

# West Devon Audit Committee



West Devon  
Borough  
Council

<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Tuesday, 9th October, 2018</b>
<b>Time:</b>	<b>2.00 pm</b>
<b>Venue:</b>	<b>Chamber - Kilworthy Park</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Davies</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Ball</p> <p><i>Members:</i> Cllr Cann OBE Cllr Stephens Cllr Hockridge Cllr Watts Cllr Lamb</p>
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
<b>Committee administrator:</b>	Member.Services@swdevon.gov.uk

**1. Apologies for absence**

**2. Declarations of interest**

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

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

**3. Items Requiring Urgent Attention**

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

**4. Confirmation of Minutes**

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Meeting held on 24 July 2018

**5. Presentation on the Pension Fund Administered by Devon County Council**

Presentation from the Investment Manager of Peninsula Pensions

**6. KPMG - Annual Audit Letter 2017/18**

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Report from KPMG

**7. KPMG - Audit Closure Letter**

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Report from KPMG

**8. Grant Thornton - Audit Progress Report and Sector Update**

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Report from Grant Thornton

**9. Internal Audit Charter & Strategy 2018/19**

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Report of Internal Audit Manager

**10. Update on Progress on the 2018/19 Internal Audit Plan Review of Finance Procedure Rules**

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Report of Internal Audit Manager

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<b>11. Six Monthly Update - Strategic Risk Assessment</b> Report of Group Manager – Business Development	<b>77 - 98</b>
<b>12. Commercial Investment Property - Update and monitoring report</b> Report of Assets Community Of Practice Lead	<b>99 - 110</b>
<b>13. Sundry Debt</b> Report of Case Management Manager	<b>111 - 116</b>
<b>14. Audit Committee Work Programme 2018/19</b>	<b>117 - 118</b>

**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).**  
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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# Agenda Item 4

At a Meeting of the **AUDIT COMMITTEE** held in Meeting held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **24th** day of **July 2018** at **10.00am**

**Present:** Cllr M Davies (Chairman)

Cllr J Hockridge  
Cllr B Stephens  
Cllr L Watts

**Officers in attendance:**

Section 151 Officer  
Chief Internal Auditor  
Reece Batley, KPMG  
Senior Case Manager – Democratic Services.

**Also in attendance:** Cllr C Edmonds (lead Hub Committee Member)

**\* AC 8 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllrs K Ball, B Cann OBE and B Lamb.

**\* AC 9 CONFIRMATION OF MINUTES**

The Minutes of the Committee Meeting held on 19 June 2018 were confirmed and signed by the Chairman as a correct record.

**\* AC 10 KPMG EXTERNAL AUDIT REPORT 2017/18**

The Committee considered the KPMG External Audit Report 2017/18. Mr Reece took the Committee through the four risk areas that were identified before the start of the audit being:

- Valuation of Property Plant and Equipment
- Pension Liabilities
- Faster Close (to close the Accounts one month earlier by the end of May 2018)
- Allocation of shared costs

Mr Reece concluded that KPMG had identified no issues with any of the four risks and would be issuing a clean audit opinion (an unqualified opinion)

It was then **RESOLVED** that:

The KPMG report be noted.

**AC 11 AUDITED STATEMENT OF ACCOUNTS 2017/18 AND ANNUAL GOVERNANCE STATEMENT 2017/18**

Cllr Edmonds took Member through the report. There were no questions asked as both Cllr Edmonds and the Chairman of the Audit Committee commented how these were the same Accounts as the Draft Accounts

presented in June, with only minor disclosure changes. He thanked the finance team for all their hard work.

It was then **RESOLVED** that:

1. The wording of the Letter of Representation (Appendix A);
  2. The Audited Statement of Accounts for the financial year ended 31 March 2018 (Appendix B);
  3. The Annual Governance Statement post audit (Appendix C);
- be **APPROVED**

**\* AC 12 ANNUAL TREASURY MANAGEMENT REPORT**

Cllr Edmonds introduced the report stating the slightly lower than anticipated returns were partly due to interest rates not rising as quickly as anticipated and the investment in CCLA having an entrance cost attached. Therefore the investment will return a higher yield in future years.

It was then **RESOLVED**

1. That the actual 2017/18 prudential and treasury indicators in the report be **Approved**; and
2. The Annual Treasury Management report for 2017/18 be noted

(The Meeting terminated at 10.20 am)

Dated this

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Chairman



# Annual Audit Letter 2017/18

**West Devon Borough  
Council**

—  
August 2018

A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. Another man is partially visible on the right. They are all wearing suits and ties. The background is out of focus.

**Section one**

# Summary for Audit Committee



# Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at West Devon Borough Council (“the Authority”) in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

## Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 26 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole . Materiality for the Authority’s accounts was set at £0.6 million which equates to around 1.8 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £30,000 for the Authority.

We identified no audit adjustments.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – In accordance with professional standards our audit methodology incorporates the risk of management override as a default significant risk. We carried out controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Valuation of PPE** – The Authority operates a cyclical revaluation approach in line with the Code requirement that all land and buildings be held at fair value. We considered how the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued. As a result of this work we identified the need formalise the controls over the valuation programme.
- **Pensions Liabilities** – The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and have considered the assumptions used in determining the valuation with no issues being identified.
- **Faster Close** – The timetable for the production of the financial statements was significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We reviewed the closedown plan for accounts production and monitored progress against these deadlines. We received draft accounts in advance of the revised deadline and subsequently issued our opinion prior to the 31 July deadline.
- **Allocation of Shared Costs** – The Authority operates on a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each authority individually and then an exercise is undertaken to allocate them on an appropriate and consistent basis. We reviewed the appropriateness of the basis of allocations, reviewed evidence of management approval and re-calculated based on the cost drivers with no issues being identified.

# Summary for Audit Committee (cont.)

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

## Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

## Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 26 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

## Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **Delivery of Budgets** – In order to address ongoing reductions in central government funding the Authority is having to make additional savings and pursue income generation strategies. We reviewed the controls in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration relevant factors and sensitivity analysis. We considered the way in which the Authority identified, approved, and monitored both savings plans and budget as well as the way in which proposed income generation projects were assessed. No issues were identified as a result of our work.

## High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work

## Certificate

We issued our certificate on 26 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

## Audit fee

Our fee for 2017-18 was £39,396, excluding VAT (2017: £39,396). Further detail is contained in Appendix 2.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

# Appendices

A close-up photograph of a person's hand writing on a whiteboard. The hand is holding a silver pen and is positioned over an orange sticky note. The whiteboard is covered with several other sticky notes in various colors (pink, purple, green, yellow, orange, pink). The background is a bright, slightly blurred whiteboard.

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit Committee pages on the Authority's website at <https://www.westdevon.gov.uk/>.

## Certification of Grants and Returns

This letter summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

## External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

## Interim Audit Letter

The Interim Audit Letter summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

## Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

## Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

## Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.



## Appendix 2:

# Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

### External audit

Our final fee for the 2017-18 audit was £39,396 which is in line with the planned fee.

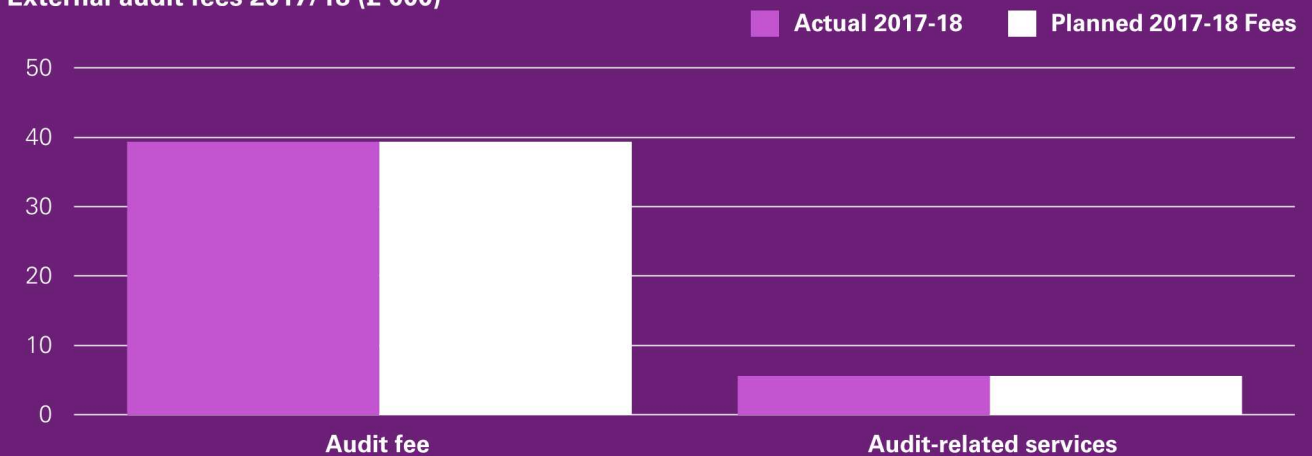
### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The planned fee for this work is £5,630 and the final fee will be confirmed through our reporting on the outcome of that work in December 2018.

### Other services

We did not charge any additional fees for other services.

### External audit fees 2017/18 (£'000)



All fees quoted are exclusive of VAT.



The key contacts in relation to our audit are:

**Rees Batley**

Director

T: +44 (0) 117 905 4434

E: rees.batley@kpmg.co.uk

**Adam Bunting**

Manager

T: +44 (0) 292 046 8003

E: adam.bunting@kpmg.co.uk

**kpmg.com/uk**



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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CREATE: CRT086281A

**KPMG LLP**  
**Audit**  
66 Queen Square  
Bristol BS1 4BE  
United Kingdom

Tel +44 (0) 117 905 4434  
Fax +44 (0) 117 905 4001  
rees.batley@kpmg.co.uk

**Private & confidential**

Lisa Buckle  
Finance Community of Practice Lead  
West Devon Borough Council  
Kilworthy Park  
Drake Road  
Tavistock  
Devon PL19 0BZ

Our ref WDBC/17-19/AudClose

8 August 2018

Dear Lisa

**Audit of accounts 2017/18 – Notice of certification of completion of the audit**

I am pleased to advise you that the audit of West Devon Borough Council's accounts for the year ending 31 March 2018 has been completed.

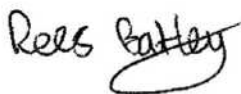
An unqualified opinion on the accounts was issued on 26 July 2018. On the same date we also issued an unqualified conclusion on the Authority's arrangements for securing value for money.

We have not had to exercise any statutory audit powers under the Audit & Accountability Act 2014 (the Act).

May I draw your attention to Regulation 16(1) of the Accounts & Audit Regulations 2015 which requires the Authority to publish (which must include publication on its website) a statement:

- that the audit has been concluded and that the statement of accounts have been published;
- of the rights on inspection conferred on local government electors by section 25 of the Act (inspection of statement of accounts etc.); and
- setting out the address at which, and the hours during which, those rights may be exercised.

Yours sincerely



Rees Batley  
Director, KPMG LLP

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# Audit Progress Report and Sector Update

West Devon Borough Council  
Year ending 31 March 2019

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October 2018



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# Introduction



**Geraldine Daly**  
**Engagement Lead**

T 0117 305 7741  
M 07500 783992  
E [geri.n.daly@uk.gt.com](mailto:geri.n.daly@uk.gt.com)

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



**Steve Johnson**  
**Audit Manager**

T: 0117 305 7868  
M. 07880 456134  
E: [steve.p.johnson@uk.gt.com](mailto:steve.p.johnson@uk.gt.com)

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

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 Engagement Manager.

# 2018/19 Planning

## 2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.
- review predecessor auditor files to assist planning and verify opening balances.

Our interim audit will take place early in 2019 and we will liaise with your officers to ensure that the audit is planned and run's smoothly.

We will share a working papers document and discuss the work we will undertake at interim with your finance team.

## Other areas

### Certification of claims and returns

We understand that the Council's annual Housing Benefit Subsidy for 2018/19 claim will be audited by KPMG.

### Meetings

We intend to hold regular liaison meetings with Management and we have already held a meeting with key management and Directors in September, to understand the Council's current position and future plans. and developments and to ensure the audit process is smooth and effective.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council.

Our next event is the Local Government Commercialisation Seminar in collaboration with Dorset Partnership Councils on 2<sup>nd</sup> October. Your officers have been invited.

Our annual accounts workshops are planned to take place early in the new year. We will be inviting key members of your finance team to this event.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming the audit fee for 2018/19.	Issued 19 April 2018	On the October 2018 Committee agenda.
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- an adverse (inadequate) judgement by Ofsted on Children's services
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

## CIPFA Consultation

### Issue for consideration:

Has your Section 151 officer briefed members on the Council's response to the Financial Resilience Index consultation?



# MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

## Social Housing Green Paper Consultation

Issue for consideration:

What does the Social Housing Green Paper mean for your Council?





# MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

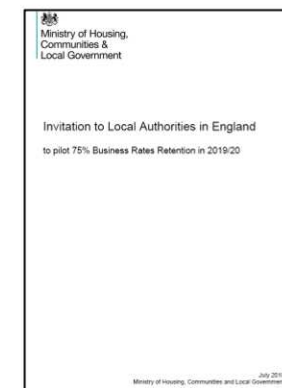
Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25<sup>th</sup> September 2018.

## Business Rates pilots 2019/20

Issue for consideration:

Has your Council applied to be a Business Rates pilot?



# Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# In good company

## Latest trends in local authority trading companies

Austerity and the need to do more with less have driven councils to consider different ways of working. And there is a growing recognition that revenue generation can play a part in that.

Since the 2011 Localism Act gave local authorities new powers to trade, there has been a surge in the creation of new companies. Local authority trading companies (LATCs) now deliver a wide range of services across the country. These range from wholly owned companies, joint ventures with either the public or private sector, to social enterprises.

### Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

### Advantages of local authority trading companies

LATCs offer some clear advantages over other service delivery models. They mean councils can keep direct control over their providers, offering an opportunity for any profits to come back into the authority. Equally the chance to change local authority terms and conditions, particularly with regard to pensions, can bring significant reductions in the cost base of the service.

Creating a separate company also lets the service or activity move away from the constraints of the council's decision-making processes, becoming more agile and responsive to changes in demand or funding. In addition, the wider powers to trade through the Localism Act provide the company with the opportunity to win contracts elsewhere.

### Choosing the right company model

The most common company models adopted by councils are: wholly owned, joint ventures (JVs) and social enterprises. Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

### Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

### LATCs need to adapt for the future

It is clear that LATCs are here to stay. There is still plenty of growth potential for existing and new companies to tap into, especially in exploring further public sector collaboration and options for scaling up by going beyond local boundaries.

But LATCs must adapt to developments in the external environment. These include possible changes to public procurement rules after Brexit and new local authority structures. They will also need to respond to an increasingly crowded and competitive market where there could be more mergers and insolvencies.

Local authorities' ongoing need to be open to different ways of doing things will drive further developments of new trading companies. This will relieve the pressures on councils' to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

[Download the report here](#)



# The Vibrant Economy Index

## a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website ([www.grantthornton.co.uk](http://www.grantthornton.co.uk)) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

### Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

*To download the app visit your app store and search 'Vibrant Economy'*

- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*



# Supply Chain Insights tool helps support supply chain assurance in public services

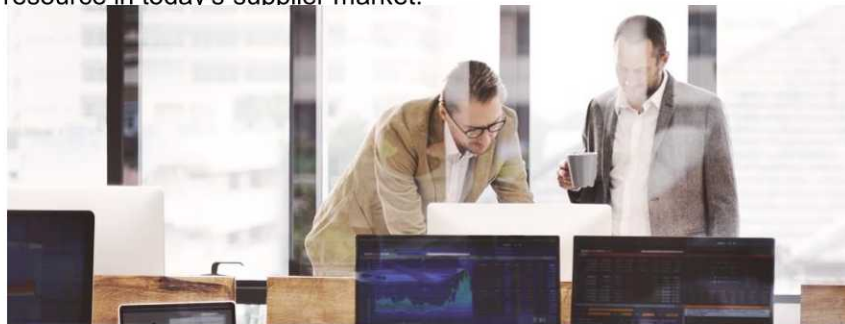
Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



## The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

## Supply Chain Insights

### Grant Thornton

#### Issue for consideration:

Has your Council considered how our Supply Chain Insight tool can help support your supply chain assurance?



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>



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# Agenda Item 9

Report to: **Audit Committee**  
Date: **9 October 2018**  
Title: **Internal Audit Charter & Strategy 2018/19**  
Portfolio Area: **Support Services – Cllr C Edmonds**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Dominic Measures** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**

Contact: [Dominic.measures@swdevon.gov.uk](mailto:Dominic.measures@swdevon.gov.uk) **01803 861375**  
[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

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## **Recommendations:**

**It is recommended that the Audit Committee review and approve the Internal Audit Charter and Strategy 2018/19.**

## **1. Executive Summary**

The purpose of this report is to allow the Audit Committee to review and comment upon the Internal Audit Charter and Strategy for 2018/19.

Internal audit management is provided by Devon Audit Partnership (DAP) via a contracted arrangement; the DAP Audit Manager 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). Both the Charter and Strategy comply with the mandatory requirements of the Public Sector Internal Audit Standards.

The PSIAS 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.

There are only minor amendments from the Charter and Strategy documents approved by the Audit Committee in September 2017. These are:

#### Audit Charter

- a. Inclusion of Section entitled "Mission";
- b. Minor re-wording in Section entitled "Being Independent";
- c. Re-arrangement of words in Section entitled "Internal Audit Management"
- d. Inclusion of 30 days management response to draft report in Section entitled "Reporting".

#### Audit Strategy

- a. Re-wording in "Introduction".

## **2. Background**

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state that:

"5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance"

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Strategic Finance Lead, Strategy and Commissioning, is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

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).

## **3. Outcomes/Outputs**

One of the requirements of the Public Sector Internal Audit Standards (PSIAS) is that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter and strategy, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The PSIAS sets additional Public Sector requirements where the Audit Charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

The Audit 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. It will communicate the contribution that Internal Audit makes to the organisation and should include:

- internal audit objectives and outcomes;
- how the DAP Audit Manager will form and evidence their 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, and
- the resources and skills required to deliver the Strategy.

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

The internal audit charter and strategy for the financial year 2018/19 are set out at **Appendix A** and **Appendix B** respectively.

#### **4. Options available and consideration of risk**

No alternative option has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015 and the Public Sector Internal Audit Standards.

#### **5. Proposed Way Forward**

The Head of Paid Service, in conjunction with the Section 151 Officer to the Council are responsible for ensuring the provision of an effective and appropriate internal audit service. The internal audit function is delivered by way of Devon Audit Partnership, via the DAP Audit Manager and the Council's in-house audit team.

#### **6. Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Accounts and Audit Regulations 2015 issued

		<p>by the Secretary of State requires every relevant local authority to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance”.</p> <p>The Public Sector Internal Audit Standards (PSIAS) apply the Institute of Internal Audit (IIA) International Standards to the UK Public Sector and promote professionalism, quality, consistency and effectiveness of internal audit.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council’s overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

#### **Background Papers:**

Public Sector Internal Audit Standards

2018/19 Service Level Agreement

**Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

## **WEST DEVON BOROUGH COUNCIL INTERNAL AUDIT CHARTER**

### **Mission**

The Mission of Devon Audit Partnership is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight across its partners.

