

# South Hams Audit Committee



<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Thursday, 25th June, 2020</b>
<b>Time:</b>	<b>10.00 am</b>
<b>Venue:</b>	<b>Via Skype</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Holway</p> <p style="text-align: center;"><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>	Democratic.Services@swdevon.gov.uk

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|---|----------------|
| <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 6 February 2020;   |                |
| <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 - 20</b>  |
| <b>6. Internal Audit Annual Report 2019/20</b>  | <b>21 - 64</b> |
| <b>7. Strategic Risk &amp; Opportunity Monitoring - bi-annual update</b>  | <b>65 - 76</b> |

**N.B.**

Legal and financial officers will not, as a general rule, be present throughout all meetings, but will be on standby if required. Members are requested to advise Member Services in advance of the meeting if they require any information of a legal or financial nature.

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 6 FEBRUARY 2020**

<b>Members in attendance</b> * Denotes attendance ∅ Denotes apology for absence			
*	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 and N A Hopwood

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Section 151 Officer; Finance HOP Lead; Internal Audit Manager; Senior Specialist – Democratic Services; and Grant Thornton Audit Manager.

**A.30/19 MINUTES**

The minutes of the meeting of the Committee held on 7 November 2019 were confirmed as a correct record and signed by the Chairman.

**A.31/19 URGENT BUSINESS**

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

**A.32/19 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.33/19 GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Committee considered a paper from Grant Thornton that provided a progress update on delivering their responsibilities as the Council's External Auditors.

In discussion, the following points were raised:

- (a) The Committee noted that a new Engagement Lead had been appointed for the Council and officers were scheduled to meet the new Lead in the upcoming weeks;
- (b) With regard to their Audit work for the Council, the Grant Thornton Audit Manager advised that the External Audit Plan for 2019/20 would now be presented to the next Committee meeting on 26 March 2020;
- (c) When questioned, the Grant Thornton Audit Manager gave an assurance to the Committee that their Annual Audit Report would be completed before the end of July 2020;
- (d) It was noted that the increased Audit Fees that the Council was required to pay were as a consequence of additional requirements being placed on External Auditors through changing auditing standards;
- (e) Some Members expressed their interest in the 'Sustainable Growth Index Report' that had been produced by Grant Thornton. In particular, some surprise was expressed at some of the findings (e.g. that the South Hams ranked only 290<sup>th</sup> out of 324 local authority areas for prosperity) and Members felt that there was a need to understand the data and methodology that underpinned this Report.

It was then:

**RESOLVED**

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

A.34/19 **ACTUARIAL PENSION POSITION**

The Committee considered a report that presented the results (as at 31 March 2019) of the Triennial Revaluation of the Pension Fund.

Whilst the Committee recognised that the report was to be welcomed, a Member did highlight that, in light of the high degree of financial uncertainty, a degree of caution should still be exercised.

It was then:

**RESOLVED**

That the contents of the Annual Audit Letter for 2018/19 be noted.

**A.35/19 UPDATE ON PROGRESS ON THE 2019/20 INTERNAL AUDIT PLAN**

A report was considered that informed the Committee of the principal activities and findings of the Council's Internal Audit service for 2019/20 to 31 December 2019 by:

- Showing the progress made by Internal Audit against the 2019/20 Annual Internal Audit Plan (as approved by the Committee in March 2019); and
- Highlighting any revisions to the 2019/20 Internal Audit Plan.

In debate, the following points were raised:-

- (a) It was noted that the Risk Management audit was to be deferred pending the outcome of an extensive review into the Council's approach to Risk Management that was being led by the Director of Governance and Assurance;
- (b) With regard to the 'Insurance – Review of Cover' Audit, Members felt that the potential of joining a Local Government Mutual was an interesting concept that merited further consideration.

It was then:

**RESOLVED**

That the progress made against (and any key issues arising on) the 2019/20 Internal Audit Plan be noted and approved.

**A.36/19 PROPOSED COMMITTEE WORKPLAN FOR THE 2019/20 FINANCIAL YEAR**

In considering the Annual Committee Workplan for the remainder of the 2019/20 Financial Year, reference was made to:

- the need to add the 'Grant Thornton External Audit Plan' agenda item to the next Committee meeting agenda on 26 March 2020 (Minute A.33/19 above refers); and
- a request for an additional item to be included on the Committee agenda for 25 June 2020 meeting entitled: 'Devon Audit Partnership – Service and Offer'.

(Meeting commenced at 2.00 pm and concluded at 3.00 pm)

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Chairman

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# Audit Progress Report and Sector Update

South hams District Council  
Year ending 31 March 2020  
Page 5  
25 June 2020



# Contents

<b>Section</b>	<b>Page</b>
Introduction	3
Progress at 31 May 2020	4
Audit Deliverables	6
Sector Update	7



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# Introduction

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**Jackson Murray**

**Engagement Lead**

T: 0117 305 7859

E: Jackson.Murray@uk.gt.com



**Steve Johnson**

**Engagement Manager**

T: 07880 456 134

E: steve.p.johnson@uk.gt.com

This paper provides the Audit and Governance 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.

Members of the Audit and Governance 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.grantthornton.co.uk](http://www.grantthornton.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.

# Progress at 31 May 2020

## Financial Statements Audit

We began our planning for the 2019/20 audit in February, and have planned an interim audit in March and April 2020. 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; and
- early substantive testing.

We issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements, and this is included as a separate agenda item at the Committee.

The timetable for the accounts was delayed by CIPFA as a result of Covid-19. The Council has until 31 August, at the latest, to publish its draft accounts, the audit opinion target has been delayed until 30 November 2020.

In agreement with management, we will report our work in the Audit Findings Report and have planned to give our opinion on the Statement of Accounts by 30 September 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 30 September 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 10 for more details.

# Progress at 28 February 2020 (cont.)

## Other areas

### Certification of claims and returns

The review of your Housing Benefits subsidy return is no longer covered by Public Sector Audit Appointments Ltd and Councils appoint their own reporting accountants. The Council appointed Grant Thornton UK LLP for this work in 2019/20 and has notified the Department for Work and Pensions (DWP).

### Meetings

We met with Finance Officers in January 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.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with the Strategic Lead Finance and Prosperity including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Governance.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2019/20. We have appended the updated fee letter seeking additional fees as a result of the increased regulatory focus facing all audit suppliers.</p>	April 2019	Complete
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Circulated to Full Council in April
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the September Audit and Governance Committee.</p>	September 2020	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	September 2020	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	October 2020	Not yet due

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector 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 and Governance 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

# Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

Full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

## 2. Redefinition of audit and its purpose

- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the Audit and Governance Committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

# Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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# 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 fulfil 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 consulted on potential changes to the Code in two stages:

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

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 stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed 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 involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

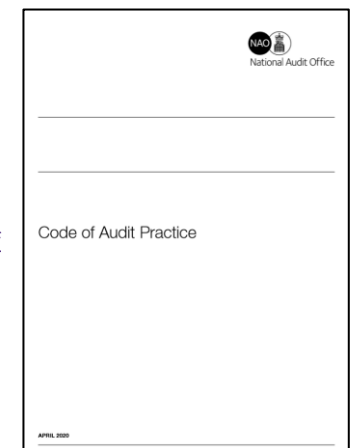
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

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

Link to NAO webpage for the new Code:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)





# Financial Reporting Council – aid to Audit and Governance Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist Audit and Governance Committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the Audit and Governance Committee. It also takes account of commentary from Audit and Governance Committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in Audit and Governance Committee reporting.

As well as illustrating a framework for the Audit and Governance Committee’s evaluation, the Practice Aid sets out practical suggestions on how Audit and Governance Committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the Audit and Governance Committee to consider in relation to key areas of audit judgment, and illustrative Audit and Governance Committee considerations in evaluating the auditor’s competencies.

The FRC encourages Audit and Governance Committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit and Governance Committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

# Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

## Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

## Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

## Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

## Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

# Implementation of International Financial Reporting Standard 16 *Leases*

## Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/853238/IFRS\\_16\\_Application\\_Guidance\\_December\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf)

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>

# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>



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Report to: **Audit Committee**  
Date: **25 June 2020**  
Title: **Internal Audit Annual Report 2019/20**  
Portfolio Area: **Cllr J Pearce – Leader of Council**  
Wards Affected: **All**

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

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

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

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## **RECOMMENDATION**

**It is RECOMMENDED that:**

- 1. The Audit Committee note that overall and based on work performed during 2019/20, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**
- 2. Members note the performance and achievements of the Internal Audit Team during 2019/20.**

## **1. Executive summary**

This report summarises the work undertaken by the Council's Internal Audit team during 2019/20, reviews the performance of the Internal Audit service and provides an audit opinion on the adequacy of internal control. The report is particularly relevant to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulations 2015.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2019/20 to 31st March 2020, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2019/20 annual internal audit plan, as approved by this Committee in March 2019, and
- Providing an opinion on the adequacy of the Council's control environment.

## **2. Background**

The Audit Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to consider the Head of Internal Audit's annual report, and to monitor the progress and performance of Internal Audit.

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

The Internal Audit plan for 2019/20 was presented to and approved by the Audit Committee in March 2019. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2019/20 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

## **3. Outcomes/outputs**

The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to present an annual report providing an opinion that can be used by the organisation to inform its governance statement.

In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

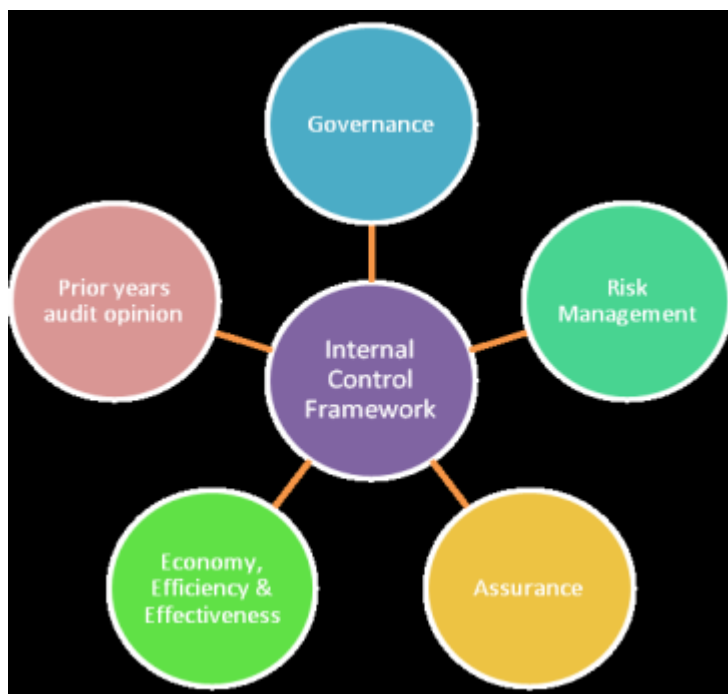


Details of Internal Audit’s opinion on each audit review carried out in 2019/20 have been provided to relevant members of the Senior Leadership Team to assist them with compilation of their individual annual governance assurance statements.

