITTEE	Audit Committee
DATE	24th February 2015
REPORT TITLE	Internal Audit – Revision of and Progress Against the 2014/15 Plan
Report of	Head of Devon Audit Partnership
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2014/15 to the 31st December 2014, by:

- Highlighting the need to revise the internal audit plan for 2014/15 to reflect the impact of the T18 Transformation Programme blueprinting;
- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2014/15 annual audit plan, reviewed by this Committee in April 2014.

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:

It is recommended that the Audit Committee considers the revision of the 2014/15 Internal Audit Plan and the progress made against it and makes any relevant recommendations to Council.

Officer contact:

For further information concerning this report, please contact:

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robert.hutchins@swdevon.gov.uk

Lisa Buckle, S.151 Officer

1. BACKGROUND

- 1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference *AC 40 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 2014/15 and was approved by the Audit Committee in April 2014 (Minute reference *AC 40 refers) and covers:

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

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

Audit Plan 2014/15

- 2.1 The 2014/15 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2014 (minute reference AC 41 refers).

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

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated either through the contingency days or by changes to the plan, depending on the significance.

Resources and Skills

- 2.3 Sickness to the 31st December is 1 day (2013/14 equivalent 0 days).

Progress against the Plan

- 2.4 The 2014/15 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.
- 2.5 **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

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

Fraud, Corruption, Bribery and Whistle Blowing

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

Internal Audit Performance Indicators

- 2.9 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2014/15.
- 2.10 At this stage in the year, the key indicator 'Completion of 2014/15 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2013/14 combined audit plan.	95	100	As reported to the Audit Committee June 2014. (West Devon 100%)
Audits at the 31st December 2014 at various stages of completion from 2014/15 revised audit plan and their 2013/14 equivalents.			
WDBC	73%	70%	Considered to be "on target"

Internal Audit – Shared Service

- 2.11 The following has been achieved so far this financial year:

Shared service with West Devon

- Progress on the 2014/15 audit plan reported to the West Devon Audit Committee. A growing number of audits are being completed across the two sites at the same time e.g. recharging shared service costs.

Working with Devon Audit Partnership (DAP)

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

3. LEGAL IMPLICATIONS

- 3.1 Statutory Powers: Accounts and Audit Regulations 2011.

4. FINANCIAL IMPLICATIONS

- 4.1 None, within existing budgets.

5. RISK MANAGEMENT

- 5.1 The risk management implications follow this table:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2011
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	CIPFA 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.
Appendices attached:	Appendix A: Audit Plan 2014/15 Appendix B: Planned Audit 2014/15 – 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.	Head of Devon Audit Partnership
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.	Head of Devon Audit Partnership

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.	Head of Devon Audit Partnership
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.	Head of Devon Audit Partnership

Direction of travel symbols ↓ ↑ ↔

West Devon Borough Council - Progress Against the 2014/15 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	4									
Creditor Payments	2									
Payroll	5	■	■					■		Draft report issued November 2014
Council Tax	6	■	■	■	■			■		See commentary below
Business Rates (NDR)	6	■	■	■	■			■		See commentary below
Benefits	7	■	■					■		Draft report issued 8 Jan 2015
Housing Benefit Debtors	2	■	■					■		Draft report issued 8 Jan 2015
Treasury Management	2	■								Audit fieldwork commenced
Main Financial Systems	34									
Recruitment	0	X	X	X	X	x	X	X	x	Was 2 days. Removed from Plan.
Community Safety and Emergency Planning	2	■	■	■	■			■		Summary to Audit Committee - September 2014
Private Sector Housing Renewal	4	■	■	■	■			■		See commentary below
Car Parking	4	■								Audit fieldwork commenced
Capital Expenditure & Receipts	0	X	X	X	X	x	X	x	x	Was 4 days. Removed from Plan.
ICT / Computer Audit	3									
Local Welfare Support	2									
Use of Internet and Email	3	■	■	■	■			■		Summary to Audit Committee - September 2014
Development Control	4									
Data Quality incl. PIs	5	■								Strategy only.

West Devon Borough Council - Progress Against the 2014/15 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	3									
Corporate Governance System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Review of the Code of Corporate Governance presented to June 2014 Audit Committee under separate cover. Reports to the July and September 2014 Audit Committee for review and approval of the AGS.
Shared Services	5	■	■	■	■		■			See commentary below
Sustainability	4	■	■	■	■		■			Summary to Audit Committee - September 2014
T18 Transformation Programme	5	3 days used								
Specific Counter Fraud Work	3	■	■							Draft report issued 13/11/14
Follow Up of Previous Year's Audits	5	3 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	5	3 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"> • Review and process of 3 applications for Exemption from Contract Procedure Rules (CPR); • Update of CPRs for June Audit Committee; • Audit Commission fraud survey; • Letters to Grant Thornton; • Advice on new Temporary Accommodation Charging Policy; • T18 various; • Counter fraud publicity; • Additional individual internet and e-mail monitoring as requested my managers.
Other Systems & Audit Work (Revised)	62									

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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	8	8 days used	-	-	-	-	-	-	-	Planning; Monitoring; Supervision; File Review; Preparing Reports for, and attending, the Audit Committee; Audit Committee workshop; Meetings with the Section 151 Officer; Meetings with the Section 151 and Monitoring Officers; Liaison with the external auditor; etc
External Management & Supervision	8	5 days used	-	-	-	-	-	-	-	Preparing monitoring reports and presenting to committee. Audit plan for 2015/16.
Total (Revised)	16									

Overall Total (Revised)	112									
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Planned Audit 2014/15 – 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.

Planned Audit 2014/15 – Final Reports (continued)

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

Subject	Audit Findings	Management Response
<p>Private Sector Housing Renewal</p>	<p>Audit Opinion Good</p> <p>Conclusions Work is more or less complete in aligning processes and procedures for managing and administering mandatory and discretionary grants and loans across WDBC and SHDC. Officers continue to review opportunities to work more efficiently whilst still delivering a high quality service to customers.</p> <p>Our testing found that controls over the evaluation and payments of Disabled Facilities Grants and discretionary Private Sector Housing Renewal grants and loans are working satisfactorily, with an anti-fraud emphasis. We have concluded that there was no evidence of fraudulent grant applications within the sample reviewed.</p> <p>The level of completion, accuracy and review of files remains generally satisfactory, although we did identify a number of minor administrative errors at both Councils (for example, although expected financial checks had been completed, there was no evidence (in one instance) that this had been checked by a second officer).</p> <p>These minor errors appear to have arisen during a period when newly appointed officers in the BSU were learning procedures. Errors have reduced as the officers have gained greater experience, but we have reported them in order that senior officers can ensure that the misunderstanding of some processes does not persist.</p>	<p>The findings in the audit report have been agreed.</p> <p>Staff involved in the process have been verbally reminded of the need to adhere to procedures and guidance / training has been provided where required.</p>

Subject	Audit Findings	Management Response
<p>Shared Services</p>	<p>Audit Opinion Good</p> <p>Conclusions The recharging of salary and travel costs between the two authorities continues to be calculated correctly, with some non material errors. During 2013/14 WDBC recharged SHDC £932,000 and SHDC recharged WDBC £1.87m.</p> <p>Some errors for 2013/14 in the order of £9,000 were identified and reported to the relevant finance officers at both authorities, but these were not material and would not have a significant impact on the overall value of recharged costs. The errors have been corrected for 2014/15.</p> <p>We raised some issues in our report, the most significant areas being:</p> <ul style="list-style-type: none"> • Expanding further the analysis and sharing of expenditure for items such as agency staff, public transport, training, recruitment, continuing professional development, and other administration costs; • A policy for the recharging of ICT is to be further developed to ensure that existing arrangements are robust. 	<p>The findings in the Audit report have been Agreed</p> <p>All costs (including those referred to) will be considered to determine if they need to be included in re-charges and how costs will be shared.</p>

Planned Audit 2014/15 – Work Complete (No Audit Report)

Subject	Comments
Compliance Review of the Code of Corporate Governance	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 2014 Audit Committee. Issues raised are included in the Annual Governance Statement which was presented to the Audit Committee at the meeting of July 2014.
System of Internal Control (SIC), and Annual Governance Statement (AGS)	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2013 Audit Committee. The Council of the 22 nd July 2014 agreed to amend the constitution to allow the Audit Committee to approve the AGS on behalf of the Council. The AGS was published in September 2014, following an update to the Statement reported with this Audit Committee agenda.
Exemptions to Financial Procedure Rules	See table at Appendix A.

Planned Audit 2014/15 – Follow Up with 2014/15 Audits

September 2013 Audit Committee

Subject	Comments
Internet and Email Use – 2013/14	Mainly implemented. 2/10 recommendations repeated, the most significant of which concerns a revised policy on internet and email usage.

Planned Audit 2014/15 – Follow Up of 2013/14 Audits

Subject	Comments
Private Sector Housing Renewal	Confirmed implemented, and taken to annual audit July 2014.
Data Protection and Freedom of Information	Memo sent, no reply to date. Meeting to be arranged.
Use of Agency Staff	Memo sent, one reply to date. Meeting to be arranged with other officers.

NAME OF COMMITTEE	Audit Committee
DATE	24th February 2015
REPORT TITLE	Three Year Internal Audit Plan 2015/16 to 2017/18 and Annual Internal Audit Plan - 2015/16
Joint Report of	Head of Devon Audit Partnership, and S.151 Officer
WARDS AFFECTED	All

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 proposed internal audit plan for the coming three years (2015/16 to 2017/18) and proposed annual internal audit plan for 2015/16.

It is not possible, or an effective use of time and resources, to audit all areas each year; as a result a three year plan is prepared to show which areas are expected to be audited and those areas which are considered (at this moment at time) of lower risk and which are not scheduled for audit review.