### **Terms of Reference**

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

### **Definitions**

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) 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".

The PSIAS set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within West Devon Borough Council the role of the Board within the Standards is taken by the Council's Audit Committee and senior management is the Council's Senior Leadership Team.

The PSIAS make reference to the role of "Chief Internal Auditor"; this role is fulfilled by the Devon Audit Partnership (DAP) Audit Manager.

### **Statutory Requirements**

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

*5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Strategic Finance Lead, Strategy and Commissioning, is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

### **The Purpose and Aim of Internal Audit**

The role of Internal Audit is to understand the key risks of the Council; to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems;
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate;
- provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for West Devon Borough Council is provided by Devon Audit Partnership (DAP). We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of the Council, adding value whenever possible.

## **Professionalism, Ethics and Independence**

### **Being Professional**

We (Devon Audit Partnership) will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

### **Our Ethics**

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditors. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

### **Being Independent**

Internal Audit is independent of the activities that it audits.

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 Audit Manager should have direct access to and freedom to report in his 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 Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Audit Manager 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.

Auditors should be mindful of being independent. 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 Partnership / 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.

### **Authority**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, will be given right of access to all records, assets, personnel and premises, including those of partner organisations and authority to obtain such



information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Delegation to Specific Officers and Financial Procedure Rules within the Constitution.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that:

(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (a) make available such documents and records; and
- (b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation "documents and records" includes information recorded in an electronic form.

In addition, Internal Audit, through the Audit Manager, where deemed necessary, will have unrestricted access to:

- Head of Paid Service and the Senior Leadership Team;
- Members;
- Section 151 Officer;
- Monitoring Officer;
- Individual Members of the Extended Leadership Team;
- All authority employees;
- All authority premises.

## **Accountability**

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The DAP Audit Manager fulfils the role of Chief Auditor at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Section 151 Officer will liaise with the Audit Manager and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Audit Manager reports functionally to the Audit Committee who:

- Approve the internal audit charter;
- Approve the risk based internal audit plan;
- Receive reports from the Audit Manager on the section's performance against the plan and other matters;
- Approve the Audit Manager's annual report.
- Approve the review of the effectiveness of the system of internal audit.

The Audit Manager has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

## **Responsibilities**

The Head of Paid Service, Senior Leadership Team and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Audit Manager will provide assurance to the Section 151 Officer regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The Audit Manager will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping her meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. She will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;

- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- Advising on internal control implications of new systems;
- Providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Being responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues.

## **Internal Audit Management**

The PSIAS describe the requirement for the management of the internal audit function. They set out various criteria that the Audit Manager (as Chief Internal Auditor) must meet, and includes:-:

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

These criteria are brought together in an Audit Strategy which explains how the service will be delivered and reflect the resources and skills required.

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

The Audit Manager should also have the opportunity for free and unfettered access to the Head of Paid Service and meet periodically with the S.151 Officer and the Monitoring Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

## **Internal Audit Plan and Resources**

At least annually, the Audit Manager will submit to the Audit Committee a risk-based internal audit plan for review and approval. The Audit Manager will:

- Develop, in consultation with the Executive Directors and Group Managers, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- Submit the plan to the Audit Committee for review and agreement;
- Implement the agreed audit plan;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;

- Maintain a programme of quality assurance and a culture of continuous improvement.

The internal audit plan will include budget and resource requirements for the next fiscal year. The Audit Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

In accordance with the requirements of the Council's Anti Fraud, Corruption and Bribery Policy and Strategy 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 fraud and other illegal acts and informing the Audit Manager when fraud is suspected or identified. Depending on the nature and anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Audit Manager to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

## **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).

A written report will be prepared for each internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

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; and

- To recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Audit Manager is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Audit Manager will:

- Submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken;
- Submit an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

## **Relationship with the Audit Committee**

The Council's Audit Committee will act as the Board as defined in the 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).

The Audit Manager will assist the Committee in being effective and in meeting its obligations. To facilitate this, the Audit Manager will:

- Attend meetings, and contribute to the agenda;
- 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
- Present an annual internal audit report including an overall opinion on the governance, risk and control framework.

## **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.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor.

In December 2016, the Head of Assurance for Hertfordshire Shared Internal Audit Service completed an external validation of the Partnership. They concluded that;

*"It is our overall opinion that the Devon Audit Partnership **generally conforms**\* to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards".*

\* **Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

### **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 Audit Manager 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.

### **Devon Audit Partnership**

**August 2018**

## West Devon Borough Council Internal Audit Strategy

### Introduction

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Strategic Finance Lead, Strategy & Commissioning, is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

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 Devon Audit Partnership (DAP) Audit Manager via a contractual arrangement.

The PSIAS require the Audit Manager to produce an Audit Charter setting out Audit's purpose, authority and responsibility. We deliver this through our 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, and
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
  - Internal Audit objectives and outcomes;
  - How the Audit Manager will form and evidence their 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 Audit Manager 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 providing audit coverage on the higher risk areas in the Audit Universe;
- 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:
- 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 an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Should any critical issues be identified during the course of the audit work, the Audit Manager will report matters to the Section 151 Officer and Senior Leadership Team for consideration and to enable any necessary action to be taken. Regular formal meetings should also be held to discuss issues arising and other matters.

The Audit Manager will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee.

The Audit Manager will 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 Audit Manager's annual report to the Audit Committee will:

- (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 Audit Manager 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 the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

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

The audit planning process includes the creation of, and ongoing revision of, an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

### ***Assignment planning***

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

## **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 Audit Manager 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 Audit Manager 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. These should be regularly monitored and the progress against these targets reported appropriately;
- Seeking user feedback for each individual audit and periodically for the whole service;
- Periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS; and
- An action plan to implement improvements.

The Audit Manager will closely monitor the performance of the team to ensure agreed targets are achieved.

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

Table 1: Internal Audit Key Performance Indicators

Performance Indicator	Current Target, and, Frequency of Measure
➤ 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;	90% Annually
➤ Audit Planning - Consultation; Objectives	90% Annually
➤ Quality of Audit Report - Clarity; Accuracy;	
➤ Value; Presentation	
➤ Communication - Feedback; Helpfulness; Professionalism; Timeliness.	90% Annually
➤ Overall cost, with/without oncosts/recharges	£ Annually
➤ Average cost per audit day: direct costs, and	£ Annually
➤ With/without on-costs/recharges.	£ 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.

## **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 Audit Manager 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 West Devon Borough 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 Audit Manager.

### ***Dealing with resource issues (such as instances of Alleged Fraud & 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 Audit Manager 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 Audit Manager's duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for ensuring that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

Internal Audit staff must also be properly trained to fulfil all their responsibilities. The Audit Manager 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. Time will be allowed within the annual audit plan to allow internal audit staff to receive the relevant training.

In addition, the Audit Manager 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.

**Devon Audit Partnership**

**August 2018**



**Auditing for achievement**

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Report to: **Audit Committee**  
Date: **9 October 2018**  
Title: **Update on Progress on the 2018-19 Internal Audit Plan**  
Portfolio Area: **Support Services – Cllr C Edmonds**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Dominic Measures** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**

Contact: [dominic.measures@swdevon.gov.uk](mailto:dominic.measures@swdevon.gov.uk) **01803 861375**  
[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

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**Recommendations:**

**It is recommended that the progress made against the 2018/19 internal audit plan, and any key issues arising are approved.**

## 1. Executive summary

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2018/19 to 14 September 2018, by:

- Showing the progress made by Internal Audit against the 2018/19 annual internal audit plan, as approved by this Committee in March 2018; and
- Highlighting any revisions to the 2018/19 internal audit plan;

## 2. Background

The Audit Committee, under its Terms of Reference contained in West Devon Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2018/19 was presented to and approved by the Audit Committee in March 2018. Progress in the period up to 14 September 2018 has been in line with expectations and included completion of work carried forward from 2017/18. There has been slight impact due to sickness absence totalling 13 days (apportioned SHDC 10 days, WDBC 3 days) in the year to date.

The 2018/19 audit plan currently includes two audits that utilise additional Devon Audit Partnership resources. These are:

- a. Business Continuity within the Supply Chain – this audit fieldwork has been undertaken and a draft report is due to be issued shortly.
- b. Cyber Security – this audit is provisionally planned to take place this autumn.

### **3. Outcomes/outputs**

In carrying out systems and other reviews, Internal Audit assess whether key, and other controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates to any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Overall, and based on work performed to date during 2018/19, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.



The 2018/19 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the position for each audit as at 14 September 2018.

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

**Appendix C** provides a summary of work where the planned work is complete but no audit report produced.

**Non Compliance with Contract or Financial Procedure Rules** - there are no significant issues to bring to the attention of the Committee so far this year. 2 applications for exemptions to Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

### **Irregularities**

There are no irregularities to report.

### **4. Options available and consideration of risk**

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

### **5. Proposed Way Forward**

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

### **6. Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in</p>

		promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

#### **Background Papers:**

Annual Internal Audit Plan 2018/19 as approved by the Audit Committee on 20 March 2018.

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>

Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>2017/18 Plan</b>										
Housing Benefit		■	■	■	■		■			
<b>2018/19 Plan</b>										
<b>MAIN FINANCIAL SYSTEMS</b>										
Main Accounting System (inc budgetary control)	20									
Creditor (Payments)	15									
Debtors (Income Collection)	15									
Payroll	15									
Business Rates	15									
Council Tax	15									
Housing Benefits	15									
Treasury Management	10	■								
<b>Main Financial Systems</b>	<b>120</b>									

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>COMMERCIAL SERVICES</b>										
Salcombe Harbour (S.Hams)	10									
Dartmouth Lower Ferry (S.Hams)	8									
Environmental Services – Enforcement Process (Fly Tipping, Abandoned Vehicles etc)	10	■								
Grounds Maintenance Operations (inc control of bedding plants)	15									
Environmental Services - Coastal Work Follow-Up (S.Hams)	3	■	■	■	■					
Depots & Stores Follow-Up (S.Hams)	3	■	■							
Environmental Services – Beach and Water Safety (S.Hams)	5	■	■	■	■					
<b>Commercial Services</b>	<b>54</b>									

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>CUSTOMER FIRST</b>										
Planning (Applications) – (Completion of 17/18 audit)	10	■	■	■	■					
Housing - Homelessness	10	■	■							
Section 106 agreements (follow up)	5	■	■	■	■					
Environmental Services – Food Safety – Progress with Food Standards Agency Action Plan	5	■	■							
Asset Management (deferred from 17/18)	5									
<b>Customer First</b>	<b>35</b>									
<b>STRATEGY &amp; COMMISSIONING</b>										
Performance Management (KPI's & data quality) (deferred from 17/18)	15									

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Risk Management Follow-Up (deferred from 17/18)	10									
Administration of Member Expenses (deferred from 17/18)	6									
Procurement – Waste and Front Line Services	15	■								Audit presence during the procurement phase of the Frontline Waste Services contract
Commercialisation Strategy	10									
Contract Management Strategy and Process	10	■								
Contract Management – Leisure Contract	10									
Business Continuity within the Supply Chain	8	■								
Health & Safety Further Follow-Up	3	■	■	■	■					
<b>Strategy and Commissioning</b>	<b>87</b>									





Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>SUPPORT SERVICES</b>										
ICT Audit - Incident Management	25	■	■	■	■					
ICT Audit - Change Management Follow-up		■	■	■	■					
ICT Audit Asset Control		■								
Corporate Information Management (GDPR compliance)	10									
Cyber Security	6									■ ■
Business Continuity Follow-Up (inc BCP exercises)	5									
Comments and Complaints	10	■								
Review of Financial Regulations	5	■	■	■	■	■				

Cash Collection	3										
<b>Support Services</b>	<b>69</b>										

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final		Opinion				Comments
							High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>OTHER ESSENTIAL ITEMS</b>											
Audit Management including:- - Audit planning, - Monitoring & reporting, - Audit Committee	28	■	-	-	-		-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 21 June 2018,
Annual Governance Statement	2	-	-	-	-		-	-	-	-	Review of the Code of Corporate Governance presented to June 2018 Audit Committee under separate cover
Exemptions from Financial Regulations	5	■									
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	20	■	-	-	-		-	-	-	-	9 days spent on claims to date. Estimate further 21 days required – totalling 30 days in all.
Contingency & Advice	10	■	-	-	-		-	-	-	-	
<b>OTHER ESSENTIAL ITEMS</b>	<b>65</b>										
<b>Total Days</b>	<b>430</b>										

**Planned Audit 2018/19 – Final Reports**

As at 14 September 2018, eight final reports have been issued in respect of 2018/19 work. One report finalised in the current year in respect of the 2017/18 audit plan, which was not reported to the Audit Committee at the end of June, is also included below.

Subject	Audit Findings	Management Response
<p><b>2017/18 Audit Plan</b></p>		
<p>Housing Benefit</p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b></p> <p>Benefit processing is undertaken accurately and performance against the key indicator of processing speed for new claims and changes in circumstances has been good with reported performance for both councils being below the number of processing days targeted.</p> <p>More effective use of system reports and the close monitoring of cases have improved the administration of housing benefit overpayment recovery. Whilst the combined debt for both councils (at March 2018) still stands at approximately £1.6m, (West Devon £0.6m, South Hams £1m) this is reflective of the increased identification of overpayments, largely due to the Department for Work and Pensions (DWP) ‘Real Time Information’ service, a fraud and error initiative using ‘real time’ data matching between HMRC and DWP data.</p> <p>It is considered that current processes and procedures in operation could be further improved in the following areas:</p> <ol style="list-style-type: none"> <li>1. The management of system access to the Northgate system,</li> <li>2. The use of Risk Based Verification (RBV).</li> <li>3. The administration of quality assurance arrangements,</li> <li>4. The reconciliation processes.</li> </ol>	<p>Management will be considering operational processes and the resources required to implement the following improvements:</p> <ol style="list-style-type: none"> <li>1. A review of user access to be undertaken to ensure that only staff with a continued requirement are afforded system access. Annual declarations of interest to be issued to all users of the benefit system.</li> <li>2. Monitoring of the operation of RBV to be undertaken to inform a review of the RBV policy on an annual basis and to support the decision making process as to whether the policy requires a refresh and renewed approval in line with DWP guidance.</li> <li>3. Targets relating to the level of checking required and a desired accuracy rate to be considered at the start of each year so that quality assurance work can be better quantified and performance monitored and reported. All checking undertaken to be collated and recorded in a single central record.</li> <li>4. The Northgate to General Ledger reconciliations to be consistently signed as completed by both the</li> </ol>

Subject	Audit Findings	Management Response
		<p>completing officer and additionally the secondary check undertaken. The reconciliation of the benefit debts on the Northgate system and general ledger will be completed on a monthly basis and supporting evidence retained to confirm the validity of the reconciliation.</p>
<p><b>2018/19 Audit Plan</b></p>		
<p>Planning (Applications)</p>	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b></p> <p>In giving this audit opinion, we acknowledge that a number of improvements have already been made to work processes over the past year and that additional staff have recently been recruited. However, some improvements remain as work in progress and there are further opportunities which should be considered.</p> <p>At the time of the audit it was too early to state with confidence that the new processes and additional staff resource will be adequate to allow the planning function to operate in a timely and effective manner, as many of the changes have only been made in recent months or have yet to be completed.</p> <p>Those recommendations not yet implemented include:</p> <ol style="list-style-type: none"> <li>1. consider including the South Hams DC 'Members' Planning Code of Good Practice' in the West Devon BC Constitution.</li> <li>2. developing a more formal annual programme of training for those members of the South Hams DC and West Devon BC Development Management Committees, as well as requiring members to attend specified training sessions if they are to remain on the Committee.</li> <li>3. consider requiring all officers within the Development Management COP, the Legal COP and Case Management, who are involved in planning matters (determination of applications, enforcement etc), to complete a formal declaration of interest form, to acknowledge that they understand the process for declaring any conflicts of interest as they arise, on an annual basis.</li> <li>4. investigate potential methods for requiring applicants to declare a known</li> </ol>	<ol style="list-style-type: none"> <li>1. A draft Code was presented to the West Devon Annual Council meeting held on 22 May 2018 for approval. The Council felt that the draft Code required further consideration before it could be approved and set up a Working Group to review the draft Members Code of Planning Practice "before presenting, as soon as is practically possible, a final draft version to the Council for its approval".</li> <li>2. The current ad hoc approach to training means that members often receive insufficient notice and are unable to attend sessions. An annual programme would set out all dates for the year well in advance. Some training has been already delivered in 2018/19 (Permission in Principle, Enforcement) and more is planned (Joint Local Plan, National Planning Policy Framework).</li> <li>3. Staff will be asked to formally acknowledge that they understand the need and process to declare interests. However, this will only be done once and not repeated on an annual basis. It will be incorporated into the induction process whenever a new member of staff joins the team. Also, all existing staff will be asked to make the same formal declaration, in order that a documented record is in</li> </ol>

Subject	Audit Findings	Management Response
	<p>interest of either of the Councils, particularly where the applicant is not South Hams DC or West Devon BC themselves.</p> <p>5. consider introducing procedures that satisfies the Development Management COP Lead that delegated planning decisions being made on his behalf are consistent across the team and are in line with policy and legislation. This could be achieved by either:</p> <ul style="list-style-type: none"> <li>- The COP Lead reviewing a sample of applications (both approved and refused) to confirm that the decision was appropriate; or</li> <li>- Holding internal peer review exercises, to enable decisions and the reasons for these to be compared and discussed as a team.</li> </ul>	<p>place.</p> <p>4. The planning application form cannot be used, as it is provided by the national Planning Portal (through which about 60% of applications are received) and so it cannot be amended. Alternative methods are:</p> <ul style="list-style-type: none"> <li>- If an application is on land not owned by the applicant, a certificate of ownership must be provided.</li> <li>- GIS mapping could be used to identify any applications on Council-owned land, and this could be flagged up as a constraint.</li> </ul> <p>5. Procedures will be introduced requiring a sample of applications to be reviewed by a Senior Specialist (it not being felt necessary that the COP Lead should undertake this role). Because no quality issues have been identified, and due to current staff resource pressures caused by vacancies and long term sickness, this will not be implemented immediately.</p>
<p>Section 106 agreements (follow up)</p>	<p><b>Original Audit Opinion - Fundamental Weaknesses</b></p> <p><b>Updated Audit Opinion – Improvements Required</b></p> <p><b>Conclusions</b></p> <p>Continued work by the Senior Case Manager, Support Services (S106), and related services has delivered additional improvements since our last review, with further work underway or planned. The overall direction of travel is considered to be positive.</p> <p>Improvements to be noted include;</p>	<p>1. Case Managers in Support Services now have access to the S106 Register Smartsheet and will provide appropriate cover for absences.</p> <p>2. The review of processes is agreed and joint meetings with other related services will be planned in the Autumn</p> <p>3. In principal this has been agreed. Legal will liaise with the Team Leader, Land Charges to discuss an effective method of ensuring formal confirmation is received, once the S106 Agreement has been</p>

