

# South Hams Audit Committee



<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Thursday, 7th November, 2019</b>
<b>Time:</b>	<b>10.00 am</b>
<b>Venue:</b>	<b>Cary Room - Follaton House</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Holway <b>Vice Chairman</b> Cllr Austen</p> <p><i>Members:</i> Cllr Brazil Cllr Spencer Cllr Pennington Cllr Taylor Cllr McKay</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

<b>1. Minutes</b>	<b>1 - 4</b>
To approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 25 July 2019;	
<b>2. Urgent Business</b>	
Brought forward at the discretion of the Chairman;	
<b>3. Division of Agenda</b>	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
<b>4. Declarations of Interest</b>	
Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;	
<b>5. Grant Thornton Audit Progress Report and Sector Update</b>	<b>5 - 18</b>
<b>6. Grant Thornton Annual Audit Letter</b>	<b>19 - 32</b>
<b>7. Treasury Management Mid-Year Review</b>	<b>33 - 50</b>
<b>8. Strategic Risk &amp; Opportunity Monitoring - Regular Update</b>	<b>51 - 64</b>
<b>9. Sundry Debt</b>	<b>65 - 70</b>
<b>10. Update on Progress on the 2019-20 Internal Audit Plan</b>	<b>71 - 94</b>
<b>11. Internal Audit Charter &amp; Strategy 2019-20</b>	<b>95 - 116</b>
<b>12. Committee Workplan for the 2019/20 Financial Year</b>	<b>117 - 118</b>

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 25 JULY 2019**

<b>Members in attendance</b> * Denotes attendance			
*	Cllr L Austen (Vice-Chairman)	*	Cllr J T Pennington
*	Cllr J Brazil	*	Cllr B Spencer
*	Cllr T R Holway (Chairman)	*	Cllr B Taylor
*	Cllr J McKay		

<b>Members also in attendance:</b>
Cllrs H D Bastone, J D Hawkins, N A Hopwood, D W May and J A Pearce

<b>Item No</b>	<b>Minute Ref No below refers</b>	<b>Officers and Visitors in attendance</b>
All Items		Chief Executive; Section 151 Officer; Finance HOP Lead; Senior Specialist – Democratic Services; and Grant Thornton Representatives.

**A.11/19 MINUTES**

The minutes of the meeting of the Committee held on 20 June 2019 were confirmed as a correct record and signed by the Chairman, subject to an amendment being made to reflect the fact that Cllr B Spencer was incorrectly recorded as being in attendance.

**A.12/19 URGENT BUSINESS**

The Chairman advised that he had no urgent items to be raised at this meeting.

**A.13/19 DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

**A.14/19 GRANT THORNTON AUDIT PROGRESS REPORT (ISA 260) – AUDIT FINDINGS REPORT**

The Committee considered a paper from Grant Thornton that summarised the key findings and other matters arising from the statutory audit of the Council and the preparation of the Council’s financial statements for the year ended 31 March 2019.

The Grant Thornton representatives provided a detailed introduction into their paper and, in the ensuing discussion, the following points were raised:-

- (a) The Committee echoed the importance of emerging guidance from CIPFA and Central Government on the acquisition of investment properties and related borrowing being closely (and regularly) monitored;
- (b) With regard to the Council's CCLA Investments, whilst Grant Thornton was of the view that these should be treated as a short term investment, officers did not agree and continued to classify these as a long term investment. When questioned, the Section 151 Officer informed that the Council's position in this regard was consistent with some of the other local authorities in the county;
- (c) Some Members expressed their disappointment over the last minute requirement for the Council to pay an additional £4,500 in Audit Fees to Grant Thornton and questioned the justification for this increase. In reply, Grant Thornton representatives acknowledged these concerns and informed that that were attributed to the requirements to undertake additional work coupled with the audit timetable having been brought forward by two months. Whilst the representatives were content that Grant Thornton had adequately resourced the South Hams audit, this had not been the case for other local authorities in the county and there was a recognised shortage of auditors in the region. As a result, the representatives advised that there would be a need to undertake a lessons learned review during the upcoming months with the importance of delivering quality audits at the forefront of this exercise.

It was then:

### **RESOLVED**

That the contents of the Grant Thornton Audit Progress Report be acknowledged.

A.15/19

### **AUDITED STATEMENT OF ACCOUNTS 2018/19 AND ANNUAL GOVERNANCE STATEMENT 2018/19**

Members considered a report that sought approval of:

- the wording of the Letter of Representation (as set out in Appendix A of the presented agenda report);
- the audited Statement of Accounts for the financial year ended 31 March 2019 (as detailed in Appendix B of the presented agenda report); and
- the Annual Governance Statement post audit (as outlined at Appendix C to the presented agenda report).

In debate, particular reference was made to:-

- (a) the development of local Town Centre Strategies. The Committee was informed that the development of the local Strategies would be a key piece of work for the Director of Place and Enterprise when the role was appointed to in the autumn;
- (b) the financial future of the Council. The Section 151 Officer confirmed that Negative Revenue Support Grant had been factored into the forecasted budget gap of £470,000 for 2020 onwards;
- (c) the Development Management Performance Indicators. A Member repeated his previous concerns that the current Development Management performance measures were not fit for purpose. In making the point that the reference to being 'on or above target' was only due to the prior agreement of time extensions, the Member felt that the measures should be subject to review. Officers advised that they were currently reviewing the current corporate approach to performance measures and the importance of Members expressing their views (and the subsequent need for Member training) was recognised.

It was then:

### **RESOLVED**

That the Committee approve:-

1. the wording of the Letter of Representation (as set out in Appendix A of the presented agenda report);
2. the audited Statement of Accounts for the financial year ended 31 March 2019 (as detailed in Appendix B of the presented agenda report); and
3. the Annual Governance Statement post audit (as outlined at Appendix C of the presented agenda report).

A.16/19

### **ANNUAL TREASURY MANAGEMENT REPORT 2018/19**

A report was considered that sought approval of the actual 2018/19 prudential and treasury indicators.

With no questions or issues being raised, it was then:

### **RESOLVED**

1. That the actual 2018/19 prudential and treasury indicators (as outlined in the presented agenda report) be approved; and

2. That the Annual 2018/19 Treasury Management Report be noted.

**A.17/19 BUDGET BOOK FOR 2019/20**

A report was considered that presented the draft Budget Book for 2019/20.

To enable for Members to be able to draw comparisons with previous years, it was agreed that a paper copy of both the 2018/19 and 2019/20 Budget Books would be made available in the Members' Room.

It was then:

**RESOLVED**

That the content of the draft Budget Book for 2019/20 be noted.

**A.18/19 PROPOSED COMMITTEE WORKPLAN FOR THE 2019/20 FINANCIAL YEAR**

In considering its Annual Workplan, the Committee requested that an additional item be included on the agenda for the next meeting on 7 November 2019 entitled: 'Assurance and Governance of the Frontline Services (Waste and Cleansing) Contract'.

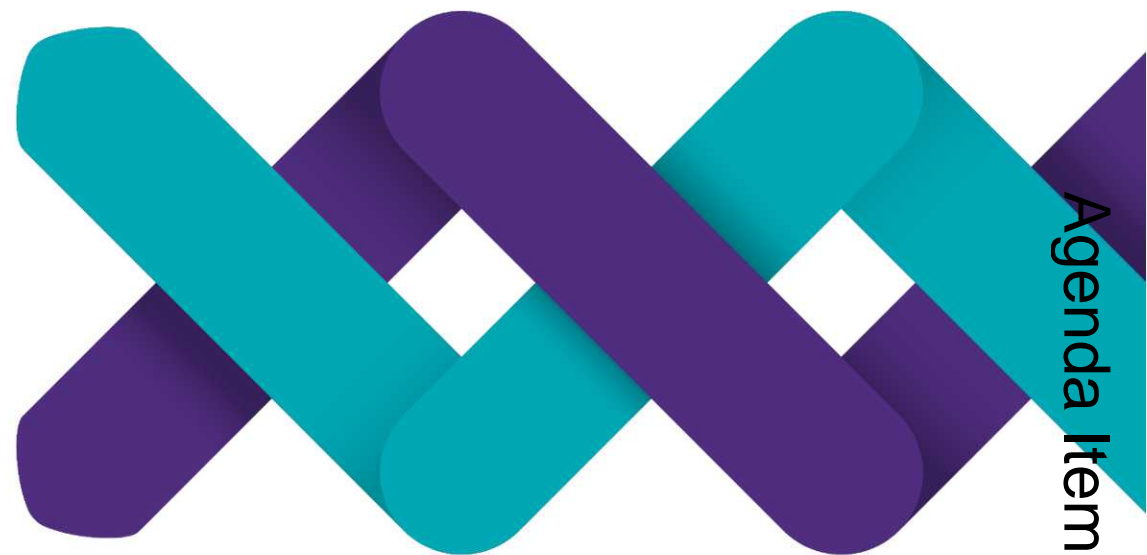
(Meeting commenced at 9.30 am and finished at 11.05 am)

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Chairman

# Audit Progress Report and Sector Update

South Hams District Council  
Year ending 31 March 2020  
Page 5  
29 October 2019



# Contents

Section	Page
Introduction	3
Progress at 25 October 2019	4
Audit Deliverables	5
Sector Update	6



# Introduction



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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)



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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.

Page 7

## PSAA Contract Monitoring

South Hams District Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Progress at 25 October 2019

## Financial Statements Audit

### 2018/19

We issued our opinion on your 2018/19 Statement of Accounts on 31 July 2019 together with the certificate of closure of the audit.

### 2019/20

We have commenced the planning for the 2019/20 audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements to the 6 February 2020 Audit Committee.

Our interim audit will take place in early 2020, as agreed with your officers. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Committee Progress Report and aim to give our opinion on the Statement of Accounts by the accounts publication date of 31 July 2020

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

## Other areas

### Certification of claims and returns

The Council's annual Housing Benefit Subsidy for 2018/19 claim will be audited by KPMG.

We will be responsible for the certification of the Council's 2019/20 Housing benefit claim.

### Meetings

We hold regular liaison meetings with Management to understand the Council's current position and future plans, and developments and to ensure the audit process is smooth and effective.

We have met regularly with Finance Officers as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We have arranged to meet with your finance team on 27 November 2019 to debrief the 2018/19 audit and plan the 2019/20 audit work.

### Publications

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>Annual Audit Letter</b> This letter communicates the key issues arising from our opinion and value for money work.	August 2019	Complete
2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2019/20.	April 2019	Complete
<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 2019-20 financial statements.	6 February 2020	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 2020	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2020	Not yet due

# Sector Update

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.

Public Sector

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 by clicking on the logos below:

Public Sector

Local  
government

# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



# CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018/19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



## Financial confidence



### Challenge question:

How confident over its' financial position is your Council? Has this changed from previous years?

# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

**Stage 1** involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

**This stage of the consultation is now closed.** The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

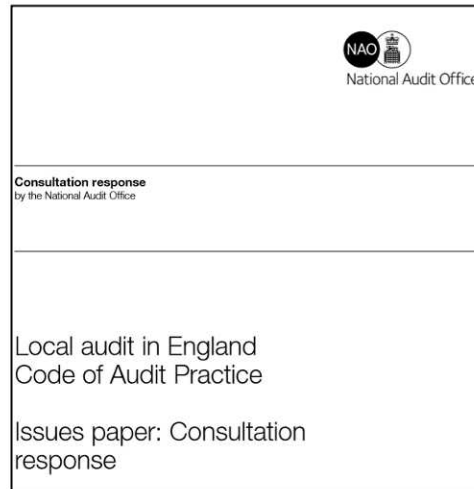
**Stage 2** of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



# Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



## Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



**Challenge question:**

If your Council is looking at commercial activity, have you considered the LGA report?



# MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of October, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October, whatever the circumstances.

He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.

The Secretary of State said:

“From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We’ll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity.”

Page 15



## Brexit preparations



### Challenge question:

Who is your Brexit lead and how is your Council supporting Brexit preparations?

# Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>





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# The Annual Audit Letter for South Hams District Council

Page 1  
Year ended 31 March 2019  
29 August 2019



Agenda Item 6

# Contents



Your key Grant Thornton team members are:

Page 20

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## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

## Page

- 3  
5  
9

## Appendices

- A Reports issued and fees

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Hams District Council ( the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 25 July 2019.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £967,000, which is 1.8% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# Executive Summary

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**Value for Money arrangements** We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.

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**Certificate** We certified that we have completed the audit of the financial statements of South Hams District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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**Working with the Council**

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts before the deadline, releasing your finance team for other work.
- Regular discussions with senior officers at the council to discuss emerging issues and developments that impacted on the audit.
- We provided Audit Committee training to the new Audit committee.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting

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

**Grant Thornton UK LLP**  
August 2018



# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £967,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer remuneration disclosure, where we consider that all pay above £50k will be reviewed.