**Overall and based on work performed during 2019/20, and that of our experience from previous year’s audit, the Head of Internal Audit’s Opinion is of “Substantial Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.**

*This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement*

The above statement of opinion is underpinned by our consideration of:



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.
<b>Substantial Assurance</b>	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.
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.
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.

## **Key Findings 2019/20**

As stated above we are, overall, able to provide substantial assurance on the internal control framework. During the year a number of audit assignments have been completed for which an audit opinion of "improvements required" has been provided. It is pleasing to report that none of our audit reviews resulted in an audit opinion of "fundamental weaknesses" (please refer to appendix B for definitions of "fundamental weaknesses" and "improvements required").

We set out below some of the key issues of concern identified. It should be noted that agreed management actions plans are in place to address the weaknesses, and we consider that if such actions are completed promptly then the control issue will be addressed. Many of the findings have previously been reported at audit committee meetings during the 2019/20 year.

### **Business Continuity** – (previously reported)

Given this area remained as "Fundamental Weaknesses" after a follow-up review in 2018/19, a further follow-up exercise was undertaken by Internal Audit during 2019/20. This year's review confirms that more improvements have been made since the previous review, the most important being that operational Business Continuity Plans are now in place, with on-going work timetabled throughout the coming months. We have therefore amended our audit opinion to "**Improvements Required**".

### **Commercial Property** (See Appendix B)

Our audit review acknowledges that the Estates team have made significant improvements to the processes and procedures for managing investment properties owned by the Councils in the last year or so. with the gradual introduction of more efficient working practices. The Councils purchased a piece of software, Concerto, several years ago, which is specifically designed for all aspects of asset management. The Property Maintenance and Grounds Maintenance teams have been using this for some time and the Estates team are now making much greater use of it, with a view to managing the Councils' property portfolios principally within the software.

We are not suggesting that the Councils' investment property portfolio is poorly managed, but there is potential to create efficiencies and other improvements in existing procedures for several aspects of the property management and associated income collection. These include a planned maintenance programme, continued implementation of processes and data population of systems such as Concerto, W360 and its successor, creation of management reports, process for production of leases and a policy for the escalation of Estates debt recovery.

Time has been allocated in the 2020/21 Audit Plan to carry out a follow-up review, to measure progress with the implementation of the recommendations made in our report.

## **Health and Safety** (previously reported)

Following the completion of our latest follow up work, in July 2019, our audit opinion remains as '**Improvements Required**', due to several recommendations which remain in progress, as well as the need to review arrangements since the loss of some posts which previously had key responsibilities for health and safety. However, the overall direction of travel is considered to be positive.

The Head of Environmental Health Practice (IL) has 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, for example, raising health and safety awareness for non-manual staff, clarifying headquarters first aid arrangements, providing lone working training, delivering health and safety training for the Senior Leadership Team (SLT), the Extended Leadership Team (ELT), other team leaders and supervisors and increasing awareness of the need to report accidents and incidents.

However, for those areas where delivery was reliant on other managers, it appears that, even if the initial action was delivered, for example, ensuring that risk assessments had been carried out for all functions, there is no evidence that these tasks continue to be repeated or reviewed at appropriate intervals, often, we understand, due to limited staff resource.

At the time of our previous audit in 2018, SHDC was using in-house resource to deliver the waste collection and street and public toilet cleansing services. However, these functions were contracted out on 1 April 2019, as they had been at WDBC. Whilst this has reduced the number of high risk tasks for which the Councils are responsible, a number do remain in-house, principally building maintenance, grounds' maintenance, car parking, the Dartmouth Lower Ferry and Salcombe Harbour. The Councils continue to operate a fleet of over sixty vehicles to deliver these functions.

Two key posts within the former Commercial Services no longer exist, each of which had key responsibilities for health and safety and, at the time of the follow-up review, it was understood that these responsibilities have been, or are in the process of being, transferred to other officers.

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. We understand that the Head of Environmental Health Practice (IL) is to assist Environment Services Practice by drawing up a work programme of areas which need to be addressed.

Our review identified issues with identifying and recording health and safety training needs; ensuring managers regularly review all risk assessments and associated Safe Systems of Work and carry out monthly workplace and premises inspections as well as 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 Environment Services, as well as for Dartmouth Lower Ferry and Salcombe Harbour.

Internal Audit are due to carry out a further follow up review as part of the 2020/21 Audit Plan to measure progress with improvements and the results of our review will be included in a 2020/21 Audit Plan Progress Report that will be presented to members at a future meeting of the Audit Committee.

### **ICT – Change Management** (previously reported)

Following the completion of our follow up work, our revised audit opinion remains **Improvements Required**. Although 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, there is further work needed to formalise procedures and to ensure that comprehensive audit trails are in place for all other categories of change.

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.

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 attempted to strike a balance between managing and documenting all risks created by changes and actually implementing the changes in a timely manner.

This conflicts with the expectations of senior management and 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.

We have obtained confirmation that some of the recommendations which we made in 2018/19, largely around standard change requests, have been, or are in the process of being, implemented. Those recommendations which remain outstanding or incomplete focus on change management delivery; ICT staff capacity; standard change request models; "Roll Back" plans for standard changes; post-implementation reviews & customer satisfaction survey redesign.

### **ICT Asset Control** (See Appendix B)

Following the completion of follow up work in 2019/20, our audit opinion remains as **Improvements Required**. Our review this year demonstrated that, whilst additional work has taken place, or has commenced, since our previous audit, to further improve the controls over the management of IT hardware assets, there remain a number of shortcomings, largely because existing procedures do not appear to be working as intended, because they are not being followed by officers. Some of our more significant findings include failings in the HR & IT leavers process including how the return of IT equipment is managed and inaccuracies in the IT hardware asset register.

### **Purchase Cards** (See Appendix B)

Following a presentation at audit awareness training attended by Members in October 2019, Internal Audit were asked to review the adequacy and effectiveness of internal controls and procedures operating in the area of purchasing cards.

The review found the processes in place for the management of purchase cards and the system for administering expenditure were generally satisfactory but highlighted areas where improvements could be made. These included the issue, amendment and cancellation of cards, ensuring compliance with Council guidelines on usage, the retention of receipts, separation of duties when approving expenditure and prompt coding of expenditure to the general ledger.

As a result, an audit opinion of "**Improvements Required**" was given.

### **Council Tax** – (See Appendix B)

Council Tax bills are accurate and the system is operating with generally satisfactory controls. We acknowledge that improvements have continued to be made over the last year, with a significant amount of staff time spent in improving recovery procedures and the customer-council interface, with further improvements planned for implementation during 2020. However, there remain some key areas where controls can still be strengthened, principally around training, reducing reliance on the knowledge and experience of certain members of staff, the identification of new properties, confirming continued eligibility to discounts and exemptions.

### **Business Rates** – (See Appendix B)

The billing and collection of Business Rates sits in the same service area as Council Tax and therefore face similar resource challenges. Areas that require improvement include the monitoring and review of account suppressions and broken arrangements. Assurance can be given that bills are raised and calculated correctly.

### **Insurance** – (previously reported)

The insurance cover held by the Councils appears to be largely in line with that recommended by insurance providers, including the Local Government Mutual who may be considered to be unbiased as not seeking to make a commercial return. There is some degree of review of the level of insurance cover each year, as well as those items and activities insured.

However, our review returned an audit opinion of "**Improvements Required**" in light of our findings and the recommendations made which should contribute to the more effective management of insurance. The areas highlighted include seeking impartial external advice, ensuring that only appropriate property, activities or services are covered as required and that the value and level of insurance is appropriate. In addition, the review identified a need to strengthening links with the risk management

process, putting an insurance strategy in place and consideration of alternative external insurance providers, other than commercial organisations.

Time has been allocated in the 2020/21 Audit Plan to carry out a follow-up review to measure progress with the implementation of the recommendations made in our report.

### **Stores Follow Up** – (See Appendix B)

The audit opinion of “**Improvements Required**” remains unchanged since the last follow up review in 2018/19. The key recommendations continue to relate to improvements of the stock control arrangements. The ability to make improvements to Concerto (the store system) is dependent on a significant change in the current software and/or migration to a completely different stock management system. It should be noted that the software supplier has updated the system, and management are aware that further action is needed to address the stock control issues. Should these issues be addressed then it is likely that our assurance opinion will be updated accordingly.

The 2019/20 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the latest position for each audit.

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report presented in January 2020 and confirm that the agreed action has been implemented or what progress has been made. It should be noted that the management responses are as given at the time of the audit and that some actions may have been delayed due to the COVID-19 pandemic.

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

### **Non Compliance with Contract or Financial Procedure Rules**

There are no significant issues to bring to the attention of the Committee for 2019/20. Ten applications for exemptions to Contract / Financial Procedure Rules have been received, all were accepted with the exception of one where it was deemed that an exemption was not required.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (National Fraud Initiative – NFI) every two years. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single person’s discounts and creditor payments. In October 2018, a number of data sets of information were provided to the Cabinet Office and a list of potential matches were received. It is recognised that some service areas have struggled to find the resource to complete the review of the data matches received. Management have been made aware of the situation.

## Irregularities

There are no irregularities to report.

## 4. Options available and consideration of risk

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

## 5. Proposed Way Forward

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

## PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2019/20

There are no national performance indicators in place for internal audit; however the team monitor against local performance indicators as follows:-

Local performance indicator	2019/20 Target	2019/20 Actual
Percentage of audit plan commenced	95%	96%
Percentage of audit plan completed	95%	91%
Actual audit days as a percentage of planned	95%	94%*
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100% **
Draft reports issued within target days	90%	85%
Average level of sickness	2%	1.2%***
Outturn within budget	Yes	Yes

\* In addition to the planned work, 33 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work. An initial allocation of 30 days had been made in the 2019/20 Audit Plan and the same has been allocated for 2020/21.

\*\* During the period we issue client survey forms with our final report and it is pleasing to note that auditees considered that the team continue to provide a good or excellent service.

\*\*\*Sickness relating to officers within the combined internal audit team equates to 6 days in the period 1st April 2019 to 31st March 2020.