Subject	Audit Findings	Management Response
	<ul style="list-style-type: none"> <li>• Ongoing reconciliation of funds between spreadsheets and General Ledger,</li> <li>• Direct liaison with other services, such as Land Charges,</li> <li>• Updating the S106 Register Smartsheet and setting automated reminders from the Register for key target dates,</li> <li>• Legal Services sending notification of Agreements, with a summary of obligations, to all relevant services,</li> <li>• Direct communication with developers to obtain updates on progress of building completions,</li> <li>• Arranging for developers to pay funds direct to Devon County Council and other related third parties,</li> <li>• Prompt raising of invoices and coding of funds received, and</li> <li>• Calculation and recovery of monitoring fees.</li> </ul> <p>Following our review of the current process we have raised recommendations to further improve the process, and these include;</p> <ol style="list-style-type: none"> <li>1. Ensuring sufficient support to cover the role of the Senior Case Manager, Support Services S106, in their absence and appropriate officers have read and write access to the S106 Register;</li> <li>2. Undertaking a review of the process of documenting agreements and related expenditure with other services to ensure that the process is operated effectively and efficiently;</li> <li>3. Confirmation from Land Charges to Legal that all obligations have been registered;</li> <li>4. All Deeds of Variation relating to S106 Agreements are copied to the S106 Officer;</li> <li>5. The ability to produce a summary of all obligations, by Parish, development or date etc., at any point in time that shows the financial position based on current, past and future obligation commitments. The current S106 Register provides some of this information, although not in a fully compatible format at present, while other information is held on supplementary systems and requires additional manual calculation;</li> <li>6. The Monitoring fee relating to some Agreements needs to be accounted for as and when received.</li> <li>7. The Councils need to ensure that they maintain sufficient records for historic obligations, that the information is monitored and that, should they be</li> </ol>	<p>registered.</p> <ol style="list-style-type: none"> <li>4. All information now copied from Legal and other services to the S106 Officer..</li> <li>5. The S106 Register has now been updated to provide 'live' information relating to obligations by Parish, date etc, although this is an ongoing process to refine the database.</li> <li>6. Efforts are made to ensure monitoring fees and amended charges are dealt with efficiently and that the ledger codes are updated promptly with the correct values. Officers are aware that the monitoring fee is not an additional fee and is used to manage the Agreement as required. The monitoring fee will now be accounted for at the time it is due as required.</li> <li>7. Officers are progressing with some of the historic cases, when they arise, and so reducing those that are potentially still outstanding.</li> </ol> <p>This process will be raised with the COP Lead, Development Management, to determine how the remaining Agreements should be actioned.</p> <ol style="list-style-type: none"> <li>8. Officers work closely with the main services concerned and support their notification of funding and Agreements. We are aware that there is not a standard approach and will raise this at the next joint meeting with these services.</li> </ol>

Subject	Audit Findings	Management Response
	<p>challenged, they can support expenditure and actions taken; and</p> <p>8. The Councils should further improve on the information available to the general public and related parties, such as Parishes, regarding both available and committed funding.</p>	
<p>Health &amp; Safety Further Follow-Up</p>	<p><b>Previous Audit Opinion - Improvements Required</b></p> <p><b>Updated Audit Opinion – Improvements Required</b></p> <p><b>Conclusions</b></p> <p>Our audit opinion remains as '<b>Improvements Required</b>', due to the number of recommendations which remain in progress. However, continued work, largely co-ordinated by the Environmental Health COP Lead, has continued to progress delivery of the Health and Safety action plan, originally drawn up in 2016/17. This has delivered additional improvements since our last review particularly in those areas for which the COP Lead has taken direct responsibility, with further work planned. The overall direction of travel is considered to be positive.</p> <p>Examples of such work include raising health and safety awareness for non-manual staff, clarifying headquarters first aid arrangements, providing lone working training, delivering health and safety training for the Senior Leadership Team (SLT), the Extended Leadership Team (ELT), other team leaders and supervisors and increasing awareness of the need to report accidents and incidents.</p> <p>Positive work has also commenced to ensure that training needs are identified and delivered for non-manual staff and members, to develop a W2 process for reporting accidents and incidents and to create a single, central register of potentially violent persons. In addition, a Case Manager has been appointed for six months to assist in the administration of health and safety amongst other functions within Customer First.</p>	<p>1. Training will be delivered to West Devon members, and those South Hams members who did not attend the session previously provided, possibly using an alternative format, such as a PowerPoint presentation, rather than face-to-face training, in conjunction with the Environmental Health COP Lead being available for any resultant queries or clarifications required. Arrangements will also be made for appropriate health and safety training to be provided as part of the member induction programme from May 2019.</p> <p>The Environmental Health COP Lead will liaise with ICT and HR, to consider appropriate systems to be used for recording identified training needs and delivery for individual staff. Ideally, any future HR software would be able to incorporate health and safety records.</p> <p>There may be a need to review the available solutions after December 2018, when the direction of travel for the delivery of frontline services should be known.</p> <p>Supervisors will be instructed to ensure that agency staff receive the same level of health and safety</p>



Subject	Audit Findings	Management Response
	<p>However, it would appear that delivery of the action plan where the Environmental Health COP Lead does not have direct responsibility, may not be completed without additional support from senior managers and / or additional staff resource. For this reason we have escalated the majority of our recommendations to the Senior Leadership Team.</p> <p>The Commercial Services Group delivers those functions which have the highest health and safety risks, for example, waste collection, transport, grounds' maintenance, the Dartmouth Lower Ferry and Salcombe Harbour. It would appear that policies and procedures are not always being followed within all of these areas, particularly waste and transport, where concerns are exacerbated by two key staff vacancies. The Environmental Health COP Lead has drawn up a work plan of necessary actions and deliverables to ensure that appropriate procedures and practices are in place within waste and transport and is assisting officers within the Commercial Services Group.</p> <p>A number of our recommendations from previous years remained incomplete, including:</p> <ol style="list-style-type: none"> <li>1. Provision and recording of appropriate health and safety training for all permanent staff, agency staff and members;</li> <li>2. Ensuring that managers complete all necessary risk assessments and regularly review these, as well as associated Safe Systems of Work (SSoW), particularly within Commercial Services;</li> <li>3. Ensuring that managers carry out regular workplace and premises inspections, again particularly within Commercial Services; and</li> <li>4. The need to reconvene regular Health and Safety COP meetings following a number of cancellations in the first half of 2018.</li> </ol>	<p>training as permanent staff, prior to carrying out work activities.</p> <ol style="list-style-type: none"> <li>2. It is intended that a separate Register of Risk Assessments will be developed for each COP or equivalent. Although work has commenced in a few areas, there is a need to make progress across the majority. ELT are to be instructed to ensure that a register of all risk assessments for each of their service areas is in place, emphasising the importance of this work and their personal responsibility for its completion.</li> </ol> <p>The Specialist – Transport is to be responsible for ensuring that workplace and premises inspections are taking place within Commercial Services, but records of these will not be maintained, due to the limited resource available. Instead the focus will be on developing a culture of routinely undertaking checks. Commercial Services Safe Systems of Work (SSoW) are currently being reviewed. All new and revised SSoW will then be brought to the attention of supervisors and staff, and adequate training provided. Checks will be made to ensure that staff are following SSOW, and these will be recorded.</p> <ol style="list-style-type: none"> <li>3. The Environmental Health COP Lead has been asked to draw up a monthly rota for the completion of workplace inspections by competent officers, using those managers who hold the IOSH 'Managing Safely' qualification. A checklist will be provided to guide the inspections.</li> </ol> <p>A programme of service areas to be covered will be put in place. For some areas, reliance may be placed on other forms of routine inspection, for example, both Salcombe Harbour and the Lower</p>

Subject	Audit Findings	Management Response
		<p>Dartmouth Ferry are inspected by the Maritime and Coastguard Agency.</p> <p>4. Case Management resource is now in place and Health and Safety COP meetings have been re-instated.</p>
<p>ICT Audit - Incident Management</p>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b></p> <p>Our overall audit opinion is Good Standard despite the fact that the Sunrise software is not being used to its optimum. A significant number of improvements have been made since our previous audit in 2015/16 and incident management is being delivered effectively. There are some areas where it may be possible to gain further efficiencies and automation without further financial investment in the software. However, we acknowledge that, in some respects, officers are restricted by the abilities of the software, as well as the depth of understanding of the system by those managing it on a day-to-day basis. Therefore the response to some of our recommendations have been influenced by any perceived value for money, which may or may not be offered by further investment in the system or staff training, compared to the current arrangements. The most significant recommendations include:</p> <ol style="list-style-type: none"> <li>1. Carrying out customer surveys to gauge the effectiveness of the incident management process, identify areas for improvement and topics for development within the self-help guidance;</li> <li>2. Consideration of meaningful performance indicators to measure the effectiveness of the incident management process;</li> </ol>	<ol style="list-style-type: none"> <li>1. A set of questions will be developed for a survey which will cover both Incident Management and Change Management. Survey Monkey will be used to issue questionnaires.</li> </ol> <p>An analysis will be carried out which will inform which topics it may be beneficial to create some video guides.</p> <ol style="list-style-type: none"> <li>2. ICT is working on a project to produce more meaningful reports from the Service Desk software. Once it is possible to clearly see where the work is allocated and completed then the introduction of some performance indicators will be considered.</li> </ol> <p>The ICT COP Lead currently receives monthly activity reports which will become more meaningful as some of the recommendations from the change management audit are progressed. Reports can be refined over time as demand requires. The Specialist – ICT Infrastructure may require training to allow more sophisticated reports to be developed.</p> <ol style="list-style-type: none"> <li>3. Construction of a comprehensive knowledge base,</li> </ol>

Subject	Audit Findings	Management Response
	<p>3. Development of the incident management knowledgebase within Sunrise, to aid the Service Desk team; and</p> <p>4. Creation of a formal problem management knowledgebase within Sunrise.</p>	<p>with links to procedures, is currently in progress. The Service Desk also actively maintains an Intranet page of links to how-to guides, self-help and tutorials.</p> <p>A member of ICT staff attending the Sunrise 'Administration &amp; Configuration' customer training course is encouraged in order that the potential to automate additional tasks and create efficiencies can be identified. It is suggested this is paid for from the corporate training budget.</p> <p>4. ICT is currently populating the Sunrise knowledgebase with articles and links to procedure documents so that they are readily available and searchable by officers acting in a Service Desk capacity. Furthermore a "root and branch" review of all procedures is underway to ensure the documentation is up to date and relevant.</p>
<p>ICT Audit - Change Management Follow-up</p>	<p><b>Original Audit Opinion – Improvements Required</b></p> <p><b>Updated Audit Opinion – Improvements Required</b></p> <p><b>Conclusions</b></p> <p>Our revised audit opinion remains <b>Improvements Required</b>. An understanding of change management has been considerably strengthened and a culture instilled within the ICT COP. Whilst there is a robust change control process in place for major or high impact changes, there is further work needed to formalise procedures and ensure that comprehensive audit trails are in place for standard changes.</p> <p>For non-standard changes, procedures are in place to demand thorough scrutiny, mitigations are considered and roll back plans are put in place.</p> <p>However, several recommendations from 2017/18 remain outstanding. These mainly relate to the introduction of formal procedures for standard, repeatable</p>	<p>1. ICT Specialists will assist and guide the Service Desk officers in the population of the Knowledge Base function of Sunrise; In addition, they will assist in the defining of Standard change procedures which will also be added to the Knowledge Base, so that they are readily available to Service Desk officers.</p> <p>Service Desk officers will be encouraged to add comprehensive call closure details to incidents so that resolutions are repeatable.</p> <p>Comprehensive test plans already exist for major applications. However, for Standard change requests, this will be formalised into the activities above.</p>

<b>Subject</b>	<b>Audit Findings</b>	<b>Management Response</b>
	<p>changes, which by their nature are generally of a low risk and low impact. The implementation of these is largely reliant on the Service Desk team, but we understand has been delayed largely due to limited staff resource and other work pressures.</p> <p>Our recommendations include:</p> <ol style="list-style-type: none"> <li>1. Developing a library of :               <ol style="list-style-type: none"> <li>a. standard change request models by the Service Desk which should include consideration of risks, communications and “roll-back” plans,</li> <li>b. change scripts or workflow procedures as appropriate, for both infrastructure and applications changes, to ensure that testing and release is appropriately controlled.</li> </ol> </li> <li>2. The Service Desk to set up menu options which allow standard changes to be recorded as a specific type of incident, in order that they can be identified and analysed with the aim of producing meaningful management information.</li> </ol>	<ol style="list-style-type: none"> <li>2. ICT will create a new ‘Incident’ category in Sunrise to capture Change requests. This will enable reporting to distinguish between incidents and change requests.</li> </ol> <p>Other categories will be considered to enable reporting on requests for services (e.g. set up a projector) and requests for information (e.g. run a report or an FOI request)</p>
<p>Review of Financial Procedure Rules</p>	<p><b>Audit Opinion - High Standard</b></p> <p><b>Conclusions</b></p> <p>The joint Financial Procedure Rules of South Hams &amp; West Devon Councils do not differ significantly to other Local Authorities sampled. The core set of Financial Procedure Rules are supported by a series of appended procedural guides, all within a single document. This approach does have the benefit of placing all Rules and Guidance in one place, for the convenience of readers.</p> <p>Also, most had broadly similar financial limits. The limits in place at both Councils are very much 'mid-field' and do not appear to be unreasonable in any way, giving no cause to suggest that they should be amended.</p> <p>We have only made one recommendation, that the procedural guidance for some areas of income and expenditure control be reviewed, as they have been superseded by several changes to working practice. For example, the Councils have removed the facility for accepting cash and cheques at Council premises, with the exception of car parks.</p>	<p>A member of the Finance COP will update the appropriate pages of the procedural guidance to reflect current working practices.</p>

<b>Subject</b>	<b>Audit Findings</b>	<b>Management Response</b>

## **Definitions of Audit Assurance Opinion Levels**

### **High Standard**

The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

### **Good Standard**

The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

### **Improvements Required**

In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

### **Fundamental Weaknesses Identified**

The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

**Planned Audit 2018/19 – Work Complete (No Audit Report)**

<b>Subject</b>	<b>Comments</b>
<p><b>Waste Collection and Front Line Services Procurement</b></p>	<p>Internal Audit have provided support and challenge to the project team established to oversee the selection of a suitable contractor to undertake waste collection, street cleansing and the cleaning of public conveniences.</p> <p>Audit have attended regular Project Team meetings, present at the receipt and opening of Detailed Solutions from bidders as well as the subsequent moderation of evaluators scores. In addition, Audit has taken part in “dialogue sessions” with bidders which form part of the “Competitive Dialogue” procurement process. Audit will continue its role during the rest of the procurement until the award of the contract in December 2018.</p>
<p><b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b></p>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2017/18 financial year. The S151 Officer presented the 2017/18 AGS to the Audit Committee on 19 June 2018.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>2 applications for Contract / Financial Procedure Rules have been received in the year to date, both were accepted.</p>

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Report to: **Audit Committee**

Date: **9<sup>th</sup> October 2018**

Title: **Strategic Risk Assessment - Regular Update**

Portfolio Area: **Strategy & Commissioning**  
**Cllr Philip Sanders**

Wards Affected: **All**

Relevant Scrutiny Committee: **N/A**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **n/a**

Author: **Darren Arulvasagam** Role: **Business Development Group Manager**

Contact: [Darren.Arulvasagam@swdevon.gov.uk](mailto:Darren.Arulvasagam@swdevon.gov.uk)  
**01803 861222**

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## **Recommendations:**

### **That the Audit Committee:**

- 1. REVIEW the strategic risks (see Appendix 1) and make recommendations to Council on any further action the Committee concludes should be considered;**
- 2. RECOMMEND that Full Council ADOPT the updated Risk & Opportunity Management Strategy as detailed in Appendix 3; and**
- 3. RECOMMEND that Full Council RESCIND the Joint Risk Management Policy 2012 and the Joint Risk Management Strategy 2013.**

### **1. Executive summary**

- 1.1. In accordance with the Joint Risk Management Policy adopted by West Devon Borough Council on 17<sup>th</sup> May 2012, this report forms the required six monthly update to Members.
- 1.2. The report includes the current corporate strategic risk assessment and a summary of the management and mitigating actions to address the identified risks.
- 1.3. Last year, the Devon Audit Partnership conducted a review into the Risk Management arrangements of the Council and noted them to be

“working”. They noted that a strong risk management culture was evident at lead member and senior leadership team level.

- 1.4. The audit recommended a number of management actions, including a full review of the risk and opportunity management framework documents. This work has now been completed and a revised Risk and Opportunity Management Strategy has been prepared.
- 1.5. This updated document is shown in Appendix 3. Members are requested to approve this strategy and recommend it to Council for approval. Upon adoption, the Council will ensure officers adhere to the new strategy. The existing Joint Risk Management Policy 2012 and Joint Risk Management Strategy 2013 would be rescinded as a result.

## **2. Background**

- 2.1. The Council at its meeting on 17 May 2012 resolved to adopt the Joint Risk Management Policy.
- 2.2. The current 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.
- 2.3. 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 currently the responsibility of the Business Development Group Manager.

## **3. Outcomes / Outputs**

- 3.1. The risks currently monitored by SLT are set out in Appendix 1.
- 3.2. 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.
- 3.3. Appended to the risk tables as Appendix 2 is the current 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.
- 3.4. Scoring is split to more clearly define the risk impact – with financial, legal/regulatory, health & safety, reputation, morale/staffing, service quality factors all being considered independently. To create a risk score, the likelihood is multiplied by the impact “worst child”.
- 3.5. Last year, the Devon Audit Partnership conducted a review into the Risk Management arrangements of the Council and noted them to be “working”. They noted that a strong risk management culture was evident at lead member and senior leadership team level.
- 3.6. The audit recommended a number of management actions, including a full review of the risk and opportunity management framework

documents. This work has now been completed and a revised Risk and Opportunity Management Strategy has been prepared.

3.7. This updated document is shown in Appendix 3. Members are requested to approve this strategy and recommend it to Council for approval. Upon adoption, the Council will ensure officers adhere to the new strategy and future update reports to Audit Committee will reflect the updated strategy.

**4. Options available and consideration of risk**

4.1. Members could opt to follow, amend or reject the recommendations.

4.2. The tables are living documents and will regularly change in response to issues arising.

4.3. 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 officer conclusions is therefore welcomed.

4.4. If the committee deems necessary, Members may make recommendations to Council on amendments to the proposed risk and opportunity management strategy as detailed in appendix 3. If so, it is requested that delegated authority is then given to the Group Manager, Business Development in order to amend the strategy accordingly.

**5. Proposed Way Forward**

5.1. It is suggested that the Committee’s attention is focussed on those risks with the highest score i.e. the risks with a score of 16 and over.