We set a lower threshold of £48,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the narrative report, and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We have identified the occurrence and accuracy of Fees, charges &amp; other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, We have rebutted this presumed risk for the other revenue streams of the Council because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we did not consider this to be a significant risk for the Council.</p>	<p>We did not identify any issues regarding the recognition of income.</p>
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• tested journal entries</li> <li>• reviewed unusual significant transactions</li> <li>• reviewed significant related party transactions outside the normal course of business]</li> </ul>	<p>We did not identify any issues regarding the management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Land and buildings</b></p> <p>All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's Valuer on a rolling basis.</p> <p>Ad hoc valuations take place, for example where assets have been enhanced. In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date</p> <p>We therefore identified valuation of land and buildings, particularly the annual review, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed the competence, expertise and objectivity of any management experts used;</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work;</li> <li>• discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding;</li> <li>• tested the revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>We noted the Council's policy on revaluations. Whilst in accordance with the Code there is a significant element not revalued in the current year. The valuer confirmed, and we challenged and accepted, that there has not been a material change in value from the date of revaluation to the balance sheet date. The Council will need to consider this factor each year.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£48.6million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>The Pension Fund valuation was reviewed following the settlement of the McCloud judgement. This resulted in additional disclosures regarding the estimated additional liability for the Council. The Council have decided not to amend for this error.</p> <p>Our work did not identify any other issues in respect of the valuation of the Pension Fund liability.</p>

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 25 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of South Hams District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>At the end of September 2018 The Council was forecasting an overspend of £66,000 (0.7% of the total Budget £8.983 million) for 2018/19.</p> <p>However, the Council has identified some financial challenges over the life of its Medium Term Financial Strategy. The cumulative budget gap is forecast to be £1.8 million by 2023/24, assuming annual savings are not achieved.</p> <p>The Council has recently let its Waste collection contract jointly with West Devon Borough Council, which is predicted to achieve £0.4 million of the savings required.</p> <p>The Council plans to address this through a challenging programme that includes:</p> <ul style="list-style-type: none"> <li>• Budget delivery and reserves management;</li> <li>• Commercial development opportunities within the South Hams District and associated borrowing</li> </ul> <p>The Council has identified a key risk that may arise that would affect its achievement. Some of the councils identified savings are part of its joint working with West Devon Borough Council, e.g. the award of a joint waste collection service and the continuation of joint provision of services.</p>	<p>The council made a small surplus in 2018/19 of £0.049m after statutory accounting adjustments. This puts the Council in a good position at 31 March 2019. General Fund usable reserves stand at £15.191k, General Fund Balance of £1.898m and earmarked reserves of £13.293m, following the release of £13.477m of Business rates retention provisions.</p> <p>In the Council's Medium Term Financial Strategy for 2019/20 to 2023/24 the Council has identified a £0.638m shortfall in resources for 2019/20, rising to an annual shortfall of £1.83m by 2023/24. The Council is progressing various options for closing the budget gap in 2019/20 and future years.</p> <p>The waste services contract, was let in conjunction with West Devon BC, for a contract term of eight years.. The Council has been presented with informed reports as part of the decision making process, it has had the opportunity to challenge the presented reports prior to making its decisions. We would therefore conclude that, in the case of the waste services procurement the Council has been informed at the key stages of the decision making process and that the current arrangements in place at this time are sound.</p> <p>The Council had not purchased any Investment property as part of the strategy, by 31 March 2019. However, The Council's commercial property strategy has been approved by Council. No properties had been purchased by the year end. The strategy sets out an intention to acquire Investments for economic regeneration objectives within its economic area.</p> <p>The council has sought advice, produced an Investment strategy and sought appropriate approval. Going forward each project will require individual approval by the Council</p>	<p><b>Auditor view</b></p> <p>The council has recognised the need for immediate and large scale actions and has already let its Waste Contract which is projected to achieve annual savings of approximately £0.4m. The Council has approved its Commercial Investment Strategy, which provides a net income stream to the Council as an ancillary benefit. Other projects being considered are Pension strategy to reduce the annual "past service deficit contributions", and a review of the use of the Council's assets and operational plan savings review.</p> <p>We recommended that management continue to monitor emerging guidance from CIPFA and central government on the acquisition of investment properties and related borrowing. In particular, management and members will need to closely scrutinise levels of borrowing related to investment property purchases and ensure that due diligence, legal, financial and other appropriate advice is sought, proportionality is considered prior to further purchases.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Reports issued

Report	Date issued
Audit Plan	10 January 2019
Audit Findings Report	25 July 2019
Annual Audit Letter	22 August 2019

## Fees

	Planned fees £	Actual fees £	2016/17 fees £
Statutory audit	33,421	37,921	N/A

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	Nil
- None	
<b>Non-Audit related services</b>	Nil
- None	

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £33,421 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work for all local authority audits. These are set out in the following table and the additional fees are in line with those charged across all councils.. These are set out in the following table.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
<b>Total</b>		4,500

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the area up to date and to assist in designing a tailored audit approach

## Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies





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Report to: **Audit Committee**

Date: **7 November 2019**

Title: **Treasury Management Mid-Year Review**

Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **All**

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

Date next steps can be taken: **N/A**

Author: **Alex Walker** Role: **Finance Business Partner**

Contact: **01803 861345** [alexandra.walker@swdevon.gov.uk](mailto:alexandra.walker@swdevon.gov.uk)

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## **Recommendations:**

It is recommended that the Audit Committee resolves:-

- i. To endorse the contents of the report.

### **1. Executive summary**

1.1 To date, the Council has outperformed the industry benchmark by 0.26%. The Council has achieved a rate of return of 0.83%, against the 7 day LIBID bid rate (LIBID) of 0.57%. The Council's budget for investment interest of £183,000 for 2019/20 is expected to exceed it's target by £20,000.

### **2. Background**

2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations.

This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

2.3 Treasury management is defined as:

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

2.4 The Council’s Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Council 21/03/2019 – 67/18)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

2.5 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

### **3. Economics and Interest Rates**

#### **Economics Update**

3.1 This first half of the year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than

currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy

3.2 The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

3.3 The As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

### **Interest Rate Forecast**

3.4 The Council's treasury advisor, Link Asset Services, has provided the following forecast.

This forecast includes the increase in margin over gilt yields of 100bps introduced on 9 October 2019 by the Public Work Loans Board (PWLB). This is an increase of 1% on all new borrowing from the PWLB.

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

3.5 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its last meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

3.6 The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

3.7 One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

### **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## **4. Treasury Management Strategy Statement and Annual Investment Strategy Update**

4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20, was approved by the Council on 21/03/19 – 67/18. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

4.2 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

4.3 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## 5. Investment Portfolio 2019/20

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.4, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

5.2 The Council held £37.427m of investments as at 30 September 2019 (£27.32m at 31 March 2019) and the investment portfolio yield for the first six months of the year is 0.83% against a benchmark (7 day LIBID rate) of 0.57%. The £37.427m of investments is made up of Money Market Funds, Fixed Term Deposits and Property Funds.

A full list of investments held as at 30 September 2019 is shown below:

### **Money Market Funds**

<b>Amount</b>	<b>Investment</b>	<b>Average Interest rate</b>
£6,000,000	Aberdeen Standard Investments	0.74%
£1,450,000	Deutsche	0.64%
£6,000,000	BlackRock ICS-Inst GBP	0.68%
£6,000,000	LGIM Sterling Liquidity Fund	0.69%

The Council currently has four Money Market Funds. The money market funds allow immediate access to the Council's funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

### **Fixed Term Deposits – Current**

<b>Counterparty</b>	<b>Fixed to</b>	<b>£</b>	<b>Interest Rate</b>
Nationwide Building Society	09/10/2019	5,000,000	0.82%
Barclays Banks Plc	15/10/2019	3,500,000	0.86%
Lloyds Bank Plc	06/07/2020	5,000,000	1.25%
Lloyds Bank Plc	03/08/2020	1,000,000	1.10%



5.3 The Council's Investments mid way through the year are always higher than at the end of the year (at 31st March) due to the cashflow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The Council's current counterparty limit is £6 million (£7 million for Lloyds plc).

### **Property Funds**

<b>Amount</b>	<b>Investment</b>	<b>Dividend Yield</b>
£1,468,213	CCLA – Property Fund	4.35%
£2,008,489	CCLA – Diversified Income Fund	3.20%

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.

5.5 The Council's budgeted investment return for 2019/20 is £183,000 and based on performance for the year to date it's expected to exceed the budget by £20,000.

### **Investment Counterparty Criteria**

5.6 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

### **Borrowing Position**

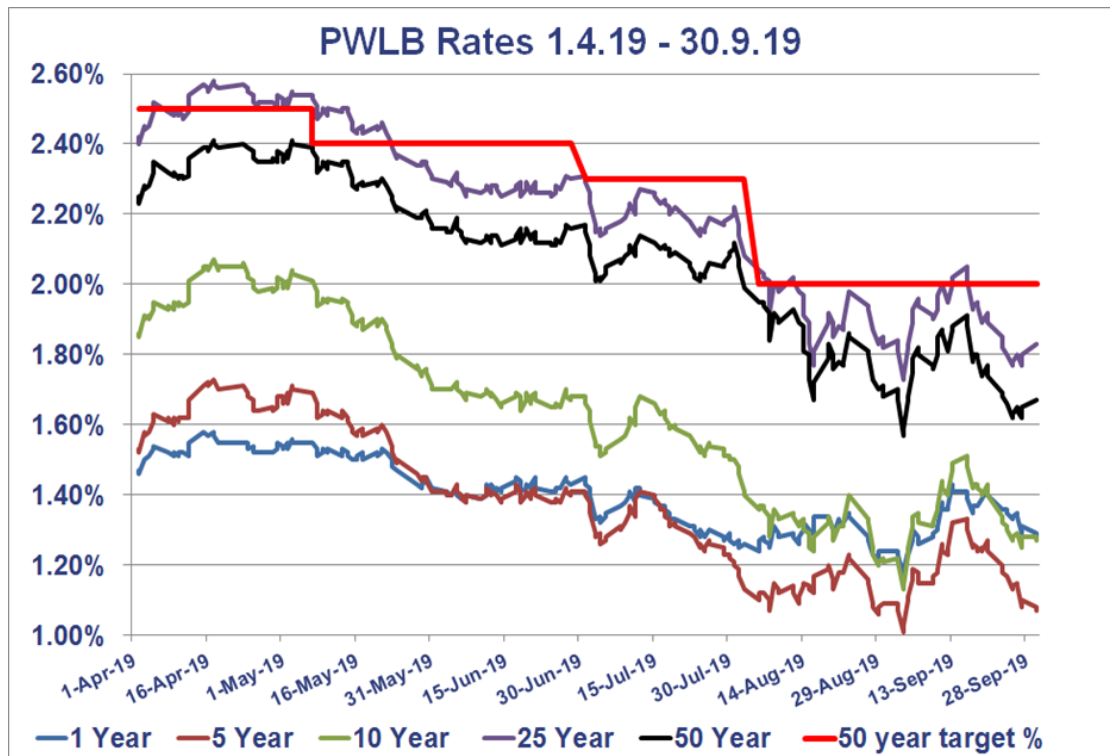
5.7 The Council's capital financing requirement (CFR) for 2019/20 is £13.1 million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

A summary of the Council's debt position at 30 September 2019 compared with 31 March 2019 is shown in the table below:

Lender	Purpose	Maturity	Interest Rate %	Principal held at 31 March 2019 £'000	Principal held at 30 Sept 2019 £'000
PWLB Maturity	Leisure Investment	5-19 Years	2.41*	5,490	5,490
PWLB Annuity	Capital Investment	50 Years	1.97	-	4,000
<b>Total</b>				<b>5,490</b>	<b>9,490</b>

\*Average interest rate

5.8 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

### **Increase in the cost of borrowing from the PWLB**

5.9 On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which the Council has paid prior to this date for new borrowing from the PWLB. This is an increase of 1% on interest on all new borrowing from the PWLB.

There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.

Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.

5.10 Whereas the Council has previously relied on the PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

5.11 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority could make use of this new source of borrowing as and when appropriate.

### **Debt Rescheduling**

5.12 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2019. No debt rescheduling has therefore been undertaken to date in the current financial year.

5.13 The 100bps increase in PWLB rates (1% increase in interest rates) from 9 October 2019 only applies to new borrowing rates, not to previous loans already taken out by the Council.

## **6. Outcomes/outputs**

6.1 The Council's budget for investment interest of £183,000 for 2019/20 is expected to exceed its target by £20,000.

6.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of September was 0.57% which is 0.26% lower than our average return of 0.83% as at 30 September 2019.