## 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 Annual 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	<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:**

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

■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**Appendix A**

Assignments 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)		■	■	✓	✓		■			Final report issued. Summary in Appendix B below.
GDPR (carry forward from 18/19)		■	■	■	■		■			Final report issued. Summary in Appendix B below.
<b>2019/20 Plan</b>										
<b>MAIN FINANCIAL SYSTEMS</b>										
Main Accounting System (inc budgetary control)	20	■	■	✓	✓		■			Final report issued. Summary in Appendix B below.
Creditor (Payments)	15	■	✓							
Debtors (Income Collection)	15	✓								
Payroll	15	■	✓							
Business Rates	15	■	✓	✓	✓			■		Final report issued. Summary in Appendix B below.
Council Tax	15	■	✓	✓	✓			■		Final report issued. Summary in Appendix B below.
Housing Benefits	15	✓	✓							
Treasury Management	10	✓	✓							
<b>Main Financial Systems</b>	<b>120</b>									

23/08/20

■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**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>COMMERCIAL SERVICES</b>										
Salcombe Harbour (S.Hams)	10									
Contract Management – Waste Collection and Street Cleansing Contract	10	■	■	■	■	■				Summary presented to Audit Committee in January 2020
Car Parks – PCN and Appeals Process	10	■	■	■	■		■			Summary presented to Audit Committee in October 2019
Dartmouth Lower Ferry (S.Hams)	8	■	■	■	■		■			Summary presented to Audit Committee in January 2020
Environmental Services – Enforcement Process (Fly Tipping, Abandoned Vehicles etc) – Follow-Up	3	■	■							
Grounds Maintenance Operations– 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	■	■	✓	✓			■		Final report issued. Summary in Appendix B below.
<b>Commercial Services</b>	<b>52</b>									Planned days increased by 5 days re Grounds Maintenance invoicing

Page 33

Projects agreed in the	Planned	Fieldwork	Issued	Management	Final	Opinion				Comments
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■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**Appendix A**

Audit Plan	Number of Days	started	in draft	comments received			High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>CUSTOMER FIRST</b>											
Planning (Applications) – Follow-Up	5	■	■	■	■			■			Summary presented to Audit Committee in October 2019
Use of Social Media	5	■	■	■	■			■			Summary presented to Audit Committee in October 2019
Section 106 agreements (follow up)	5	■	■	✓	✓			■			Final report issued. Summary in Appendix B below.
Commercial Property & Rents (Tenancies, Reviews, Collection) Inc Industrial Units and Investment Properties.	10	■	■	✓	✓				■		Final report issued. Summary in Appendix B below.
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

■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**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>STRATEGY &amp; COMMISSIONING</b>											
Project Management – Governance & Process	15	Deferred									Deferment to 2020-21
Performance Management (KPI's & data quality)	15	Deferred									Deferment to 2020-21
Change Control – Business Processes	10	Deferred									Deferment to 2020-21
Contract Management – ICT Contracts	7	✓	✓								
Peer Review Action Plan	5	■	✓	✓	✓		■				Final report issued. Summary in Appendix B below.
Risk Management Follow-Up	5	Deferred									Deferred until 2020-21 with agreement from Director – Governance and Assurance
Contract Management Strategy and Process – Follow-Up	5	✓	✓								
Business Continuity within the Supply Chain – Follow-Up	3	✓	✓								
Health & Safety Further Follow-Up	3	■	■	■	■				■		Summary presented to Audit Committee in October 2019
<b>Strategy and Commissioning</b>	<b>68</b>										

■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**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>SUPPORT SERVICES</b>										
ICT Audit - Use of Email and Internet	25									
ICT Audit – Change Management Follow-up		■	■	■	■			■		Summary presented to Audit Committee in October 2019
ICT Audit - Asset Control - Follow-Up		■	■	✓	✓			■		Final report issued. Summary in Appendix B below.
Corporate Information Management (Data Protection)	15	Deferred								Deferment to 2020-21
Capital Expenditure and Receipts	10	■	■	■	■		■			Summary presented to Audit Committee in October 2019
Insurance – Review of Cover	8	■	■	■	■			■		Summary presented to Audit Committee in January 2020
Online Payments	7									
Employment / Recruitment Checks / Leavers Process	7	✓	✓							Will be incorporated into Payroll Audit

■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**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>SUPPORT SERVICES (Contd)</b>										
Elections – Post May Election Review	5									Agreed with Management, No Longer Required
V.A.T. – Sample Check Income Transactions	5	■	✓	✓	✓		■			Final report issued. Summary in Appendix B below.
Recharging – test of re-charge calculations	5	■	■	✓	✓		■			Final report issued. Summary in Appendix B below.
Business Continuity Follow-Up (inc BCP exercises)	5	■	■	■	■			■		Summary presented to Audit Committee in January 2020
Comments and Complaints – Follow-Up	5	■	■	■	■		■			Summary presented to Audit Committee in January 2020
Purchasing Cards	0	■	■	✓	✓			■		Request by Section 151 Officer following issues raised at DAP Audit Member training. Final report issued. Summary in Appendix B below.
<b>Support Services</b>	<b>95</b>									
Projects agreed in the	Planned	Fieldwork	Issued	Management	Final	Opinion				Comments

■ Status as reported in previous Progress Reports    ✓ Change to Status since 1<sup>st</sup> January 2020

**Appendix A**

Audit Plan	Number of Days	started	in draft	comments received			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	■	-	-	-		-	-	-	-	33 days spent on claims during 2019/20.
Contingency & Advice	5	■	-	-	-		-	-	-	-	
<b>OTHER ESSENTIAL ITEMS</b>	<b>70</b>										
<b>Total Days</b>	<b>430</b>										



- Status as reported in previous Progress Reports
- ✓ Change to Status since 1<sup>st</sup> January 2020

## **Planned Audit 2019/20 – Final Reports**

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

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

#### **High Standard**

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

#### **Good Standard**

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

#### **Improvements Required**

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

#### **Fundamental Weaknesses Identified**

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

## Planned Audit 2019/20 – Final Reports

As at 31 May 2020, 23 final reports have been issued in respect of 2019/20 work and 2 in respect of 2018/19 work. The conclusions from final reports issued since the last Audit Committee in January 2020, are summarised below.

Subject	Audit Findings	Management Response
<b>2018/19 Audit Plan</b>		
GDPR	<p><b>Audit Opinion - Good Standard</b></p> <p>It is essential that the Councils' manage their use of personal data and information in accordance with GDPR.</p> <p>We have raised a number of recommendations that will strengthen the controls already in place and below is a summary of the recommendations, which include;</p> <ol style="list-style-type: none"> <li>1. To effectively manage the use of data and information and enable the Councils to become more effective and efficient, it is essential to know what data is held and how it is used. This means finalising the completion of the Information Asset Register (IAR) and the Record of Processing Activities (RoPA);</li> <li>2. Following the analysis of data, the Councils can develop further the progression of a comprehensive data retention and processing system to ensure that all information that is no longer required is deleted or disposed of;</li> <li>3. We have recommended improving the current procedures for managing the handling of data when there are changes to processes and systems; this may</li> </ol>	<ol style="list-style-type: none"> <li>1. We will need to resource the completion of both the Information Asset Register (IAR) and the Record of Processing Activities (RoPA) and potentially Case Managers will complete the process of updating the records. Plans are to have a robust IAR in place by May 2020.</li> </ol> <p>Following implementation of the register we will then review data mapping in conjunction with new systems, although this will require careful consideration.</p> <ol style="list-style-type: none"> <li>2. The completion of the IAR will drive the process of reviewing data held by the authorities and will identify the areas that need further action. This will be developed following the IAR completion in May. We are currently implementing a new email policy and retention that is due to implemented in April.</li> </ol> <p>Data indexing will be developed during 2020 in conjunction with the IAR. The need to manage data will be included in</p>

Subject	Audit Findings	Management Response
GDPR (continued)	<p>need a review of current and future contracts and information sharing agreements;</p> <ol style="list-style-type: none"> <li>4. A review of the Councils procedures, for ensuring that consent is appropriately retained and updated for the use of data that is collected, identified that this was not operating as effectively as it should; we have recommended a comprehensive review of privacy notices, acceptance forms and data records;</li> <li>5. The introduction of the new process for managing Freedom of Information requests has been effective, although now is a good opportunity to review the process to ensure that it is efficient and is providing the correct information;</li> <li>6. Along with managing data, we have requested that the Council is effectively controlling video, sound and photographic information that it obtains; and</li> <li>7. That sufficient training and awareness is provided to all staff and members to ensure they are aware of their requirements under the Data Protection Act.</li> </ol>	<p>implementation of new systems such as replacement for W2 and the migration of existing data records.</p> <ol style="list-style-type: none"> <li>3. Agreed we are reviewing the project approach and Data Protection Impact Assessments will be incorporated into the required projects.</li> <li>4. We have undertaken work to improve the privacy notices provided when collecting data and additional work is planned to review all forms on the Councils websites. A full review is planned by March and an action plan will be devised. With the introduction of the new online supplier, Northgate, the application process for Council Tax and Benefits now includes the required controls and is compliant</li> <li>5. Agreed. The FOI management process will be reviewed and where appropriate improvements will be implemented.</li> <li>6. Action has been taken to review and update the consent forms and process to ensure all officers and members are aware of the requirements when individuals are captured in photographs and on video.</li> <li>7. The online training has been rolled out to officers and new employees are required to complete the appropriate training. Additional high-level targeted training will be considered for services and officers directly</li> </ol>

Subject	Audit Findings	Management Response
GDPR (continued)		<p>responsible for handling personal data and this will be actioned in the second half of the year.</p> <p>Members have received direct, face to face training but not the online training as yet.</p>
Cyber Security	<p><b>Audit Opinion - Good Standard</b></p> <p>It is pleasing to report that the systems, processes and procedures used to mitigate Cyber Security risks and threats were of a good standard. A robust control environment has layers of protection and the review identified this was true of the Cyber Security protections in place.</p> <p>The IT Service currently employ an experienced IT security specialist and this contributes to the ability of the organisation to understand the prevailing threat environment. The service utilises a range of technical, procedural and human controls to mitigate Cyber Security risks, supplemented by a range of software tools that add value to the control environment and in meeting its own operational requirements.</p> <p>The level of information security awareness training and guidance provided by the Information Security specialist to staff was found to be of a high standard which goes some way to mitigating the very real "human" risk.</p> <p>Our review highlighted the following issues:</p>	<ol style="list-style-type: none"> <li>1. Domain Admin accounts will be reviewed at least a minimum of every six months and rationalised where necessary.</li> <li>2. IT Business continuity plan is in place which covers various scenarios including loss of building access, network, data, people and pandemic.</li> </ol> <p>Our technical response and documentation for recovery of systems will continue to evolve as we repeatedly rehearse a recovery situation at our secondary data centre.</p> <p>The plan includes communication lines into a corporate communications plan.</p> <ol style="list-style-type: none"> <li>3. Reminder issued in January 2020 stating all firewall changes are subject to a Standard Change procedure.</li> </ol>