5.2. 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 detail around the risk or the proposed mitigating actions is required.

5.3. If this reports recommendations are accepted, the new strategy would come into effect upon Council approval. The existing Joint Risk Management Policy 2012 and Joint Risk Management Strategy 2013 would be rescinded as a result.

**6. Implications**

<b>Implications</b>	<b>Relevant to proposals</b>	<b>Details and proposed measures to address</b>
Legal / Governance	Y	The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management.  There are no direct legal implications arising from the report although a strategic focus on risk management is good practice. Any specific legal implications are considered in individual risk assessments.
Financial	Y	There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Council from budget variances.
Risk	Y	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.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.
Other implications	N	N/A

**Supporting Information**

**Appendices:**

Appendix 1: Corporate Risk Report

Appendix 2: Risk Scoring Matrix

Appendix 3: Updated Risk & Opportunity Management Strategy

**Background Papers:**

- Joint Risk Management Policy 2012
- Joint Risk Management Strategy 2013

Appendix 1 - WDBC Corporate Risk Report - October 2018

#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	Prior Risk Score	Current Risk Score	Change	Mitigating Actions / Internal Controls	Latest Note
1	Political commitment for change	On-going political commitment to support changes needed for ongoing financial sustainability & community resilience	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	4	4	3	4	4	1	4	16	16	—	Regular leader & deputy meetings. Regular surgery and informal sessions for wider membership.	Position unchanged, councils have commissioned an LGA peer review for the autumn. One of the areas that will be reviewed is political leadership, decision making and governance. With elections next year there could be significant changes.
2	WDBC Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government Policy and/or Income Streams	Failure to sustain a robust on-going medium term financial strategy in WDBC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings / legal challenges / planning appeals, etc.	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. 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. Business rates pilot 2018/19 – 100% local business rate retention of growth above baseline is confirmed for one year only. A further year of business rates pilot for 2019/20 at 75% of local business rate retention has been applied for by Devon Authorities.	4	4	4	4	4	2	2	16	16	—	Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFS. Latest MTFS approved by Council September 2018 with Member Workshops in both Councils arranged for October 2018.	Waste contract procurement is likely to deliver financial savings.  Commercial property Acquisition Strategy has achieved its current objectives.  Government consultation on negative RSG will help in year one if implemented.  Council will submit a bid for business rates pilot for 19/20  Possibility of removal of NHB in 2020 will have a significant negative impact  Larger unknowns on resetting of business rate baseline and fairer funding review which could have a negative impact on finances.
3	Service Performance	Any service failure or degradation of service impacts on the customer, which then impacts on all areas of the council and members	Process implementation is now complete. Uncertainties could be due to a lack of appropriate resources. In the past, a lack of appropriate resource and the T18 transformation and change in processes combined to affect our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017.	4	3	4	4	3	2	4	12	16	×	A Customer Survey was carried out in Autumn 2018 and staff Customer Away days were held in September 2018. Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places. Plan to commence measuring customer satisfaction during 17/18. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.	Customer Satisfaction survey results have been poor and shows that the customer experience is not at the standard that we want or that customers expect. However, call volumes continue to reduce as are complaints in most service areas.  Waste complaints and service issues are increasing. Additional resources have been put in place (including management and localities) to support the operation. Performance management is being strengthened. SLT are monitoring on a daily basis.
4	Delivery of local plan (Inc. 5 Year Land Supply)	Risk of speculative development without a 5 year land supply in SH & WD, following recent planning appeal losses. Risk of designation in relation to Development Management & local plan across both councils.	Lack of detail / contingency around 5 year land supply until the joint local plan is completed.	3	4	2	3	3		2	16	12	✓	JLP Submitted to PINS for examination, but more work required on evidence base for housing need assessment.	JLP monitoring team recruited and high level process agreed, work underway

#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	Prior Risk Score	Current Risk Score	Change	Mitigating Actions / Internal Controls	Latest Note
5	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems	Following the event, how quickly will certain systems and processes be able to be back on-line	3	3	4	4	2	3	3	12	12	—	Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service. Agile working further reduces reliance on two office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust	With support from DCC a further training exercise is planned for November.  Business Impact assessments have been completed for most areas and will be tested in the above exercise.  A live test of the IT resilience is to be planned before the end of the year.  Officers will be attending a Devon wide Brexit emergency planning session. Following this SLT will make a decision as to whether Brexit needs its own risk.
6	Emergency Response, e.g. Coastal Erosion / Storm Damage / Flooding	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	4	3	1	2	1	3	1	12	12	—	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	Due to current climate events, likelihood remains very high.
7	Inadequate Staffing Resources	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	3	3	3	3	2	2	4	12	12	—	Transitional resource & monitoring arrangements were put in place after staffing arrangements and GAP analysis completed in 16/17. Staff forum embedded; continued SLT engagement with unions and regular staff comms sessions held. Other comms media under review and several improvements made. Staff satisfaction survey re-run in April '18, actions and review underway. Customer Satisfaction Survey has been initiated and staff away days undertaken to update staff and embed solutions to tackle issues raised. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR.	There are difficulties recruiting waste professionals due to location, complexity and the current waste procurement process. This is unlikely to be resolved whilst the procurement process is ongoing.
8	Contractor Failure	Failure to manage a major failure of a significant council contractor including, any significant related industrial relations issues.	Contingency plans if contractor were to fail; affect on service delivery	2	5	4	4	2	2	3	8	10	×	Good contract and people management, effective Contract Team, use of shared procurement expertise, more frequent credit checks (including parent companies), requirement for bonds where appropriate.	Should the Fusion leisure contract fail (likelihood is low) there is a significant financial impact based on the capital expenditure for the improvements to the leisure centres which the councils would become liable for.
9	Achievement of Income	There are risks relating to the Council's income streams which could result in the budget cost pressures and a failure to meet the annual budget / medium term financial plan.	The Council's income is based around business rates, council tax, car parking and other fees and charges, investment returns, commercial property lettings and bad debt collections processes / credit management. Each of these have inherent risks, some of which are outside of the Council's control.	3	3	3	2	2	1	2	9	9	—	Regular monitoring of investment income and management / analysis of monthly budget reports. Regular performance management analysis at SLT / ELT level. Reporting of budget adherence through committee process. Robust business plan / business case appraisal.	Q1 budget monitoring reports were presented to Members in September 2018

#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	Prior Risk Score	Current Risk Score	Change	Mitigating Actions / Internal Controls	Latest Note
10	Data Protection	Failure to control the appropriate use of data and unauthorised access.	To manage the risk of non compliance with Cabinet Office PSN CoCo, PCI DSS, GDPR, Data Protection Act, RIPA, Human Rights Act.	2	3	3	3	4	1	2	16	8	✓	DPO now named and is member of SLT. Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Look out for advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff have been and new starters will be completing a data protection awareness course in via the Council's new eLearning tool.	GDPR implementation on 25th May 2018 has passed with minimal increases in contact from data subjects (SAR's remain low, one request to be forgotten etc.)  The Council has made good steps in reviewing its processes and procedures and continues to refine in light of developing guidance from the Information Commissioners Office. Revised policy to be shared with audit committee October 2018.  Data Breaches are investigated in a timely manner and generally there is an increased awareness of Data Protection matters among staff.  As guidance becomes clearer, the assessment of Impact has been revised and lowered however there is always a risk that data breach could occur.
Page 83	Governance: Adherence to Council policies & processes and Government guidelines	Failure to maintain effective Corporate Governance arrangements. Failure to manage/enforce s106 conditions. Ombudsman complaints could lead to finding of maladministration due to management of issues, e.g. poor record keeping; time to resolve issues or meet imposed timelines; reputational damage. Failure to meet current and changing needs of customers and to manage customer feedback. There is a risk of failure to respond to changes and to recognise external influences such as changes in government policy; Risks of losing JRs, appeals and Ombudsman rulings	To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act 2010. To ensure that there is on-going review and self assessment of the effectiveness of governance arrangements within the Council. T18 programme rollout saw service levels reduce but these have now recovered	2	3	3	4	4	3	3	16	8	✓	Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual governance self assessment review by both ELT and SLT. Audit Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity. Training & Development plans being developed. Policies for H&S and wellbeing and lone working all being updated. Work underway in respect of data protection / GDPR readiness and audit completed. Stat officers panel set up and meeting qtrly. Internal audit programme of work confirmed for 18/19.	Resource in place to monitor and manage s106s. Organisation wide project board in place to manage implementation of projects, to approved PM principles. Regular Statutory Officers Group & Information Governance meetings. RIPA training undertaken for key staff. Policies / Key Strategies being reviewed by CoPs with consultation where appropriate.
12	Inadequate asset maintenance	Failure to maintain all Council owned assets and buildings (including fleet).	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	2	3	1	4	4	4	2	10	8	✓	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.	Estate team have been collating assets within Concerto and need to develop a proactive asset maintenance plan. Needs review in 6 months by SLT (Feb 19 latest)
13	Health & Safety	Failure to manage the health, safety and welfare of the public, visitors and staff. Key consideration in relation to number of external frontline staff, including lone workers.	High impact on service delivery resulting in resources / services being unavailable for long periods	2	4	3	4	4	4	3	8	8	→	Safe working environment, policies and procedures, e.g. fire safety policy, travel at work policy, IIP, PDRs. Revised sickness absence policy, health and other wellbeing initiatives. Awareness of appropriate legislation e.g. Corporate Manslaughter Act, Equalities Act. Up-to-date corporate Health & Safety Policy/procedures	H&S CoP driving improvement programme that requires commitment from all areas and appropriate monitoring by SLT.
14	Safeguarding	Council and/ or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as Children Act 2004 section 11.	Do staff, members and contractors know what is required and how to react?	2	3	1	4	3	3	2	8	8	→	Policies in place and key staff & management have received appropriate training and contact details to spot and report safeguarding issues. robust reporting process in place to key designated safeguarding leads (KDSL) how to guides on intranet, series of sessions to localities staff and through staff briefings.	W2 process is at test stage and close to roll out, Training requirements and relevant courses for KDSL identified, online training through learning pool also at final test stage.

#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	Prior Risk Score	Current Risk Score	Change	Mitigating Actions / Internal Controls	Latest Note
15	External Fraud	Fraud, financial impropriety or improper business practises anywhere against the organisation	Fraud could occur anywhere against the organisation; but the likely impact is limited due to existing management controls	3	2						6	6	→	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	Reviewed by SLT and agreed to leave as is
16	Financial Systems & Budget Monitoring	Financial Systems & Budget Monitoring	Can the current system, use of the system and our financial processes support transforming the way we manage our budgets and financial reporting. There is a risk that any changes could jeopardise year end processes.	2	3	1	2	2	1	2	6	6	→	Temporary resource has been brought in to drive process changes and recommend & implement changes to our set up of the financial system. S151 & CoP lead role now dis-aggregated, to provide more focus and resilience on each aspect. We are engaging with the system provider to review our system set-up through a process known as Assessment of Current Use (AoCU)	17/18 accounts closed on time and with no issues. Self Serve to be rolled out to budget holders in 18/19
17	Internal Fraud	Fraud, financial impropriety or improper business practises anywhere in organisation	Fraud could occur anywhere throughout the organisation; but the likely impact is limited due to existing management controls	2	2						6	4	✓	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	SLT happy that controls are in place and any fraudulent activity is identified quickly and investigated thoroughly
Page 84	Procurement	The risk is that we don't follow procurement procedures. A number of contracts to be let by the Council over the next 2 year period which will be in excess of the EU procurement thresholds.	There are a number of contracts to be let by the Council over the next 2 year period which will be in excess of the EU procurement thresholds. These will require specialist input and project teams to ensure best value for money is achieved. Current level of procurement competence is unknown	1	4	3	3	3	2	2	4	4	→	The procurement elements required should be captured and prioritised within the service planning exercise being carried out currently. It is important therefore that the project mgmt of major procurements is robust. Dedicated resources have been recruited to ensure this is done.	The Council is currently mid way though a significant procurement for Waste Services. We continue to access procurement services through our shared arrangement with Teignbridge which provides us with the expert knowledge to ensure compliance with regulations.  We are currently exploring opportunities to further enhance the expertise for different levels of procurements through a potential widening of the shared procurement arrangement.
	REMOVED	Accounts not being published by the legal deadline due to earlier closedown timetable	There is a requirement that closedown of 17/18 accounts be brought forward 4 weeks to end of May 2018. The risk is that resourcing within the finance COP prevents closedown by the new government deadline.	1	1	1	1	1		1	3	1	✓	Finance COP will do mini-close as at end Sept 2017 by end Nov 2017 to enable faster closedown at year end. Structural changes to split s151 and finance COP has enabled more focus on operational duties.	This risk for 2018/19 remains low and the team have demonstrated this year that closing the accounts on time (a month early) is possible. The 2017/18 Accounts were closed on time with a good audit report. This risk could now be transferred back as an operational risk to be managed within service.
	REMOVED	T18 Benefits Not Delivered	Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for BAU; Capacity risk once additional resources exhausted?	Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff moral and reputation can be affected.	1	1	1	1	1	1	1	6	1	✓	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Regular monitoring reports to Members.



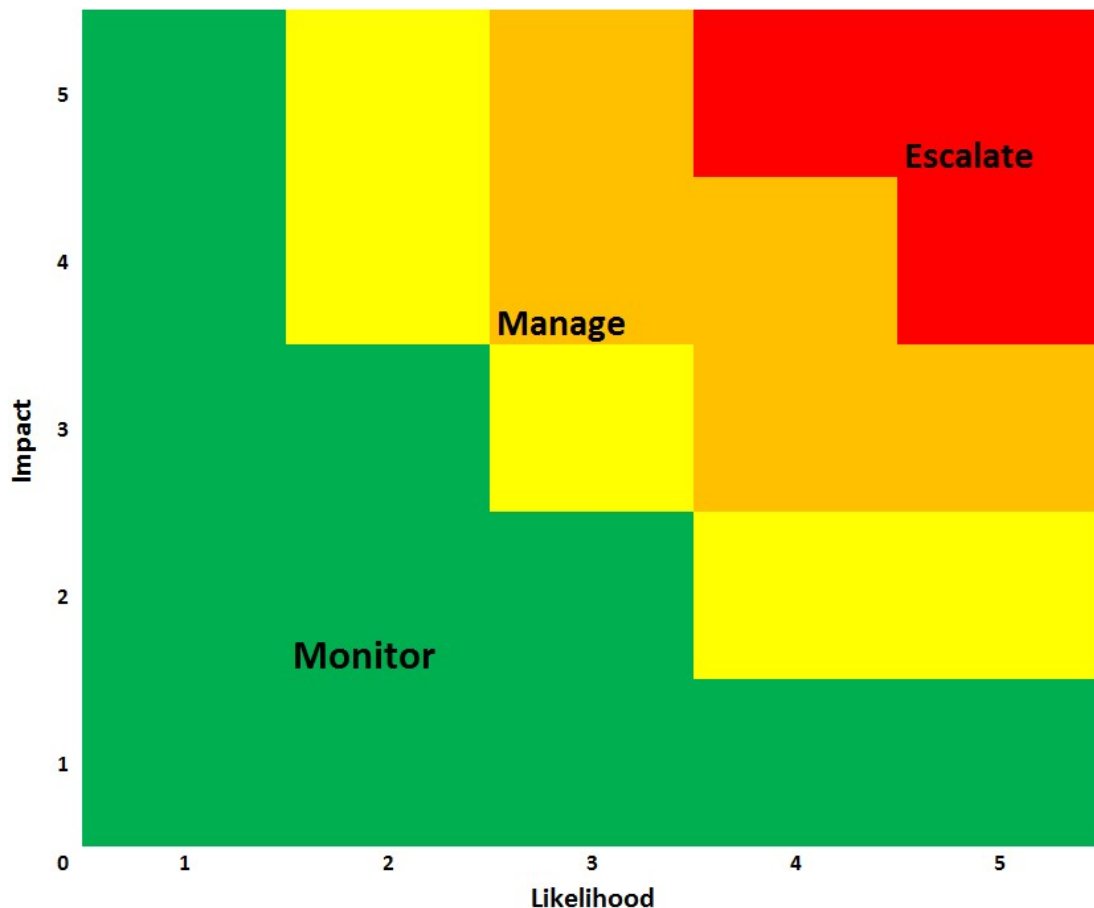
**Appendix 2 - Risk Scoring Matrix**

#	Likelihood	Impact
1	Unlikely to occur under normal circumstances	Financial: Financial loss of less than £10k Service Quality: Drop in performance or delays to a process or temporary loss of an access route to a service Reputation: Limited local interest, single story Legal/Regulatory: Not reportable to regulator/Ombudsman, simple fix Health & Safety: Minor first aid required Morale/Staffing: Isolated staff dissatisfaction
2	Potential to occur however likelihood remain low	Financial: Financial loss of between £10k & £100k Service Quality: Drop in performance or delays to a service area or sustained loss of access routes for services Reputation: Local or 'industry' interest, single story over multiple news outlets Legal/Regulatory: Reportable to regulator/Ombudsman, no or little follow up needed Health & Safety: Minor injuries to employees or third parties Morale/Staffing: Pockets of staff morale problems and increased turnover
3	Likely to occur	Financial: Financial loss of between £100k & £500k Service Quality: Drop in performance or delays to delivering a wide range of services Reputation: Short term negative media exposure Legal/Regulatory: Regulator/Ombudsman report with immediate correction to be implemented, or risk of prosecution Health & Safety: Simple 'medical professional' type care for employees or third parties, e.g. GP visit, minor injuries unit visit Morale/Staffing: General staff morale problems and increased turnover
4	Most likely to occur	Financial: Financial loss of between £500k & £1Mill Service Quality: Major drop in performance or inability to deliver discretionary services Reputation: Sustained negative media coverage, or South West or 'affected industry' publication exposure Legal/Regulatory: Regulator/Ombudsman report requiring major project to correct or prosecution with fines, etc. Health & Safety: Limited hospital care required for employees or third parties Morale/Staffing: Widespread morale problems and high turnover. Not perceived as employer of choice
5	Almost certainly will occur	Financial: Financial loss of over £1Mill Service Quality: Major drop in performance or inability to deliver mandatory services Reputation: Long term negative media coverage, or national media exposure Legal/Regulatory: Significant prosecution or fines, incarceration of directors Health & Safety: Significant injuries or fatalities to employees or third parties Morale/Staffing: Some senior leaders leave / high turnover of experienced staff, insufficient staff to complete statutory functions

**Green** - These risks have low impact and/or low likelihood of occurring. Have a plan to prevent them escalating but only light touch monitoring required

**Amber** - These risks need to be managed to prevent them causing an impact on the business or project. Higher risks are more amber; lower risks are more yellow. Clear plans with owners need to be in place and they should be managed by the project team or service leads on a regular basis

**Red** - These risks can have a significant impact on the business or project and must be managed by the project board or service management team. Mitigations must be in place and managed to ensure that the risk is not realised or can be controlled



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# Risk and Opportunity Management Strategy

October 2018



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## EXECUTIVE SUMMARY

The Council, like all organisations faces a wide range of risks. The aim of this policy is to communicate why *Risk and Opportunity Management* is important, why it must be carried out and to provide an explanation of the approach that is to be taken.