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

7.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £6m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

7.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

## **8. Proposed Way Forward**

8.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

8.2 Following the increase in the cost of borrowing from the PWLB (1% increase), work is currently being undertaken to reassess the financial viability of capital projects included in the capital programme and business cases being considered under the Commercial Investment Strategy.

## **9. Compliance with Treasury Limits and Prudential Indicators**

9.1 During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2019/20 are detailed and shown in Appendix B.

## 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003.
Financial implications to include reference to value for money	Y	To date, the Council has outperformed the industry benchmark by 0.26%. The Council has achieved a rate of return of 0.83%, against the 7 day LIBID bid rate (LIBID) of 0.57%. The Council's investment income target of £183,000 for 2019/20 is expected to exceed it's target by £20,000.
Risk		<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive through the quarterly budget monitoring reports.</p>
Supporting Corporate Strategy		The treasury management function supports all six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon/Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.

Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

Appendix A – Lending list as at 30 September 2019

Appendix B – Prudential and Treasury Indicators 2019/20

#### **Background Papers:**

Annual treasury strategy in advance of the year (Council 21/03/19 – 67/18)

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

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed/sign off	<b>Yes</b>
SLT Rep briefed/sign off	<b>Yes</b>
Relevant Heads of Practice sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
Accessibility checked	<b>N/A</b>

# APPENDIX A

Counterparty as at 27th Sept 2019		Fitch Rating				Moody's Ratings			S&P Ratings			Suggested Duration	
		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long Term	Short Term				
<b>United Kingdom</b>													
<b>AAA Rated and Government Backed Securities</b>	Collateralised LA Deposit*											Y - 60 mths	
	Debt Management Office											Y - 60 mths	
	Multilateral Development Banks											Y - 60 mths	
	Supranationals											Y - 60 mths	
	UK Gilts											Y - 60 mths	
<b>Banks</b>	Abbey National Treasury Services PLC	NW	A	F1		1	PO	Aa3	P-1			R - 6 mths	
	Bank of Scotland PLC (RFB)	NW	A+	F1	a	5	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths
	Barclays Bank PLC (NRFB)	NW	A+	F1	a	5	PO	A2	P-1	SB	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	NW	A+	F1	a	1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Close Brothers Ltd	NW	A	F1	a	5	SB	Aa3	P-1				R - 6 mths
	Goldman Sachs International Bank	SB	A	F1		1	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		1				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	NW	AA-	F1+	a+	1	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths
	HSBC UK Bank Plc (RFB)	NW	AA-	F1+	a	1				SB	AA-	A-1+	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	NW	A	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	NW	A+	F1	a	5	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	NW	A	F1	WD	1	PO	Baa2	P-2	SB	A-	A-2	G - 100 days
	Santander UK PLC	NW	A+	F1	a	2	PO	Aa3	P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	SB	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Sumitomo Mitsui Banking Corporation	SB	A	F1		1	SB	A1	P-1	PO	A	A-1	R - 6 mths
<b>Building Societies</b>	Coventry Building Society	NW	A-	F1	a-	5	SB	A2	P-1				R - 6 mths
	Leeds Building Society	NW	A-	F1	a-	5	SB	A3	P-2				G - 100 days
	Nationwide Building Society	NW	A	F1	a	5	NO	Aa3	P-1	PO	A	A-1	R - 6 mths
	Skipton Building Society	NW	A-	F1	a-	5	PO	Baa1	P-2				G - 100 days
	Yorkshire Building Society	NW	A-	F1	a-	5	SB	A3	P-2				G - 100 days
<b>Nationalised and Part Nationalised Banks</b>	National Westminster Bank PLC (RFB)	NW	A+	F1	a	5	PO	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	NW	A+	F1	a	5	PO	A1	P-1	SB	A	A-1	B - 12 mths

Key	
<b>Watches and Outlooks</b>	<b>Duration</b>
SB Stable Outlook	Yellow - Y 60 Months
NO Negative Outlook	Blue - B 12 Months
NW Negative Watch	Orange - O 12 Months
PO Positive Outlook	Red - R 6 Months
PW Positive Watch	Green - G 100 Days
EO Evolving Outlook	
EW Evolving Watch	

## APPENDIX B

### **PRUDENTIAL AND TREASURY INDICATORS 2019/20**

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

#### **Capital Expenditure**

This prudential Indicator is a summary of the Council's capital expenditure.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
General Fund services	8,286	3,425	1,926
Community Housing	0	8,386	2,048
Capital investments*	0	11,866	5,229
<b>TOTAL</b>	<b>8,286</b>	<b>23,677</b>	<b>9,203</b>

\*Capital investments relate to areas such as capital expenditure on investment properties.

The estimate for 2019/20 is lower than the Budget due to the anticipated timing of spend on each of the projects. Some of the Budget for 2019/20 is anticipated to be spent in 2020/21.

The table below summarises the financing of the Council's capital programme.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
External sources	1,067	2,760	1,201
Own resources	1,574	3,495	874
Debt	5,645	17,422	7,128
<b>TOTAL</b>	<b>8,286</b>	<b>23,677</b>	<b>9,203</b>

*NB. Please note that the budget for 2019/20 represents the approved capital programme for that year. However, the estimated capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.*



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

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
General Fund services	6,291	5,914	6,005
Community Housing	0	7,016	2,048
Capital investments	0	10,406	5,080
<b>TOTAL CFR</b>	<b>6,291</b>	<b>23,336</b>	<b>13,133</b>

### **The Council's Gross Debt and the Capital Financing Requirement**

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is estimated to be below the CFR by £0.5m in 2019/20.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
Debt	5,490	22,912	12,618
Capital Financing Requirement	6,291	23,336	13,133

## AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances.

### Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2019/20 budget to reflect the proposals within the commercial property acquisition strategy, and therefore increased this indicator. These proposals will now take place in 2019/20 and 2020/21.

	<b>2018/19 Actual</b>	<b>2019/20 Budget</b>	<b>2019/20 Estimate</b>
Financing costs (£m)	(210,218)	717,322	458,042
Proportion of net revenue stream	(2.3%)	8.1%	2.9%

## TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

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

<b>Operational Boundary</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£</b>	<b>£</b>
Borrowing	9,000,000	70,000,000
Other long term liabilities	-	-
Total	9,000,000	70,000,000

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

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

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

<b>Authorised limit</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£</b>	<b>£</b>
Borrowing	14,000,000	75,000,000
Other long term liabilities	-	-
<b>Total</b>	<b>14,000,000</b>	<b>75,000,000</b>

South Hams District Council's current level of borrowing as at 30 September 2019 was £9.49 million.

As part of the Medium Term Financial Strategy, Members approved an overall Borrowing Limit of £75 million.

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Report to: **Audit Committee**

Date: **7<sup>th</sup> November 2019**

Title: **Strategic Risk & Opportunity Monitoring – Regular Update**

Portfolio Area: **Enterprise/Governance and Assurance**  
**Cllr David May**

Wards Affected: **All**

Scrutiny Committee: **N/A**

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

Date next steps can be taken: **Any Committee recommendations will be presented to the Council at its meeting on 19 December 2019**

Authors: **Drew Powell – Director of Governance and Assurance**

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**Recommendations:****That the Audit Committee:**

1. **REVIEW** the Strategic Risk & Opportunity Register (see Appendix 1a & b) and make recommendations to Council on any further action the Committee concludes should be considered; and
2. **APPROVE** the proposal to review the Risk Register using a PESTLE (Political, Economic, Sociological, Technological, Legal and Environmental) analysis approach with the outcome of this review being presented back to the Committee at its meeting on 26 March 2020.

**1. Executive summary**

- 1.1. In accordance with the Risk & Opportunity Management Strategy adopted on 6<sup>th</sup> December 2018 by South Hams District Council, this report forms the required bi-annual update to Audit Committee Members.
- 1.2. The Strategy sets out the roles and responsibilities for various Council Committees and officer groups. The Audit Committee is to "Provide independent assurance to the Council on the effectiveness of the

Council's risk and opportunity management, internal control and overall assurance framework".

- 1.3. This report aims to provide the Committee with the information required in order to provide that assurance to the Council. Included is a copy of the current strategic risk (Appendix 1a) & opportunities register (Appendix 1b). These include a summary of the management and mitigating actions to address the identified risks and the categorisation and next steps of the identified opportunities.
- 1.4. This is the first opportunity under the new Council for the Audit Committee to review the strategic risk and opportunity register and therefore Members may wish to take a wider view on the present policy and approach to risk and opportunity management.

## 2. **Background**

- 2.1. The Council at its meeting on 6 December 2018 resolved to adopt the Risk & Opportunity Management Strategy.
- 2.2. The strategy requires the Audit Committee to "provide independent assurance to the Council on the effectiveness of the Council's risk and opportunity management, internal control and overall assurance framework".
- 2.3. Additionally, the strategy requires the Senior Leadership Team (SLT) to:
  - ✓ 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
- 2.4. To aid the achievement of these tasks, monitoring reports are presented for approval to the SLT and to the Audit Committee on a six-monthly basis. Operational red risks may be referred to the Overview and Scrutiny Committee.
- 2.5. The questions to be asked during monitoring include:
  - ✓ 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?)

### 3. Outcomes / Outputs

- 3.1. The most up-to-date strategic risk register is enclosed at Appendix 1a.
- 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. 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”.
- 3.4. The most up-to-date opportunity register is enclosed at Appendix 1b. This is a working register (snapshot) and as such, only pertinent information available at the time of publishing is shown. Some opportunities may be pursued, whilst others may not and all will be subject to business case and the relevant leadership / Member sign-off or business case as applicable. The information contained will alter as investigations / research into the opportunities continue.
- 3.5. Opportunities are categorised into response categories:
  - 3.5.1. **Ignore:** Minor opportunities can be ignored, by adopting a reactive approach without taking any explicit actions.
  - 3.5.2. **Share:** Seek a partner/stakeholder able to manage the opportunity, which can maximise the likelihood of it happening and increase the potential benefits
  - 3.5.3. **Enhance:** Seek to increase the likelihood and/or the impact of the opportunity in order to maximise the benefit.
  - 3.5.4. **Exploit:** Seek to make the opportunity definitely happen. Aggressive measures to ensure the benefits from the opportunity are realised
- 3.6. Appendix 2 shows 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.
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 register(s) or refer red risks (if applicable) to the Overview and Scrutiny Committee for further detail and investigation.

## 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 as outlined in paragraph 2.5 above.

5.3. Whilst it is considered that the existing Risk Register is 'fit for purpose' and significant risks have been identified and assessed, it is proposed that the list is revaluated using a PESTLE analysis (Political, Economic, Sociological, Technological, Legal, Environmental) as presented to Members during the joint Member Workshop with West Devon Borough Council that was held on 10 July 2019.

5.4. It is proposed to bring the new, updated Risk Register to Members at the next six monthly review (March 26 2020 Committee meeting).

## 6. Implications

Implications	Relevant to proposals	Details and proposed measures to address
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 and opportunity management is good practice. Any specific legal implications are to be considered in individual risk assessments.
Financial	Y	There are no direct financial implications arising from the report, although effective corporate risk and opportunity management can help protect the Council from budget variances.
Risk	Y	Members should note that while risk and opportunity 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.
Climate Change - Carbon / Biodiversity Impact	Y	There are no direct carbon/biodiversity impacts arising from the recommendations as this will be factored into individual risk assessments where appropriate.
<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 1a: Strategic Risk Register

Appendix 1b: Opportunities Register

Appendix 2: Risk & Opportunity Scoring Matrix

**Background Papers:**

Risk & Opportunity Management Strategy adopted 6<sup>th</sup> December 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	<b>Yes</b>
Data protection issues considered	<b>Yes</b>

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Appendix 1A - SHDC Strategic Risk Register - October 2019