Subject	Audit Findings	Management Response
Cyber Security (continued)	<ol style="list-style-type: none"> <li>1. The number of "high privilege" Active Directory administrative and service accounts.</li> <li>2. The lack of corporate business continuity plans impacting on the IT Service's ability to ensure that business needs are fully met in the event of a significant incident.</li> <li>3. Anyone within the ICT infrastructure team can create or modify firewall rules without review.</li> </ol>	
<b>2019/20 Audit Plan</b>		
Main Accounting System (inc Budgetary Control)	<p><b>Audit Opinion - Good Standard</b></p> <p>We were able to confirm that, in general, the setting and subsequent control of budgets is well managed, with controls in place and operating. We have made several recommendations which would contribute to 'good housekeeping' or to the strengthening of existing controls, including:</p> <ol style="list-style-type: none"> <li>1. Educating officers in the importance of the correct and accurate use of commitments, to enhance the reliability of budget monitoring;</li> <li>2. Determining the best way to resolve several balancing items on the bank reconciliations which have been caused by timing issues when the bank interface software was changed; and</li> <li>3. Reviewing the continued need for those petty cash floats still in existence.</li> </ol>	<ol style="list-style-type: none"> <li>1. The review of commitments was primarily to allow the introduction of automated accruals, which won't be put in place for another year or so. It does not hinder any other work and so is quite a low priority.</li> <li>2. Agreed. The Support Services Case Manager (SW) has now combined the ICON and Adelante bank reconciliations, which has resolved some of the issues. The Case Manager (SW) is to meet with the Senior Specialist – Accountant Business Partner (RH) to review the reconciliation and discuss any remaining problems.</li> <li>3. Agreed. All remaining petty cash floats will be reviewed, with the intention of removing them and using alternative payment methods.</li> </ol>

Subject	Audit Findings	Management Response
	<p>We were also able to confirm that the recommendations we made in 2018/19 have been implemented, except a couple relating to longer term, lower priority projects.</p>	
<p>ICT – Asset Control – Follow-Up</p>	<p><b>Original Opinion – Improvements Required</b></p> <p><b>Revised Opinion – Improvements Required</b></p> <p>Although additional work has taken place, or has commenced, since our previous audit, to further improve the controls over the management of IT hardware assets, there remain a number of shortcomings, largely because existing procedures do not appear to be working as intended, because they are not being followed by officers. Some of our more significant findings include:</p> <ol style="list-style-type: none"> <li>1. A failure of both the HR Leavers process and the IT Leavers process, to routinely inform the Service Desk when a member of staff is leaving the Councils;</li> <li>2. The return of IT equipment issued to leavers, including Councillors, is not always managed correctly, with the result that the Service Desk may be unaware of its whereabouts; and</li> <li>3. Inaccuracies in the IT hardware asset register.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. A further reminder will be issued to ELT and managers, emphasising the need to complete the HR and IT Leavers forms. In addition, the agency leaver reports are now being sent to the Service Desk each quarter.</li> <li>2. Agreed. This is on the agenda for an ELT meeting.</li> <li>3. Agreed. The Customer Support Advisor (RB) has now written a procedure note regarding the updating of the IT asset register.</li> </ol> <p>An email informing the Service Desk Team as to how the asset register should be maintained is to be issued in early January.</p> <p>The Customer Support Advisor (LT) is presently working on a data cleanse of current devices recorded within the IT asset register, to correct any inaccurate entries. It is hoped this will be completed in early January.</p>
<p>Recharging</p>	<p><b>Audit Opinion - Good Standard</b></p> <p>The recharging of salary and related costs between the two authorities continues to be calculated correctly and</p>	

Subject	Audit Findings	Management Response
	<p>promptly. The costs identified were found to be accurately recharged between the relevant ledger codes for each Council; the rationale for the apportionments applied to the various costs is logical and reflects the deployment of resources.</p> <ol style="list-style-type: none"> <li>1. There is opportunity to further streamline the process if the payroll system were able to process the allocation of recharges and automatically upload the related shared costs to the general ledger, thereby reducing the reliance on manual input and completion.</li> <li>2. Whilst processes are in place to identify other expenditure, at source, and allocate costs accordingly, including during the ordering process, our work has confirmed that this is not performed for all orders raised by services. This places additional resources on other services to review and reallocate costs after the initial order is placed. There is the opportunity to further remind officers of the importance of identifying expenditure that should be shared across the authorities, at the stage of putting on a purchase order and ensuring that this is captured by effective service processes to ensure that it is allocated promptly, efficiently and accurately.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. We would support that any future new or updated systems include the ability to allocate costs directly.</li> <li>2. A new process will be undertaken to include shared costs in a control account to identify those areas that have been shared or require recharging.</li> </ol> <p>Orders will only be raised where the shared split is known. Analysis of the control account will be completed monthly and recharged at the end of the month to enable accurate budget monitoring.</p> <p>This will be controlled jointly between Support Services Case Management and Specialist Accountants.</p> <p>Training for Case Managers and related officers to identify and account for this shared expenditure is planned for March 2020.</p>
<p>Commercial Property &amp; Rents  (Including Council Owned Industrial Units</p>	<p><b>Audit Opinion – Improvements Required</b></p> <p>The Estates team have made significant improvements to the processes and procedures for managing investment properties owned by the Councils in the last year or so. They are also aware that there remains a number of other areas where improvements can be made and work is on-</p>	<ol style="list-style-type: none"> <li>1. Agreed. The Estates team consider a planned maintenance programme to be very important, but quite a lot of reliance must be placed with the Property Team, who actually carry out the maintenance work, led by the Specialist – Assets (ST). There was a recognised need for the two teams to work much more closely and</li> </ol>

Subject	Audit Findings	Management Response
<p>and Investment Properties).</p> <p>Commercial Property &amp; Rents (continued)</p>	<p>going as other priorities allow. We are making a number of recommendations, some supporting action already planned, which will contribute to more efficient and, in some cases more effective, working practices:</p> <ol style="list-style-type: none"> <li>1. Introduction of a planned maintenance programme for those investment properties owned by the Councils;</li> <li>2. Continued implementation of processes on W360, to assist in the management of investment properties e.g a process for the vacation of properties;</li> <li>3. Continued population of Concerto with data relating to estates property management and ensuring that this is reliable;</li> <li>4. Creation of a suite of reports to provide effective management information relating to the property portfolio;</li> <li>5. Expedite the creation of a W360 process for the drawing up and issuing of leases, from instructing the Legal team through to the subsequent raising of invoices by the Debtors team;</li> <li>6. Introduction of a policy to define parameters for the escalation of Estates debt recovery, to ensure that this happens promptly;</li> <li>7. Ensuring that all members of the Estates team are working coherently and taking a unified approach to the management of the commercial properties, for instance when liaising with the Debtors team;</li> </ol>	<p>this has significantly improved since early November 2019.</p> <p>A series of maintenance programmes are now being developed and delivery has commenced where they have been produced.</p> <ol style="list-style-type: none"> <li>2. Agreed. The new Tenancy Applications process is working well in W360. Further processes continue to be developed, but reliance is placed on assistance from the Business Development team who have limited time.</li> </ol> <p>The work remains on-going to develop additional processes and will continue following the replacement of W360, but the timeframe is somewhat out of the control of the Estates team.</p> <ol style="list-style-type: none"> <li>3. Agreed. Issues with Concerto still need to be resolved – although at present it is unclear if they are technical issues or if it is actually a lack of understanding as to how Concerto operates. Once resolved, this will contribute to removing the need to use the 'Tenancy Schedule' spreadsheet.</li> </ol> <p>A Rent Review process is to be developed in W360 and this will include the requirement to update Concerto with the outcome, including where this is 'no action'.</p> <ol style="list-style-type: none"> <li>4. The management reporting facility within Concerto is already used occasionally, but additional reports are to be further</li> </ol>



Subject	Audit Findings	Management Response
<p>Commercial Property &amp; Rents (continued)</p>		<p>investigated, as well as an understanding of what Concerto can offer. Those reports run to date did prove useful in highlighting some data gaps within commercial property records on Concerto.</p> <p>The aim is to be able to place reliance on Concerto and remove the need for the 'Tenancy Schedule' spreadsheet. However, the reliability of data within Concerto is somewhat dependent on the availability of Case Management resource in order to be able to regularly update the system.</p> <p>The reporting facilities of Concerto, in terms of day to day property management, will be investigated and put to use as appropriate.</p> <p>The setting up of a report in Concerto to monitor any outstanding rent reviews will be included for consideration as part of the work described in the paragraphs above, to develop a suite of reports relating to day to day commercial property management. This also applies to the running of a reliable report of vacant lettable units that would allow ready monitoring of those units which do not appear to be attractive to prospective tenants, allowing timely management decisions to be taken regarding their future.</p> <p>5. Agreed. A workflow process for leases was created in W2, but some of the teams involved in issuing new leases did not find that it created efficiencies for them and so its use was</p>

Subject	Audit Findings	Management Response
<p>Commercial Property &amp; Rents (continued)</p>		<p>discontinued. It may be beneficial to investigate a revised workflow process once the replacement for W360 is in place. However, priority will be given to the implementation of processes which are already live in the current software.</p> <p>6. Agreed. It is important to commence debt recovery within two months, especially for the small companies and sole traders who make up a large proportion of the Councils' tenants. A significant amount of work was carried out with the Corporate Debt Recovery team about a year ago. This included agreeing a policy as to when recovery action should commence and be escalated to the next stage etc. However, it appears that following a change of responsibilities within the Debt Recovery team, the process has ceased to be effective. The matter therefore needs to be addressed again.</p> <p>Tenants do need to be aware that legal action will be taken where deemed necessary and has proved effective in recovering debts.</p> <p>It would be useful to give Legal advance notice of when their assistance may be required for potential cases and to agree the necessary timings between the two teams. It may be that earlier involvement of the Legal team would emphasise the serious intent of the Councils, should payment not be forthcoming.</p> <p>7. Agreed. Processes are being developed, e.g. a regular inspection regime, an annual review of</p>

Subject	Audit Findings	Management Response
		<p>each estate, etc., which will prompt staff to work in a more uniform manner.</p> <p>There is currently a mixed approach by individual Specialists, but as discussed above, procedures are to be put in place which will align working methods across the team. These will require the Estates officers to regularly liaise with the Debtors team, for example.</p>
Section 106 Agreements (Follow-Up)	<p><b>Revised Audit Opinion – Good Standard</b></p> <p><b>Previous Audit Opinion – Improvements Required</b></p> <p>Following our previous audits there have been some significant changes in the managing of the funds surrounding S106 Agreements and this has enabled our audit opinion to be raised to Good Standard. These changes include:</p> <ul style="list-style-type: none"> <li>• Notification to the S106 Officer of Agreements and variations.</li> <li>• Direct liaison with other services, such as Land Charges.</li> <li>• Updating the S106 Register Smartsheet with key information and enabling automated reminders.</li> <li>• Direct communication with developers to obtain updates on progress of building completions.</li> <li>• Arranging for developers to pay funds direct to Devon County Council and other related third parties.</li> <li>• Ongoing reconciliation of funds between spreadsheets and General Ledger,</li> <li>• Closer liaison with related Council services.</li> </ul>	<ol style="list-style-type: none"> <li>1. Case Management are recording on the agreement files confirmation of the logged obligation from Land Charges.</li> </ol> <p>Case Management will ensure that the process for recording Agreements continues to be the most effective.</p> <ol style="list-style-type: none"> <li>2. The Head of Development Management Practice will undertake a six-month review to evaluate the resources required to monitor all types of agreements and use this to evaluate future fees charged.</li> <li>3. Agreed, Case Management will ensure that that where the Section 106 obligations are not met that money is returned to the appropriate party.</li> </ol> <p>There are procedures in place to ensure that services are able to commit and spend all of the funds available.</p>