*Risk* is defined as an uncertain event, or set of events, that should it occur will have an effect on our ability to achieve our objectives. Generally, risks are perceived as negative but that is not always the case. There are occasionally uncertainties that could have a positive impact, referred to as Opportunities.

Risk Management is the systematic application of principles and processes to identify and assess risk, along with the planning and implementation of responses. It is an integral part of internal control and for local government is a statutory requirement, defined in the Accounts & Audit Regulations 2015.

Embedding risk management throughout the Council is not just about legal requirements. Effective risk management will lead to:

- improved performance by contributing to fewer shocks and unwelcome surprises;
- more efficient use of our resources;
- better, more informed decision-making and;
- an ability to exploit opportunities.

Risk and Opportunity Management is both a statutory requirement and an indispensable element of corporate governance and good management. It has never been more important to have an effective Risk and Opportunity Management Strategy in place to ensure we are able to discharge our various functions and deliver public services efficiently and cost effectively. The last risk strategy was prepared in 2013 and this strategy is a complete re-work, based on feedback received from the Devon Audit Partnership.

Risk is unavoidable. It is an important part of life that allows us all to move forward and develop. Successful risk management is about ensuring that we have the correct level of control in place to provide sufficient protection from harm, without stifling our development.

The Council's overriding attitude to risk is to operate in a culture of creativity and innovation, in which all key risks are identified in all areas of the business and are understood and proactively managed, rather than avoided. Risk and opportunity management therefore needs to be taken into the heart of the Council and our key partners and stakeholders.

We need to have the structures and processes in place to ensure the risks and opportunities of daily Council activities are identified, assessed and addressed in a standard way. We do not shy away from risk but instead seek to proactively manage it. This will allow us not only to meet the needs of the community today, but also be prepared to meet future challenges.

The Council will record the significant risks identified as potential threats to the delivery of its objectives within Risk and Opportunity Registers and incorporate mitigation controls within action plans to include details of any opportunities that may arise from the successful management of each risk. Risks will be monitored every 6 months and findings reported via the Council's Audit Committee.

The benefits gained with a Risk and Opportunity Management Framework are improved strategic, operational and financial management, better decision making, improved compliance and, most importantly, improved customer service delivery and better outcomes for the residents of South Hams and West Devon.

We embrace risk and opportunity management to support the delivery of our vision and to enable the provision of high quality services to the residents of South Hams and West Devon.

## **THE RISK AND OPPORTUNITY MANAGEMENT STRATEGY**

### **1. DEFINITIONS**

#### **What is a Risk?**

Risk is most commonly held to mean “hazard” and something to be avoided but it has another face – that of opportunity. Improving public services requires innovation – seizing new opportunities and managing the risks involved. In this context risk is defined as uncertainty of outcome, whether positive opportunity or negative threat of actions and events. It is the combination of likelihood and impact, including perceived importance.

#### **What is Risk and Opportunity Management?**

Risk and Opportunity Management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to an organisation achieving its objectives.

This Strategy is intended to reaffirm and improve effective Risk and Opportunity Management in South Hams and West Devon, comply with good practice and in doing so, effectively manage potential opportunities and threats to the organisation achieving its objectives.

### **2. TYPES OF RISK - STRATEGIC AND OPERATIONAL**

Strategic risks affect or are created by our business strategy and strategic objectives. They can be defined as the uncertainties and untapped opportunities embedded in strategic intent and how well they are executed. As such, they are key matters for our Senior Leadership Team (SLT) and impinge on the whole organisation, rather than just an isolated department or community of practice. Inclusion of a risk in the strategic risk and opportunity register indicates that it is one of a number of risks that the Council (particularly elected members and the extended leadership team) need to be aware of and ensure appropriate management arrangements are in place to manage/mitigate them.

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events. Operational risks should link to each service area’s Business / Service Plan.

### **3. RISK ANALYSIS AND MONITORING ARRANGEMENTS**

The SLT will monitor and manage the delivery of the Risk and Opportunity Management Strategy at a strategic level.

The purpose of this is to effectively embed Risk and Opportunity Management within the ethos of the Council’s culture as an integral part of strategic planning, decision-making and its performance management framework.

The SLT will also be responsible for the development and monitoring of the Strategic Risk and Opportunity Register, supported by the Statutory Officers Group.

The Extended Leadership Team (ELT), under the direction of the SLT, will be responsible for the delivery of this strategy at an operational level and for the development and monitoring of service level Operational Risk and Opportunity Registers.

### **4. CORPORATE GOVERNANCE**

Risk and Opportunity Management is essential to effective corporate governance. Key risks are included in the Annual Governance Statement which is published alongside the Statement of Accounts.

### **5. HEALTH & SAFETY**

The Risk and Opportunity Management Strategy supports the corporate Health and Safety Policy in its commitment to the continuous improvement of health and safety performance, in particular by identifying key priorities and areas for improvement in health and safety management and risk control.

### **6. EMBEDDING RISK AND OPPORTUNITY MANAGEMENT**

The Risk and Opportunity Management Strategy is to be reviewed annually to ensure it remains up to date. The Finance Portfolio holder and SLT will jointly champion the process.

### **7. BENEFITS OF GOOD RISK AND OPPORTUNITY MANAGEMENT**

Integration of risk and opportunity management into the culture and working practices of the Council and its delivery partnerships has numerous benefits, which include:

- Protecting and adding value to the Council and its stakeholders by supporting the achievement of the Council's vision and corporate priorities
- Improved strategic, operational and financial management
- Contributing to more efficient use/allocation of resources within the Council and its partners
- Keeping the Council within the requirements of the law
- Mitigation of key threats and taking advantage of key opportunities
- Protecting and enhancing assets and reputation
- Improving decision-making (making the right decisions), planning and prioritisation by comprehensive and structured understanding of activity and volatility
- Enabling future activity to take place in a consistent and controlled manner
- Promotion of innovation and change
- Improved customer service delivery
- Continuity of knowledge and information management processes
- Developing and supporting people and the Council's knowledge base
- Optimising operational efficiency and therefore delivering efficiency gains and value for money
- Better allocation of time and management effort to major issues
- Avoiding nasty surprises, shocks and crises
- Ensures our approach is aligned to 'Best Practice'
- Satisfies stakeholder/partners expectations on our internal control

## **8. CULTURE**

The Council will be open in its approach to managing risks and will seek to avoid a blame culture. Lessons from events that lead to loss or reputational damage will be shared as well as lessons when things go well. Discussion on risk in any context will be conducted in an open and honest manner.

## **9. GUIDANCE AND ASSISTANCE**

The Statutory Officers Group, in conjunction with SLT and ELT will promote and monitor good practice, provide guidance, support, advice and information and organise training.

## **10. RISK AND OPPORTUNITY MANAGEMENT POLICY STATEMENT**

South Hams District and West Devon Borough Council are aware that it is exposed to a very wide range of risks and threats to the delivery of key services to the community it serves.

The Council recognises that it has a responsibility to identify, evaluate and manage risk whilst still creating a fertile climate for innovation. It therefore supports a structured approach to risk and opportunity management through its corporate Risk and Opportunity Management Strategy, the aims and objectives of which are described below:

The aims of the Risk and Opportunity Management Strategy are to:

- Integrate and raise awareness of risk and opportunity management for all those connected with the delivery of Council services
- Embed risk and opportunity management as an integral part of strategic, service, information use, financial and project planning and policy making
- Establish a standard systematic approach to risk identification, analysis, control and monitoring and reviewing
- Provide a process for identifying threats or drawbacks that also includes finding and considering opportunities
- Provide a robust and transparent framework for managing risk and supporting decision making
- Support well thought-through risk taking
- Anticipate and respond to changing external and internal environment
- Embed risk and opportunity management as an integral part of delivering and aligning successful partnerships

The objectives of the Risk and Opportunity Management Strategy are:

- To embed Risk and Opportunity Management as part of the Council's culture of governance
- To provide a robust and systematic framework for identifying, managing and responding to risk
- To provide a robust and transparent track record of managing, communicating and responding to risk
- To encourage staff to think creatively about ways to work better, simpler and more effectively

## **11. FRAMEWORK**

The Council maintains two different types of Risk and Opportunity Register - Strategic and Operational.

The Strategic Register records risks that affect the aims and objectives of the corporate body – risks that hinder or stop successful achievement of corporate priorities and aims and are generally of a medium to long term nature. The Operational records those risks affecting the day to day departmental operations.

Both registers detail the following:-

- possible consequences of the risks identified, both negative (risks and threats) and positive (opportunities)
- potential impact and likelihood of the risk identified
- existing controls in place to mitigate the risks
- actions planned to mitigate the risks with relevant timescales and the responsible officers

The Strategic Register is owned by SLT. Operational Registers are maintained by the relevant CoP lead or the project board.

## **12. RISK AND OPPORTUNITY IDENTIFICATION**

Before we can identify our risks and opportunities we need to establish the context by looking at what we are trying to achieve and what our proposed outcomes are.

Depending on the area under review, the relevant objectives and outcomes will usually be detailed in existing documents such as department business plans, project plans or partnership agreements.

There are a number of different types of risks that an organisation may face including financial loss, failure of service delivery, physical risks to people and damage to reputation.

Opportunities can arise from areas within the organisation and externally. Internal sources of opportunity include how the authority structures itself, partnerships with other entities, operational changes and technological innovation. External sources of opportunity include changes to political, legal, social and environmental forces.

Opportunities can also be identified by giving consideration to those that have been neglected because of perceived, but unexamined risk. These include:

- Learning from the past – whilst past experience cannot necessarily be a predictor for future performance, signals that were ignored and missed opportunities can provide insight into organisational blind spots.
- Customer sensitivity – trying to understand customer needs and creating systems to exploit this information can lead to great gains.
- Learning from others – exploring and sharing best practice with other organisations can lead to benefits.
- Scenario planning – can be a powerful tool for generating new ideas.
- Once the opportunity has been identified it should be described to include the expected benefits, contributions to business objectives and stakeholders.

## **13. RISK DESCRIPTION**

The risks and opportunities identified need to be recorded in a structured format. A description covering the Cause, Event and Effect is used to scope a risk or opportunity. Some typical phrasing or statements are listed below:

Cause	Event	Effect
Because of .... As a result of .... Due to ....	<an uncertain event i.e. Risk or opportunity> may occur ....	which would lead to <effect on objective(s)>

Event	Cause	Effect
Risk of .... Failure to .... Failure of .... Lack of .... Loss of .... Uncertainty of .... Delay in .... Inability to .... Inadequate .... Partnership with .... Development of .... Opportunity to ....	.... due to ....	.... leads to .... and/or .... result in ....

## 14. RISK ANALYSIS

Once risks have been identified they need to be assessed systematically and accurately. The process requires as assessment of the level of risk by considering:

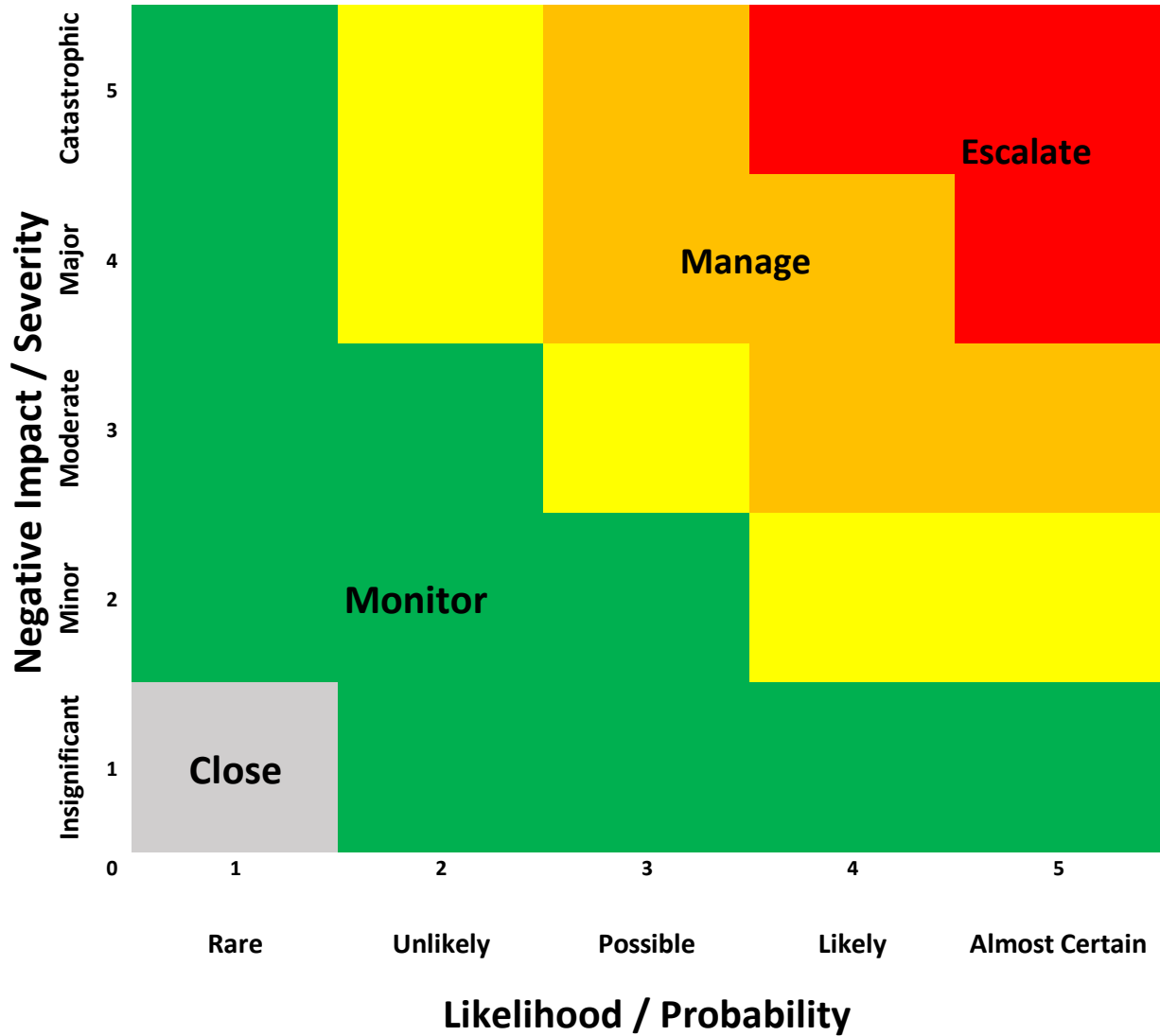
The probability of an event occurring – “likelihood” and the potential outcome of the consequences should such an event occur – “impact”. The assessment will cover each element of the judgement and determine the score – with the worst child being the score that determines the overall risk score. The tables below give the scores and indicative definitions for each element of the risk ranking process:

#	Likelihood	Impact
1	<b>Rare - Unlikely to occur under normal circumstances</b> 0-10% Is never likely to occur Very unlikely this will ever happen e.g. Once in 100 years	<b>Insignificant Risk</b> Financial: Financial loss of less than £10k Service Quality: Drop in performance or delays to a process or temporary loss of an access route to a service Reputation: Limited local interest, single story Legal/Regulatory: Not reportable to regulator/Ombudsman, simple fix Health & Safety: Minor first aid required Morale/Staffing: Isolated staff dissatisfaction
2	<b>Unlikely - Potential to occur however likelihood remains low</b> 10 - 25% May occur only in exceptional circumstances Not expected to happen, but is possible e.g. Once in 25 years Not known in this activity	<b>Minor Risk</b> Financial: Financial loss of between £10k & £100k Service Quality: Drop in performance or delays to a service area or sustained loss of access routes for services Reputation: Local or 'industry' interest, single story over multiple news outlets Legal/Regulatory: Reportable to regulator/Ombudsman, no or little follow up needed Health & Safety: Minor injuries to employees or third parties Morale/Staffing: Pockets of staff morale problems and increased turnover
3	<b>Possible - Could occur</b> 25 - 50% Could occur in certain circumstances May happen occasionally, e.g. Once in 10 years Has happened elsewhere	<b>Moderate Risk</b> Financial: Financial loss of between £100k & £500k Service Quality: Drop in performance or delays to delivering a wide range of services Reputation: Short term negative media exposure Legal/Regulatory: Regulator/Ombudsman report with immediate correction to be implemented, or risk of prosecution Health & Safety: Simple 'medical professional' type care for employees or third parties, e.g. GP visit, minor injuries unit visit Morale/Staffing: General staff morale problems and increased turnover
4	<b>Likely - Most likely will occur</b> 50 - 80% Will probably occur in many circumstances Will probably happen, but not a persistent issue e.g. Once in 3 years Has happened in the past	<b>Major Risk</b> Financial: Financial loss of between £500k & £1Mill Service Quality: Major drop in performance or inability to deliver discretionary services Reputation: Sustained negative media coverage, or South West or 'affected industry' publication exposure Legal/Regulatory: Regulator/Ombudsman report requiring major project to correct or prosecution with fines, etc. Health & Safety: Limited hospital care required for employees or third parties Morale/Staffing: Widespread morale problems and high turnover. Not perceived as employer of choice
5	<b>Almost certainly will occur</b> 80 - 100% Is expected to occur in most circumstances Will undoubtedly happen, possibly frequently e.g. Annually or more frequently Imminent/near miss	<b>Catastrophic</b> Financial: Financial loss of over £1Mill Service Quality: Major drop in performance or inability to deliver mandatory services Reputation: Long term negative media coverage, or national media exposure Legal/Regulatory: Significant prosecution or fines, incarceration of directors Health & Safety: Significant injuries or fatalities to employees or third parties Morale/Staffing: Some senior leaders leave / high turnover of experienced staff, insufficient staff to complete statutory functions

The risk ratings for each part of the assessment are then combined to give an overall ranking for each risk. The ratings can be plotted onto the risk matrix (see below), which assists in determining the risk priority and the amount of attention it deserves.



**15. RISK RANKING TABLE**



Risk Tolerance		
Red (High Risk)	20 - 25	Must be managed down urgently
Amber (Medium Risk)	11 - 19	Manage - Seek to influence short to medium term reduction or mitigation of risk
Yellow (Medium Low Risk)	7 – 10	Acceptable - Monitor and Manage in order to influence reduction in risk
Green (Low Risk)	2 - 6	Acceptable – Continue to Monitor & Regrade as circumstances change
Close (Minimal risk)	1	Remove from register

## 16. RISK APPETITE

Risk appetite is the amount of risk, on a broad level that South Hams District and West Devon Borough Council is willing to accept in pursuit of value. It is strategic and reflects the organisation's risk management philosophy, and in turn influences the organisation's culture and operating style. Risk appetite guides resource allocation and provides the infrastructure necessary to effectively respond to and monitor risks.

Our aim is to consider all options to respond to risk appropriately and make informed decisions that are most likely to result in successful delivery of benefits whilst also providing an acceptable level of value for money.