The internal audit plans (both three year and in-year) should not be seen as “tablets of stone”; both plans will be subject to both in-year and annual reviews to ensure that those key areas of risk and change are reflected within the plans.

The plan aims to optimise the use of the limited and finite audit time available and enable the Head of Devon Audit Partnership 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 the Audit Committee:

1. considers and notes the content of the three year Internal Audit Plan for the period 2015/16 to 2017/18 (see Appendix A) and make any relevant recommendations to Council; and,
2. considers and notes the content of the Annual Internal Audit Plan for 2015/16 at Appendix C and make any relevant recommendations to Council

Officer contact:

For further information concerning this report, please contact:

Robert Hutchins, Head of Devon Audit Partnership Robert.hutchins@swdevon.gov.uk

Lisa Buckle, S.151 Officer and Finance Community of Practice Lead

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 2015/16 accompanies this plan but under separate cover.

2. THREE YEAR INTERNAL AUDIT PLAN 2015/16 TO 2017/18

2.1 A 3-year plan has been drawn up to cover the period 2015/16 to 2017/18; this is provided at Appendix A

2.2 As stated earlier, it is not possible, or an effective use of time and resources, to audit all areas each year and so the Head of Devon Audit Partnership is expected to prepare a longer term plan to show how higher risk areas will be

subject to audit. To reflect the increased pace of change in local government, a three year plan has been prepared to cover the coming period; a 5-year plan had previously been prepared covering the period 2010/11 to 2014/15.

- 2.3 It is important to note that the internal audit plans (both three year and in-year) are not fixed and should be the subject of regular review to reflect changes in risk and any new challenges and threats faced by the Council.
- 2.4 The three year plan reflects the reduced level of internal audit resource following the T18 review; in simple terms resources have reduced from around 115 days per year (for the period 2010/11 to 2013/14) to around 100 days. The plan is designed to optimise the use of the limited and finite audit time available and enable the Head of Devon Audit Partnership 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.
- 2.5 The three year plan has been arrived at after preparing and risk assessing an "audit universe". The purpose of the universe is to identify all service areas, risks, systems, and expected and known changes, and to consider which areas should be subject to internal audit review.
- 2.6 As referred to above, it is most unlikely that any organisation will which to allocate internal audit resources at a level which will enable all auditable areas to be identified each year; as such a longer term plan is prepared to ensure key risks are audited over a three year period..

3. AUDIT RISK ASSESSMENT AND AUDIT PLAN

- 3.1 Appendix A provides the audit universe as identified in January 2015; the universe is subject to regular update and change.
- 3.2 After identifying the relevant systems and processes an assessment of risk is applied, based on a statistical methodology derived from an Institute of Internal Auditors approach. This takes account of:-
 - Expenditure – scale of spending and complexity with regards this spending
 - Income - scale of income and complexity with regards collecting this income
 - Impact on the public, perceived political sensitivity and system changes in the recent past
 - When last audited and the overall assurance opinion from that audit
 - Impact of internal audit – can audit "add value" in this area?
- 3.3 The resulting risk score is shown in the second column of the table shown at Appendix A

- 3.4 However, when preparing the plan, regard must be taken of other factors that affect the overall assurance framework. Some systems or risk areas are expected to be subject to annual internal audit review regardless of the risk score (for example risk management processes, anti fraud and corruption arrangements); other areas, such as those referred to as significant financial systems, are expected to be audited on a regular, usually annual or bi-annual basis but may not be assessed as “high risk”. The plan is also affected by external influences such as the requirements to support the External Auditor or other inspection regimes.
- 3.5 Once areas referred to in 3.4 above have been accommodated and planned for a balance of resource will be available that should be allocated to address the remaining areas of highest risk. Not all high risk areas will be able to be covered in one year, and so the audit plan considers these risks over a three year basis. There are, however, a number of systems that have been scored at a lower risk level and are (currently) not subject to internal audit review in the coming three year period.
- 3.6 Internal Audit resources are then allocated to subject areas. These allocations will take account of the assessed risk, but the days of input are also subject to internal audit experience in “how long an effective audit should take”. Not all procedures or controls may be covered during the audit; the actual audit brief will be agreed, in advance, with the operational manager and will focus on those areas of concern / risk in that subject areas.
- 3.7 The overall percentage of internal audit coverage proposed for each area of the audit plan is represented in Appendix B.

4 Annual Audit Plan 2015/16 (Appendix C)

- 4.1 The 2015/16 annual plan has been developed from the 3-year Audit Plan.
- 4.2 The 2015/16 audit plan also sets out the proposed audit resource allocated to each audit area, 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.

5. LEGAL IMPLICATIONS

- 5.1 In accordance with the Constitution, it is the responsibility of the Audit Committee to consider the internal audit plan for the forthcoming year (Appendix C).
- 5.2 There are no direct legal implications of the internal audit plan.

6. FINANCIAL IMPLICATIONS

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

7. RISK MANAGEMENT

7.1 The risk management implications follow this table:

Corporate priorities engaged:	The report meets all of the corporate priorities
Statutory powers:	Accounts and Audit Regulations 2011 Section 54 of the Local Government Act 1972
Considerations of equality and human rights:	There are no considerations required of equality and human rights for this report
Biodiversity considerations:	There are no biodiversity considerations for this report
Sustainability considerations:	There are no sustainability considerations for this report
Crime and disorder implications:	There are no crime and disorder considerations for this report
Background papers:	Internal Audit Charter and Strategy 2015/16
Appendices attached:	Appendix A – Proposed Three Year Internal Audit Plan 2015/16 to 2017/18 Appendix B – pictorial representation of Internal Audit resources by subject area over the proposed three year period 2015/16 to 2017/18 Appendix C- Proposed detailed internal Audit Plan for 2015/16.

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>	Head of Devon Audit Partnership 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>	Head of Devon Audit Partnership 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	↔	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.	Head of Devon Audit Partnership 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	↔	An assessment of risk was applied to an 'Audit Universe', based on a statistical methodology that took account of the: <ul style="list-style-type: none"> • Value of transactions; • Complexity of the system; • Impact on Public & Political sensitivity; • Last audit and audit opinion 	Head of Devon Audit Partnership and S.151 Officer

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Direction of travel symbols ↓ ↑ ↔

West Devon Borough Council - Internal Audit Risk Assessment and Planning 2015/16 to 2017/18						
	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan			
			2015/16	2016/17	2017/18	
SIGNIFICANT FINANCIAL SYSTEMS						
MAIN ACCOUNTING SYSTEM, incl BUDGETARY CONTROL	29	M	•	•	•	
CREDITOR PAYMENTS	25	M	•	•	•	
VAT	36	H	•			
PAYROLL (Inc. PAYE)	26	M	•	•	•	
COUNCIL TAX incl Parish Precepts	34	H	•	•	•	
BUSINESS RATES (NNDR)	25	M	•	•	•	
BENEFITS (C.TAX + HOUSING)	41	H	•	•	•	
DEBTORS	38	H		•	•	
TREASURY MANAGEMENT	18	L		•		
SECONDARY SYSTEMS						
CASH & BANKING	28	M	•			
PROCUREMENT AND CONTRACT MANAGEMENT	4	L		•	•	
CAPITAL EXPENDITURE	40	H			•	

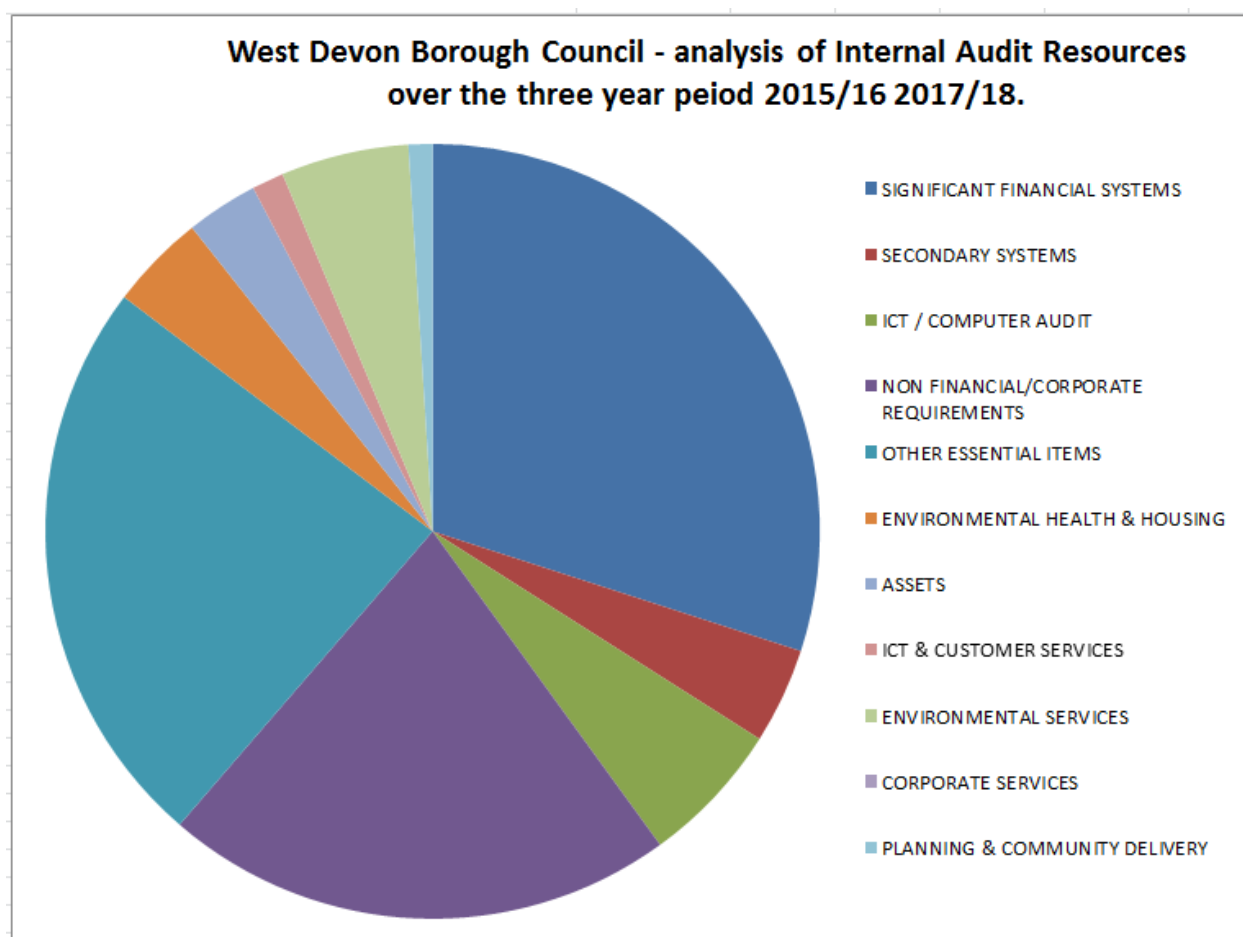
	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
ICT / COMPUTER AUDIT					
Detailed plan to be prepared		H	•	•	•
NON FINANCIAL/CORPORATE REQUIREMENTS					
NIs PIs & DATA QUALITY	Annual		•	•	•
HEALTH & SAFETY					
RISK MANAGEMENT - KEY RISKS AS PER RISK REGISTER	Annual		•	•	•
- RISK 1					
- RISK 2					
FREEDOM OF INFORMATION / DATA PROTECTION (incl records man & complaints)					
SHARED SERVICES		M			•
PARTNERSHIP MANAGEMENT		H	•		
HUMAN RESOURCES (Recruitment, retention, reward, use of consultants etc.)		M		•	
SUSTAINABILITY					
T18 TRANSFORMATION PROGRAMME		H	•	•	•
FRAUD AND CORRPUION	Annual		•	•	•
SAFEGUARDING					•