Subject	Audit Findings	Management Response
Section 106 Agreements - Follow-Up (continued)	<ul style="list-style-type: none"> <li>• Prompt raising of invoices and coding of funds received.</li> <li>• Calculation and recovery of monitoring fees.</li> <li>• Monthly and quarterly reporting of funding, by parish, and publication on the Councils website.</li> <li>• Providing support for the S106 Officer in their absence.</li> </ul> <p>Following our review of the current process we have raised recommendations to further improve the process, and these include;</p> <ol style="list-style-type: none"> <li>1. That Legal have a robust system to confirm that Land Charges have registered all obligations;</li> <li>2. That the justification for the Monitoring Fee is fair and justified and is allocated across all Agreements;</li> <li>3. Whilst it is noted that there has been only one instance where the Council has had to return Section 106 monies, it is recommended that a strict procedure is in place to determine unspent funds and that they are returned where required in line with the S106 Agreements; and</li> <li>4. That the Councils further improve on the information available to the general public with regard to the level of funds received, available and spent.</li> </ol>	<p>The Director of Governance and Assurance will remind Heads of Practice of the need to ensure that funds are recorded and committed in the required timeframes.</p> <p>4. Agreed. The reports and information that is available will be reviewed and discussions held with services over the option to include this on the website.</p>
Business Rates	<p><b>Audit Opinion – Improvements Required</b></p> <p>Whilst we acknowledge that a number of the recommendations made in 2018/19 have been implemented, there are some which have either not yet commenced or been completed, largely due to limited staff</p>	<p>1. Agreed. A review of SBRR awards is to be made, with work commissioned in conjunction with some of the partners of the Devon Business Rates Pool. It will be carried out in a similar way to the review of Single Person Discounts for council tax, with the data being</p>

Subject	Audit Findings	Management Response
Business Rates (continued)	<p>resource and other work pressures. A significant amount of staff time has been spent in improving recovery procedures and the customer-council interface, but so far this work has largely focussed on council tax, with very limited comparable work undertaken in relation to business rates. Therefore those recommendations have been repeated as a reminder. The most significant issues include:</p> <ol style="list-style-type: none"> <li>1. No programme of reviews of reliefs and exemptions to confirm continued eligibility. The combined cost of the most significant to the Councils, the Small Business Rate Relief (SBRR), is approximately £7.9m for SHDC and £2.6m for WDBC;</li> <li>2. No regular review of broken arrangements to identify those accounts where customers have defaulted on special arrangements to pay;</li> <li>3. The Northgate 'bailiff portal', used to provide an interface between the Councils and the appointed enforcement agents, needs to be installed to allow efficient transmission of data between the two parties;</li> <li>4. Debts returned by the enforcement agents as unenforceable are often left on accounts as there is limited resource to address them. There is currently no policy or resource to determine how these should be routinely dealt with; and</li> </ol>	<p>provided to an external company who will analyse it and categorise the cases as 'low' to 'very high' risk. The Visiting Officer has visited some businesses in receipt of more significant value exemptions, to confirm on-going eligibility. As a result, the most significant areas have been, or will be, reviewed.</p> <ol style="list-style-type: none"> <li>2. Agreed. The Specialist – Revenues (JL) is to look at this issue, to try and identify a solution. For example, it may be possible to automatically progress cases to the enforcement agent.</li> <li>3. Agreed. This is to be progressed as other work priorities allow.</li> <li>4. Agreed. Now that there are three enforcement agents operating under the new contract, in the first instance it will be possible to send 'Bailiff Return' cases from one enforcement agent to another agent.</li> </ol> <p>However, subsequent monitoring and administration of such cases is reliant on the amount of staff resource within the recovery and enforcement team, so this will be considered as part of overall review of recovery and enforcement resource and processes.</p>
Council Tax	<b>Audit Opinion – Improvements Required</b>	<ol style="list-style-type: none"> <li>1. Agreed. The Revenues Case Manager (KS) has already commenced training those Case</li> </ol>

Subject	Audit Findings	Management Response
Council Tax (continued)	<p>Despite the Audit Opinion of Improvements Required, we would like to emphasise the significant amount of work that has taken place since our previous review, both to introduce more effective working practices and to improve the customer offering. There are also a number of additional improvements either already commenced or planned for delivery in the coming months, which will contribute to addressing some of the recommendations we have made.</p> <p>Whilst we acknowledge that a number of the recommendations made last year have been implemented, there are some which have either not yet commenced or been completed, largely due to limited staff resource and other work pressures. A significant amount of staff time has been spent in improving recovery procedures and the customer-council interface, with further improvements planned for implementation during 2020.</p> <p>Those recommendations from 2018/19 which are not yet complete, or otherwise resolved, have been repeated as a reminder, as well as highlighting several additional issues, including:</p> <ol style="list-style-type: none"> <li>1. It should be ensured that staff, particularly within the Contact Centre and Case Management, are adequately trained to complete those tasks expected of them, with on-going quality checks to confirm the accuracy of work completed;</li> <li>2. Consideration should be given to how to remove the 'single point of failure' with respect to the revenues knowledge and experience held by the Specialist - Revenues (SH), particularly in relation to business rates</li> </ol>	<p>Managers within the team, particularly those who have transferred from the Contact Centre, to allow them to undertake more revenues tasks than previously. They are all to receive initial training in time for the 2020/21 annual billing and this will be followed by a rolling training plan which has been devised.</p> <p>It is thought that the greater understanding of revenues processes will allow those dedicated call-handlers within the team to feedback to the 'back office' Case Managers when processes used by the latter impact on the work of the former.</p> <p>Under the new Case Management Structure, the Revenues Supervisory Case Manager (SM) will monitor the work of other Case Managers within the team as part of her duties.</p> <p>A rolling programme will be introduced to prompt the regular review of a sample of random accounts updated by each team member. These will be assessed for accuracy and quality of work, which will feed into the performance management for each individual.</p> <ol style="list-style-type: none"> <li>2. Agreed. The most pragmatic and effective use of the Specialist - Revenues staff resource, including to remove the single point of failure, is already being discussed with the Director of Strategic Finance, in order to identify an acceptable solution for both the Revenues and the Finance teams.</li> </ol>

Subject	Audit Findings	Management Response
Council Tax (continued)	<p>modelling, which also impacts on the staff resource available to deliver customer service improvements;</p> <p>3. The need to establish the most effective and prompt way of identifying new properties;</p> <p>4. A full programme of review of all discounts and exemptions, to confirm continued eligibility, has yet to be delivered;</p> <p>5. The Northgate 'bailiff portal', used to provide an interface between the Councils and the appointed enforcement agents, needs to be installed to allow efficient transmission of data;</p> <p>6. The recovery and enforcement strategy and process needs to be further reviewed, to ensure that the system is working as expected, being used to best effect, automating as many tasks as possible and ensuring that staff resource is being used effectively for the remaining manual tasks; and</p> <p>7. There is no policy or associated procedures to determine when a debt should be written off, to avoid investing limited staff resource in attempting to recover debts where it may be no longer cost-effective to do so.</p>	<p>3. Agreed. The Visiting Officer (MR), who has been in post about eight months, has found ad hoc new properties, but there is scope to review procedures across the Councils, as the Revenues team are not the only one who have need of such information, nor receive relevant information. It extends to Street Naming &amp; Numbering, Waste, Development Management etc. Enquiries will be made through the Devon Benefits &amp; Revenues Officers Group as to how other authorities address this matter, but based on previous information, it is suspected that each authority takes a slightly different approach.</p> <p>It is not felt that development of such procedures should rest solely with the Revenues team, but the matter will be raised with other relevant managers and a corporate approach taken forward from there. It may be that the Business Manager - Case Management (SM) is well placed to identify where there is information and procedural overlap between teams and therefore how best a corporate process might be developed.</p> <p>Processes for identifying the point of completion of new properties have improved over previous years, with information now received from Street Naming &amp; Numbering (SNN), but it may be that other teams within the Councils are aware of new properties before SNN.</p> <p>The Specialist – Council Tax (SD) did go out to the new Sherford development to seek out</p>

Subject	Audit Findings	Management Response
Council Tax (continued)		<p>completed properties and to confirm reports received of properties which had already been completed. However, it was often found that properties perceived to be complete, were not for council tax purposes.</p> <p>The developers responsible for Sherford and other significant new developments, have been contacted, explaining what responsibilities they have in terms of informing the Councils when a property is complete, but this does require staff resource to monitor compliance and there are currently other work priorities.</p> <p>4. Agreed. A full review of Single Persons Discount was completed in 2019/20 with the work funded in partnership with Devon County Council. Targeted reviews will be implemented for other discounts and exemptions where there is the greatest risk of the Councils not being informed of changes, for example, Disabled Band Relief and Nursing Home Exemptions. It would not be cost-effective to carry out reviews for all discounts or exemptions, such as where there are only a limited number awarded, or where it is likely that the information will be received anyway.</p> <p>The Specialist – Revenues (SH) did introduce this practice of making a routine year on year comparison of values of discounts and exemptions following a previous audit recommendation, but it ceased due to other work pressures. It should be quite straight forward to reintroduce it as part of the annual</p>



Subject	Audit Findings	Management Response
Council Tax (continued)		<p>exercise to complete the CTB1 government return.</p> <p>5. Agreed. This is to be progressed as other work priorities allow.</p> <p>6. Agreed. Currently, the number of courts for revenues has been reduced, as each one requires considerable staff resource to carry out the administration required beforehand, and it is felt to be more efficient to have fewer courts, each with a greater number of cases. However, once the recovery package is fully up and running, it may be that this approach needs to be reviewed and a greater number of courts may be preferable to help the enforcement process flow better. It would be helpful if Case Management were to review the recovery and enforcement processes across the Councils, to identify where existing processes can be improved and made more efficient, as this affects multiple teams.</p> <p>The review of the revenues recovery process, which was to be led by the former Support Services Case Management Manager (SP), was never completed due to the ELT restructure. In addition, a delay is beneficial whilst the revenues recovery software and associated automation is introduced, to allow the impact of this to be understood.</p> <p>7. Agreed. Other work priorities have prevented this from being addressed so far, but it is acknowledged that it needs to be done, in part</p>