The acceptance of risk is subject to ensuring that all potential benefits and risks are fully understood and that appropriate measures to mitigate risk are established before decisions are made. We recognise that the appetite for risk will vary according to the activity undertaken and hence different appetites and tolerances to risk apply.

Specifically, our approach is to minimise exposure to compliance, regulation, safeguarding and reputation risk, whilst accepting and encouraging an increased degree of risk in other areas in pursuit of our strategic and business objectives as illustrated in the diagram and statements below:

		Lower Risk			Higher Risk	
Risk Score		1	2-6	7-10	11-19	20-25
Risk Category	Financial	Accept & Close	Accept, but monitor	Manage & Monitor	Management Effort Required	Considerable Management Essential
	Service Quality / Operational	Accept & Close	Accept	Management Effort Worthwhile	Management Maybe Essential	Extensive Management Essential
	Reputation	Accept & Close	Accept	Manage & Monitor	Management Effort Worthwhile	Extensive Management Essential
	Legal / Regulatory / Governance / Safeguarding	Accept & Close	Accept, but monitor	Management Effort Worthwhile	Management Maybe Essential	Considerable Management Essential
	Health & Safety	Accept & Close	Accept, but monitor	Manage & Monitor	Management Effort Worthwhile	Considerable Management Essential
	Morale / Staffing	Accept & Close	Accept	Management Effort Worthwhile	Management Maybe Essential	Extensive Management Essential

Lower Risk >>>>

>>>>>>Higher Risk

Risk Appetite Scale	Accept	Accept but monitor	Manage & monitor	Management effort worthwhile	Management effort required	Considerable management required	Extensive management essential
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Risk Appetite Scale Definitions	
Extensive management essential	Escalate to Strategic Risk Register – Monthly review at SLT level – formal review at Audit Committee / Overview & Scrutiny Committee level every 6 months.
Considerable management required	Consider escalation to Strategic Risk Register – Monthly review at ELT level – formal review at

	SLT level every 6 months; Project/Programme/Portfolio Risks – Monthly review at Project Board level and consider escalation to Strategic Risk Register.
Management effort required	Add to Operational Risk Register and review at least quarterly at Community of Practice / Group Manager level (consider escalation to Strategic Risk Register if risk cannot be mitigated at CoP level) – formal review at SLT level every 6 months.
Management effort worthwhile	Add to operational risk register and review quarterly at CoP level – formal review at SLT level every 6 months; Project/Programme/Portfolio Risks – Monthly review at Project Board level and consider escalation to Operational Risk Register.
Manage and monitor	Add to operational risk register - formal review every 6 months.
Accept but monitor	Can be managed locally within Team but consider adding to risk register if controls are likely to change; Project/Programme/Portfolio Risks – Project/Programme Manager manage risk.
Accept	Can be managed locally within Teams.

## Risk Classifications

**Financial** – The Council acknowledges the responsibility it has for administration of public funds, and wishes to emphasise to both the public and its employees the importance it places upon probity, financial control and honest administration. Financial Regulations provide the framework for managing the Council’s financial affairs and should be adhered to at all times. All schemes must be fully financed and approved by SLT. Finance should be consulted when planning any new project.

**Operational/Service Quality** – The Council is committed to becoming a Co-operative Council and accepts a moderate to high level of risk arising from the nature of the Council’s business operations and service delivery to deliver an appropriate level of service at value for money, whilst minimising any negative reputational impact.

**Reputation** – It is regarded as essential that the Council preserves a high reputation and hence it has set a low appetite for risk in the conduct of any of its activities that puts its reputation in jeopardy through any adverse publicity.

**Legal, Regulatory, Governance and Safeguarding** – The Council recognises the need to place high importance on compliance, regulation and public protection and has no appetite for breaches in statute, regulation, professional standards, ethics, bribery or fraud.

**Health & Safety** – The Council has a continuing obligation to look after the health and wellbeing of its staff and the residents affected by its service delivery. The Council has little appetite for risk in making the council a safe place to work and to do business with.

**Morale & Staffing** – The Council recognises that staff are critical to achieving its objectives and therefore the support and development of staff is key to making the Council an inspiring place to work. It has moderate to high appetite for decisions that involve staffing or culture to support transformational change and ensure the Council is continually improving.

The Council’s Risk Appetite statement will be continually monitored to ensure it supports the organisation’s risk and opportunity management strategy. Risk appetite is an important tool for effective risk monitoring and provides the following benefits:

- Forms an integral part of corporate governance
- Guides the allocation of resources

- Guides an organisations infrastructure, supporting its activities related to identifying, assessing, responding to and monitoring risks in pursuit of organisational objectives
- Is multi-dimensional, including when applied to the pursuit of value in the short term and the longer term of the strategic planning cycle
- Requires effective monitoring of the risk itself

## **17. RISK RESPONSE**

There are four basic ways of treating risk, which are:

Treat	Ensuring effectiveness of existing controls and implementing new controls where considered necessary and cost effective.
Transfer	Involves another party bearing or sharing the risk i.e. via insurance
Tolerate	Where it is not possible to treat or transfer. Consideration needs to be given to how the risk and consequences of such are to be managed should they occur.
Terminate	Deciding where possible not to continue or proceed with the activity in view of the level of risks involved.

## **OPPORTUNITY RESPONSE**

There are four basic ways of treating opportunity, which are:

Enhance	Seek to increase the likelihood and/or the impact of the opportunity in order to maximise the benefit.
Ignore	Minor opportunities can be ignored, by adopting a reactive approach without taking any explicit actions.
Share	Seek a partner/stakeholder able to manage the opportunity, which can maximise the likelihood of it happening and increase the potential benefits
Exploit	Seek to make the opportunity definitely happen. Aggressive measures to ensure the benefits from the opportunity are realised.

## **18. MONITORING ARRANGEMENTS FOR KEY RISKS**

The reason for monitoring key risks is to create an early warning system for any movement in risk – key risks are defined as those which score 16 or above in accordance with the risk ranking table in section 15. High level red risks may be referred to the Overview & Scrutiny Committee subject to Audit Committee recommendation. Risks scoring below 16 are considered to be managed effectively and therefore within the Council’s “risk tolerance”. Any risk scored 1 can be removed from the risk register and archived.

Risk Registers are living documents and therefore must be regularly reviewed and amended. The Risk and Opportunity Management Strategy requires risks recorded on the Strategic Risk and Opportunity Register and service level Operational Risk and Opportunity Registers to be formally monitored every six months by CoP leads in consultation with group managers and the Statutory Officers Group.

Monitoring reports are presented for approval to the SLT and to the Audit Committee. Operational red risks may be referred to the Overview and Scrutiny Committee. The questions asked during monitoring are:

- Is the risk still relevant?
- Is there any movement in the risk score?
- Are the controls still in place and operating effectively?
- Has anything occurred which might change its impact and/or likelihood?
- Have potential opportunities been considered and maximised?
- Have any significant control failures or weaknesses occurred since the last monitoring exercise?
- If so, does this indicate whether the risk is increasing or decreasing?
- If the risk is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- If the risk is decreasing can I relax some existing controls?

- Are controls / actions built into appropriate documented action plans?
- Are there any new or emerging risks?
- Have any of the existing risks ceased to be an issue (and can therefore be archived?)

## **19. ROLES AND RESPONSIBILITIES**

### **Elected Members**

- ✓ Approve the Council's Risk and Opportunity Management Strategy
- ✓ Receive and approve monitoring reports on the Strategic Risk and Opportunity Register and an annual Risk and Opportunity Management report

### **Senior Leadership Team**

- ✓ Identify, evaluate, prioritise and control risks and opportunities facing the Council in achieving its objectives
- ✓ Ensure the Council implements and manages risk effectively through the delivery of the Risk and Opportunity Management Strategy and consider risks affecting delivery of services
- ✓ Ensure risk and opportunity management is considered by SLT on a quarterly basis
- ✓ Provide assurance to Audit Committee regarding risk and opportunity management compliance
- ✓ Be responsible for and monitor the Strategic Risk and Opportunity Register
- ✓ Appoint to the Statutory Officers Group
- ✓ Receive and approve risk and opportunity management status reports from the Statutory Officers Group
- ✓ Approve and monitor the progress and effectiveness of the Risk and Opportunity Management Strategy and the Statutory Officers Group
- ✓ Support the embedding of risk and opportunity management within the culture of the Council as an integral part of strategic/business planning, decision-making and performance management framework
- ✓ Approve risk and opportunity management monitoring reports to Audit Committee

### **Lead Member for Risk and Opportunity Management**

- ✓ The portfolio holder for Finance will act as Member risk champion
- ✓ Ensure that the Council manages risk effectively through the development of a robust and comprehensive Risk and Opportunity Management Strategy

### **Statutory Officers Group**

- ✓ Support the Council and its CoP leads in the effective development, implementation and review of the Risk and Opportunity Management Strategy
- ✓ Share experiences across the Council and partners, promoting, facilitating and overseeing the arrangements for managing and monitoring of risk
- ✓ Provide training and guidance in Risk and Opportunity Management
- ✓ Lead and direct the work of the Group

### **CoP Leads / ELT**

- ✓ Identify, evaluate, prioritise and control risks and opportunities facing the Council in achieving its objectives
- ✓ Monitor, review and communicate information on operational and strategic risks within their CoP / area of control
- ✓ Ensure risk and opportunity management is embedded within departmental business / operational plans
- ✓ Review cross cutting operational issues
- ✓ Report to Statutory Officers Group every six months
- ✓ Include staff without direct responsibility for owning and managing risk in risk discussions to ensure teams identify potential risks associated with service delivery

### **Audit Committee**

- ✓ Provide independent assurance to the Council on the effectiveness of the Council's risk and opportunity management, internal control and overall assurance framework

**Overview & Scrutiny Committee**

- ✓ Provide independent assurance to the Council on the effectiveness and appropriateness of Council actions towards mitigating / resolving / managing red risks. This may be at the request of the Audit Committee, officers or elected Members

**All Staff / Officers**

- ✓ Assess and manage risks effectively in their job and report hazards / risks to their service managers
- ✓ Undertake their job within contractual, policy and statutory guidelines
- ✓ Consult with department risk champion as necessary

**Devon Audit Partnership**

- ✓ Provide a risk based Audit Plan to monitor the effectiveness of Internal Controls and provide a trigger and action plan for management intervention
- ✓ Audit the Risk and Opportunity Management Strategy and processes

Report to: **Audit Committee**  
Date: **9 October 2018**  
Title: **Commercial Investment Property – Update and monitoring report**  
Portfolio Area: **Assets – Cllr Neil Jory**

Wards Affected: **All Wards**

Relevant Scrutiny Committee:

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:

Author: **Chris Brook** Role: **CoP Lead Assets**

Contact: **Telephone/email: [Chris.brook@swdevon.gov.uk](mailto:Chris.brook@swdevon.gov.uk)**

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## **Recommendations:**

**That the performance and risks of the commercial property portfolio to date be noted.**

### 1. **Executive summary**

- 1.1. On 5<sup>th</sup> December 2017 Council approved the recommendations of a report entitled "Commercial Property Acquisition Strategy Update". This agreed to borrowing of up to £37.45m to implement the strategy that was adopted.
- 1.2. The Strategy had an envisaged upper limit of £75m plus associated costs and gave a clear risk based approach to building a commercial portfolio of that value. Since 2017, new Government guidance was issued in February 2018 around proportionality of borrowing and subsequently the S151 Officer sought external specialist treasury management advice concerning borrowing limits.
- 1.3. In light of the external advice received, Full Council on 25/09/18 approved a strategy that blends in area developments and investments

with those outside of area, all capped at a borrowing limit of £50m, which supercedes the original strategy envisaged in 2017.

- 1.4. As such, the ability to deliver up to the envisaged £37.45m in commercial property is in question. This report considers the performance of the portfolio to date and the risks associated therewith looking forward.
- 1.5. Three purchases have been made to date totalling £18.725m plus costs representing 54% of the agreed borrowing (£35m).
- 1.6. An income projection from Commercial Investment Property of £100k was built into the 2018/2019 budget. This projection has now been exceeded, with the net revenue after allowing for management, maintenance and risk mitigation being £237,293 per annum.
- 1.7. The portfolio has achieved a geographic and sector balance in line with the strategy. It has not achieved a balance of spread between tenants and there are future pressure points in 2028 created by lease events.
- 1.8. It is noted that should the Council wish to mitigate these risks, it would need to continue to build the portfolio, which would now not necessarily be compatible with the new adopted strategy, as it would restrict in area developments, as a result of the overall Borrowing Limit of the Council for all services (£50m).

## 2. **Background**

- 2.1. On the 25<sup>th</sup> July and 5<sup>th</sup> December 2017 the Council agreed to borrow up to £35m plus associated costs to acquire commercial investment property.
- 2.2. Three property acquisitions have now been made, totalling £18.725m plus associated costs.
- 2.3. The project has met its initial projection of a net income of £100k this financial year and £200k in the next financial year, which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.4. As of 25/09/18, the commercial property acquisition strategy has been superseded by a new strategy which blends commercial acquisitions with in area developments.
- 2.5. As only 54% of the anticipated initial spend on commercial investment property has been made, the portfolio is currently un-balanced (explained in Sections 3 and 4) and further acquisitions should be considered to both mitigate the risk in the portfolio and further increase the ancillary revenue benefit for the Council.
- 2.6. In simple terms, the upper borrowing limit of £50m adopted and approved imposes a choice moving forward between in-area developments which could offer both financial and social return, or, further commercial acquisitions providing a better risk profile to the portfolio and financial position.



- 2.7. This report sets out the risks, statistics and performance of the portfolio to date so as to provide Members with the ability to make informed decisions going forward.

### 3. **Outcomes/outputs**

- 3.1. The average yield of the portfolio is 5.42% which is lower than the 5.85% target for the end of the project but reflects the current 'appetite for risk' of the Council through the Invest to Earn Group. Further purchases can look to raise this percentage if 5.85% remains as the target. This target may be reviewed against the level of risk the Council is content to accept.
- 3.2. An income of £237,293 (for a full year) after deducting an allowance of 10% for the management, maintenance and risk mitigation fund (a fund set up to deal with maintenance, repairs or unforeseen risks).
- 3.3. The project has a property in each of the main asset classes – Office, Industrial and Retail.
- 3.4. A geographical spread within the SW peninsular has been achieved; Regional - Bristol, Sub-regional – Exeter, Local – Okehampton. Following government guidance the portfolio has been restricted to the South West Peninsular.
- 3.5. Single and Multi-let opportunities have been acquired, with a mix of tenants (9 in total), including those with the strongest covenant strength. One tenant does represent a significant percentage of the rental income (61%), they are assessed (by a Dun and Bradstreet credit rating report) as having a Risk Indicator of 1, which represents a minimum risk of business failure.
- 3.6. A spread of lease expiries and breaks have been achieved, however, there are certain points at which there is a concentration of lease events (2028/2029). Any future purchases need to avoid having similar lease event dates.
- 3.7. The acquired properties have unexpired lease terms of:
  - 15 years (10 years to the break) – e.g. 2033
  - 9.3 years – e.g. 2027
  - An average of 7.3 years (3.5 years to the breaks) e.g 2025 – multi-let asset
- 3.8. The management, maintenance and risk mitigation (MMRM) fund currently stands at Circa £400k. 10% of rent from the portfolio goes into the MMRM which will fund void periods and repairs as and when they arise.
- 3.9. The project has included the successful delivery of the refurbishment of Bristol House office building (circa £2m), required to trigger an increased rental level.

- 3.10. Further acquisitions will mitigate the risk within the portfolio, by increasing the number of rental streams, spreading the points at which the income into the portfolio ceases (e.g. lease ends and break clauses) and increasing the diversity of tenants.
- 3.11. Committing to further purchases would increase the likely success of the overall commercial property strategy, due to the balancing of risk, and make these risks easier to manage over the life of the strategy.
- 3.12. A portfolio of Circa £35m with a further 2-5 purchases (5-8 in total), would help to achieve the balance required.
- 3.13. Full details of the portfolio performance can be found in Appendix A.

#### **4. Options available and consideration of risk**

- 4.1. Rather than committing to further purchases, the strategy could end at its current position. This would leave the portfolio unbalanced with the risks as highlighted above.
  - 4.1.1. As an example, if one of our tenants did not renew their lease and another served a break clause, 81% of the current rental income could end in 2028. Alternative tenants would be sought, however, this is one of the risks that would be mitigated by further purchases.
  - 4.1.2. As a further example, 61% of the rental income is currently paid by one tenant (also one of the tenants mentioned in 4.1.1), again this could be mitigated by further purchases.
  - 4.1.3. Therefore the net income into the Council's budget from the strategy could be significantly affected should it suffer a tenant default or tenancies ending coinciding with each other.
  - 4.1.4. The project has a management, maintenance and risk mitigation (MMRM) fund to help off-set the above situations. However depending on the income shortfall encountered, this may just cover debt repayments rather than contribute to the income budget.
- 4.2. If the strategy commits to further acquisitions, the following could be considered. These are examples rather than requirements/targets as the strategy can only acquire those properties that are available.
  - 4.2.1. Avoid properties with significant lease events in years 2028/2029 and balance the portfolio with expiry dates before and after.
  - 4.2.2. The Bristol office is quite a high proportion of the income, particularly being single let. Look to acquire further offices, but to alternative tenants and consider multi-let offices.
  - 4.2.3. Balance the portfolio with further industrial/logistic property – however, noting that this sector is particularly difficult to buy at the moment, particularly within our yield and geographic requirements.
  - 4.2.4. Continue to consider retail, but recognise the structural changes in the retail market. If there is not an appetite for retail, begin to seriously consider alternatives such as hotel, leisure or renewables opportunities.

## 5. Proposed Way Forward

- 5.1. It is recognised that the Council has other demands on the level of funds it can prudently borrow. Therefore further funds for this strategy will be balanced against the requirements of other projects.
- 5.2. When considering how to invest up to the permitted maximum, the Council must recognise that from a commercial property perspective, the acquisition of further properties would help achieve a more balanced portfolio and risk position.
- 5.3. If in area development projects are considered instead (such as employment assets), the Council should consider this impact on the portfolio balance and remain true to the risk based approach set out in the commercial property strategy, so as not to over expose the Council to one sector or area.
- 5.4. That the MMRM fund continues to be set aside for its intended purpose; to ensure there is a buffer against any significant unforeseen events and to deal with future likely points of expected expenditure.