	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
OTHER ESSENTIAL ITEMS					
AUDIT OF GOVERNMENT GRANTS - RURAL COMMUNITY LAGS	Annual				
FOLLOW UP OF PREVIOUS YEAR'S AUDITS	Annual		•	•	•
CORPORATE GOVERNANCE - ANNUAL GOVERNANCE STATEMENT	Annual		•	•	•
AUDIT MANAGEMENT / ATTENDANCE AT COMMITTEE	Annual		•	•	•
CONTINGENCY	Annual		•	•	•
ENVIRONMENTAL HEALTH & HOUSING					
COMMERCIAL ENFORCEMENT	21	M	•		
ENVIRONMENTAL PROTECTION	19	L		•	
GENERAL HEALTH SERVICES - Inc Taxi & Licensing	24	M		•	
LICENSING - TAXI'S ETC - include in General Health above	14	L			
LICENSING - ENTERTAINMENT & LIQUOR	15	L			
PEST CONTROL	12	L			
COMMUNITY SAFETY	10	L			
CIVIL CONTINGENCIES ACT	12	L			
HOUSING ENABLING	19	L			
PRIVATE SECTOR HOUSING	20	M			•

	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
ASSETS					
ASSETS - INVENTORIES	12	L			
ASSET MANAGEMENT	12	L			
COUNTRYSIDE RECREATION & MANAGEMENT	16	L			
LEISURES CENTRES	38	H	•		
OUTDOOR SPORTS & RECREATION	13	L			
EMPLOYMENT ESTATES	15	L			
ENGINEERING	12	L			
BUILDING REGULATIONS	23	M	•		
BUILDING CONTROL	20	M		•	
ICT & CUSTOMER SERVICES					
HOMELESSNESS / AID & ADVICE / HOSTELS	38	H		•	
ENVIRONMENTAL SERVICES					
CAR PARKING	48	H	•		•
PUBLIC CONVENIENCES	21	M		•	
DOG FOULING	13	L			
WASTE MANAGEMENT	41	H	•		
INDUSTRIAL UNITS	11	L			
STREET CLEANING	21	M		•	

	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
CORPORATE SERVICES					
ELECTORAL REGISTRATION	18	L			
PLANNING & COMMUNITY DELIVERY					
BUSINESS DEVELOPMENT	16	L			
TAMAR VALLEY MINING PROJECT	10	L			
DEVELOPMENT MANAGEMENT	19	L			
FORWARD PLANNING	21	M			•
GRANTS, BEQUESTS & DONATIONS	11	L			
PUBLIC TRANSPORT ASSISTANCE	15	L			
COMMUNITY DELIVERY	12	L			

Summary Analysis of West Devon Borough Council	
Internal Audit plan 2015/16 and beyond	<u>Percentage of Total Time</u>
SIGNIFICANT FINANCIAL SYSTEMS	30%
SECONDARY SYSTEMS	4%
ICT / COMPUTER AUDIT	6%
NON FINANCIAL/CORPORATE REQUIREMENTS	21%
OTHER ESSENTIAL ITEMS	24%
ENVIRONMENTAL HEALTH & HOUSING	4%
ASSETS	3%
ICT & CUSTOMER SERVICES	1%
ENVIRONMENTAL SERVICES	5%
CORPORATE SERVICES	0%
PLANNING & COMMUNITY DELIVERY	1%



		Appendix C
West Devon Borough Council - Internal Audit Risk Assessment and Planning 2015/16		
Description	Risk Factor Total	Proposed Internal Audit Resources (Days) 2015/16
SIGNIFICANT FINANCIAL SYSTEMS		
MAIN ACCOUNTING SYSTEM, incl BUDGETARY CONTROL	29	4
CREDITOR PAYMENTS	25	4
VAT	36	4
PAYROLL (Inc. PAYE)	26	4
COUNCIL TAX incl Parish Precepts	34	4
BUSINESS RATES (NNDR)	25	4
BENEFITS (C.TAX + HOUSING)	41	6
SIGNIFICANT FINANCIAL SYSTEMS - TOTAL		30
SECONDARY SYSTEMS		
CASH & BANKING	28	3
SECONDARY SYSTEMS - TOTAL		3
ICT / COMPUTER AUDIT		
Detailed plan to be worked up		6
ICT / COMPUTER AUDIT - TOTAL		6
NON FINANCIAL/CORPORATE REQUIREMENTS		
NATIONAL INDICATORS / PERFORMANCE INDICATORS & DATA QUALITY	Annual	5
RISK MANAGEMENT - KEY RISKS	Annual	5
PARTNERSHIP MANAGEMENT		3
T18 TRANSFORMATION PROGRAMME		4
FRAUD AND CORRPUTION	Annual	5
NON FINANCIAL/CORPORATE REQUIREMENTS - TOTAL		20
OTHER ESSENTIAL ITEMS		
FOLLOW UP OF PREVIOUS YEAR'S AUDITS	Annual	4
CORPORATE GOVERNANCE - ANNUAL GOVERNANCE STATEMENT	Annual	3
AUDIT MANAGEMENT / ATTENDANCE AT COMMITTEE	Annual	7
CONTINGENCY	Annual	8
OTHER ESSENTIAL ITEMS - TOTAL		24
ENVIRONMENTAL HEALTH & HOUSING		
COMMERCIAL ENFORCEMENT	21	4
ENVIRONMENTAL HEALTH & HOUSING TOTAL		4
ASSETS		

LEISURES CENTRES	38	3
BUILDING REGULATIONS	23	3
ASSETS TOTAL		6
ENVIRONMENTAL SERVICES		
CAR PARKING	48	4
WASTE MANAGEMENT	41	3
ENVIRONMENTAL SERVICES TOTAL		7
TOTAL WEST DEVON AUDIT PLAN 2015/16		100

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WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	24th February 2015
REPORT TITLE	Internal Audit: Charter & Strategy – 2015/16
Joint Report of	Head of Devon Audit Partnership S.151 Officer
WARDS AFFECTED	All/Corporate

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 2015/16.

For West Devon Borough Council (and South Hams District Council) internal audit management is provided by Devon Audit Partnership; the Head of Devon audit Partnership liaises with senior management and the audit committee on all internal audit matters.

The standards for proper practice for internal audit are contained in the Public Sector Internal Audit Standards (PSIAS) (Institute of Internal Auditors and CIPFA). The audit team work to a regularly updated 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 this report, with the Charter attached at Appendix A and 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 2015/16.

Officer contact:

Robert Hutchins Head of Devon Audit Partnership

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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 (PSIAS) and guidance as issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in their Local government Application Note (LGAN).
- 1.3 The audit team comply with a regularly updated Audit Manual which sets out the standards and procedures expected of the team.
- 1.4 The Public Sector Internal Audit Standards, the LGAN and Audit Manual require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval.

2. INTERNAL AUDIT: CHARTER 2015/16 - Appendix A

- 2.1 The 2015/16 Charter reflects the CIPFA '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 2015/16 - 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 include:
 - Internal Audit objectives and outcomes;
 - How the Head of Devon Audit Partnership 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.

Corporate priorities engaged:	All
Statutory powers:	Section 111 Local Government Act 1972; and Accounts and Audit Regulations 2011.
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	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 & South Hams District Council Internal Audit Manual - 2014
Appendices attached:	Appendix A – Internal Audit Charter; Appendix B – Internal Audit Strategy 2015/16

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>	Head of Devon Audit Partnership
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>	Head of Devon Audit Partnership

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Direction of travel symbols ↓ ↑ ↔



West Devon Borough Council

Internal Audit

Charter 2015/16

West Devon Borough Council **Internal Audit Charter 2015/16**

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 West Devon Borough Council, the Finance Community of Practice (COP) Lead is currently 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 2015/16**

- 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 Head of Devon Audit Partnership 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.