#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	Mar '18 Risk Score	Mar '19 Risk Score	Current Risk Score	Change (Feb 18 to Now)	Mitigating Actions / Internal Controls (October 2019)	Latest Note (as at October 2019)
1	Political commitment for change	On-going political commitment to support changes needed for ongoing financial sustainability & community resilience	Considerable external political uncertainty and Governmental inertial; leading to uncertainty over policy direction and financial decisions from central government. Political balance of the Council impacting on policy and decision-making within and between SH & WD. Lack of briefing/understanding of issues or clear direction affects decision making by Members.	4	4	3	4	4	1	4	16	16	16	==	Keep Members informed and updated on central government policy relating to local government services. Provide Members with training and ongoing development. Ensure Members are fully briefed on options within the policy and budgetary framework in order to inform decisions. Ensure policy changes are brought forward in a timely way for decision making, that due process is followed and that there is appropriate consultation, information and scrutiny. Provide regular L&DL briefings, group meetings and Member briefings and drop-ins.	New Council elected in May with new Leader and a large number of new Members. Induction programme delivered and ongoing training and development in place. Regular briefings in place. Renewed emphasis on Governance in the new SLT structure to support Members through the forward plan and the decision making process.
2	SHDC 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 SHDC 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. The latest forecast for the Devon Business Rates Pooling gain is over £7 million, with the SHDC share of the pooling gain being around £200,000. On 9th October the Public Work Loans Board (PWLB) increased their interest rates on borrowing by 1%. This was without any prior notice and this dramatic increase is unprecedented. This only affects new loans taken out. It affects the Council's commercial investment strategy in as much as the Council will need to factor in a higher rate of interest into future business cases. The commercial investment strategy itself remains still relevant. It is expected that various financial institutions will enter the market and make products available to Local Authorities at competitive interest rates.	4	4	4	4	4	2	2	16	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 2019 with Member Workshops in both Councils scheduled for November 2019.	Budget for 2019-20 was approved by Council in February 2019. Waste contract procurement has delivered significant financial savings. Grounds maintenance business review and ICT review to be carried out to deliver either growth opportunity or efficiencies in working methods. Commercial Investment Strategy has set out its current objectives.  The latest technical consultation on the Finance Settlement states that the Government is 'minded to' fund negative Revenue Support Grant in 2020-21 for one year. This assumption has been used in the latest budget report to the Executive in October 2019.  Possibility of removal of New Homes Bonus (NHB) in 2021 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. These have both been deferred until 2021/22. The Council responded to consultations on the Fair Funding Review and Business Rates reform in February 2019 and copies were sent to all Members and SHWD MPs.
3	Climate Change	Service delivery and economic impact	The climate change agenda is likely to have a wide range of impacts on service delivery and planning in terms of capacity. In addition there are likely to be reputational issues arising from the speed of action as perceived by the wider community.	4	4	3	4	2	2	3	-	-	16	-	Climate change and biodiversity emergency declared and working group formed. Action plan under preparation. Signed up to Devon wide declaration and actively involved in strategic and tactical delivery of Devon Carbon Plan which is well backed financially by DCC and other partners	as per mitigating actions
4	Brexit	Service delivery and economic impact	It is not clear if or when BREXIT will happen and what, if any, direct/indirect implications there will be for the Council, its services and the wider community	4	3	3	3	3	2	2	-	-	12	-	Officers fully engaged with preparation through the Local Resilience Forum (LRF) and Brexit Resilience Operational Group (BROG). Potential impacts under review and business continuity plans in place and tested.	as per mitigating actions

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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	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	Key officers have now attended a training exercise. Officers are updating plans as a result. Business Impact assessments have been completed for most areas and were tested in the above exercise. Internal audit has been completed and identified some weaknesses but acknowledged a positive direction of travel. Further testing has been done as part of BREXIT preparations. Full scale exercise planned for 2020 to test resilience.
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	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	In response to climate change declarations a Devon wide Climate Impacts group has been formed which includes emergency services, Met Office and other key partners. This group will focus on future impacts and their mitigation further enhancing resilience in this area. 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	12	▬	Revised ELT and case management structure out to consultation. With the aim of the new roles being in place by the end of 2019. The proposed new structure will provide more flexibility and resilience. New ELT posts will focus on succession planning across the organisation to mitigate the impact of key personnel leaving.	Additional CM roles for planning enforcement approved by council and out to advert. These posts have created an in year budget pressure for 19/20.
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	10	▬	Good contract and people management, effective Contract Team, use of shared procurement expertise, frequent credit checks (including parent companies), requirement for bonds when appropriate. <b>Jan '19:</b> NB: Bond will be required for Waste & Cleansing contract. <b>April 19</b> - The Bond was received at the start of the waste and cleansing contract.	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. Checklist for contract monitoring in place for major contracts - part of the procedures are regular financial health checks. These will apply to the waste and cleansing contract. The new waste contract commenced on 1.4.2019 and quarterly meetings of the Partnership Board (consisting of Members from both Councils, officers and management staff from the contractor) are in place with the contractor. An internal audit report has been undertaken on the frontline services (waste and cleansing) contract in Quarter 1 of 2019/20 and the overall audit opinion was a High Standard.
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	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.	The Q1 revenue budget monitoring report was reported to the September Executive. The actual net revenue expenditure is forecast to be overspent by £65,000 when compared against the total budget set for 2019/20. The total income budget for 2019/20 of £6.498 million is expected to be exceeded by £30,000.

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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	8	—	DPO 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 completed Data Protection E-Learning with new starters undertaking this as part of their mandatory induction. Where a breach, or near-miss has occurred, policy and process reviews are completed as part of our continuous improvement approach.	2018 GDPR implementation date passed with minimal increases in contact from data subjects (SAR's remain low). 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.  October 2019 - Internal Audit have completed a review of our GDPR compliance with the report being finalised shortly. Consideration has been given to impact of BREXIT on data and no issues have been identified.  The focus for the coming period to further mitigate risk will be progressing the Information Asset Register for the Council.
11	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	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. Statutory officers panel set up and meeting quarterly. Internal audit programme of work confirmed for 19/20.	New Director for Governance and Assurance role recruited to in September 2019. 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.
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	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. 6 month review by SLT took place Feb 19.
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	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. Regular virtual CoP meetings to discuss issues / plans / risks / strategies.	H&S CoP driving improvement programme that requires commitment from all areas and appropriate monitoring by SLT. Corporate risk reduced with outsourcing of waste. Review of H&S Policy and Delegation in light of new SLT/ELT structure underway which will further embed H&S responsibility and awareness within the organisation

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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	8	—	Policies in place and key staff & management have received appropriate training and contact details to spot and report safeguarding issues. Training is ongoing and reviewed as legislation changes and also is reactive to local emerging issues. There is a robust reporting process in place to key designated safeguarding leads (KDSL) how to guides on intranet, sessions are delivered particularly to relevant front line staff such as localities, housing and customer service staff through small group and one to one sessions and to larger groups of "general" staff in staff briefings.	Link to all safeguarding is accessed through Safeguarding on the intranet. Document is intelligence led and is straightforward. Training requirements and relevant courses for KDSL identified, online training through learning pool finalised and available now the adult package has been finalised.
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	6	—	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. Fraud awareness training has been arranged for the Extended Leadership Team for their December 2019 meeting.
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	6	—	Temporary resource was 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 engaged with the system provider to review our system set-up through a process known as Assessment of Current Use (AoCU).	18/19 accounts closed on time with an unqualified Audit opinion. Whilst progress has been made on enabling budget holders to self serve, it is recognised that further changes need to be made to financial systems to provide the full self serve experience, such as training for budget holders in accessing the web financials system.
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	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. Fraud awareness training has been arranged for the Extended Leadership Team for their December 2019 meeting.
18	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	4	—	Procurement Champions group set up and led by shared Corporate Procurement Officer. Key officers attend and receive training and updates. Key procurements are identified at an early stage and, where necessary, highlighted to programme board. 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 management of major procurements is robust. Dedicated resources have been recruited to ensure this is done.	The Council continues to access procurement services through a shared arrangement with Teignbridge which provides expert knowledge to ensure compliance with regulations. Opportunities to widen the shared procurement arrangement have been explored and discounted. An internal 'sustainable' procurement guidance manual is currently being prepared and will be consulted upon - before being shared amongst the organisation.

## Opportunities Register October 2019

NB: B2C Statutory Services not listed, as these tend to have fees set by Government or cost recovery potential only

#	Type	Opportunity	Doing Now	Internal / External Delivery?	If Int: Capacity to deliver	If Ext: Contract for Delivery?	Net Additional Income Potential (H/M/L)	Can we drive?	Complexity	Next Step	SH / WD / Both	Lead	Opportunity Response Category
1	B2B Consultancy	HR (Behaviours / Recruitment)	Y	Internal	yes		Med	Yes	Medium	Develop offer	Both	NH / AW	Enhance
2	B2B Consultancy	CoP / Case Management Model	N	Internal	yes		Low	Yes	Medium	see 1.	Both	NH / AW	Enhance
3	B2B Consultancy	Agile (Skype / Home Working / No Desk)	N	Internal	yes		Low	Yes	Medium	see 1.	Both	NH / MW	Enhance
4	B2B Consultancy	IT (Security / Planning / Telecoms)	N	Internal	yes		Low	Yes	High	Scope	Both	NH / MW	Enhance
5	B2B Consultancy	Constraints Theory	N	Internal	yes		Low	Yes	High	Develop offer	Both	DP / JD	Enhance
6	B2B Expertise	Disabled Facilities Grant Administration	Y	Internal	yes		Med/High	Yes	Medium	Continue	Both	DP / IL	Exploit
7	B2B Expertise	Food Safety Advice	Y	Internal	yes		Low	Yes	Medium	Continue	Both	DP / IL	Share
8	B2B Expertise	Primary Authority EH Services	Y	Internal	yes		Low	Yes	Medium	Continue	Both	DP / IL	Share
9	B2B Expertise	Planning Enforcement	Y	Internal	yes		Low	Yes	Medium	discuss with Taunton	Both	DP / PW	Ignore
10	B2B Expertise	Parking Enforcement	Y	Internal	yes		Low	Yes	Low	various T/PCs Oke Hosp	Both	CA/EW	Exploit
11	B2B Expertise	Design Team	Y	Internal	yes		Low	Yes	Medium	Continue	Both	NH / LC	Enhance
12	B2B Expertise	Seamoor Lettings	Y	Internal	yes		Low	Yes	Medium	Continue	Both	DP / IB	Enhance
13	B2B Expertise	HR Support / Technical Advice	N	Internal	no		Low	Yes	Medium	Hold	Both	NH / AW	Ignore
14	B2B Expertise	Town & Parish Support / Advice	N	Internal	no		Low	Yes	Medium	Hold	Both	NH / CBo	Enhance
15	B2B Expertise	Legal Support / Advice	N	Internal	no		Low	Yes	Medium	Hold	Both	NH / CBo	Ignore
16	B2C (Discretionary) Services	"Premium Planning Service"	N	Internal	yes		Med	Yes	Low	Trial underway	Both	DP / PW	Enhance
17	B2C (Discretionary) Services	Duty Planning	Y	Internal	Yes		Med	Yes	Low	Continue	Both	DP / PW	Exploit
18	B2C (Discretionary) Services	Conservation/LB - Pre-app/works to LB/Curtilege qus	Y	Internal	yes		Med	yes	Medium	Develop offer	Both	DP / PW	Enhance
19	B2C (Discretionary) Services	Private Water Supply - RA/sampling	Y	Internal	no		Med	yes	Medium	calc average cost per RA	Both	DP / IL	Enhance
20	B2C (Discretionary) Services	Skilled Handyman / Man with Van Services	N	Either	yes		Low	Yes	Medium	Hold	Both	CA/ST	Ignore
21	B2C (Discretionary) Services	Garden Clearance	N	Either	yes		Low	Yes	Medium	Hold	Both	CA/ST	Ignore
22	B2C (Discretionary) Services	Fire Risk Assessments	N	Either	no		Low	Yes	Medium	Hold	Both	CA/ST	Ignore
23	B2C (Discretionary) Services	PAT Testing	N	Either	no		Low	Yes	Medium	Hold	Both	CA/ST	Ignore
24	B2C (Discretionary) Services	Gas Safe Safety Checks	N	Either	no		Low	Yes	Medium	Hold	Both	CA/ST	Ignore
25	B2C (Discretionary) Services	Advertising / Sponsorship	Y	Either	TBC	Yes (Web) / NO (Other locations)	Med	Yes	Medium	Scope	Both	DA / LC	Share
26	B2C (Discretionary) Services	Tourist Tax	N	TBA	TBC	No	High	No	High	Requires Legislation Change	Both	DA	Share
27	B2C (Discretionary) Services	Chargeable Public Toilets	Y	Internal	Yes	N/A	Low	Yes	Medium	In Progress	Both	HD / CA	Enhance
29	B2C (Discretionary) Services	Grounds Maintenance	Y	Both	No		Med	yes	Low	more staff needed to expand	Both	CA/HF	Enhance
30	B2C (Discretionary) Services	Bulky Waste	Y	Both	yes	Yes	Low	Yes	Low	Hold	Both	JS/Smo	Enhance
31	B2C (Discretionary) Services	Chargeable Garden Waste	Y	Both		Yes	High	Yes	Medium	Hold	Both	JS / SMO	Exploit
32	B2C (Discretionary) Services	"Premium" Waste / Recycling Collection Service	N	Both	No	Yes	Low	Yes	Low	Hold	Both	JS / SMO	Ignore
33	B2C (Discretionary) Services	Controlled Waste Regulation (CWR / 2nd Home)	Y	Both	Yes	Yes	Med	Yes	Low	Progress	Both	JS / SMO	Enhance
34	B2C (Discretionary) Services	Seamoor Lotto	Y	Both	Yes	Yes	Low	Yes	Low	Promote	Both	DA / LC	Exploit
35	B2C (Discretionary) Services	Trade Waste & Recycling	Y	Both	yes	No	Med	Yes	Medium	Hold	Both	JS / SMO	Enhance