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		N/A
Financial		The commercial property strategy was implemented in April 2018 and three commercial properties have been purchased to date in 2018/19. The net income is anticipated to be £190,000 in 2018/19 (against budgeted net income of £100,000 in 2018/19). Further details are shown in Appendix A.
Risk		Refer to section 4 and Appendix A
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety		N/A

and Wellbeing		
Other implications		

### **Supporting Information**

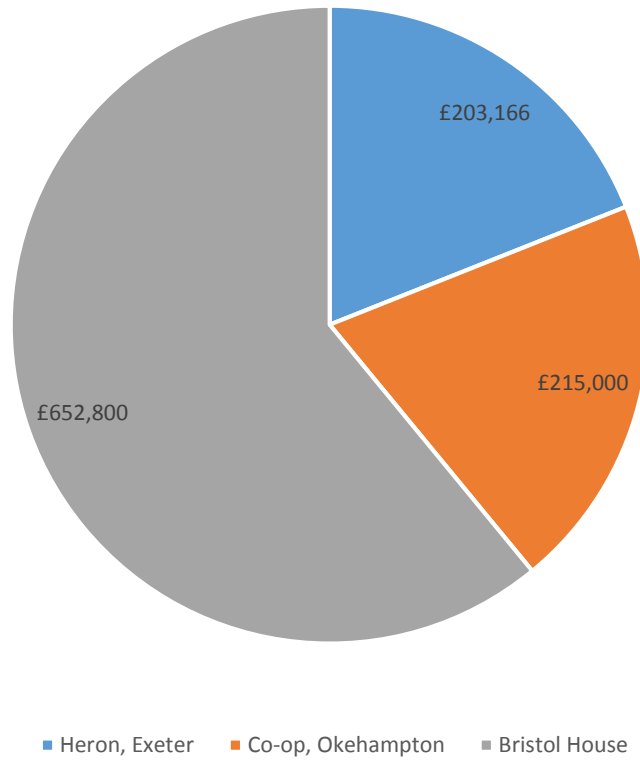
#### **Appendices:**

Appendix A – Portfolio performance reports

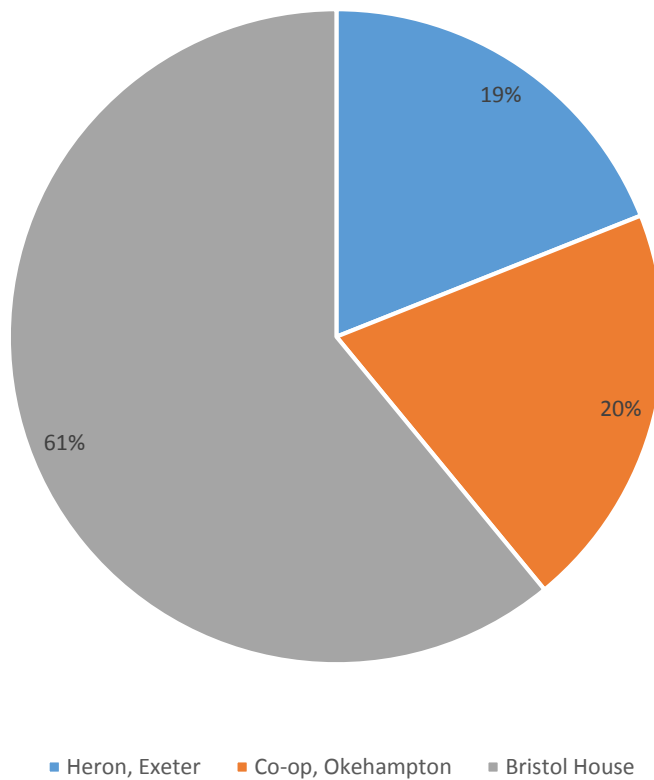
#### **Background Papers:**

- Commercial Property Strategy Amendment, presented to Hub Committee September 11<sup>th</sup> 2018
- Commercial Property Acquisition Strategy Update, presented to Council March 27<sup>th</sup>, 2017
- Commercial Property Acquisition Strategy Update, presented to Council December 5<sup>th</sup>, 2017
- Investment in Commercial Property, presented to Council July 25<sup>th</sup> 2017
- Investment in Commercial Property, presented to Hub Committee June 20<sup>th</sup> 2017

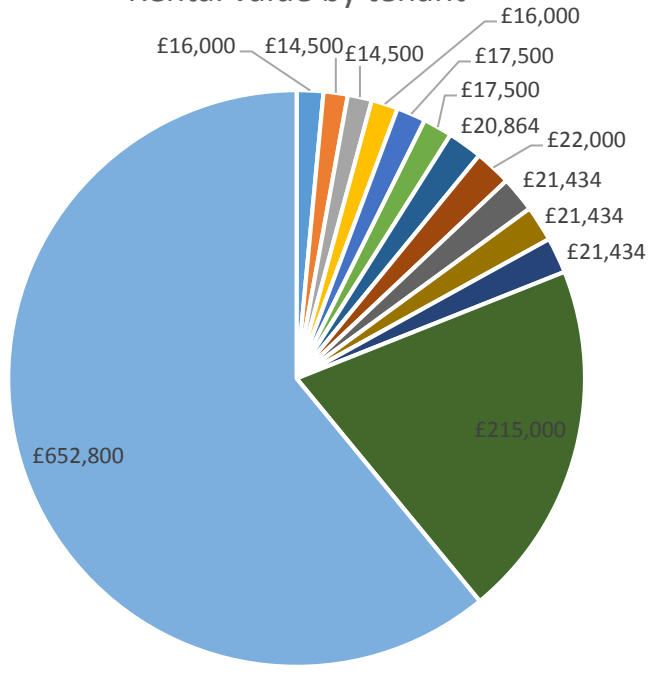
Rental value by property



Rental % by property

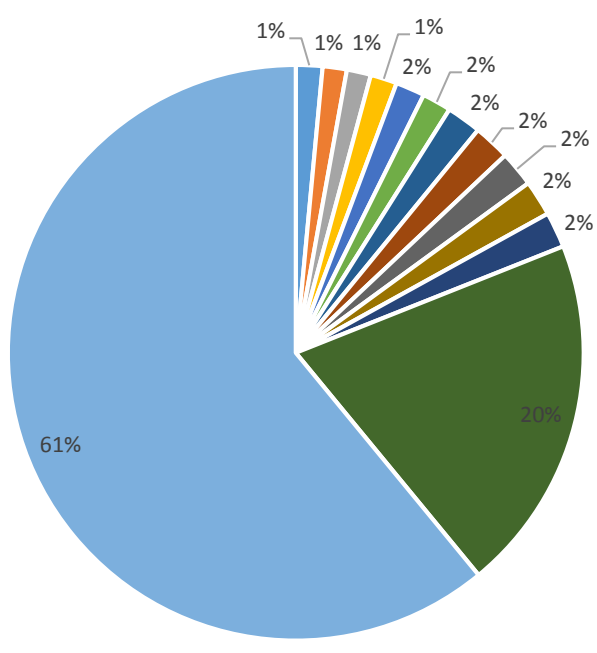


Rental value by tenant



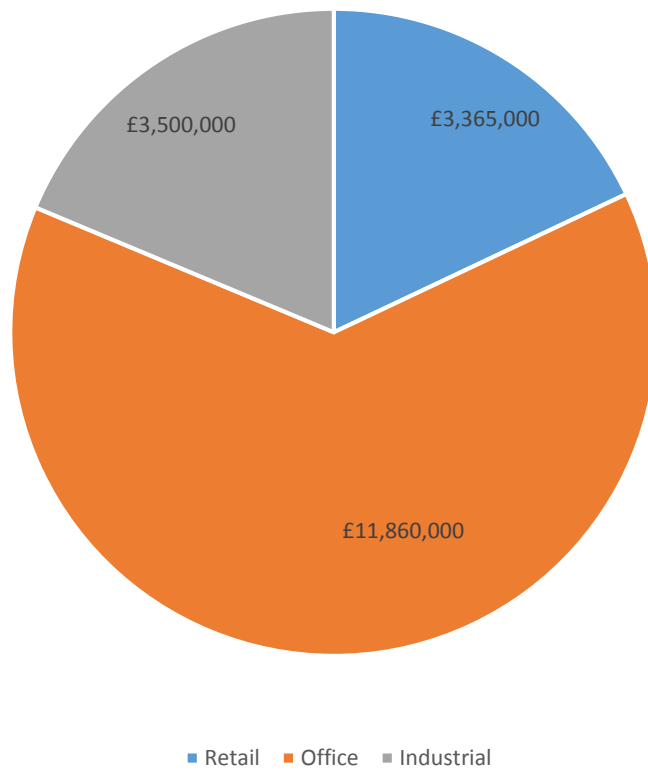
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- Tenant 4
- Tenant 5
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- Tenant 7
- Tenant 8
- Tenant 9
- Tenant 10
- Tenant 11
- Co-op
- Lyons Davidson

Rental % by tenant

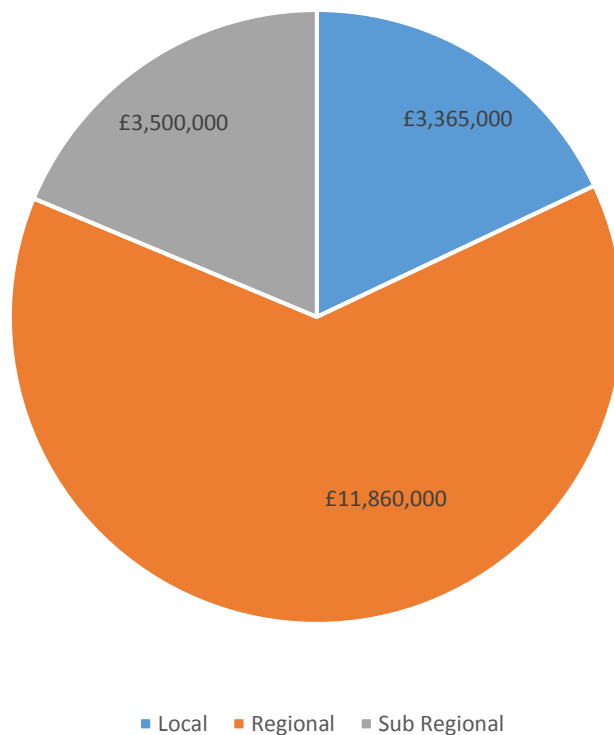


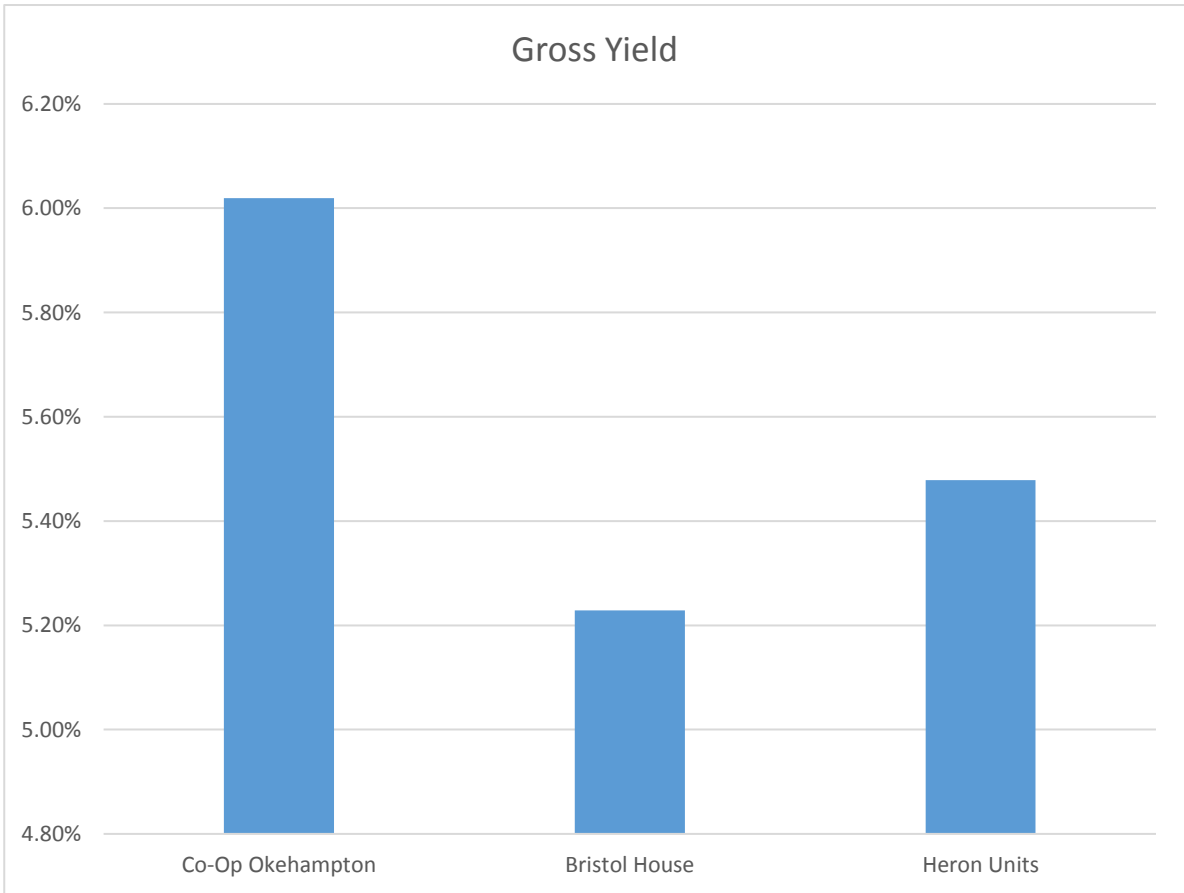
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- Tenant 9
- Tenant 10
- Tenant 11
- Co-op
- Lyons Davidson

Sector split by property value

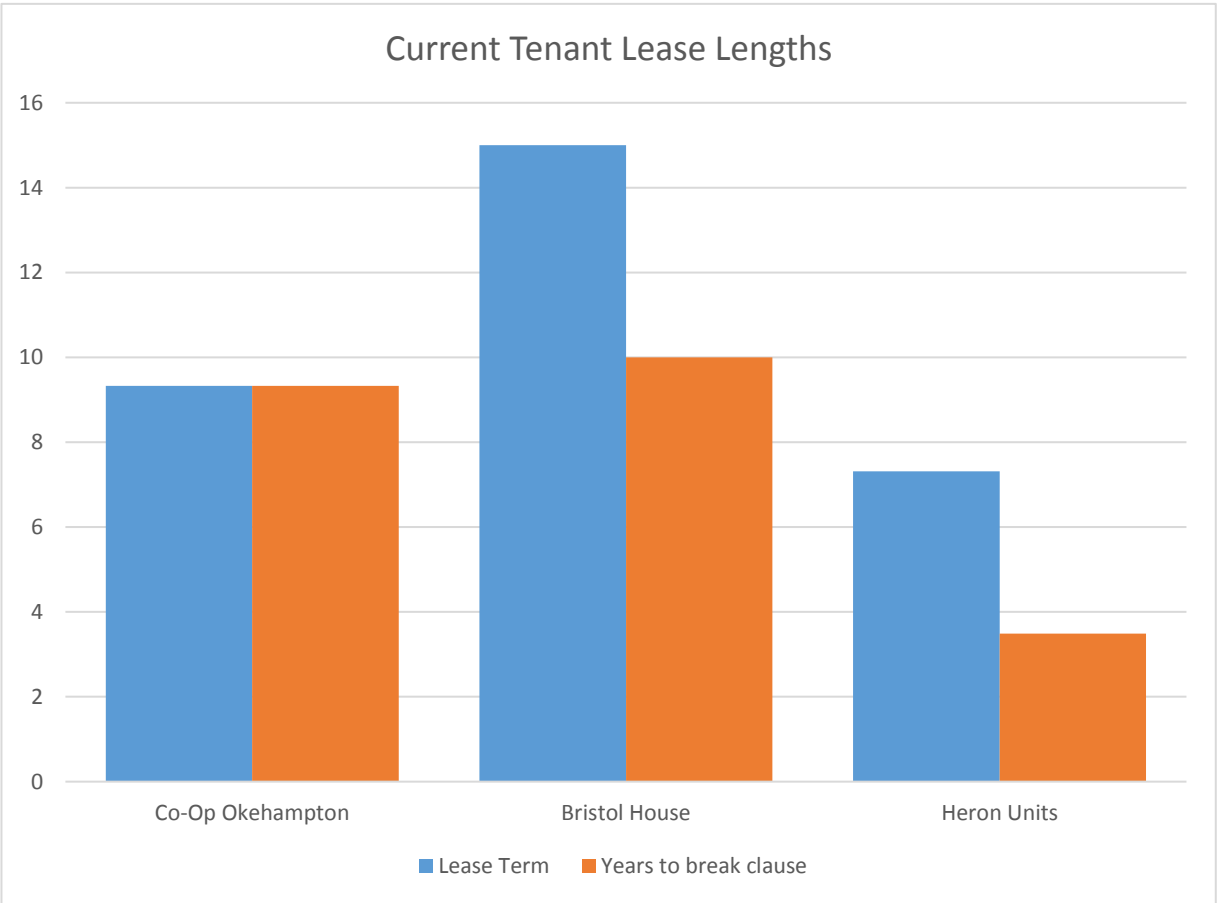
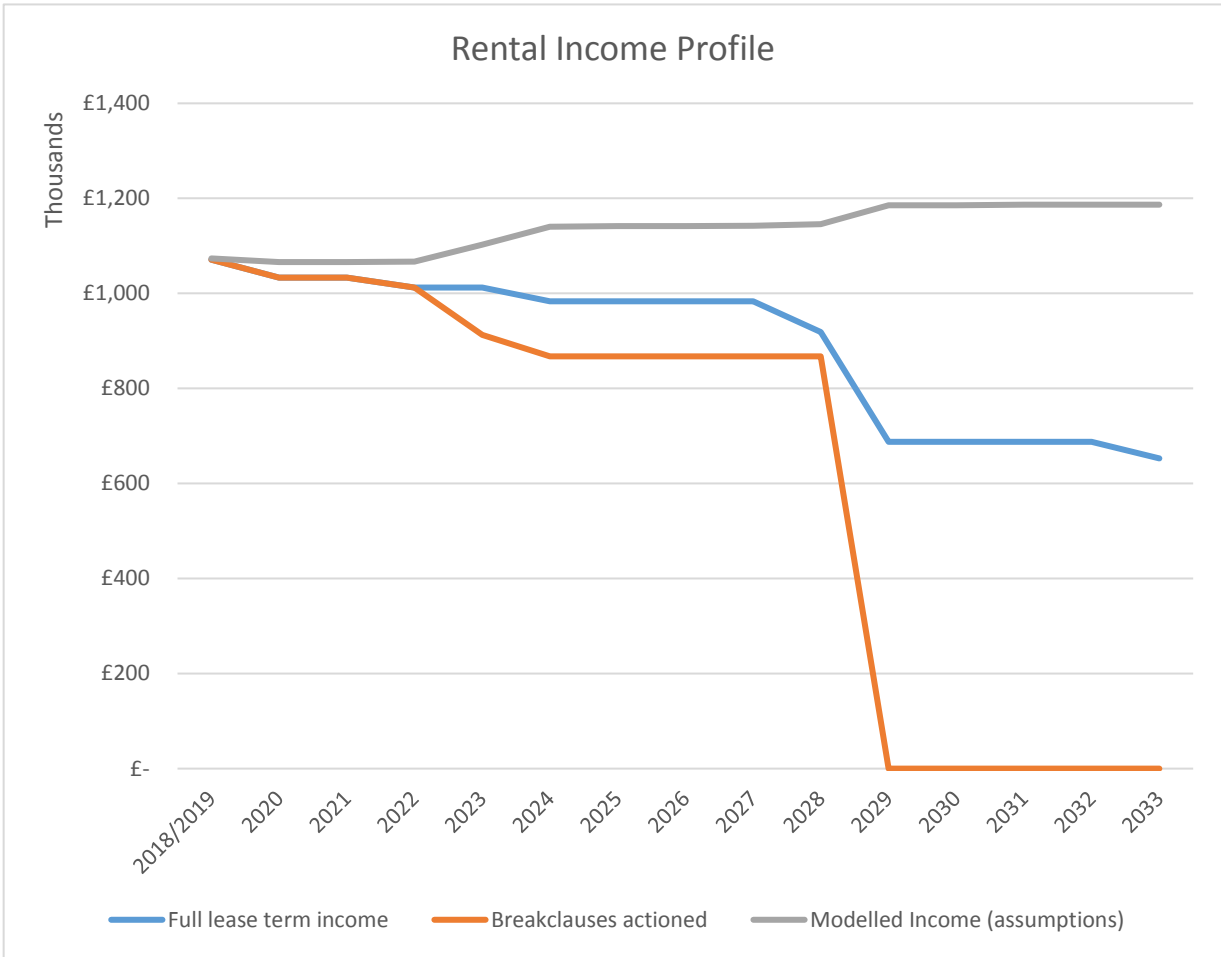