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Status of Internal Audit

The position of Internal Audit in the organisation should reflect the influence internal audit has on the control environment. Internal audit 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 Head of Devon Audit Partnership should immediately be informed. A record of any interest shall be recorded in the Council's register of such interests. The Head of Devon Audit Partnership shall, thereafter, assess the need to arrange for alternative arrangements to carry out the assignment.

Should an internal audit contractor be 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 Head of Devon Audit Partnership, who will:

- Be appropriately qualified;
- Determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;

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- Produce a Strategy to explain how the service will be delivered and reflect the resources and skills required by the Head of Devon Audit Partnership 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 Head of Devon Audit Partnership is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

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

In addition the Head of Devon Audit Partnership 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 assess risk and establish effective controls to mitigate this risk so that its activities are conducted in an efficient and well ordered manner.

The scope of Internal Audit work should cover the whole system of control, financial and otherwise, are established by management to:

- Safeguard its assets;
- Ensure reliability of records;
- Promote operational efficiency; and
- Monitor adherence to policies and directives.

If the Head of Devon Audit Partnership 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.

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The Head of Devon Audit Partnership 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 Head of Devon Audit Partnership will agree appropriate access rights in order to obtain the necessary assurances.

Audit Planning

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

The Head of Devon Audit Partnership will prepare a risk-based audit plan designed to implement the Audit Strategy.

In preparing the plan, the Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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 on the activities intended. This includes responsibility for managing the risk of

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fraud and other illegal acts and informing the Head of Devon Audit Partnership when fraud is suspected or identified.

The Head of Devon Audit Partnership 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 prevented or 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:

- To give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment;

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- 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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;
- Present an annual report on the effectiveness of the system of internal audit; and

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- 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 Head of Devon Audit Partnership 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 be developed; the programme should be informed by 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership'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 Head of Devon Audit Partnership 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 2015/16

West Devon Borough Council **Internal Audit Strategy 2015/16**

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 refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For West Devon Borough Council, the role of Chief Internal Auditor is provided by the Head of Devon Audit Partnership via a contracted arrangement.

The PSIAS require the Head of Devon Audit Partnership 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 Charter 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 Head of Devon Audit Partnership will form and evidence his or her opinion on the governance, risk and control framework 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 governance, risk and control 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 Head of Devon Audit Partnership 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 3-years, prioritised through a risk assessment;
- Translating the 3-year audit plan into an annual plan by reassessing the risk for each audit area against emerging risks and the Council's Risk Registers;
- 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; and
 - 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 governance, risk and control framework as a contribution to the System of Internal Control and Annual Governance Statement.

Opinion on the Governance, Risk and Control Framework

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 governance, risk and control framework, 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 Head of Devon Audit Partnership copied to this officer. Regular formal meetings should also be held to discuss issues arising and other matters.

The Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership'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;
- (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 Head of Devon Audit Partnership 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 3-year plan; annual plan and individual audit reviews.

Prioritising the 3-year plan is completed using a risk assessment scoring methodology that takes account of: the £k value; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. 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, other related 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);
- 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.

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Provision of Internal Audit

The Internal audit for West Devon Borough Council is provided by way of a shared service arrangement with South Hams District Council.

The Internal Audit service is managed through a contractual arrangement with the Devon Audit Partnership. Audit delivery is predominantly delivered 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 Head of Devon Audit Partnership has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. 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 Head of Devon Audit Partnership should have in place an internal 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 internal 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 Head of Devon Audit Partnership 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;
- 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;

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Internal Audit Strategy 2015/16

- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self assessment); and
- 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

	<u>Current Target, and, Frequency of Measure</u>
➤ Achievement of the annual audit plan.	95% Quarterly
➤ Percentage of draft audit reports issued within 10 working days of the completion of the audit.	95% Annually
➤ Percentage of final audit reports issued within 10 working days of the discussion and agreement of the draft audit report.	95% 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
➤ Overall cost, with/without oncosts/recharges	£ Annually
➤ Average cost per audit day: direct costs, and with/without oncosts/recharges.	£ Annually £ 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.	90% Annually

Once collated the indicators must be reported to the S.151 Officer on either a quarterly 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 Head of Devon Audit Partnership 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.

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; and
- The Head of Devon Audit Partnership 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 Internal Audit team, shared with South Hams District Council consists of 2 whole time posts; the team is managed through a contractual arrangement with the Devon Audit Partnership.

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 Head of Devon Audit Partnership.

Dealing with Resource Issues (such as instances of Alleged Fraud and Corruption).

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.

In extreme cases 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 Head of Devon Audit Partnership must discuss the situation with the S.151 Officer to enable a decision to be made. Such a decision may be to seek additional temporary resources, to defer audits to a future year or other solutions. The same comment applies to other staffing shortages brought about by long term sickness absence, vacant posts etc.

Skills

The Head of Devon Audit Partnership's duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for

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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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership will allocate work to reflect the skills and experience required for the specific task, although it is essential that a balance is struck between 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 Devon Audit Partnership or other neighbouring Councils or the external auditor.

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

NAME OF COMMITTEE	AUDIT
DATE	24 February 2015
REPORT TITLE	Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy for 2015/16
Report of	Finance Community of Practice Lead (Section 151 Officer)
WARDS AFFECTED	All

Summary of report:

This report seeks approval of the proposed Treasury Management and Investment Strategies together with their associated prudential indicators.

Financial implications:

Good financial management and administration underpins the entire strategy. The budget for investment income for 2015/16 has been set at £40,000.

RECOMMENDATIONS:

That the Audit Committee resolves to **RECOMMEND** to **Council** approval of the following:

1. The prudential indicators and limits for 2015/16 to 2017/18 contained within Appendix A of the report.
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2015/16 and the treasury prudential indicators 2015/16 to 2017/18 contained within Appendix B.
4. The Investment Strategy 2015/16 (Appendix C) and the detailed criteria included in Appendix D.

Officer contact:

Lisa Buckle, Finance Community of Practice Lead
lisa.buckle@swdevon.gov.uk

1. BACKGROUND

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The Chartered Institute of Public Finance & Accountancy (CIPFA) defines treasury management as:

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

2. REPORTING REQUIREMENTS

- 2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. Regular reports on treasury management monitoring are provided to the Audit Committee. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Committee before being recommended to Council. This role is undertaken by the Audit Committee.
- 2.2 **Prudential and Treasury indicators and Treasury Strategy** (this report) – The first and most important report covers:
- The capital plans (including prudential indicators);
 - A Minimum Revenue Provision Policy
 - The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - An Investment Strategy (the parameters on how investments are to be managed).
- 2.3 **A Mid Year Treasury Management Report** – This will update members on whether the treasury function is meeting the strategy or whether any policies require revision.

2.4 **An Annual Treasury Report** – This provides details of the treasury indicators and actual treasury operations compared to the estimates within the strategy.

3. **TREASURY MANAGEMENT FOR 2015/16**

The strategy for 2015/16 covers two main areas:

3.1 **Capital Issues**

- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) policy

3.2 **Treasury management issues**

- The current treasury position
- Treasury indicators which will limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy (including borrowing in advance of need)
- Debt rescheduling
- The investment strategy
- Creditworthiness policy; and
- Policy on use of external service providers

4. **LEGAL IMPLICATIONS**

4.1 The elements set out in paragraph 3.2 cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code, the Department for Communities and Local Government (DCLG) Investment Guidance and the DCLG MRP Guidance. The Council nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This was agreed at Council on 25th February 2010 and formed part of the revision to the Council's Constitution in April 2010.

4.2 **Balanced Budget Requirement** – It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to set a balanced budget. The treasury management function will comply with this requirement.

5. **FINANCIAL IMPLICATIONS**

5.1 Good financial management and administration underpins the entire strategy. The budget for investment income for 2015/16 is £40,000

5.2 The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a near risk free investment strategy, has meant a significant drop in the level of investment income that supports the revenue budget.

5.3 As at 31/3/2014 (Balance Sheet position), the Council had £3,630,000 in investments. The Council's investments can fluctuate up to a level of £6 million during the year due to the timing of cash flows. Falling interest rates have had a significant impact on the Council's finances. For example, in 2007/08 we had investment income of £720,000, but for 2015/16 this is estimated at £40,000 a reduction of £680,000.

6 RISK MANAGEMENT

6.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's corporate priorities.
Statutory powers:	Local Government Act 1972, s148(5)
Considerations of equality and human rights:	N/a
Biodiversity considerations:	N/a
Sustainability considerations:	N/a
Crime and disorder implications:	N/a
Background papers:	Audit Committee 11/02/14 – TMS & Annual Investment Strategy 2014-15 Audit Committee: 23/09/14 – Annual TM Report 2013-14 Audit Committee: 25/11/14 – TMS (Mid Year Update) Resources: 03/02/15 – Capital Programme 2015-16
Appendices attached:	Appendix A – The Capital Prudential Indicators Appendix B - Treasury Management Strategy Appendix C – Investment Strategy Appendix D -Treasury Management Practice (TMP 1) – Credit and Counterparty Risk Management Appendix E – Treasury Management Scheme of delegation Appendix F – Glossary of Terms

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	Security	risk of failure of counterparty	5	3	15 ⇄	<p>The Council has adopted the CIPFA Code of Practice for Treasury Management and produces an annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Resources Committee. The Audit Committee has a scrutiny role over the Treasury Management operation.</p> <p>The Council's adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrates a low risk</p>	S151 Officer

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			
							approach.	
2	Liquidity	liquidity constraints affecting interest rate performance	3	2	6	↔	See above	S151 Officer
3	Yield	volatility of interest rates / inflation	4	4	16	↔	See above	S151 Officer

Direction of travel symbols ↓ ↑

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THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to review and confirm capital expenditure plans.