Subject	Audit Findings	Management Response
		to bring about improved efficiencies in administering write offs.
Purchase Cards	<p><b>Audit Opinion – Improvements Required</b></p> <p>The process surrounding the use of purchase cards, and the system for administering expenditure, is generally satisfactory but there are areas where improvements can be made. Overall, we found that cardholders were using the purchase cards to pay for goods and services that related to their service requirements and there were no unfitting transactions. Following our audit review and the restructure of the Council’s Extended Leadership Team (ELT), responsibility for purchase cards moved from Support Services Case Management to the Finance Specialist Team.</p> <p>The audit review identified the following issues:</p> <ol style="list-style-type: none"> <li>1. Non-compliance with Council guidelines with regard the sharing of cards and card information and that card details are amended when officers leave the Council.</li> <li>2. A substantial amount of the expenditure examined was not supported by corresponding receipts, a total of £16,401. It is probable that these receipts are held in emails, or in cardholders’ own records, but they are not evident in the Support Services monthly reconciliation files. Information on the monthly statements does not indicate that this expenditure was</li> </ol>	<ol style="list-style-type: none"> <li>1. Finance Specialists will review the policies, guidance and controls currently in place. This will include a review of the limits for the cards and discussions on setting category restrictions and spending limits where appropriate.</li> </ol> <p>As part of the review of the process Finance will ensure that only authorised users have access to the purchase cards.</p> <ol style="list-style-type: none"> <li>2. Agreed, this is important and will be raised with the Case Management Team Leader, Customer First (SB) to ensure that officers obtain valid VAT receipts for all transactions.</li> <li>3. Agreed, this is important and will be raised with the Case Management Team Leader, Customer First (SB) to ensure that officers obtain valid VAT receipts for all transactions. Where possible, allowing for resources, we will consider recovering VAT for past transactions.</li> <li>4. Agreed, during the review of procedures officers will take into account who has access to the cards and ultimately confirms and reconciles the expenditure.</li> </ol>

Subject	Audit Findings	Management Response
Purchase Cards (continued)	<p>inappropriate but does highlight the potential risks of excessive or uncontrolled use of purchase cards.</p> <p>3. VAT, totalling £7,768 across both Councils, could not be recovered; this further highlights the potential weaknesses of using purchase cards and the surrounding controls which can, ultimately, make use of purchase cards more costly for the Councils.</p> <p>4. There is no process for the cardholder to formally evidence approval of the expenditure and the officer reconciling the expenditure may also be responsible for the procurement.</p> <p>5. Monthly expenditure was slow to be coded to the general ledger, and so reconciled by services and independently verified by Support Services, and the process should be further improved. Following the completion of the audit we are aware that coding of expenditure has now been brought up to date on the ledger.</p>	<p>5. It is understood that the Support Services Case Management undertake the reconciliation and this process will be reviewed to ensure that is undertaken effectively and promptly. During the review officers will ensure that expenditure is loaded to the ledger monthly and that services are reminded to submit receipts promptly. In addition, they will discuss how the reconciliation of purchases and receipts could be completed more online using the card provider's services, where available.</p>
V.A.T.	<p><b>Audit Opinion - Good Standard</b></p> <p>The process surrounding the recording and accounting for VAT is generally satisfactory but there are areas where improvements can be made and these are summarised below.</p> <p>1. The understatement of VAT due to HMRC in one monthly VAT Return was an isolated incident but has identified a number of weaknesses that have been</p>	<p>1. a. Agreed. Finance have added additional compensating controls to help identify errors where system data may not have been loaded correctly from systems.</p> <p>Finance have also strengthened independent check by the Senior Specialist Finance to compare the ledger and related VAT Returns.</p>

Subject	Audit Findings	Management Response
V.A.T. (continued)	<p>fully or partially addressed by the Council and these include:</p> <ol style="list-style-type: none"> <li>a. Ensuring that the transfer of information from external to internal financial systems is automated, with the ability to eradicate or limit any single point of failure;</li> <li>b. Ensuring reconciliations of systems and monitoring of the partial exemption and VAT position of the Councils are adequate and remain subject to independent scrutiny; and</li> <li>c. Provision is made for any possible penalties and recovery of the additional interest paid to HMRC in this case.</li> </ol> <ol style="list-style-type: none"> <li>2. That additional resources are employed on ensuring that the VAT is accurately recovered from purchase card transactions (in excess of £7,700 across both Councils for 2019), that all expenditure is accurately supported by a VAT receipt and recharges are accurately completed across the authorities; and</li> <li>3. A suitable process is put in place and resources are allocated to ensure that officers specialising in projects with VAT implications obtain prompt and accurate VAT advice.</li> </ol>	<p>Discussions will be held with other services to further improve automated processing of transactions.</p> <ol style="list-style-type: none"> <li>b. Improvements have been made to reconciliations and checks on transactions and VAT to compare values against previous months and years.</li> </ol> <p>We have also strengthened independent check by the Senior Specialist Finance to compare the ledger and related VAT Returns.</p> <ol style="list-style-type: none"> <li>c. Officers have contacted HMRC on the required channels regarding the error and interest paid and at present have not received any reply. If needed, we can recover the overpaid interest on the VAT Return should there not be any future response.</li> </ol> <ol style="list-style-type: none"> <li>2. Agreed, officers are aware of the issues and plans are in place to review the system and provide guidance and improved controls over the recording and recovery of VAT relating to these purchases.</li> <li>3. This process should sit with the service and during project development highlighted during the project management. Officers will be reminded of the importance of highlighting this area to the VAT Specialist promptly. At the same time, the Section 151 officer is part of the project team set up for larger projects and ensures that VAT is identified as an issue.</li> </ol>

Subject	Audit Findings	Management Response
		<p>Early notification of projects that may have financial implications are necessary to determine the VAT impact.</p>
<p>Car Park Permits</p>	<p><b>Audit Opinion - Good Standard</b></p> <p>Permit applications are accurately and promptly processed. However, there is a potential weakness in some of the controls regarding the management of the blank and issued permits and these include:</p> <ol style="list-style-type: none"> <li>1. The holding of blank permit paper;</li> <li>2. The risk of printing unauthorised permits;</li> <li>3. Lack of independent stock records held to reconcile unused and used permit paper to actual permit issues; and</li> <li>4. No overall independent reconciliation of the total permits issued to income received and coded to the general ledger.</li> </ol> <p>All permit and customer information is retained in the database held on Toranto and customers are able to access and update this data. However, following an issue earlier this year, where permits were not received by a customer, the process has been improved to send all permits by recorded delivery.</p>	<ol style="list-style-type: none"> <li>1. Blank permits are now held securely and only available to authorised officers.</li> <li>2. See above.</li> <li>3. Agreed, officers will keep a register of the permits held and agree this to those issued and this will be checked by an independent officer.</li> <li>4. Officers will confirm the income entered onto the general ledger.</li> <li>5. It is hoped that improvements to the parking system software might improve the search facilities.</li> </ol> <p>Officers will review the risks of the current process and look at the operational requirements and controls proposed around replacement and cancelled permits.</p> <ol style="list-style-type: none"> <li>6. See 5 above.</li> </ol>

Subject	Audit Findings	Management Response
Car Park Permits (continued)	<p>The following issues were identified:</p> <ol style="list-style-type: none"> <li>5. The re-use of the original permit number on a replacement permit and the original permit not being cancelled on the parking system. Although replacement permits are marked as such, reliance is placed on the parking inspector identifying if the original permit is still in use.</li> <li>6. The parking system, used by parking inspectors to check permits, is unable to be used to check for cancelled permits using the permit number and relies more heavily on the vehicle registration, which is not recorded for business permits.</li> </ol>	
Peer Review Action Plan	<p><b>Audit Opinion - High Standard</b></p> <p>In response to the LGA report, and in order to address the recommendations of the Peer Challenge Team, the two Councils created a Joint Working Group of members and officers, to develop a Peer Review Action Plan. Indeed, several LGA recommendations relate to ensuring effective joint working to ensure future financial sustainability and to set a clear direction for both authorities.</p> <p>The audit review found the majority of actions already implemented or else in progress, and therefore our review only made a small number of recommendations where there is further opportunity to demonstrate the Councils' commitment to delivering the improvements, or where delivery has been consciously delayed. These include:</p>	<ol style="list-style-type: none"> <li>1. Agreed.</li> </ol> <p>SHDC and WDBC are already working on a joint infrastructure plan with PCC and Devon County Council, which focuses on unlocking potential housing and economic sites and the infrastructure requirements needed to achieve this.</p> <ol style="list-style-type: none"> <li>2. This is being carried out as part of the Future IT (FIT) project. Service mapping will take place in line with the migration of services to the new IT, being prioritised by service. All key services should be migrated by 31 January 2021, whilst remaining services will be migrated over the following six months.</li> </ol>

Subject	Audit Findings	Management Response
Peer Review Action Plan (continued)	<ol style="list-style-type: none"> <li>1. Consideration of a joint investment strategy between SHDC, WDBC and possibly Plymouth City Council;</li> <li>2. Completion of the mapping of all end-to-end services;</li> <li>3. Enhancement of existing plans to improve customer communication and engagement;</li> <li>4. Joint Waste Partnership Working Group;</li> <li>5. Publication of Member Commitments;</li> <li>6. Trade Waste Offering Target Date;</li> <li>7. Relationship with DNPA.</li> </ol>	<ol style="list-style-type: none"> <li>3. Agreed. This is on-going work, which is a continuous cycle of improvement and review, and also links to the FIT project. Both underpin the role of Customer Service Improvement Manager, which was created as part of the ELT restructure and whose remit is to drive improvements in customer satisfaction.</li> <li>4. Agreed. A joint Waste Partnership Working Group is now in place.</li> <li>5. Agreed. The Democratic Services Manager (DW) will be asked to build this into the lessons learned action plan arising from the 2019 local councillor elections, in order that it can be implemented for the next such elections.</li> <li>6. Agreed. Further opportunities now won't be considered until after the new waste arrangements being introduced in the South Hams have bedded in.</li> <li>7. Agreed. The Deputy Chief Executive (SM) is currently trying to arrange a meeting with both the Chief Executive and the Elected Chair of DNPA, in order to progress a closer working relationship between the two authorities.</li> </ol>
Stores Follow-Up	<b>Revised Audit Opinion – Improvements Required</b>	