## Opportunities Register October 2019

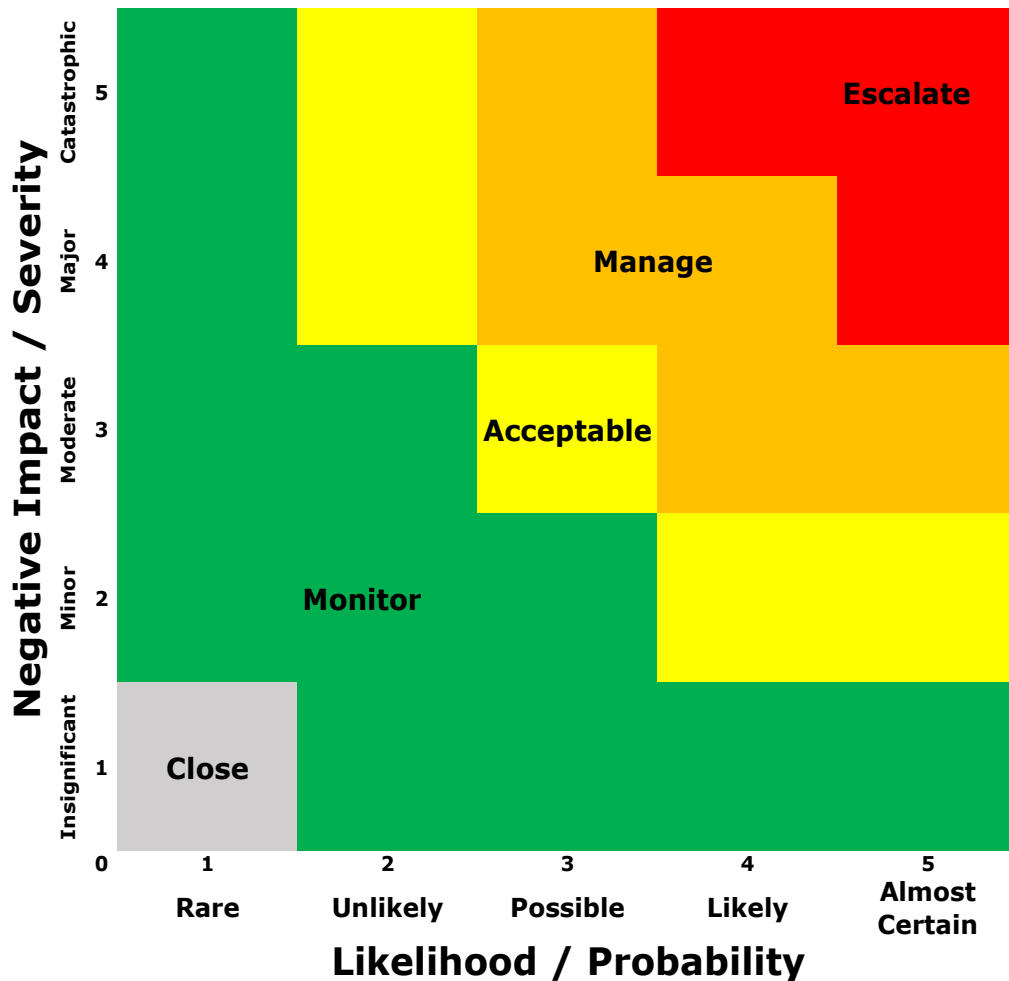
NB: B2C Statutory Services not listed, as these tend to have fees set by Government or cost recovery potential only

#	Type	Opportunity	Doing Now	Internal / External Delivery?	If Int: Capacity to deliver	If Ext: Contract for Delivery?	Net Additional Income Potential (H/M/L)	Can we drive?	Complexity	Next Step	SH / WD / Both	Lead	Opportunity Response Category
36	B2C (Discretionary) Services	Waste Containers / Recycling Bags	Y	Both	yes	yes	Low	Yes	Low	Hold	Both	JS / SMO	Enhance
37	B2C Services (Trusted Trader / Council as Middleman)	Skip Hire	N	External		No	Low	Yes	Medium	Hold	Both	DP	Ignore
38	B2C Services (Trusted Trader / Council as Middleman)	Pest Control	Y	External	N/A	Yes	Med	yes	low	charge for rats/mice or add fe	Both	DP/IL	share
39	B2C Services (Trusted Trader / Council as Middleman)	Private Water System Testing	Y	External	N/A	no	Low	yes	Medium	see 19.	Both	DP / IL	Ignore
40	B2C Services (Trusted Trader / Council as Middleman)	Handyman / Man with Van Services	N	External	N/A	no	Low	yes	Low	Hold	Both	CA/ST	Ignore
41	B2C Services (Trusted Trader / Council as Middleman)	Garden Clearance	N	External	N/A	no	Low	yes	Low	Hold	Both	CA/ST	Ignore
42	B2C Services (Trusted Trader / Council as Middleman)	Fire Risk Assessments	N	External	N/A	no	Low	Yes	Low	Hold	Both	CA/ST	Ignore
43	B2C Services (Trusted Trader / Council as Middleman)	PAT Testing	N	External	N/A	no	Low	Yes	Low	Hold	Both	CA/ST	Ignore
44	B2C Services (Trusted Trader / Council as Middleman)	Gas Safe Safety Checks	N	External	N/A	no	Low	Yes	Low	Hold	Both	CA/ST	Ignore
45	SHWD Income Initiatives	Commercial Property Acquisitions	Y	Internal	Yes	n/a	High	Yes	Medium	Continue	Both	CB	Exploit
46	SHWD Income Initiatives	Commercial Property Development	Y	Internal	Yes	n/a	High	Yes	High	Work ongoing	Both	CB / DA	Exploit
47	SHWD Income Initiatives	Accommodation Strategy	Y	Internal	Yes	n/a	High	Yes	High	Work ongoing	Both	CB / DA	Enhance
48	SHWD Income Initiatives	Kiosks / Concessions on Council Land	Y	Internal	TBC	n/a	Med	Yes	Low	Linked to WCs	Both	CB	Enhance
49	SHWD Income Initiatives	Housing Investment / Development	Y	Internal	TBC	n/a	Low	Yes	High	Work ongoing	Both	CB	Share
50	SHWD Income Initiatives	Renewable Energy Investment	N	Internal	TBC	n/a	Med	Yes	Low	ID opportunities	Both	CB	Enhance
51	SHWD Income Initiatives	Inward Investment	Y	Internal	TBC	n/a	Med	Yes	High	ID opportunities	Both	TJ / DA	Share
52	SHWD Income Initiatives	Treasury Management	Y	Internal	TBC	n/a	Med	Yes	Low	ID opportunities	Both	PH	Enhance
53	SHWD Income Initiatives	Investment in SW Mutual	Y	Internal	Yes	n/a	Med (4 yrs + before realisation)	Yes	Low	Work ongoing	Both	DA	Exploit



Appendix 2 - Risk Scoring Matrix

#	Likelihood	#	Impact
1	<p><b>Rare - Unlikely to occur under normal circumstances</b> 0-10%</p> <p>Is never likely to occur Very unlikely this will ever happen e.g. Once in 100 years</p>	1	<p><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 &amp; Safety: Minor first aid required Morale/Staffing: Isolated staff dissatisfaction</p>
2	<p><b>Unlikely - Potential to occur however likelihood remains low</b> 10 - 25%</p> <p>May occur only in exceptional circumstances Not expected to happen, but is possible e.g. Once in 25 years Not known in this activity</p>	2	<p><b>Minor Risk</b> Financial: Financial loss of between £10k &amp; £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 &amp; Safety: Minor injuries to employees or third parties Morale/Staffing: Pockets of staff morale problems and increased turnover</p>
3	<p><b>Possible - Could occur</b> 25 - 50%</p> <p>Could occur in certain circumstances May happen occasionally, e.g. Once in 10 years Has happened elsewhere</p>	3	<p><b>Moderate Risk</b> Financial: Financial loss of between £100k &amp; £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 &amp; 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</p>
4	<p><b>Likely - Most likely will occur</b> 50 - 80%</p> <p>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</p>	4	<p><b>Major Risk</b> Financial: Financial loss of between £500k &amp; £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 &amp; Safety: Limited hospital care required for employees or third parties Morale/Staffing: Widespread morale problems and high turnover. Not perceived as employer of choice</p>
5	<p><b>Almost certainly will occur</b> 80 - 100%</p> <p>Is expected to occur in most circumstances Will undoubtedly happen, possibly frequently e.g. Annually or more frequently Imminent/near miss</p>	5	<p><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 &amp; 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</p>



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Report to: **Audit Committee**  
Date: **7<sup>th</sup> November 2019**  
Title: **Sundry Debt**  
Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **ALL**

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

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 contents of the report are endorsed.**

## 1. Executive summary

The Strategic Debt Review was first presented to Committee in January 2018 and last reported on 21<sup>st</sup> March 2019.

This report provides an update of the position regarding outstanding Sundry Debt and Housing Benefits Overpayments collections up to 30<sup>th</sup> September 2019.

## 2. Background

The Council's management arrangements underpin delivery of all the Council's 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, <https://www.southhams.gov.uk/article/6016/Debt-Recovery-Policy>

Following the centralisation of debt recovery into one service from October 2017 and the implementation of the Debt Recovery Action Plan, Members requested regular updates to demonstrate robust control of debt recovery procedures, relating to Sundry Debt and Housing Benefits Overpayments (HBOP).

The Sundry Debt Action Plan in 2017 implemented procedures that have maintained well managed outstanding debt levels. Sundry Aged Debt remains below target, with £552k outstanding on 30<sup>th</sup> September 2019, of which £296k relates to a S106 invoice issued on 30<sup>th</sup> August 2019, therefore only just overdue. Housing Benefits Overpayment (HBOP) recovery this year has been extremely successful with £212k recovered so far.

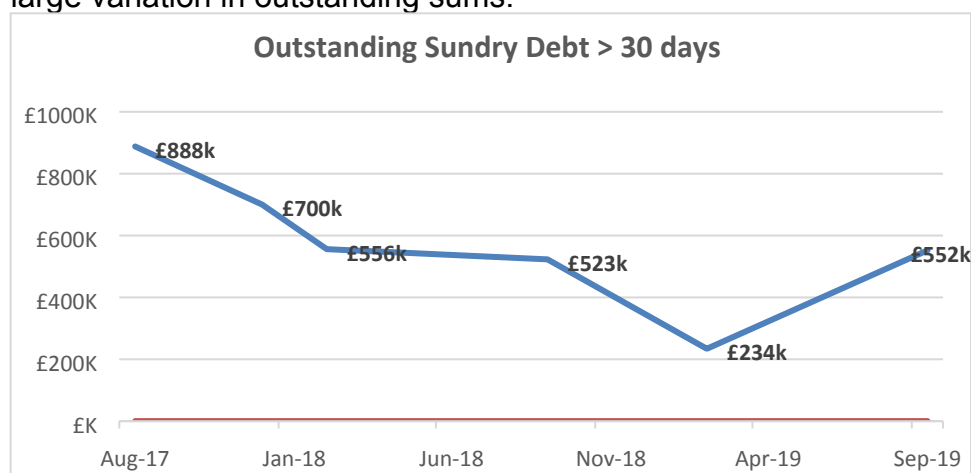
This report outlines the latest position in relation to Sundry Aged Debt and Housing Benefits Overpayments recovery and includes data which demonstrates improved and consistently well managed debt recovery.

### 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.

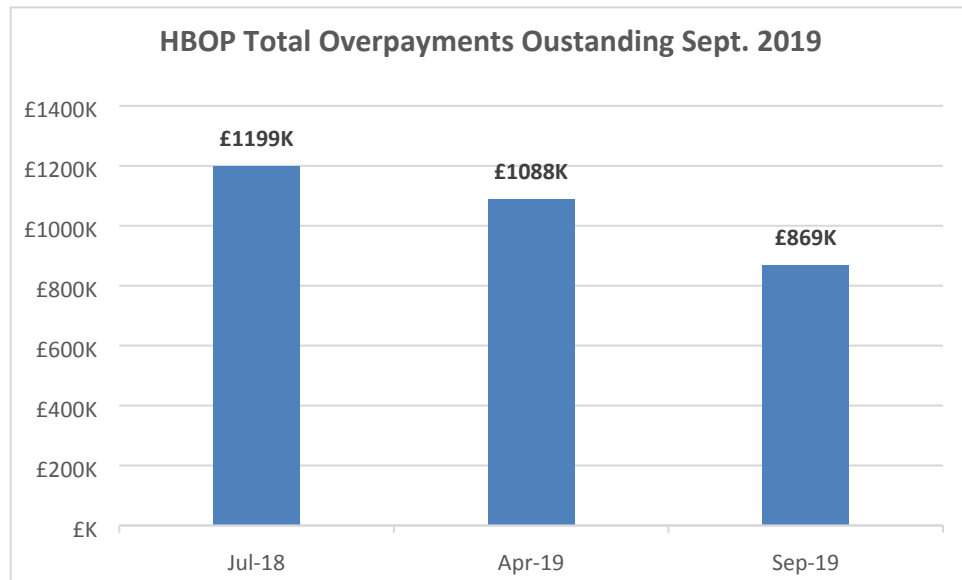
The length between reminder letters has been reduced and the HM Courts online service 'Money Claims Online' is being used to recover debt, alongside use of Recovery Agents. Within this process we have introduced interest charging and recovery costs.