Capital Expenditure

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Total	490	841	451	651	651

The table below summarises the above capital expenditure plans and how these plans are being financed. Any shortfall of resources results in a financing need (borrowing).

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Total	490	841	451	651	651
Financed by:					
Capital receipts	311	100			
Capital grants	179	186	239	239	239
Reserves					
New Homes Bonus		555	212	412	412
Net financing (borrowing) need for the year	Nil	Nil	Nil	Nil	Nil

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently does not have any of this type of scheme within the CFR.

	2013/14 Actual £000	2014/15* Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Financing Requirement (CFR)					
Total CFR	1,842	1,800	1,758	1,716	1,674
Movement in CFR	(42)	(42)	(42)	(42)	(42)
Movement in CFR represented by					
Net financing need for the year (above)	0	0	0	0	0
Less MRP and other financing movements	(42)	(42)	(42)	(42)	(42)
Movement in CFR	(42)	(42)	(42)	(42)	(42)

MRP POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. **The Council is recommended to approve the following MRP Statement:**

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR (option 2);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. **The Council is asked to approve the following indicators:**

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Ratio of net investment income to net revenue stream. (surplus)	1.6%	1.5%	1.2%	1.6%	1.3%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources. The Council is not undertaking any new borrowing to fund its Capital Programme from 2015/16 onwards.

	2013/14 Actual £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Future incremental impact of capital investment decisions on the band D council tax (Notional cost)	0.13	0.03	0.07	0.26	0.36

BORROWING

INTRODUCTION

The capital expenditure plans set out in Appendix A provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying need (the Capital Financing Requirement –CFR), highlighting any over or under borrowing.

	2013/14 Actual £	2014/15 Estimate £	2015/16 Estimate £	2015/16 Estimate £	2016/17 Estimate £
External Debt					
Debt at 1 April	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Expected change in debt					
Debt at 31 March	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
CFR	1,842,000	1,800,000	1,758,000	1,716,000	1,674,000
Under/(over) borrowing	(258,000)	(300,000)	(342,000)	(384,000)	(426,000)
Investments					
Total Investments at 31 March	3,630,000	2,500,000	2,500,000	2,500,000	2,500,000
Net Debt/(investment)	(1,530,000)	(400,000)	(400,000)	(400,000)	(400,000)

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Borrowing	3,000,000	3,000,000	3,000,000	3,000,000
Other long term liabilities	-	-	-	-
Total	3,000,000	3,000,000	3,000,000	3,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

2. The Council is asked to approve the following Authorised Limit:

Authorised limit	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Borrowing	6,000,000	6,000,000	6,000,000	6,000,000
Other long term liabilities	-	-	-	-
Total	6,000,000	6,000,000	6,000,000	6,000,000

PROSPECTS FOR INTEREST RATES

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently

expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. ;

BORROWING STRATEGY

This strategy is prudent as investment returns are low and counterparty risk is relatively high. Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations.

The S151 Officer, under delegated powers, will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp **fall** in long and short term rates, e.g. due to a marked increase in risk around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered
- If it was felt that there was a significant risk of a much sharper **rise** in long and short term rates than currently forecast, perhaps arising from a greater than expected world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

TREASURY MANAGEMENT LIMITS ON ACTIVITY

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2015/16	2016/17	2017/18
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%
Limits on fixed interest rates: Debt only	3,000,000	3,000,000	3,000,000
Limits on variable interest rates: Debt only	750,000	750,000	750,000
Maturity Structure of fixed interest rate borrowing 2015/16			
	Lower	Upper	
Under 12 months	0%	10%	
12 months to 2 years	0%	10%	
2 years to 5 years	0%	30%	
5 years to 10 years	0%	50%	
10 years and above	0%	100%	

These are limits that apply to the total portfolio for in house investments

POLICY ON BORROWING IN ADVANCE OF NEED

The Council will not borrow more than, or in advance of its need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- The Council would not look to borrow more than 18 months in advance of need.

Risks associated with any advance borrowing activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

If the Council had to borrow temporarily for cash flow purposes only in an emergency, then the S151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks. A report will subsequently be reported to Council. In all other circumstances, approval to borrow money will always be a decision that can only be made by Full Council and a full report will be brought to Members.

DEBT RESCHEDULING

As short term borrowing rates will be considerably cheaper than longer term fixed rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. In light of current interest rates and penalties incurred in repaying debt it is unlikely that debt rescheduling will be undertaken in the near future.

The Council has enquired as to whether there is any opportunity to reschedule the PWLB loan of £2.1 million but the associated early repayment charge and premium that would be charged makes this uneconomic at this stage.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

ANNUAL INVESTMENT STRATEGY

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). **The Council's investment priorities will be security first, liquidity second, then return.**

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix D under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Creditworthiness Policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands

- Yellow 5 years *
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour- not to be used

** this category is for AAA rated Government debt or its equivalent*

The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

Country limits

The Council has determined that it will only use UK registered banks.

Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next few years are as follows:

2015/16 0.60%
2016/17 1.25%
2017/18 1.75%
2018/19 2.25%

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	2014/15	2015/16	2016/17
Principal sums invested > 364 days	£Nil	£Nil	£Nil

End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Treasury Management Advisers

The Council uses Capita Asset Services as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in engaging external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

APPENDIX D

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT SPECIFIED AND NON-SPECIFIED INVESTMENTS AND LIMITS

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society)

Non-specified investments: These are any investments which do not meet the Specified Investment criteria. **A nil amount will be held in aggregate in non-specified investment.**

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	100%	6 months
Money market funds	AAA	£2 million	Liquid
Local authorities	N/A	£2 million	5 years

Term deposits with banks and building societies	Yellow	£2 million (£3 million for Lloyds Bank)	Up to 5 years
	Purple		Up to 2 years
	Blue		Up to 1 Year
	Orange		Up to 1 Year
	Red		Up to 6 months
	Green		Up to 100 days
	No Colour		Not for use
The Council is not recommending using the following investment vehicles and this is reflected by showing 0% against the limit per institution.			
UK Government gilts	AAA	0%	Yellow (5 years)
UK Government Treasury bills	AAA	0%	6 months
Bonds issued by multilateral development banks	AAA	0%	Yellow (5 years)
CDs or corporate bonds with banks and building societies	Yellow	0%	Up to 5 years
	Purple		Up to 2 years
	Blue		Up to 1 year
	Orange		Up to 1 year
	Red		Up to 6 months
	Green		Up to 100 days
	No colour		Not for use

SPECIFIED INVESTMENTS

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	-	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies	Green	In-house

Term deposits with nationalised banks and banks and building societies:

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Lloyds Bank	Blue	In-house	£3 million	Up to 1 year
UK part nationalised banks	Blue	In-house	£2 million	Up to 1 year

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	MMF Rating	In-house
2. Money Market Funds	MMF Rating	In-house

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

A Guide to Money Market Funds

Definition	A pool of cash managed by an independent fund management company. Frequently these are well known banks or investment houses
Investment	Investors purchase units (shares) of the fund which are held on their behalf in a custody account.
Returns	Returns in line with either 7-day or 1-month LIBID are targeted by most funds.
Liquidity	The funds are very liquid. Shares can be purchased and sold on the same day if necessary and without penalty. Deals are subject to a cut-off time which varies from manager to manager but can be as late as 2pm.
Variety	Two types of classes exist – <ol style="list-style-type: none"> 1) Stable Net Asset Value (SNAV) – the most common variety. Prices are fixed and interest is credited to investors in the form of a dividend. 2) Accumulating Net Asset Value (ANAV) – interest is credited to the shares and the price rises to reflect the return achieved.
Accounting	Purchases of MMF shares do not score as capital expenditure. Sales do not score as capital receipts.
Legality	Local authorities are permitted to invest in sterling denominated funds with an AAA credit rating and domiciled in the EU.
Regulation	UK-based Funds are regulated by the Financial Services Authority. Those domiciled in other EU zones (the majority) are regulated via the Undertakings for Collective Investment in Transferable Securities (UCITS) Code. The Code lays down strict common standards of investment and management.
Portfolio holdings	Cash is invested in a selection of high quality, high liquidity securities including: time deposits, certificates of deposit, short-dated gilts, corporate bonds and notes, commercial paper etc.

Credit rating	Local authorities are empowered to place funds in investment schemes with a high credit rating. Money Market Funds fall into this category and are all rated by one or more of the three rating agencies. Credit Quality – measures the financial strength of the fund (not the manager) and the probability of it defaulting.
Risk management	<p>The funds eligible for local authority investment score highly on credit quality and low volatility. All have an AAA rating which means that the chances of default are considered minimal.</p> <ol style="list-style-type: none"> 1) Rating requirements – in order to maintain an AAA rating fund managers must adhere to requirements specified by the rating agencies. These include: <ul style="list-style-type: none"> • A maximum exposure to any one counterparty (concentration ratio) between 5% & 10% • A maximum weighted average maturity (WAM) for the entire fund – typically 60 days • A minimum level of overnight investments to ensure high liquidity • A lower limit on quality of investment counterparty 2) Ring fencing – monies received from share purchases are invested in financial instruments by the managing organisation. Deposits/security investments are held in custody by a non-related company that specialises in custody services. Counterparty exposure of the fund (and of the investor) is to the underlying securities and not to the management company.
Exposure limits	In view of the funds’ low concentration ratios; quality of asset holdings; maximum WAM and ring-fencing arrangements, counterparty risk is spread widely. MMFs possess the same status as external fund managers operating cash/gilt funds for local authorities. They should have their own counterparty limit which can be considerably greater than that accorded to individual investment counterparties.