Subject	Audit Findings	Management Response
Stores Follow-Up (continued)	<p><b>Previous Audit Opinion – Improvements Required</b></p> <p>There have been limited developments since our last audit, as additional controls and management are heavily reliant on an improved stock control system. Management are aware that this will require significant investment in the related systems.</p> <p>1. The following minimum functionality within the stock control system is recommended:</p> <ul style="list-style-type: none"> <li>• Improved efficiencies in reducing manual input and duplication of processing.</li> <li>• Functionality to enable evaluation of the total value of stock held.</li> <li>• Functionality to determine the stock usage, over a given period, based on opening, closing and movement of stock.</li> <li>• Improved reporting functions to evaluate data by date and transaction value or usage.</li> <li>• Suitable management reports to compare stock use to jobs, assets and operatives over defined periods.</li> </ul> <p>2. Currently there is no evidence to support independent checks of the stocks and stores and no reconciliation of the value of items purchases and recharged to services, recorded on Concerto and the General Ledger.</p> <p>The stock system should be robust enough to enable suitable independent reconciliations and auditable evidence to confirm;</p>	<p>1. Reporting has significantly improved and we are now able to extract more data from the system. This has improved in the last month with the ability to run more reports for year-end stock values.</p> <p>We are aware that there are still some limitations with the system and will liaise with the provider to obtain improvements, but there are limitations on whether all of the improvements recommended can be achieved.</p> <p>2. Agreed</p> <ol style="list-style-type: none"> <li>a. We undertake independent checks of the stock records and there is the potential of using other staff, such as localities, in the future.</li> <li>b. We do undertake a review of unusual usage or redundant stock.</li> </ol>



Subject	Audit Findings	Management Response
	<ul style="list-style-type: none"> <li>a. That independent checks are completed and evidenced of stocks and significant variances are investigated;</li> <li>b. That the level of stock use is reasonable and in agreement with the value and quantity of work executed;</li> <li>c. That there is a separation of duties between financial controls, ordering, issue and management of stock and where this is not possible that checks and governance are sufficiently robust; and</li> <li>d. The annual Concerto stock usage value agrees to purchases, issues, the value of jobs completed and that this is reconciled regularly to the General Ledger, at least quarterly.</li> </ul>	<ul style="list-style-type: none"> <li>c. Where possible we ensure that stock records are checked another officer.</li> <li>d. We do complete reviews of the work completed for unusual activity and investigate any anomalies.</li> </ul>

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

Subject	Comments
<p><b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b></p>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2018/19 financial year. The S151 Officer presented the 2018/19 AGS to the Audit Committee on 20 June 2019.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>11 applications for Contract / Financial Procedure Rules have been received in 2019/20, one was cancelled, the remainder accepted.</p>
<p><b>Fraud / Irregularity</b></p>	<p>There have been no irregularities to report.</p>

Report to: **Audit Committee**

Date: **25<sup>th</sup> June 2020**

Title: **Strategic Risk & Opportunity Monitoring – bi-annual update**

Portfolio Area: **Governance and Assurance**  
**Cllr Judy Pearce (Leader of Council)**

Wards Affected: **All**

Scrutiny Committee: **N/A**

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

Date next steps can be taken:

Authors: **Neil Hawke – Head of Strategy & Projects**

Contacts: [Neil.Hawke@swdevon.gov.uk](mailto:Neil.Hawke@swdevon.gov.uk) **01803 861323**

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**Recommendations:**

**That the Audit Committee REVIEW the Strategic Risk & Opportunity Register (Appendix 1) and make recommendations to Council on any further action the Committee concludes should be considered.**

**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 1).

**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 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
- 2.3. 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 Panel.
- 2.4. 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. Following the last update to Audit Committee on 7 November 2019, the Strategic Risk Register has been updated in line with our Risk and Opportunity Strategy.
- 3.2. The following summarises the key changes to the Strategic Risk Register as at June 2020.

#### Transfer of the following risks to service operational risk registers

- 3.3. The following risks have been removed from the Strategic Risk Register as they are now being managed by services (where they are best placed to be managed)
- Inadequate Asset Maintenance (Risk score 8)
  - Finance Systems and Budget Monitoring (Risk score 6)
  - Achievement of Income (Risk score 9)

- Contractor Failure (Risk score 10)
- Data Protection (Risk score 8)
- Adherence to policy (Risk Score 8)
- Health and Safety (Risk score 8)
- Safeguarding (Risk Score 8)
- External Fraud (Risk score 6)
- Internal Fraud (Risk Score 4)
- Procurement (Risk Score 4)

3.4. Should the risk score related to any of these risks increase to above 10, they will escalate back to the Strategic Risk Register to be monitored by the Senior Leadership Team

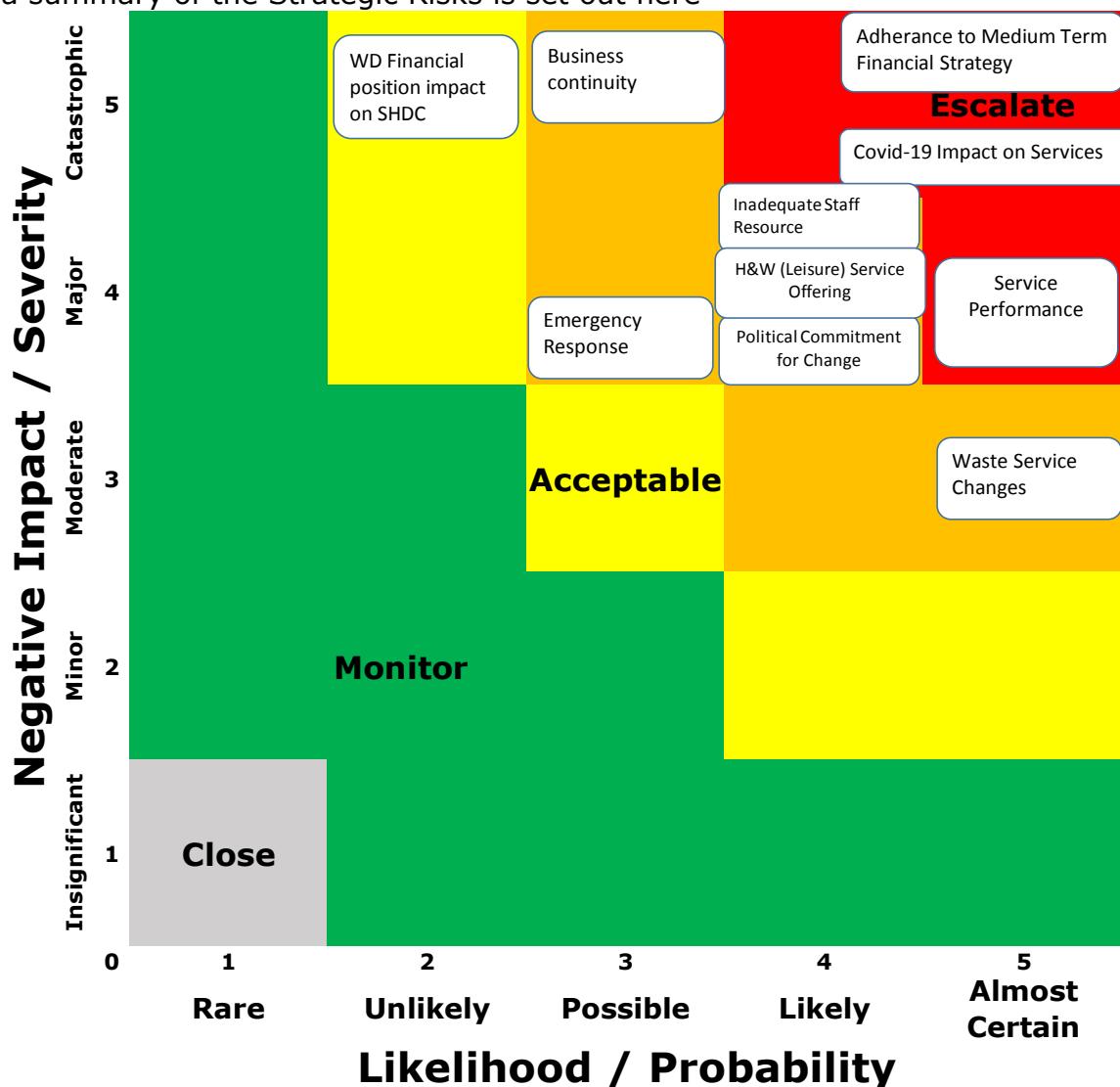
Addition of new risks

3.5. The management team regularly review both internal and external developments to consider any new emerging risks and opportunities. As set out in the November 2019 Audit Committee report, we do this using a PESTLE approach (Political, Economical, Sociological, Technological, Legal and Environmental). As a result, the following risks have been added to the Strategic Risk Register

- Covid-19 Impact on Services (Risk score 25 – the highest possible score)
- Ability to deliver our Health and Wellbeing (Leisure) offering

3.6. We have added the specific Covid-19 risk to the strategic risk register as it has significant impacts on the Council and our communities. The impacts of Covid-19 have also significantly increased the risk profile of other risks on the Strategic Risk Register including our ability to adhere to the Medium Term Financial Strategy, organisational performance and adequacy of staffing resources.

3.7. The most up-to-date strategic risk register is enclosed at Appendix 1 with a summary of the Strategic Risks is set out here



3.2. The risk register (Appendix 1) includes 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. 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 recommendation.

- 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
- 5.3. SLT will continue to monitor the Strategic Risks and a further update will be brought to Audit Committee in six months' time