Sundry debt continues to reduce and has been maintained below the uncollected target of £700k (Table 1) since December 2017. This year, at the end of Quarter 2, aged debt has increased slightly to £552k, when compared to the same period last year (£523k), however this figure includes a S106 invoice of £296k, plus 6 other debts totalling £76k which are subject to further action. In March 2019, there were no S106 invoices which accounts for the large variation in outstanding sums.



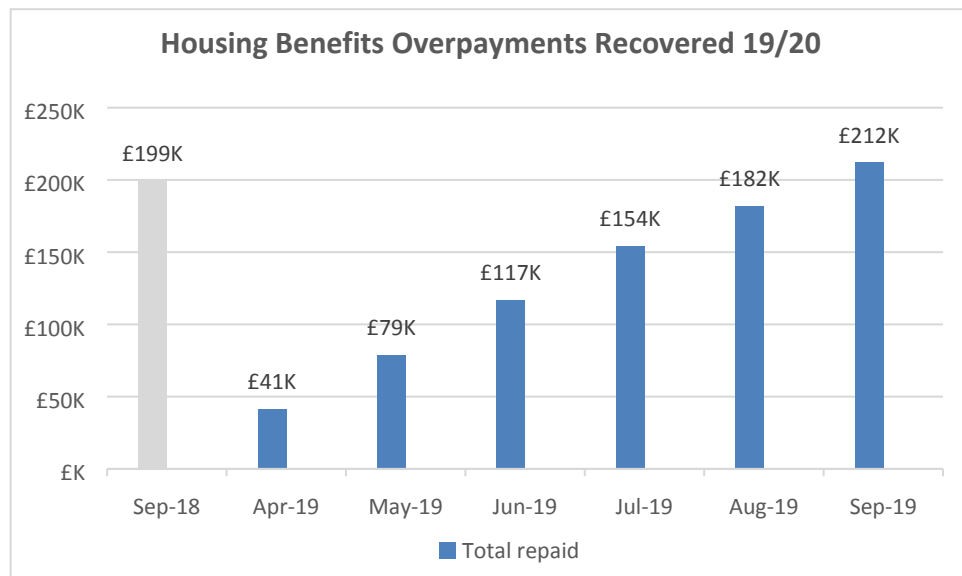
**Table 1 – Sundry Debt Summary Figures since Commencement of Reporting to Committee**

The consistent approach used for recovery of Housing Benefits Overpayments has produced excellent results. The ability to deduct from Benefits awards and Department of Work & Pensions (DWP) payments, plus applying Attachment of Earnings Orders through employers, as well as direct payments have all contributed to the success. The total sum of outstanding Overpayments in July 2018 was £1199k and is now reduced to £869k (Table 2). The number of cases has reduced, from 1085 in July 2018 to 692 at the end of September 2019.



**Table 2 – Housing Benefits Overpayments Total Sum Outstanding for Recovery.**

Last year’s collection of Housing Benefits Overpayments surpassed all expectations with £461k being recovered by the end of March 2019. This year, we have recovered £212k within the first two quarters (Table 3), a slight increase against the same period last year (£199k).



**Table 3 – Housing Benefits Overpayments Recovered since April 2019 and compared to September 2018.**

The tough approach with customers and improved use of external electronic resources have all contributed to the success in HBOP recovery. There is an expectation that recovery will reduce year on year as collection becomes more difficult. We also expect to see fewer overpayments being created due to the introduction of DWP Real Time Information referrals.

In some cases pursuit of an outstanding debt is not possible for a variety of reasons, such as bankruptcy or liquidation. These cases are fully investigated before being put forward for write off in accordance with the Councils Write Off policy. The most recent Write Off report on 19<sup>th</sup> September 2019, <http://mg.swdevon.lan/mgChooseDocPack.aspx?ID=1152> included 9 cases of uncollectable old sundry debt totalling £2314, and 26 cases of HBOP under £5k totalling £19004 and 1 case at £7615, all of which were written off. Q2 is yet to be reported.

#### 4. Proposed Way Forward

The Committee note the content of the report and continue twice 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.  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.

Supporting Corporate Strategy	Y	Delivering efficient and effective services
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity		All enforcement action that is taken is undertaken in accordance with legislation and accepted procedures to ensure no discrimination takes place.
Safeguarding		N/a
Community Safety, Crime and Disorder		N/a
Health, Safety and Wellbeing		N/a
Other implications		A bad debt provision is built into the financial management of the Authority

**Background Papers:**

Audit Committee 21<sup>st</sup> September 2017 - Update on Progress on the 2017-18 Internal Audit Plan (includes update on Strategic Debt Review).

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

**Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	Yes

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Report to: **Audit Committee**

Date: **7 November 2019**

Title: **Update on Progress on the 2019-20 Internal Audit Plan**

Portfolio Area: **Support Services – Cllr D May**

Wards Affected: **All**

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

Date next steps can be taken: Immediately following this meeting

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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## **RECOMMENDATION**

**It is RECOMMENDED that the progress made against the 2019/20 internal audit plan, and any key issues arising are noted and approved.**

### **1. Executive summary**

1.1 The purpose of this report is to inform Members of the principal activities and findings of the Council's Internal Audit team for 2019/20 to 4 October 2019, by:

- Showing the progress made by Internal Audit against the 2019/20 annual internal audit plan, as approved by this Committee in March 2019; and
- Highlighting any revisions to the 2019/20 internal audit plan;

## **2. Background**

- 2.1 The Audit Committee, under its Terms of Reference contained in South Hams 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.
- 2.2 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.
- 2.3 The Internal Audit plan for 2019/20 was presented to and approved by the Audit Committee in March 2019. Progress in the period up to 4 October 2019 has been largely in line with expectations and included completion of work carried forward from 2018/19. There have been 2 days reported sickness absence (apportioned SHDC 1.5 days, WDBC 0.5 days) in the year to date.
- 2.4 In addition, the Council, in association with several partner organisations receive funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m to the Greater Dartmoor Local Enterprise Action Fund (LEAF). The Council, as the Accountable Body, is responsible for the legal and financial management of the grants awarded to the programmes. Each project is required to submit a grant claim on a quarterly or monthly frequency to draw down funding. 30 days were allocated to this work for the year in the 2019/20 Audit Plan. As at 4 October, 18 days have been spent.
- 2.5 In response to the possible need for additional days on this grant work and the impact on the overall audit plan, it is proposed that, in consultation with the Section 151 Officer, the audit plan will be reviewed and adjusted where deemed appropriate and/or the purchase of additional audit days to cover any shortfall. Any amendments will be agreed by the Senior Leadership Team. It should be noted that the Council is able claim funding against officer time spent on administering the LAG and the LEAF and this can be used to provide some backfill to cover any additional days required.
- 2.6 The 2019/20 audit plan currently includes one audit that utilises additional Devon Audit Partnership resources. This is:
  - a. Business Continuity within the Supply Chain Follow Up.

This audit is to be funded from officer time spent on and claimed against LAG and LEAF administration in this financial year.

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

- 3.1 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.
- 3.2 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.
- 3.3 Overall, and based on work performed to date during 2019/20, Internal Audit is able to provide **substantial assurance** on the adequacy and effectiveness of the Authority's internal control environment. Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk. (please refer to Appendix B for definition)
- 3.4 We are pleased to report that progress against the agreed 2019/20 Internal Audit Plan is as expected. A number of audits have been completed, with draft and final reports issued. Fieldwork has been completed on a number of audits and this work needs to be reviewed (quality assured) following which the draft report will be issued. A number of audits are planned for quarters 3 and 4, and planning for these reviews is underway. A summary of progress is attached at **Appendix A**, and this provides the detailed position for each audit as at 4 October 2019.
- 3.5 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.
- 3.6 **Appendix C** provides a summary of work where the planned work is complete but no audit report produced. This includes information with regards Non-Compliance with Contract or Financial Procedure Rules, and Fraud / Irregularity issues reported to Internal Audit during the reporting period.

3.7 In response to Members request at the last Audit Committee in July, **Appendix D** provides a summary of the findings of our recent “initial” review of the management of the new Frontline Services (Waste and Cleansing) Contract. It should be noted that the findings have been issued to management as part of a draft report and responses to these and the recommendations made are awaited.

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

4.1 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

5.1 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 promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council’s statutory obligations.</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.
Supporting Corporate Strategy	Y	This Progress Report and the work of Internal; Audit supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon / Biodiversity Impact	Y	None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to obtain evidence to support the audit process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.
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 four separate appendices to this report; Appendix A, B, C, and D.

**Background Papers:**

Annual Internal Audit Plan 2019/20 as approved by the Audit Committee on 21 March 2019.

Summary of progress against agreed internal audit plan 2019/20 for **South Hams District Council** & West Devon Borough Council

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>Work Carried forward from 2018/19</b>										
Cyber Security (carry forward from 18/19)		■	■							
GDPR (carry forward from 18/19)		■	■							
<b>2019/20 Plan</b>										
<b>MAIN FINANCIAL SYSTEMS</b>										
Main Accounting System (inc budgetary control)	20	■								Fieldwork commenced
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									
Contract Management – Waste Collection and Street Cleansing Contract	10	■	■							
Car Parks – PCN and Appeals Process	10	■	■	■	■		■			Final report issued. Extract provided at Appendix B.
Dartmouth Lower Ferry (S.Hams)	8	■								Fieldwork completed. Draft report awaiting management review.
Environmental Services – Enforcement Process (Fly Tipping, Abandoned Vehicles etc) – Follow-Up	3	■								Fieldwork complete, report to be drafted.
Grounds Maintenance Operations (inc control of bedding plants) – Follow Up	3									
Grounds Maintenance & Car Parking Permits – invoicing of external clients (S Hams)	5									Additional request by SHDC members. Assurance required that all invoicing takes place as expected.
Depots & Stores Follow-Up (S.Hams)	3	■								Fieldwork completed. Draft report awaiting management review.
<b>Commercial Services</b>	<b>52</b>									Planned days increased by 5 days re Grounds Maintenance invoicing

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) – Follow-Up	5	■	■	■	■		■			Final report issued. Extract provided at Appendix B.
Use of Social Media	5	■	■	■	■		■			Final report issued. Extract provided at Appendix B.
Section 106 agreements (follow up)	5	■								Fieldwork completed. Draft report awaiting management review.
Commercial Property & Rents (Tenancies, Reviews, Collection)	10	■								Fieldwork completed. Draft report awaiting management review.
Duplicate Data Entry and Processes	5									Audit postponed. Time used for Grounds Maintenance review of invoicing- SHDC (see above)
<b>Customer First</b>	<b>25</b>									Original plan was 30 days. 5 days removed for Duplicate Data Entry resulting in revised plan of 25 days



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>STRATEGY &amp; COMMISSIONING</b>										
Project Management – Governance & Process	15									
Performance Management (KPI's & data quality) (deferred from 17/18)	15									
Change Control – Business Processes	10									
Contract Management – ICT Contracts	7									
Peer Review Action Plan	5	■								On-going work throughout the year
Risk Management Follow-Up	5									
Contract Management Strategy and Process – Follow-Up	5									
Business Continuity within the Supply Chain – Follow-Up	3									
Health & Safety Further Follow-Up	3	■	■	■	■			■		Final report issued. Extract provided at Appendix B.
<b>Strategy and Commissioning</b>	<b>68</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 - Use of Email and Internet	25									
ICT Audit – Change Management Follow-up		■	■	■	■			■		Final report issued. Extract provided at Appendix B.
ICT Audit - Asset Control - Follow-Up		■								
Corporate Information Management (Data Protection)	15									
Capital Expenditure and Receipts	10	■	■	■	■			■		Final report issued. Extract provided at Appendix B.
Insurance – Review of Cover	8	■								Fieldwork completed. Draft report awaiting management review.
Online Payments	7									
Employment / Recruitment Checks / Leavers Process	7									

**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	
Elections – Post May Election Review	5									
V.A.T. – Sample Check Income Transactions	5									
Recharging – test of re-charge calculations	5	■	■							
Business Continuity Follow-Up (inc BCP exercises)	5	■								Fieldwork commenced
Comments and Complaints – Follow-Up	5	■								Fieldwork completed. Draft report awaiting management review.
<b>Support Services</b>	<b>95</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 20th June 2019,
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2019 Audit Committee under separate cover
Exemptions from Financial Regulations	5	■								
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	30	■	-	-	-	-	-	-	-	18 days spent on claims to date.
Contingency & Advice	5	■	-	-	-	-	-	-	-	
<b>OTHER ESSENTIAL ITEMS</b>	<b>70</b>									
<b>Total Days</b>	<b>430</b>									

## Summary of Internal Audit Findings 2019/20 – Final Reports

As at 4 October 2019, six final reports have been issued in respect of 2019/20 work. The conclusions from this work are summarised below.