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TREASURY MANAGEMENT SCHEME OF DELEGATION

Full Council:

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on the recommendations
- Approving the selection of external service providers and agreeing terms of appointment

Audit Committee (responsibility for scrutiny)

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body

The treasury management role of the Section 151 Officer:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers
- To ensure that members with responsibility for treasury management receive adequate training in treasury management.
- To review the training needs of treasury management officers periodically

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Basis Point

1/100th of 1%, ie, 0.01%

Base Rate

Minimum lending rate of a bank or financial institution in the UK

Benchmark

A measure against which the investment policy or performance of a fund manager can be compared

Bill of Exchange

A financial instrument financing trade

Callable Deposit

A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower

Cash Fund Management

Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio

Certificate of Deposit (CD)

Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market, therefore the holder of a CD is able to sell it to a third party before the maturity of the CD

Commercial Paper

Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing

Corporate Bond

Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

Counterparty

Another (or the other) party to an agreement or other market contract (eg, lender/borrower/writer of a swap, etc)

CPI

Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time.

CDS

Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap

Derivative

A contract whose value is based on the performance of an underlying financial asset, index or other investment, eg, an option is a derivative because its value changes in relation to the performance of an underlying stock.

DMADF

Deposit Account offered by the Debt Management office, guaranteed by the UK government

ECB

European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle

EMU

European Monetary Union

Equity

A share in a company with a limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain

Fed.

Federal Reserve Bank of America – sets the central rates in the USA

Floating Rate Notes

Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal

The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed date

Forward Deposits

Same as forward dealing (above)

FSA (Financial Services Authority)

Body responsible for overseeing financial services

Fiscal Policy

The Government policy on taxation and welfare payments

Gilt

Registered British Government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent

Gilt Funds

Pooled fund investing in bonds guaranteed by the UK government

Money Market Fund (MMF)

A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF

Monetary Policy Committee (MPC)

Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or

minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment

Open Ended Investment Companies

A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread

Other Bond Funds

Pooled funds investing in a wide range of bonds

Reverse Gilt Repo

This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price

Retail Price Index (RPI)

Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person

Sovereign Issues (Ex UK Gilts)

Bonds issued or guaranteed by nation states, but excluding UK government bonds

Supranational Bonds

Bonds issued by supranational bodies, eg, European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given

their relative illiquidity when compared with gilts

Term Deposit

A deposit held in a financial institution for a fixed term at a fixed rate

Treasury Bill

Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value

WARoR

Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate

WAM

Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount

WATT

Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount

NAME OF COMMITTEE	Audit Committee
DATE	24 February 2015
REPORT TITLE	Strategic Risk Assessment - 6 monthly update
Report of	Finance Community of Practice Lead
WARDS AFFECTED	All

Summary of report:

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

Financial implications:

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

RECOMMENDATIONS:

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

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

1. BACKGROUND

- 1.1 The Council at its meeting on 17 May 2012 resolved to adopt the Joint Risk Management Policy.
- 1.2 The Joint Risk Management Policy requires the Senior Leadership Team (SLT) to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis. It also stipulates that a member of the Senior Leadership Team will provide update reports to the Audit Committee on a six monthly basis. This is the responsibility of the Finance Community of Practice Lead (S151 Officer) in the interim period.

2. STRATEGIC RISK REGISTER

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

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

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

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

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

3. LEGAL IMPLICATIONS

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

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

4. FINANCIAL IMPLICATIONS



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

5. OTHER CONSIDERATIONS



Corporate priorities engaged:	All
Statutory powers:	None specifically identified.
Considerations of equality and human rights:	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.



Biodiversity considerations:	Factored into individual risk assessments where appropriate.
Sustainability considerations:	Factored into individual risk assessments where appropriate.
Crime and disorder implications:	Factored into individual risk assessments where appropriate.
Background papers:	Joint Risk Management Policy. Covalent risk register
Appendices attached:	Appendix A - Strategic Financial and Asset Risks, Strategic Management Risks, Strategic Staffing Risks and Corporate Issues Risks Appendix B - Transformation Programme 2018 Risks



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Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
Page 145 CI07	Meeting community expectations	Scale of community interest in the potential for neighbourhood planning/ wider engagement in the planning process and corporate capacity/ funding availability to support community aspirations in current financial climate	4	4	16			Working with members to review current approach. Strategic Planning Team developed “toolkit” to enable communities to plan for themselves with minimum support from us. Learning being captured from early experiences. Clear communications essential which need to be owned by officers/members corporately.	Group Manager – Universal Customer Services	



Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
Page 146								Current capacity issues in terms of managing scale of demand and level of expectation within some communities.	Group Manager – Universal Customer Services	
								Ensuring major planning applications are determined within Government set timeframes to support the national growth agenda but also respecting community expectations. Also risk Councils will not meet Government targets for major applications.	Group Manager – Universal Customer Services	

Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
C109	Strategic Leisure Review to be completed by 2016 – Tendering for a leisure provider.	Formulating an affordable leisure offer that is fit for purpose in the medium to longer term.	4	4	16			Detailed report to Council on 17 February 2015	Member/ Officer Working Group	
Page 147 C117	Recycling of leaf sweeping - waste reclassification	Reclassification of this waste by the Environment Agency could see it become recoverable rather than recyclable material. This will reduce recycling rate by about 5% in West Devon and reduce income by around £20,000. The Waste Disposal Authority expects the change to be within this financial year.							Group Manager, Commercial Services	Devon County Council have directed West Devon's leaves into the county contract resulting in a loss of annual income of £20,000 from 1 April 2015. Reclassification is an on-going threat for both Councils.



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

Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
	Future major asset and service pressures	Major future cost pressures, particularly in terms of future Repairs and Maintenance. Key areas to address include leisure assets, operational bases and employment estates. Capacity issues to address major cost pressures.	4	3	12			Improved corporate focus on strategic asset management and a key element of the Transformation Programme. Regular meetings of the Asset Management Group.	SLT	Developed the Transformation Plan (T18)



Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
1504	Robustness of medium term financial strategy and service blue-prints	Not achieving financial savings as anticipated. External change to the national economic environment which may impact on our funding expectations. Implications of changes to the funding of local government through locally collected Business Rates and Revenue Support Grant.	4	3	12			Corporate engagement in the development of the medium term financial strategy in the context of the Transformation Programme. Latest budget reports presented to both Councils in February 2015.	SLT S151 Officer	Developed the Transformation Plan (T18) with savings of £1.64 million for WDBC Transformation Challenge Award funding of £700,000 has been awarded from the Government to T18 (WDBC share is £266,000)
		Robust horizon scanning to monitor changes in Government policy.						Executive Directors		
		Monitoring of corporate income streams and revenue budgets.						S151 Officer		
		Income Generation Working Group established to explore further income generation. Reports to Members in 2014 (Council 7 October 2014).						SLT		
		Achieving anticipated income targets in the current financial climate.								

Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
A06	Funding of future capital programme	Availability of capital resources and options of using funding streams, such as New Homes Bonus	4	4	16			Review of potential opportunities to support further capital programme.	SLT	Developed Transformation Plan (T18). Strategic Asset Reviews undertaken in 2013. Three year Capital Programme for 2015/16 to 2017/18 presented to Council on 17 February 2015 setting out Capital Projects and how they will be financed.
								One of the objectives of the Strategic Asset Review Project is to identify opportunities for the disposal of assets and the generation of capital receipts. Disposals will be progressed in line with the Disposal Programme of Works which was presented to the Resources Committee in WDBC in December 2013.	SLT	

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Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
T04	Reduction in customer satisfaction and/or drop in service standards	Scale of change may result in disruption/ reduction in service levels. Loss of Member and/or public support/ confidence in changes	5	2	10			Locally relevant PIs developed and acknowledged need for greater corporate focus on performance management.	SLT	
								Regular monitoring of service standards, delivery plans and transformation programme at both management and senior member level	Executive Directors	
								External and internal communication included within the Transformation Programme. Members and customers advised of service delivery issues that occur during change.	Executive Directors	
								Monitoring and learning from complaints, ombudsmen	Executive Directors	

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Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
								outcomes and legal challenges.		
								Specific mitigation measures to address individual service standards/ performance concerns.	SLT	
Page 153 MT05	Failure to realise benefits from change programmes	Transformation Programme or its constituent projects fail to deliver the projected benefits	5	2	10			Benefits have been identified in transformation programme and benefit realisation recorded and monitored. Risks associated with failure of any project within the programme will be mitigated as part of the corporate project management approach.	Executive Directors	Developed Transformation Plan (T18)
								Learn from best practice in other shared service authorities and Councils undertaking transformational	Executive Directors	

Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
ST07	Management capacity	In the context of reduced management capacity as a response to financial pressures.	4	4	16			change	Executive Directors	
								Project risks and issues identified and monitored through governance arrangements.		
								2015 Transformation Programme was formally closed in September 2013		
ST01	Officer Capacity to deliver Programmes and projects	Officer capacity to implement the Connect Strategy and associated delivery plans, and the T18 Transformation Programme, in tandem with service-based	5	4	20			Developed Transformation Programme and simplified connect strategy arrangements.	Executive Directors	Commissioned external support for key projects and service activities
							Refreshed service based 'blue prints' to align service activity with corporate	SLT		

Code	Title	Description	Impact	Likelihood	Risk Score	Status	Trend	Mitigating Actions	Ownership	Comments
Page 155		policy development, project delivery and day-to-day delivery (service blueprints). Possible on-going reduction in capacity in response to budget pressure, at the same time as customer and community expectation increases.						activity.		
			Short-term injection of resources to address capacity concerns, where needed.	Executive Directors						
			In the context of financial pressures, SLT have introduced a presumption against filling vacant posts until assessed against risk management criteria that justifies expenditure.	Executive Directors						