## 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 1: Strategic Risk Register

Appendix 2: Risk & Opportunity Scoring Matrix

**Background Papers:**

Risk & Opportunity Management Strategy adopted 4<sup>th</sup> December 2018



Strategic Risk Register

18/06/2020 09:45

#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	Oct 19 Risk Score	March 20 Risk Score	Current Risk Score	Change (March 20 to Now)	Mitigating Actions / Internal Controls	Latest Note (as at June 2020)
SH2	Adherence to Medium Term Financial Strategy	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 targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFs, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings / legal challenges / planning appeals, etc.	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Business rates pilot 2018/19 – 100% local business rate retention of growth above baseline is confirmed for one year only. Devon Authorities applied for a further year of business rates pilot for 2019/20 at 75% of local business rate retention, but were unsuccessful as only authorities who were not part of the original pilot were chosen.	5	5	4	4	4	2	3	16	16	25	+	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 held in November 2019.	The Budget for 2020-21 was approved by Council in February 2020. 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.  Since the budget was set in February, the impact of Covid-19 has begun impacting on the Council's finances. The gross service expenditure budget for 2020/21 was set at £40 million (£9.411 million net). Actual net revenue expenditure is forecast to be over budget by £2.588 million when compared against the total budget set for 2020/21, due mainly to the impact of the Covid 19 pandemic. The significant extent of these predicted losses present imminent funding challenges for the Council. With income falling, unemployment expected to rise and a lack of certainty around funding, there are going to be difficult decisions to be made. A Members' Budget Workshop will be arranged for August 2020. <b>Council will be asked to consider a revised budget for 2020-21 at the September 2020 cycle of meetings.</b>
SH8	Covid-19 (Coronavirus) impact on services	Covid-19 (Coronavirus) will impact on the ability for the Council to deliver its services leading to a drop in operational performance and customer satisfaction. There will be additional financial implications	The situation evolves on a daily basis and there are many	5	3	5	3	3	4	4	12	12	25	+	Incident Planning is well underway but this has already meant a significant impact on service delivery with most of the Senior and Extended Leadership now focusing on ensuring our response plans are robust. A separate risk register is monitoring the impacts of COVID-19	The Councils Management Team undertook planning of a 'Pandemic Flu' scenario in February 2020 to prepare for the Covid-19 pandemic. We have also made many changes to the services that are being delivered, stopping some and changing others to align to our response.  As a result of Covid-19, the Council will need to reconsider its budget for this current year and make plans for future years to address the financial impacts.  There are likely to be direct impacts on:- - Housing and Benefits - Increased service demand as the economic impact is realised - Environmental Health - support to businesses as well as enforcement of government policy around reopenings - our Corporate Strategy which may no longer reflect our priorities - Delivery of current projects such as the Future IT Project and Waste Service Changes
SH3	Service Performance	Any service failure or degradation of service impacts on the customer, which then impacts on all areas of the council and members	Process implementation is now complete. Uncertainties could be due to a lack of appropriate resources. In the past, a lack of appropriate resource and the T18 transformation and change in processes combined to affect our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017.	5	3	4	4	3	2	4	12	16	20	+	A Customer Survey was carried out in Autumn 2018 and staff Customer Away days were held in September 2018. Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places. Plan to commence measuring customer satisfaction during 17/18. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.	The Customer Satisfaction survey undertaken in 2019 shows an encouraging improvement in overall customer satisfaction levels. We will continue to ensure that progress is made to further improve satisfaction. In December 2019, as part of the Extended Leadership restructure, we created a Customer Improvement Manager post to lead these improvements.  Covid-19 has impacted service performance, with some services having to stop delivering services to ensure that we comply with Government guidance to ensure our employees were kept safe. That said, it must be noted that the vast majority of office based employees have been able to continue undertaking their work from home from day 1 of the lockdown.  <b>Business Managers have been asked to undertake a review of service performance across the Council during the past 3 months to inform future planning.</b>

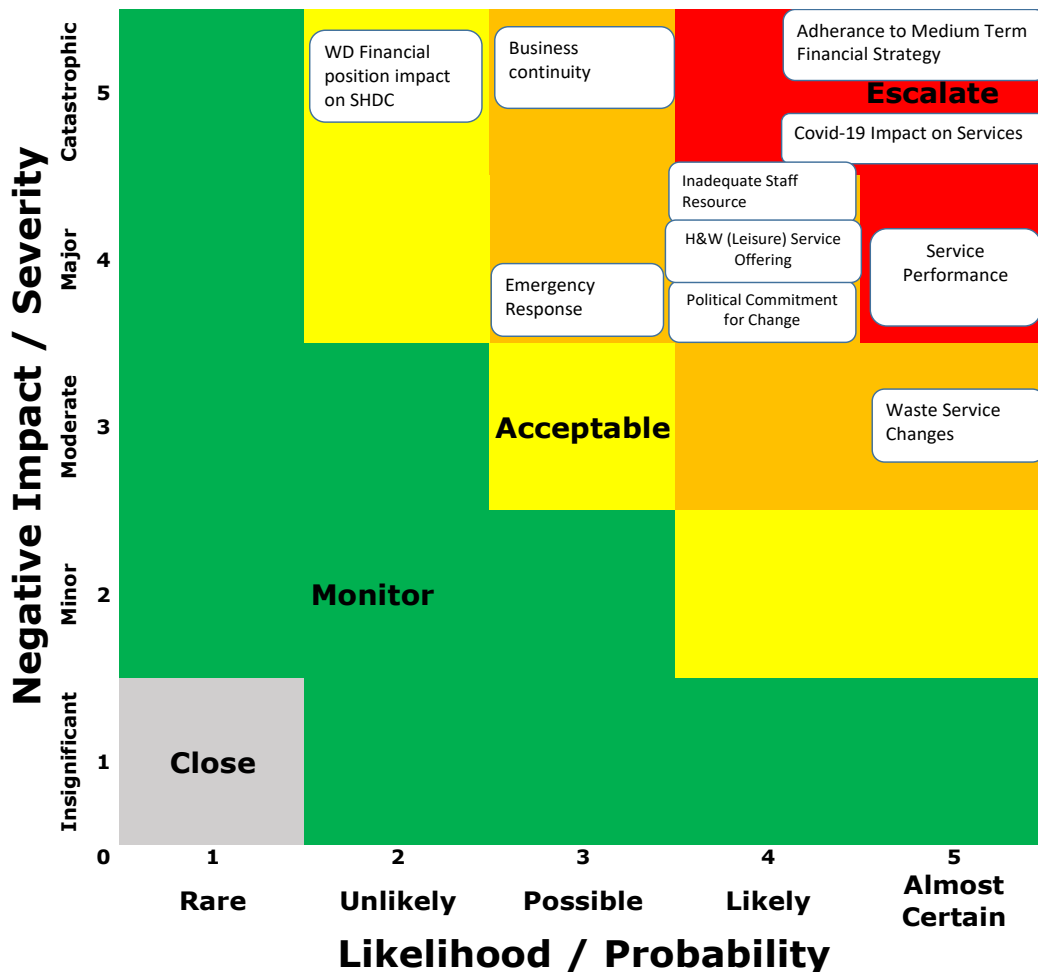
SH6	Inadequate Staffing Resource	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular 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	4	3	3	3	2	2	4	12	12	16	✗	Customer Satisfaction Survey has been initiated and staff away days undertaken to update staff and embed solutions to tackle issues raised. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR.	<p>The Council quickly moved to a 'Working at Home' scheme for all employees that could work from home in order to ensure that we minimised any risks to staff, and in turn, ensure that we did not experience any significant reductions in staff numbers.</p> <p>So far, we have not experienced levels of un-planned absences above what we would normally see at this time of year.</p> <p>A staff survey was undertaken to 'check-in' on staff which on the whole saw positive responses. Managers are regularly catching up with staff over skype and SLT are holding frequent staff briefings to keep them updated.</p>
SH1	Political Commitment for Change	On-going political commitment to support changes needed for ongoing financial sustainability & community resilience	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	4	4	3	4	4	1	4	16	16	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.	<p>We continue to keep Members informed on policy changes which has become even more crucial during the Covid-19 pandemic. SLT continue to attend Member briefings.</p> <p>Despite Covid-19, the Council has continued to hold key meetings via Skype and has so far held two Full Council meetings and an Overview &amp; Scrutiny Meeting.</p> <p><b>All-Member workshops will be held during the summer to develop the Councils Covid-19 recovery plan which will be considered by Full Council in September 2020.</b></p>
SH8	Health and Wellbeing Service Provision	Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.	There are many uncertainties:- - When leisure centres may reopen - When they do open, what will the customer appetite be - How long any measures that reduce capacity will have to remain in place	4	4	2	2	2	4	2				New	- Engage with Leisure Services provider to understand issues and support where possible - Continue to monitor local and national position (given that all Leisure providers will be in the same position)	<p>Discussions continue with our Leisure Services provider who will continue to develop plans for safe reopening when allowed. Measures will include signage, pre-booking to limit numbers etc</p> <p>The Council has been successful in securing a Sport England grant (Lottery Funding of £4,560 across both Councils) for external support to ensure that the impact on the contract is minimised and the Centres are in the best position to adapt and react to the future environment, delivering services for customers which enhance key outcomes (such as increased health and wellbeing). The work will result in a remobilisation action plan and a check and challenge of the current arrangements.</p>
SH4	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	5	4	2	3	3	12	12	15	✗	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	<p>The last few months have been the most significant test of the Councils Business Continuity plans in many years. We continue to keep Members informed on policy changes which has become even more crucial during the Covid-19 pandemic.</p> <p>Officers have implemented weekly Business Continuity Management meetings to continually monitor the impact on the Council and rapidly respond to issues. This has been effective in ensuring an effective response.</p> <p><b>Weekly BCP meetings will continue to be held (although reducing to once a week) with recovery meetings now also being scheduled weekly</b></p>
SH7	Delivery of waste & recycling service changes	The risk is that there is a delay to the introduction of the new aligned services resulting in increased costs and potentially reputational impacts if not timed well with communications	Date of introduction has been put back due to various C-19 effects on suppliers. Earliest date of new service introduction is now likely to be March 2021. Additional costs are not clear at this point. Increased reputational damage risk due to timing of public communications.  Ivybridge Build timescales are also uncertain given the C19 impacts	5	3	1	2	1	1	1			15	New	Continued management and officer focus on this area to ensure risk is minimised as much as possible  Ongoing dialogue between contractor (FCC) and the Council	<p>Date of introduction has been put back due to various C-19 effects on suppliers. Earliest date of new service introduction is now likely to be March 2021. Officers continue to work with contractor to assess additional costs as a result of the delay although they are not clear at this point.</p> <p>We continue to work to minimise reputational damage due to the delay and are reviewing timing of public communications about changes</p>

SH5	Emergency Response	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	3	3	3	4	3	4	2	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	The Council has demonstrated, along with partners and community groups, that it can quickly adapt to support our local communities during an emergency. The concern is that the Covid-19 pandemic will continue for some time which may impact on the Councils ability to respond to other emergencies such as floods. <b>The Council continues to be an active member of the Local Resilience Forum and will continue to keep its Emergency Response plans updated as the current pandemic progresses.</b>
SH9	WD Financial position affecting SH shared arrangements	South Hams operate a joint shared services (shared workforce) arrangement with West Devon Borough Council. Both Councils have different financial pressures and strategies to meet predicted financial gaps. If West Devon were unable to meet its financial obligations, this could have a significant negative impact on South Hams.	Uncertainties around the financial impact of Covid19 on Councils' finances nationally. There is also a large amount of uncertainty around elements of Local Government finance such as the future of New Homes Bonus, negative Revenue Support Grant and Rural Services Delivery Grant.	2	3	3	5	3	1	3	10	10	-10	The Officer Senior Leadership Team is the same team across both Councils, therefore giving an early warning system. Close monitoring by WDBC of all income/expenditure and horizon scanning through the MTFs process. The June 2020 budget monitoring report to the Hub Committee reports a predicted overspend of £1.028million for 2020/21 for WDBC due to the Covid19 pandemic. WDBC has the same timescale for its Recovery and Renewal Plan and an Amended Budget for 2020/21 will be presented to Council in September. A Cross Party Member Working Group (Financial Stability Review Group) has a defined Terms of Reference to look at the Medium Term Financial Strategy and to assess options for securing financial stability for the longer term. External audit reports for West Devon also give an independent view on WDBC's financial position and are publicly available.	West Devon has £1.086m in Unearmarked Reserves and £4.572m in Earmarked Reserves at 1.4.2020. Therefore the level of Reserves is robust for WDBC's size (Net Budget of £7.2 million).

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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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