Subject	Audit Findings	Management Response
<b>2019/20 Audit Plan</b>		
<p>Car Parks PCN and Appeals Process</p>	<p><b>Good Standard</b></p> <p>In general, the process for administering Penalty Charge Notices (PCN's) and determining appeals for cancellation, appears to be satisfactorily controlled, with regular checks of performance being made by managers. Although the number of successful appeals appears to be relatively high, it can be demonstrated that, in the majority of cases, the appellant had actually made a payment either at a pay machine or via mobile phone, even if incorrectly, or held a valid permit. Examples of this include a valid ticket not appearing on the vehicle or entering the wrong car registration number or car park code on the "RingGo" cashless parking system. To reject appeals such as these would lead to criticism from the Traffic Penalty Tribunal, should customers take their appeal to the next stage.</p> <p>We have made a small number of recommendations, including some which support action already planned by those officers managing the car parking function, which, we believe, will contribute to further enhancing those checks already in place, and to ensuring that a consistent approach is applied. Our recommendations have included:</p> <ol style="list-style-type: none"> <li>1. Formalising the Councils' internal working policy with regards the cancellation of PCNs;</li> <li>2. Providing formal training, leading to a recognised qualification, for those responsible for determining appeals, in line with best practice;</li> <li>3. Introducing quality checks of appeals once the relevant PCN software upgrade has been installed; and</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. - The Senior Specialist – Car Parks (EW) and the Case Management Team Leader (RE) have begun work to formalise the existing working policy.</li> <li>2. Agreed. The Senior Specialist – Car Parks (EW) has recently contacted all the Car Park managers in Devon, to get a group of people together for training.</li> <li>3. Agreed. This functionality is included on the new version (v190) of Taranto. The Case Management Team Leader (RE) will then commence use of the quality check function, which can be set up with desired parameters to sample one in x number of letters etc.</li> <li>4. Agreed. The Case Management Team Leader (DC) responsible for frontline staff is currently reviewing the issue of PCNs to identify any matters which may need to be addressed.</li> </ol> <p>Once this has been completed, then the compliance checks will be put in place.</p>

Subject	Audit Findings	Management Response
	<p>4. Introducing compliance checks to ensure that CEOs are issuing tickets to all vehicles which have parked in contravention of car park terms and conditions.</p>	
<p>Use of Social Media</p>	<p><b>Good Standard</b></p> <p>Use of social media by the Councils themselves appears to be well controlled, with only a limited number of people able to post information on behalf of the Authorities. Policies are in place to guide both staff and elected members as to expected conduct and behaviours when using social media both in and out of work.</p> <p>However, we have made a number of recommendations to contribute to strengthening those controls already in place, the most significant of which include:</p> <ol style="list-style-type: none"> <li>1. Delivery of the further training requested by some members on the use of social media, as well as reaching those who chose not to attend the Induction training module on Media;</li> <li>2. Ensuring that existing policies relating to use of social media by staff and members are available and well publicised; and</li> <li>3. The development of a policy relating to the use of WhatsApp.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. More detailed training on social media was offered to members, although only a handful expressed interest in this, and only one resulted in further training.</li> <li>2. Agreed. Some of the policies would benefit from being re-written, drawing all the separate documents together and also addressing the advances in social media in the last few years. Also, members have requested that the approach to policies is reviewed, making them more visual and less 'wordy'.</li> <li>3. Agreed. SLT wish to continue using WhatsApp for work purposes, as it allows quick and easy communication by mobile phone, including in emergency situations, when Council systems or devices may not be available. However, guidance does need to be issued to staff, regarding the type of information they share, the fact that documents shouldn't be sent by this channel, etc.</li> </ol>
<p>Development Management - Planning Applications &amp; Appeals Follow Up 2019/20</p>	<p>Revised audit opinion of <b>Good Standard</b></p> <p>We found that good progress had been made to address the issues identified in our 2017/18 audit, and this progress has enabled us to upgrade our assurance opinion from "Improvements Required" to "Good Standard".</p>	

Subject	Audit Findings	Management Response
	<p>However, there are a number of recommendations that remain to be implemented; delays in implementation being mainly due to limited staff resource. The outstanding agreed actions largely relate to the review of procedures in order to gain efficiencies, which will, ultimately, improve the customer experience, the most significant being:</p> <ol style="list-style-type: none"> <li>1. Speed of Determination – completion of the review of procedures to understand what constraints are resulting in the need to regularly rely on extensions of time to allow applications to be determined within in target;</li> <li>2. Historical Enforcement Cases – the need to clearly identify how these cases should be prioritised to best effect;</li> <li>3. Appeals – review processes relating to the administration of appeals and identify potential efficiencies through effective use of software;</li> <li>4. Ensure that the intended programme of training is delivered to members of the Development Management Committees.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. Officers have been regularly instructed to ensure that extensions of time are requested promptly and before applications go out of time.  Joint work with the Business Development Team has resulted in some new models which are being piloted. Unfortunately, they have not been entirely successful and so further work will be required to identify a solution.</li> <li>2. Agreed. There has been a considerable review of enforcement processes and resource, the latter being less than usual recently due to long term sickness.  A report has been taken to members at both authorities, with an Action Plan to address issues in delivering planning enforcement. This sought approval to recruit two more enforcement officers, which was agreed, as it has been recognised that existing resource was unable to manage the current workload, leading to ‘firefighting’ and reactive, rather than pro-active, responses.</li> <li>3. Agreed. Currently, an internal checklist and instructions are used to guide staff through the appeals process.  The existing W2 process still needs to be reviewed, in liaison with Specialist – ICT Applications and Business Development (VS). However, it is not a high priority piece of work and there may be delays if a corporate decision is taken to replace W2.</li> <li>4. Agreed. All new members received mandatory training and this was also attended by the majority of existing members. Training has also been provided on the Joint Local Plan and there will be some around the new Supplementary Planning Document, which is imminently due to go out for consultation  There have been no other significant changes since then, but additional training will be provided as and when the need</li> </ol>

Subject	Audit Findings	Management Response
		arises.
Health and Safety	<p>Our assurance opinion, after completing follow up work in this area, remains <b>Improvements Required</b>. However, the overall direction of travel for improvement is positive.</p> <p>The Head of Environmental Health Practice (IL) made good progress in co-ordinating the delivery of the Health and Safety action plan, originally drawn up in 2016/17, particularly in those areas for which he had taken direct responsibility. However, for those areas where delivery is reliant on other managers, there is no evidence that key tasks (raising health and safety awareness; clarifying first aid arrangements, providing lone working training etc) continue to be repeated or reviewed at appropriate intervals, often, we understand, due to limited staff resource.</p> <p>The Environmental Health COP Lead (IL) had drawn up a work plan of necessary actions and deliverables to ensure that appropriate procedures and practices were in place within waste and transport. Most of these responsibilities have now passed to the contractor, but a number do still remain with the Councils.</p> <p>We also highlighted several other issues, including:</p> <ol style="list-style-type: none"> <li>1. Procedures to identify health and safety training needs; to record these needs and the subsequent training completed by individual staff, requires improvement.</li> <li>2. Ensuring that managers regularly review all risk assessments and associated Safe Systems of Work (SSOW), particularly within Environment Services;</li> <li>3. Ensuring that managers continue to carry out monthly workplace and premises inspections; and</li> <li>4. Ensuring that the quarterly workplace inspections by a competent person(s) continue to be completed in line with the planned programme, particularly for the higher risk functions within</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. The Head of HR Practice (HR) advised that the PCI (Personal Continuous Improvement) system should be an opportunity to identify and record all training needs, including health and safety, but it is acknowledged that there is a gap in records.</li> </ol> <p>New software, CoreHR, is hosted by DELT (Plymouth City Council) and provides an end to end payroll solution encompassing training records and “1 to1” notes and objectives, amongst other things. Although further scoping is to be completed before committing to the software, we are advised that it is highly probable that it will go ahead.</p> <p>The software has a self-service interface, allowing staff and managers to maintain a record of any training identified as being needed.</p> <ol style="list-style-type: none"> <li>2. Agreed. This links to other recommendations rather than being an isolated task. The Specialist Manager – Support Services (NH) has been asked to investigate alternative corporate software to potentially replace that currently used to manage both risk registers and performance management. This would hopefully have a cascade-style approach, flowing from strategic risks, to operational risks, to risk assessments.</li> </ol> <p>In the meantime, reliance is placed on the spreadsheet template provided to all business areas by the Head of Environmental Health Practice (IL).</p> <p>With regard Safe Systems of Work (SSOW), the Senior Case Manager – Commercial Services (PC) has recently been instructed to spend more time visiting the Building Maintenance teams on site to confirm that SSOW are being followed. The Case Management Team Leader (DC) is to ensure that such checks are being made.</p>



Subject	Audit Findings	Management Response
	<p>Environment Services, as well as for Dartmouth Lower Ferry and Salcombe Harbour.</p>	<p>Once on site, Building Maintenance teams are required to confirm via their iPads that they have read the relevant dynamic risk assessment and have made an on-site risk assessment. The information is then fed into Concerto, the Council's Asset Management system.</p> <p>3. Agreed in principle. Unfortunately, there is no staff resource to carry out monthly inspections of car park workplaces at present. Ideally a Senior Case Manager would be in post, whose responsibilities would include this task, but recruitment is currently on hold, pending the outcome of the ELT review. Should staff resource become available in the future, the recommendation will be borne in mind.</p> <p>Whilst the Civil Enforcement Officers (CEOs) do not maintain records of their inspections, only reporting by exception, the fact that reports of issues are regularly received would suggest that they are being carried out.</p> <p>In terms of Building Maintenance inspections, it will be confirmed whether those at the Totnes Depot are being recorded. If not, they can be recorded on Concerto in future. For other sites, the Senior Case Manager – Commercial Services (PC) is to make these inspections when confirming that the teams are following SSOW on site (see 2 above).</p> <p>4. Alternative officers have been selected to replace those who have left the organisation, the rota has been reviewed and a revised version circulated.</p> <p>Feedback on previous inspections has been very positive and they were found to be worthwhile.</p> <p>The next round of inspections are due in the Autumn of 2019.</p>

Subject	Audit Findings	Management Response
ICT - Change Management Follow Up 2019/20	<p>Following the completion of our follow up work, our revised audit opinion remains <b>Improvements Required</b>. We found that the culture of caution, and an understanding of change management, has been considerably strengthened within the ICT COP, and a robust change control process for major or high impact changes is in place; however further work is needed to formalise procedures and to ensure that comprehensive audit trails are in place for all other categories of change.</p> <p>Following our initial audit in 2017/18, improvements have been made to the controls around the ICT change management process, particularly for non-standard changes, for which procedures remain in place to allow scrutiny, consideration of the risks, mitigations and roll back plans. However, in the last twelve months there has been limited additional progress. Controls over both lower priority non-standard changes and standard changes are less well-developed. Such changes are often not being documented and, arguably, those controls that do exist, work largely due to the diligence of ICT staff, rather than because there are effective formal controls in place which prevent all changes from being made without following due process.</p> <p>Whilst senior officers within the ICT COP acknowledge that rigorous change management is desirable as best practice for all types of change, we understand that there is felt to be insufficient staff resource to achieve this. It is therefore important to strike a balance between managing and documenting all risks created by changes and actually implementing the changes in a timely manner.</p> <p>This can conflict with the demands of the business, whereby all changes would be fully controlled, documented and implemented in a timely manner, as part of business as usual.</p> <p>We have obtained confirmation that some of the recommendations which we made last year, largely around standard change requests, have been, or are in the process of being, implemented. Those recommendations which remain outstanding or incomplete have been repeated as a reminder. These focus on :</p> <ol style="list-style-type: none"> <li>1. Change management delivery;</li> <li>2. ICT Staff Capacity;</li> <li>3. Standard change request models;</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. The Head of ICT Practice (MW) and the Customer Service Delivery Director (SM) met to discuss and agree a range of actions.  A review of change management has recently been conducted, resulting in the creation of a Change Manager role which has been conferred on the Specialist – ICT Infrastructure (CJ).  This role is responsible for overseeing both the maintenance of the major change documentation and process controls, and the standard change process and document library. It is also responsible for maintaining the IT Forward Schedule of Change.  The Change Manager is also responsible for implementation of communication plans relating to RFC's, including entries in Friday Flash and Members Bulletins.  Previously, change management was considered solely from the point of view of business continuity and system availability, but that focus has now been revised, in line with the message coming from SLT, to one of ensuring that process is followed and that there is an audit trail to demonstrate this.  It is intended that the Head of ICT Practice (MW) and the Customer Service Delivery Director (SM) hold a further meeting in Q1 2020 to review progress</li> <li>2. Additional capacity has been created to oversee Change Management, by reducing the full time cover previously provided by the Specialist – ICT Infrastructure (CJ) for the Service Desk.</li> <li>3. Specialist – ICT Infrastructure (CJ) is to act as Change Manager, and as such will be responsible for creating a library of Standard Change Request Models. These will each be approved by the CAB when first written.</li> </ol>