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TRANSFORMATION PROGRAMME T18 - STRATEGIC RISKS TEMPLATE

APPENDIX B

(as per the Council report on 9 December 2014 - Future Operating Model Opportunities and a revised T18 Business Case)

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
T1	Financial Risk - Funding	<p>Funding availability for initial investment to implement the Programme. The Council reports of 31/10/13 (SHDC) and 04/11/13 (WDBC) set out an Investment and Financing Strategy for the Programme</p> <p>The revised investment costs at WDBC are £2.83 million, to realise annual combined recurring savings of £1.64 million. The Programme has a payback period of 2 years and 9 months</p>	5	2	10	↓	<p>Investment and the availability of resources have been profiled in the context of an updated business plan</p> <p>Transformation Challenge Funding of £700,000 has been secured.</p> <p>Investment costs will be funded as set out in each Council's Investment and Financing Strategy</p>	Executive Directors; Finance Professional Lead
T2	Financial Risk - Costs	Higher than anticipated costs and/or lower than anticipated savings arising from the Programme. Key variable risk is the cost of staff redundancies and experience, following recruitment to Phase 1a and SLT, has shown that these costs are projected	4	4	16	↑	<p>Increase visibility of financial limitations to budget holders and Workstream Leads</p> <p>Ongoing monitoring of costs and savings within the Programme.</p> <p>Sensitivity analysis undertaken</p> <p>In recognition of uncertainty of some costs, introduced contingency sum into detailed business plan and review after each phase, particularly in relation to</p>	Executive Directors; Finance Professional Lead

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
		to increase					staff change costs	
T3	Financial Risk - Unexpected external costs	Unexpected external cost pressures which divert funding from the Programme and delays delivery	3	3	9	↔	Use of Unearmarked Reserves to address the risk of a delay in delivery of the Programme. Each month of delay could cost between £50,000 (at the start of the programme) to £320,000 (at the end) as a combined figure	SLT
T4	Technology Risk - Integrated ICT solution issues	Integrated ICT solution proves less successful than anticipated. Business continuity and connectivity in remote rural areas will be key to successful implementation	4	2	8	↔	<p>Develop effective working relationships with core technology supplier to enable partnership approach</p> <p>Set up appropriate project level controls to ensure effective governance and communication</p> <p>Develop/update business continuity plans</p> <p>Ensure solution design & implementation considers connectivity requirements/challenges</p>	Executive Directors; ICT Professional Lead

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			
T5	Management Risk - capacity to deliver	Management capacity to deliver the Programme	4	3	12	↑	<p>Programme identified as the key corporate priority</p> <p>Commission external support as required to ensure the Programme is delivered in line with the timetable</p> <p>Fund appropriate transition arrangements</p>	Executive Directors
T6	Management Risk - Maintaining shared vision	Maintaining the shared vision for the Programme during a period of significant changes	4	3	12	↑	<p>Effective communication strategy to engage with members, staff and other stakeholders embedded within the Programme.</p> <p>Corporate agreement to appropriate handover period to maintain the programme and its aims and objectives</p>	Executive Directors, Senior Members & SLT
T7	Management Risk - Organisational transition	Managing organisational transition to the new operating model, in particular reduction in customer satisfaction and/or drop in service standards	4	2	8	↔	<p>Decision taken in 2013 to implement T18 Programme. Transition Plan for each phase to document and create sufficient organisational capacity to achieve Programme timeframes</p> <p>Managing ongoing individual service performance</p>	<p>Executive Directors</p> <p>Group Managers</p>

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			
T8	Management Risk - Effective and robust programme management	Establishing an effective and robust programme management arrangement given the complexity of the Programme	4	2	8	↔	Establish appropriate member and officer Programme governance arrangements Ensure key milestones and programme interdependencies identified	Executive Directors & SLT
T9	Management Risk - Inappropriate existing management skill sets	Inappropriate existing management skill sets across the organisations in relation to the new model	4	3	12	↔	Establish appropriate selection process to the model. Training will take place in relation to the new performance management framework	Executive Directors;
T10	Management Risk - Loss of key staff	Loss of key staff during implementation of the Programme	4	4	16	↑	Establish effective working arrangements to facilitate knowledge transfer across team members including appropriate handover periods. Ensure detailed transition plan is developed which includes knowledge transfer plan	Executive Directors & SLT;

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			
T11	Political commitment	On-going political commitment to ensure that the Programme is delivered in the context of major external change and the inevitable challenges that will emerge during a major programme	4	2	8	↔	<p>Ongoing liaison with Members to maintain shared vision</p> <p>Ensure that the new model delivers and retains separate Council identities</p> <p>Raise awareness of the scale of organisational change and the impact on existing arrangements for both Members and Staff</p> <p>Managing interest from potential partners in terms of securing critical project timescales and taking account of organisational capacity</p>	Executive Directors
T12	Political Risk - national and local elections 2015	Potential impact of national/local elections in 2015	3	2	6	↔	<p>Monitor national direction of travel and focus on the flexibility of the model in relation to any local government changes affecting both future governance and funding availability</p> <p>Ongoing engagement with Members focusing on the benefits of the Programme, particularly improved customer interaction, rather than solely a response to budget reductions</p>	Executive Directors

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			
T13	Staffing Risk - Officer capacity and staff morale	Officer capacity and retention of staff morale during significant change	4	3	12	↔	<p>Effective communication strategy embedded as part of the Programme</p> <p>Maintain the pace of the change to ensure that key staff are not lost from the organisations</p>	Executive Directors;
T14	Staffing Risk - Major cultural change	Securing successful implementation of major cultural change in relation to the development of skills and approaches to working arrangements within the new operating model	4	2	8	↔	<p>Support cultural change with a comprehensive corporate training and development programme and develop recruitment, induction, appraisal and performance management frameworks</p> <p>Communication strategy embedded as a key element of the Programme</p> <p>Procure external skills to respond to expertise or capacity gap - T18 budgets include external assistance for the Programme</p> <p>Ensure new systems and processes are resilient and sustainable</p>	Executive Directors;

No	Risk Title	Risk/Opportunity Description	Inherent risk status			Mitigating & Management actions	Ownership	
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
T15	Staffing Risk - Potential Union/Staff responses	Potential Union/staff response to elements of the Programme	4	2	8	↔	<p>Ongoing engagement with key staff stakeholder groups and develop corporate understanding of those issues which are essential to successful implementation of the Programme and therefore the organisations must be subject to change</p> <p>Communicate potential staff benefits within the model such as developing skills and achieving better work/life balance through agile working</p>	Executive Directors; & SLT
T16	Asset Risk - accommodation costs and rental receipts drop	Anticipated costs of accommodation changes increase and rental receipts from additional letting of HQs not achieved in current economic climate	4	2	8	↔	<p>Cautious rental assumptions within the business plan – early rental secured in 2014/15 of ground floor area. Hotdesk area for KP already delivered below budget.</p> <p>Ongoing monitoring of the business plan assumptions and adjustments of marketing strategies accordingly</p>	Executive Directors; & SLT

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
T17	Customer/Community Risk - Potential of greater exclusion for some customers	Although improved access to services through technology is a benefit for many, there is a risk of greater exclusion for some customers	4	2	8	↔	<p>Promote digital by choice rather than digital by default</p> <p>Roll out of rural broadband & enhanced mobile connectivity will reduce risk of digital exclusion</p> <p>Monitor levels of use of each access channel in tandem with customer satisfaction as part of monitoring Programme success measures</p> <p>Supporting vulnerable customers and those unwilling to use technology forms a key part of the operating model</p>	Executive Directors and work stream leads
T18	Customer/Community Risk - Disruption/reduction in service levels	Scale of organisational change results in disruption/reduction in service levels and loss of support/confidence in the Programme	5	2	10	↔	<p>Transition Plan will form part of the Programme Plan</p> <p>Monitor service delivery and provide short term injections of capacity to ensure service performance maintained, particularly during transition</p> <p>Ensure appropriate handover periods</p>	Executive Directors; & SLT

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			
T19	Customer/Community Risk - Operating Model	Operating Model and technology not working as anticipated and creating customer/community dissatisfaction	5	2	10	↔	Test the approach/technology before introducing to the customer/community	Executive Directors; SLT and work stream leads
T21	Senior Management Team Restructure - open competition	The decision to restructure the team using open competition has been made and the arguments for it well established	4	3	12	↔	Ensure that appropriate transition plan is in place to deal with changes to the Senior Management Team	Executive Directors; & SLT
T22	Capacity to deliver	Overall capacity to deliver significant change in the timescales expected 1b timescales in particular are demanding considering the extent of change and the level of appropriately skilled resource available	4	4	16	↔	Detailed capacity planning, work prioritisation and phased delivery with a revised contingency built in to the updated business case	Executive Directors and work stream leads
T23	Programme Definition Precision	Some areas of the programme lack sufficiently detailed scope definition and this leads to delivery omissions	4	3	12	↔	Ensure all project definitions in place and approved by appropriate stakeholders	Executive Directors and work stream leads

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 **24th** day of **FEBRUARY 2015** at **11.00 am**.

Present: Cllr D K A Sellis – Chairman
Cllr T J Hill Cllr J Sheldon

Finance Community of Practice Lead
Head of Devon Audit Partnership
Finance Business Partner (AW)
Committee & Ombudsman Link Officer

In attendance: Mr S Johnson – Grant Thornton – Audit Manager

AC 30 APOLOGIES FOR ABSENCE

Apologies for absence were received from the Vice-Chairman Cllr J B Moody and from Cllr M Morse.