Geographic split by property value

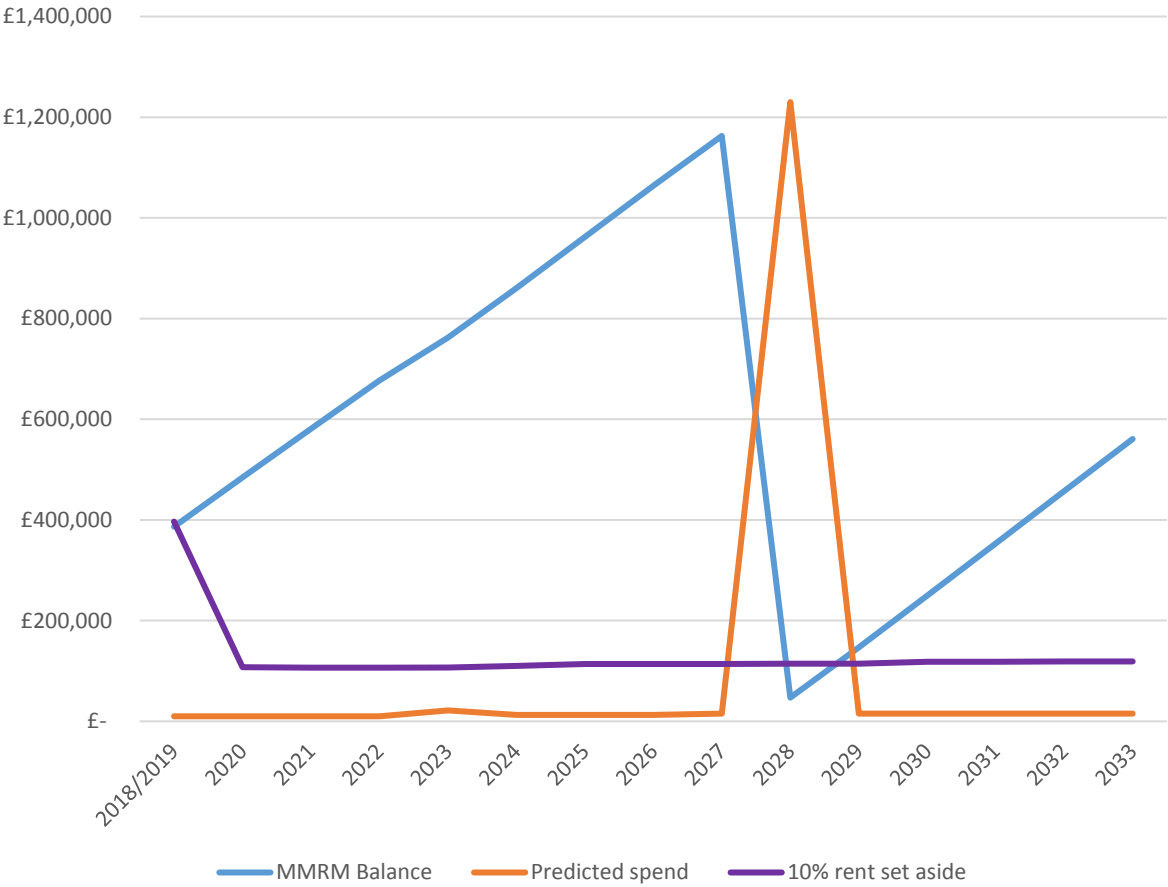








### MMRM Reserve Profile



# Agenda Item 13

Report to: **Audit Committee**  
Date: **9 October 2018**  
Title: **Sundry Debt**  
Portfolio Area: **Support Services – Cllr C Edmonds**

Wards Affected: **ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: Sonia Powell Role: Case Management Manager

Contact: Email [sonia.powell@swdevon.gov.uk](mailto:sonia.powell@swdevon.gov.uk)  
**01803 861361**

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**Recommendations:**

**That the Audit Committee note the progress made in monitoring and administering the recovery of Sundry Debt.**

## 1. Executive summary

The Council is responsible for the collection of: Sundry Debts, Housing Benefit Overpayments, Council Tax and National Non-Domestic Rates.

Following The Strategic Debt Review presented at Committee on 30<sup>th</sup> January 2018, (Appendix D) and the subsequent update on the position of Sundry Debt on 20<sup>th</sup> March 2018. The report provides members with a further update of the position up to 15<sup>th</sup> September 2018.

## 2. Background

The Council's management arrangements underpin delivery of all the Councils priorities, including the commitment to providing value for money services. Incorporated within this, is the timely collection of monies due to the Council.

Debts are recovered in accordance with the Council's Recovery Policy which is published on our website.

Following the centralisation of debt recovery into one service from October 2017 and the implementation of the Debt Recovery Action Plan, members requested a series of updates to demonstrate robust control of debt recovery procedures, particularly relating to sundry debt.

The first update to Audit Committee in March 2018 provided an outline of the position at that time, as well as a list of actions within the Sundry Debt Recovery Plan 2017/18. Sundry Debt had been reduced by £272.9k to an outstanding balance of £218.9k at the end of February. The current sundry debt level at 15<sup>th</sup> September 2018 is £164k.

This report outlines the latest sundry debt position and provides an update of the actions within the Sundry Debt Recovery Action Plan. It also includes a brief overview of the remaining three key services included in the policy: Housing Benefit Overpayments, Council Tax and National Non-Domestic Rates.

### **3. Outcomes/outputs**

All Council sundry debts, are actively pursued, and in most instances are collected with little difficulty. In cases where payment is not received on time, a series of reminders are issued promptly to the debtor. If this fails to secure payment, recovery is pursued through the Courts.

The length between reminder letters has been reduced and the HM Courts online service 'Money Claims Online' is being used to recover debt. Within this process we have introduced interest charging and recovery costs. There is still work to be done around some of the legal aspects of claiming some of the Asset related debts.

In some cases pursuit of an outstanding debt is not possible for a variety of reasons, such as bankruptcy or liquidation. All such cases have been identified and the debt was approved for write off in accordance with the Councils Write Off policy by Hub Committee on 17<sup>th</sup> July 2018.

<http://mg.swdevon.gov.uk/documents/g1205/Public%20reports%20pack%2017th-Jul-2018%2014.00%20West%20Devon%20Hub%20Committee.pdf?T=10>

A new Senior Case Manager commenced in post on 2 July 2018 with responsibility for monitoring and recovery of all debt according to the Debt Recovery Policy. Appendix A provides an overview of the current position relating to each of the four areas.

Sundry debt levels continue to reduce and are currently at £164k, a total reduction of £284.1k in one year and well below the Council's Sundry Debt Uncollected target of £250k.

Although not specifically identified within the policy, car parking debt has been added to the remit of the Debt Recovery Unit. Work has commenced on review of all outstanding cases to identify which can proceed to court action via Money Claims Online. The target date for completion of this piece of work including court action is the end of January 2019. The current outstanding debt is £13k.

#### 4. Proposed Way Forward

The Committee acknowledge the progress made in this area and continue with half yearly reporting.

#### 5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The guidelines for Statutory Interest Charging and adding recovery costs falls under the European Directive 2011/7/EU on Combating Late Payment in Commercial Transactions. Enforcing successful legal action for recovery of debt is dependent upon a robust system of ensuring correct business names are recorded within our systems.
Financial	Y	Improved income collection, resulting in less impact of uncollectable debt on the Income and Expenditure Account, due to fewer write offs.
Risk	Y	There remains a risk of income not being collected. The Debt Recovery Plan alongside the Debt Recovery Policy seeks to minimise this. The latest update report sets out the progress made in terms of approach to recovery and collection of debt and shows a greatly improved position.  Risk to reputation is managed carefully by prompt recovery of amounts due wherever possible. This risk is also mitigated by taking a balanced view and ensuring that resources are not expended on debts which are not cost effective to pursue and these are written off in accordance with the Council's Write Off Policy.
Comprehensive Impact Assessment Implications		

Equality and Diversity	N	All enforcement action that is taken prior to this point is undertaken in accordance with legislation and accepted procedures to ensure no discrimination takes place.
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

**Supporting Information**

Appendix A – Summary of Corporate Debt.

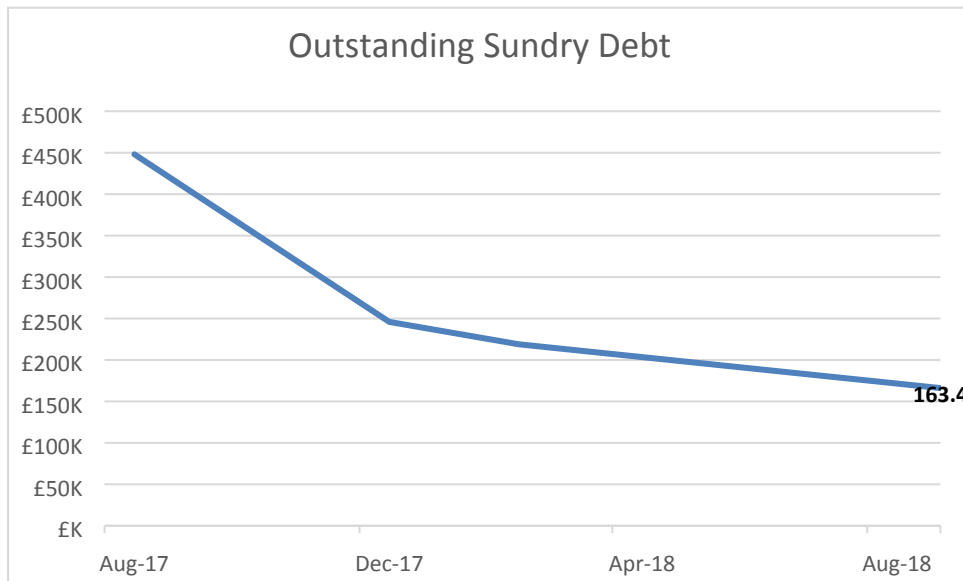
**Background Papers:**

Audit Committee 30<sup>th</sup> January 2018 – Strategic Debt Review

Audit Committee 20<sup>th</sup> March 2018 – Sundry Debt

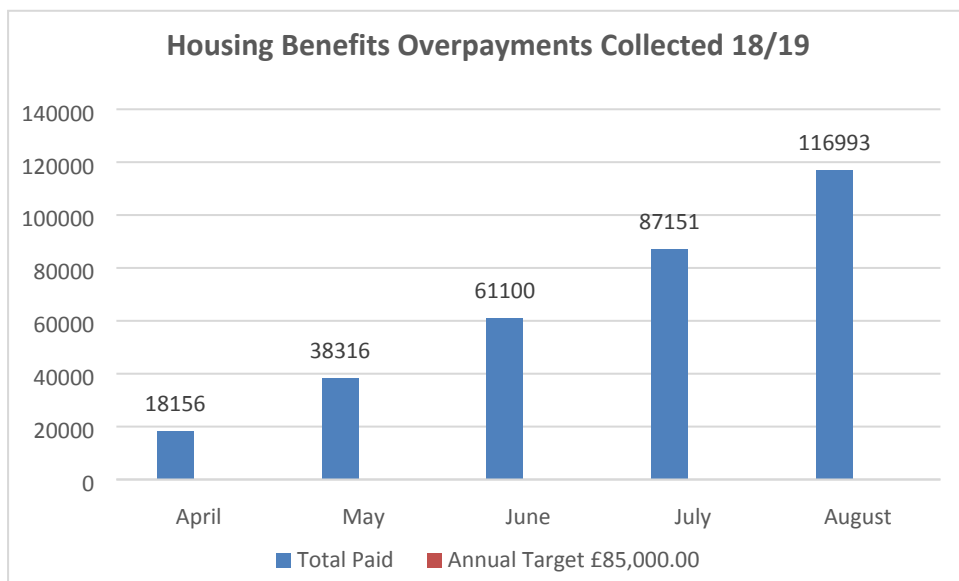
Recovery Policy

**Corporate Debt Summary, 15<sup>th</sup> September 2018**



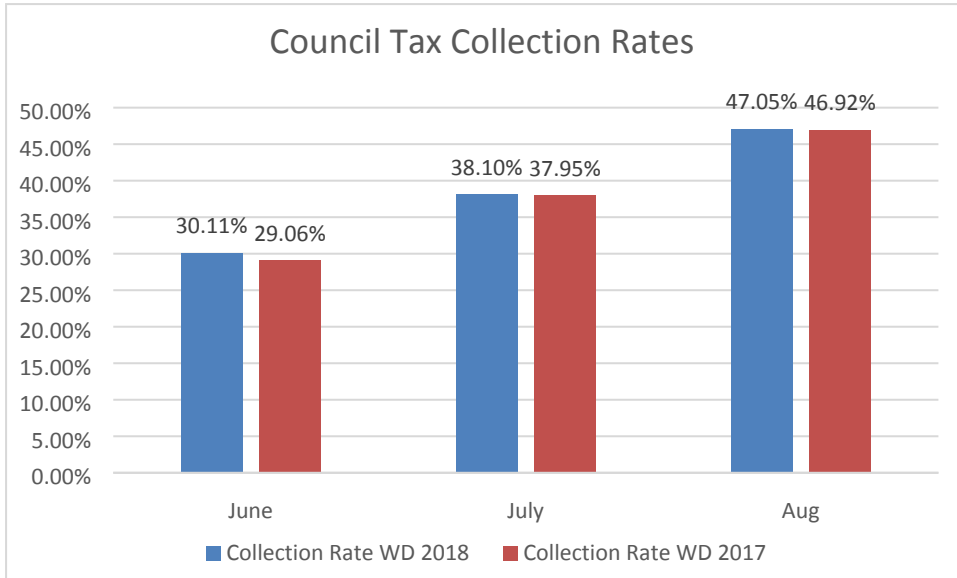
**Table 1 – Outstanding Sundry Debt 2018/19.**

Following implementation of the Sundry Debt Action Plan in October 2017, debt levels have remained below the uncollected target of £250k.



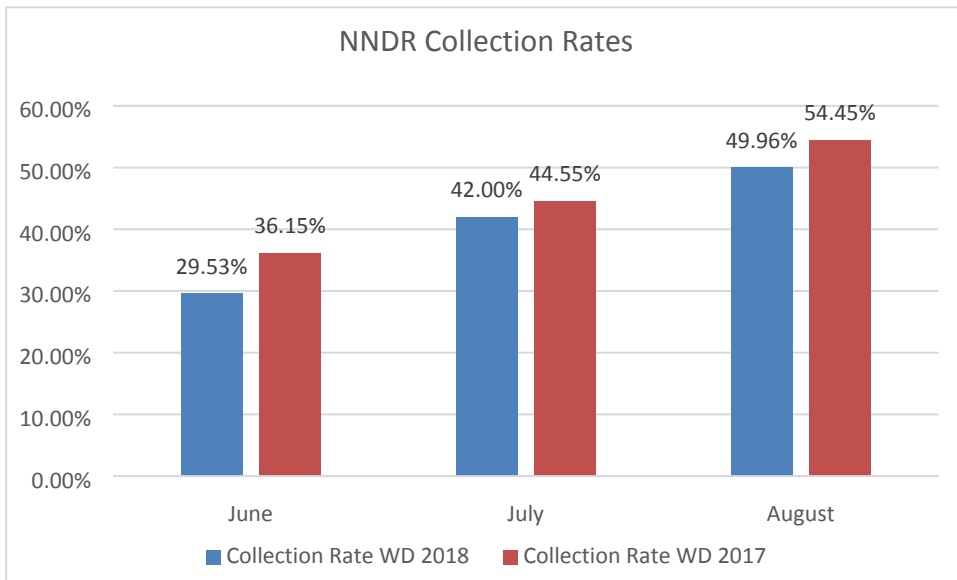
**Table 2 – Housing Benefits Overpayments Collected 2018/19**

Recovery of outstanding housing benefit overpayments are well above the annual target of £85k. Work has commenced on reducing the amount of housing benefit overpayments created. The total amount outstanding on 31<sup>st</sup> August 2018 was £810k.



**Table 3 – Council Tax Collection Rates 2017 v 2018**

Council Tax collection rates continue to improve. In 2016/17 collection Rate was 97.3% and in 2017/18 was 97.58%.



**Table 4 – NNDR Collection Rates 2017 v 2018**

A slight drop in collection of business rates, however it is anticipated that the 98% Annual Collection Rate reached in 2017/18 remains achievable.



Committee Meeting	Proposed workplan/timetable for Audit Committee 2018/19
22 January 2019 (2.00pm)	<ul style="list-style-type: none"> <li>i) KPMG Annual Grant Certification Letter</li> <li>ii) Update on progress on the 2018/19 Internal Audit Plan</li> <li>iii) Treasury Management Mid-Year report</li> <li>iv) Constitution Review: Part 2</li> </ul>
12 March 2019 (2.00pm)	<ul style="list-style-type: none"> <li>i) Grant Thornton - External Audit Plan 2018/19</li> <li>ii) Grant Thornton – Interim Audit Report 2018/19</li> <li>iii) Treasury Management update (for information)</li> <li>iv) 2019/20 Internal Audit Plan</li> <li>v) Draft Budget Book 2019/20</li> <li>vi) Cost Methodology for Shared Services 2018/19</li> <li>vii) Review of Council Constitution</li> <li>viii) Update on Progress on the 2018/19 Internal Audit Plan</li> <li>ix) Six monthly update – Strategic Risk Assessment</li> <li>x) Monitoring report on Commercial Property Portfolio</li> <li>xi) Six monthly update – Strategic Debt review</li> </ul>

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