Subject	Audit Findings	Management Response
	<ul style="list-style-type: none"> <li>4. "Roll Back" plans for standard changes ;</li> <li>5. Post-Implementation reviews;</li> <li>6. Customer satisfaction survey redesign.</li> </ul>	<p>Each future standard change using the approved Models will not then need to be presented to the CAB, only published in the Forward Schedule of Change.</p> <ul style="list-style-type: none"> <li>4. Agreed. Officers have always considered roll back plans, but this was not necessarily evidenced. A library of Standard Changes Request Models is being created and the Standard Change RFC template, to be used for these, includes a roll back plan section.</li> <li>5. Agreed. A "Post Implementation Review" section has been added to the RFC templates for both non-standard and standard changes for this purpose.</li> <li>6. Agreed. The recommendations will be incorporated in to the next survey which is due in Q1 of 2020.</li> </ul>
Capital Expenditure	<p><b>Good Standard</b></p> <p>There are effective procedures in place to allow a robust capital programme to be set for each Authority and subsequent progress and expenditure to be controlled and monitored for individual projects.</p> <p>Controls over the application, approval and payment of Housing Assistance, including Disabled Facilities Grants, remain broadly unchanged from previous years, except for some streamlining of procedures for stairlifts, which has been introduced at a county-wide level.</p> <p>We made a limited number of recommendations to further strengthen already good procedures and these included: -</p> <ul style="list-style-type: none"> <li>1. Capital Budget Monitoring Reports - We support the intention of the Strategic Finance Lead (LB), in liaison with the Head of Finance Practice (PH), to ensure that capital budget monitoring reports are presented to the SHDC Executive and the WDBC Hub committees on a quarterly basis, as required by the</li> </ul>	<ul style="list-style-type: none"> <li>1. Agreed. The Q1 capital budget monitoring reports were presented to the SHDC Executive and the WDBC Hub in September 2019. Future quarterly reports are included in the Forward Plan for each committee, alongside the quarterly revenue budget monitoring reports.</li> <li>2. Agreed. Where members are required to give approval for disposal of land or property, then evidence is held in the minutes of the meeting.</li> </ul> <p>It will be ensured that for any future disposals approved under delegated powers, evidence will be held of the approvals given, alongside other relevant documentation.</p>

<b>Subject</b>	<b>Audit Findings</b>	<b>Management Response</b>
	<p>Councils' Contract Procedure Rules.</p> <p>2. Evidence of Authorisation for Disposals - The Head of Assets Practice (CB) should ensure that evidence of approval for the disposal of land or property is retained in the relevant Estates folder on the Sdrive.</p>	

## Definitions of Audit Assignment 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.

## Definitions of Overall Organisational Assurance Opinion Levels

Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.	Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
Substantial Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.	No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

## Planned Audit 2019/20 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<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 2018/19 financial year. The S151 Officer presented the 2018/19 AGS to the Audit Committee on 20 June 2019.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>4 applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>
<b>Fraud / Irregularity</b>	<p>There have been no irregularities to report.</p>

## Frontline Services (Waste and Cleansing) Contract

Within the 2019/20 Audit Plan, agreed by the Audit Committee in March of this year, audit time was set aside to undertake a review of the arrangement established to manage the Frontline Services (Waste and Cleansing) Contract. It was agreed that an initial review would take place early in the audit year followed by a further review later once arrangements have become more embedded.

Our initial review covered the following areas and the following table summarises our assurance opinion on each of those areas. Together they combine to provide an overall opinion of **High Standard**

Areas Covered		Level of Assurance
1	Preparing for contract management and providing oversight.	High Standard
2	Ensuring the right people are in place to carry out the contract management activities.	High Standard
3	Managing the physical contract and the timetable for making key decisions.	High Standard
4	Ensuring payments are made to the supplier in line with the contract and that appropriate incentive mechanisms are in place and well managed.	Limited Testing
5	Understanding and managing contractual and supplier risk.	Good Standard

Our audit assessment has been completed during the early implementation of the contract and is based on an assessment of the expected processes and procedures; additional audit resources will be used later in the audit year to confirm that these are maintained.

Using various systems and processes, the Councils undertake their duties with regard to managing the Waste Contract. The Waste Commissioning Manager (JS) oversees the implementation of the contract and is the responsible owner. The governance for the contract is spread across a number of services of the Councils, including members and officers from environment, waste, and requires contractor involvement and continued communication, much of which had been established during previous work with West Devon Council. The contract management and performance is completed through a number of boards and working groups, including the;

- Partnership Board;
- Operational meetings;
- Client and Contractor meetings;
- Waste Working Groups;
- Member engagement and report to council; and
- Devon wide waste groups.

The Council organised contract management training in July 2019 and the waste officers involved in the management of the waste contract attended.

Suitable experienced officers are employed to oversee the waste contract; these are predominately the same officers who were involved in the tendering and award of the contract. The exception is the Commercial Services Group Manager who left the Councils shortly after awarding of the contract stage.

Robust procedures are in place for the monitoring of performance and payment of invoices. Officers are aware of the requirements to record any significant changes and related documentation will be retained if required.

Officers have produced a project plan detailing the key requirements and trigger points during the course of the implementation phase and beyond. Key tasks have been allocated to relevant officers, with suitable support to provide cover and assurance. An operational timetable is in place to ensure that key points are met and discussed with the contractor during planned meetings.

A central filing system is in place to record the key waste contract documents and meeting notes and this is accessible by the officers involved in the contract.

Contractor payments are determined by the Councils based on the Waste Contract Pricing Schedules submitted during the tender submission.

The Councils will receive a monthly invoice from the contractor that includes the services associated with the duties of waste and recycling, street cleansing and toilet cleaning. These invoices will include routine charges along with other non-routine and day-work rates for activities such as special events or the delivery of promotional material.

The relevant officers responsible for managing the contract have provided Audit with assurance that they are able to identify and manage the risks and are undertaking regular meetings with the contractor and all of the parties associated with the contract.

For such a large and diverse contract, reliance is placed on the contractor to deliver the services required under the terms of the contract and the Councils need to continue monitoring the activities to ensure that they are in agreement with the contract. Training has been given to the officers who will be monitoring the contract performance and a period of assessment has been conducted to evaluate, standardise and benchmark the results.

The weaknesses and potential issues highlighted during the audit review are summarised below;

- There is the potential financial and operational risk to the Contract should there be delays in the implementation of the construction of the Ivybridge Transfer Station or if it is not delivered as expected;
- There is the risk to the Council if the costs of the construction of the Transfer Station are not in line with the approved budget; and
- There is a need to ensure that implementation of the IT customer interface (Whitespace work software) is delivered promptly, that it is operating effectively and that data is appropriately shared.



Report to: **Audit Committee**

Date: **7 November 2019**

Title: **Internal Audit Charter & Strategy 2019/20**

Portfolio Area: **Support Services – Cllr D May**

Wards Affected: **All**

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

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

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**RECOMMENDATION:**

**It is RECOMMENDED that the Audit Committee review and approve the Internal Audit Charter and Strategy 2019/20.**

## **1. Executive Summary**

- 1.1 The purpose of this report is to allow the Audit Committee to review and comment upon the Internal Audit Charter and Strategy for 2019/20.
- 1.2 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.
- 1.3 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.
- 1.4 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.#
- 1.5 There are only minor amendments from the Charter and Strategy documents approved by the Audit Committee in October 2018. These are:

## Audit Charter

- a. Renaming "Chief Internal Auditor" as "Chief Audit Executive";

## Audit Strategy

- a. Renaming "Chief Internal Auditor" as "Chief Audit Executive";
- b. Minor re-wording in "Introduction".
- c. Under Section 6 – "Resources and Skills" the inclusion of the Corporate Fraud Team which joined Devon Audit Partnership in 2018.

## **2. Background**

- 2.1 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"

- 2.2 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.
- 2.3 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**

- 3.1 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.
- 3.2 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.

- 3.3 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.
- 3.4 The Charter says that the Strategy should be approved, but not directed, by the Audit Committee.
- 3.5 The internal audit charter and strategy for the financial year 2019/20 are set out at **Appendix A** and **Appendix B** respectively.

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

- 4.1 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**

- 5.1 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	<p>The Accounts and Audit Regulations 2015 issued 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	<p>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.</p>
Risk	Y	<p>The work of the internal audit service is an intrinsic element of the Council’s overall corporate governance, risk management and internal control framework.</p>
Supporting Corporate Strategy	Y	<p>This Progress Report and the work of Internal; Audit supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.</p>
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to obtain evidence to support the audit process, although it is inevitable that on-site verification may be required at times.</p> <p>The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.</p>
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  
2019/20 Service Level Agreement

## **SOUTH HAMS DISTRICT 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 South Hams District 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 Audit Executive"; 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 South Hams District 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 Audit Executive 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 them meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. He 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 Audit Executive) 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 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 timings as well as 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

October 2019

**Auditing for achievement**

## **South Hams District 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 Audit Executive, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For South Hams District Council, the role of Chief Audit Executive 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 South Hams District Council is provided by way of a shared service arrangement with West Devon Borough 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
<ul style="list-style-type: none"> <li>➤ Customer Survey: Responses Received;</li> <li>➤ Audit Planning - Consultation; Objectives</li> <li>➤ Quality of Audit Report - Clarity; Accuracy;</li> <li>➤ Value; Presentation</li> <li>➤ Communication - Feedback; Helpfulness; Professionalism; Timeliness.</li> </ul>	90% Annually 90% Annually 90% Annually
<ul style="list-style-type: none"> <li>➤ Overall cost, with/without oncosts/recharges</li> <li>➤ Average cost per audit day: direct costs, and</li> <li>➤ With/without on-costs/recharges.</li> </ul>	£ Annually £ Annually £ Annually
➤ The percentage of audit reports where the agreed recommendations were satisfactorily actioned, or follow up indicator to align with other audit teams to be agreed later with the Chairman and reported to the Committee.	90% Annually

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

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

## **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.

Devon Audit Partnership currently has c.30 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter). The Partnership employs a number of specialists in areas such as Computer Audit, Contracts Audit and Counter Fraud Investigators as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff (as at February 2019) includes:-

- 3 x CCAB qualified
- 6 x qualified IIA
- 2 x qualified computer audit (QICA & CISA)
- 10 x AAT qualified
- 5 x ACFS (accredited counter fraud specialists)
- 4 x ILM (Institute of Leadership & Management) level 5 or above

Devon Audit Partnership uses MorganKai Insight (MKi) as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

### ***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**

**October 2019**

**Auditing for achievement**

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Proposed Committee Workplan for the 2019/20 Financial Year

<b>Meeting Date:</b>	<b>Agenda Items:</b>
6 February 2020	<ul style="list-style-type: none"> <li>i) KPMG Annual Grant Certification Letter;</li> <li>ii) Grant Thornton Update report; and</li> <li>iii) Update on progress on the 2019/20 Internal Audit Plan;</li> <li>iv) Outcome of Triennial revaluation of Pension Fund.</li> </ul>
26 March 2020	<ul style="list-style-type: none"> <li>i) Grant Thornton - External Audit Plan 2019/20;</li> <li>ii) Grant Thornton – Interim Audit Report 2019/20;</li> <li>iii) Grant Thornton Update report;</li> <li>iv) Treasury Management update;</li> <li>v) 2020/21 Internal Audit Plan;</li> <li>vi) Draft Budget Book 2020/21;</li> <li>vii) Cost Methodology for Shared Services 2019/20;</li> <li>viii) Annual Review of Council Constitution;</li> <li>ix) Update on Progress on the 2019/20 Internal Audit Plan;</li> <li>x) Six monthly update – Strategic Risk Assessment; and</li> <li>xi) Six monthly update – Strategic Debt review.</li> </ul>

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