***AC 31 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 25th November 2014, were confirmed and signed by the Chairman as a correct record.

AC 32 REPORT ON VALUE FOR MONEY FOR WEST DEVON BOROUGH COUNCIL

Grant Thornton (External Auditors) presented a report (page 9 to the Agenda) which summarised the findings from their work supporting their Value for Money (VfM) conclusion. The VfM report complemented Grant Thornton's Audit Findings Report through providing additional detail on the themes which underpinned the VfM conclusion.

Grant Thornton had identified no significant risks during their VfM planning and expressed their conclusion as:

“On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March 2014.”

Arising from the discussion thereon:

- (i) Council tax benefits and housing benefits (2012/2013 data) – the Committee noted the higher cost of administering the benefits but was assured that these costs would reduce when 2013/2014 data was used to be nearer the “family average” and when the T18 Programme was fully operational costs would be further reduced.
- (ii) Housing Services (2012/2013 data) – the Committee noted that homelessness was increasing in 2012/2013 and officers agreed to investigate possible reasons for this and to present a report to the Committee's next meeting.

It was **RESOLVED** that the report be welcomed and noted.

***AC 33 CERTIFICATION WORK FOR WEST DEVON BOROUGH COUNCIL FOR YEAR ENDED 31st MARCH 2014**

Grant Thornton (External Auditors) presented their letter (page 25 to the Agenda) confirming that they had certified certain claims and returns submitted by the Borough Council as required so to do. Arrangements for certification were prescribed by the Audit Commission, which had agreed the scope of work with each relevant government department or agency, and auditors would be issued with Certification Instructions for each specific claim or return.

Grant Thornton had certified one claim submitted by the Council for the 2013/2014 financial year relating to expenditure of £14.1 million. The certification was “qualified” inasmuch as the Council did not update the system parameters annually “specifically for types of claim for which that no cases are expected e.g. Polygamous marriages”. Whilst this did not affect the total claim submitted, Grant Thornton needed to test the robustness of the system to ensure compliance. In so doing the Council incurred an additional charge of £900.

It was **RESOLVED** that the letter be received and noted and the assurance of the Finance Community of Lead that Grant Thornton’s recommendations as given in Appendix A (page 26 to the Agenda) have been adopted and acted upon.

***AC 34 WEST DEVON BOROUGH COUNCIL AUDIT COMMITTEE UPDATE**

Grant Thornton presented a report (page 29 to the Agenda) updating the Committee on the progress being made in the delivery of their responsibilities as the Council’s External Auditors. The report also referenced a number emerging national issues and developments for the Committee’s information.

The report also included a detailed position statement on the work currently being undertaken and the timetable and scope of activity for future work to be undertaken within the current year.

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

***AC 35 PROTECTING THE PUBLIC PURSE – FRAUD BRIEFING 2014**

Grant Thornton presented a Fraud Briefing (page 42 to the Agenda) which had been prepared as a Power Point presentation by the Audit Commission. The purpose of the Fraud Briefing was four-fold:

- (i) to provide an information source to support councillors in considering their council’s fraud detection activities;
- (ii) to extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities;
- (iii) to give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed; and,
- (iv) to be a catalyst for reviewing the Council’s current strategy, resources and capability for tackling fraud.

West Devon Borough Council was a member of a comparator group of 21 local authorities and contained within the report was comparable data showing the fraud detected in West Devon. During the year 2013/2014, West Devon had detected 12 cases of Housing Benefit and Council Tax Benefit fraud valued at £51,932 (average for the comparator group was 65 cases valued at £122,447) and no cases of Council Tax discount fraud (average for the comparator group was 7 cases valued at £2,705).

In West Devon there were no cases of detected fraud in relation to procurement, insurance, economic and third sector nor were there any detected cases of internal fraud.

It was **RESOLVED** that the report be welcomed and noted.

AC 36 INTERNAL AUDIT – REVISION OF AND PROGRESS AGAINST THE 2014/15 PLAN

The Head of Devon Audit Partnership presented a report (page 54 to the Agenda) on the principal activities and findings of the Council's Internal Audit team for 2014/2015 to the 31st December 2014 through highlighting the need to revise the internal audit plan to reflect the impact of the T18 Transformation Programme blueprinting, by providing a summary of the main issues raised by completed individual audits and by showing the progress made by the Internal Audit team against the 2014/2015 annual audit plan as reviewed by this Committee in April 2014.

The internal audit plan was continuously reviewed and update to reflect emerging risks and the 2014/2015 Internal Plan was presented with the report at Appendix A (page 60 to the Agenda) and this had been extended to show the final position of each audit and it also replicated part of the monitoring report presented monthly by the S151 Officer. A summary of the issues raised and the agreed action arising was presented in Appendix B (page 63 to the Agenda). The internal audit plan for 2014/2015 was progressing according to the programme and was considered to be "on target".

It was **RESOLVED** to **RECOMMEND** that the reports together with Appendices A and B be adopted.

AC 37 THREE YEAR INTERNAL AUDIT PLAN 2015/16 TO 2017/18 AND ANNUAL INTERNAL AUDIT PLAN – 2015/16

The Head of Devon Audit Partnership and the Section 151 Officer presented a joint report (page 68 to the Agenda) to provide the Committee with the opportunity to review and comment upon the proposed internal audit plan for the forthcoming three years 2015/16 to 2017/18 and the proposed internal audit plan for 2015/16.

A three year plan had been drawn up to cover the period 2015/2016 to 2017/2018 and this was presented with the report at Appendix A (page 75 to the Agenda). The three year plan reflected the reduced level of internal audit resource following the T18 review; audit resources had been reduced to around 100 days per financial year from 115 days and

the plan had been developed to optimise the use of the limited audit time now available. Appendix B (page 80 to the Agenda) showed pictorially the provisional time aggregation for service audits during the three year period.

The Annual Audit Plan for 2015/2016 was presented as Appendix C to the report (page 81 to the Agenda) and this detailed the audit programme and resource allocation for the year.

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

1. the three year Internal Audit Plan for the period 2015/2016 to 2017/2018 (Appendix A) be approved and adopted; and,
2. the Annual Internal Audit Plan for 2015/2016 (Appendix C) be also approved and adopted.

***AC 38 INTERNAL AUDIT: CHARTER & STRATEGY – 2015/16**

The Head of Devon Audit Partnership and the Section 151 Officer presented a joint report (page 83 to the Agenda) on the proposed Internal Audit Charter and Strategy for 2015/2016. The Public Sector Internal Audit Standards (PSIAS) and the Audit Manual required that the Charter and Audit Strategy be presented to the Audit Committee for review and approval. The Charter was presented with the report at Appendix A (page 87 to the Agenda) with the Audit Strategy presented as Appendix B (page 96 to the Agenda).

The Charter detailed the scope of work required to be undertaken by Internal Audit and the Strategy document detailed how the internal audit service would be delivered.

It was **RESOLVED** that the Internal Audit Charter and Strategy 2015/2016 be approved and adopted.

AC 39 TREASURY MANAGEMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY AND ANNUAL INVESTMENT STRATEGY FOR 2015/16

The Finance Community of Practice Lead (S.151 Officer) presented a report (page 105 to the Agenda) seeking approval of the proposed Treasury Management and Investment Strategies together with their associated prudential indicators. Sound financial management and administration underpinned the entire strategy and the budget for investment income for 2015/2016 had been set at £40,000. Falling interest rates over the years had had a considerable impact on the Council's potential income from investments. As an example of falling investment income, the Committee was advised that between 2007/2008 and 2015/2016 investment income had fallen by £680,000.

Six appendices were presented with the report with Appendix A being the Capital Prudential Indicators (page 111 to the Agenda); Appendix B being the Treasury Management Strategy (page 115 to the Agenda); Appendix C being the Annual Investment Strategy (page 121 to the Agenda); Appendix D being the Treasury Management Practice (TMP 1) – Credit and Counterparty Risk Management (page 125 to the

Agenda); Appendix E being the Treasury Management Scheme of Delegation (page 130 to the Agenda); and, Appendix F bring a glossary of terms (page 131 to the Agenda).

It was **RESOLVED** to **RECOMMEND** that Council approves the:

- (i) prudential indicators and limits for 2015/2016 to 2017/2018 contained within Appendix A;
- (ii) Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets the Council's policy on MRP;
- (iii) Treasury Management Strategy 2015/2016 and the Treasury Prudential Indicators 2015/2016 to 2017/2018 contained within the Appendix B; and,
- (iv) Investment Strategy 2015/2016 contained within Appendix C and the detailed criteria included in Appendix D.

AC 40

STRATEGIC RISK ASSESSMENT – 6 MONTHLY UPDATE

The Finance Community of Practice Lead presented the six monthly update report on Strategic Risk Assessment (page 133 to the Agenda). Two appendices were presented with the report with Appendix A (page 136 to the Agenda) showing the Strategic Financial and Asset Risks, Strategic Management Risks, Strategic Staffing Risks and Corporate Issues Risks, and Appendix B (page 147 to the Agenda) showing the Transformation Programme 2018 Risks.

Arising from the discussion the following issues were discussed:

- (i) External funding opportunity
In response to a question by the Chairman it was agreed that the possibility of selling advertising space on the Council's web site would be investigated;
- (ii) in relation to risk FA06 (page 142 to the Agenda) the Committee suggested that opportunities to retain and to capitalise on assets be explored before considering the sale of such assets; and,
- (iii) in relation to risk T11 (page 151 to the Agenda) it was suggested that a full presentation on the T18 Programme be presented to all new Members of the Council following the local government elections in May 2015.

It was **RESOLVED** to **RECOMMEND** that the issues identified by the Committee and detailed in items (i) to (iii) above be considered by the Council.

(The Meeting terminated at 1.05 pm.)

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