

Forde House
Newton Abbot
Telephone No: 01626 215159

Contact Officer Karen Mason
E-mail: comsec@teignbridge.gov.uk

14 March 2018

AUDIT SCRUTINY COMMITTEE

Dear Councillor

You are invited to a meeting of the above Committee which will take place on **Thursday, 22nd March, 2018** in the Council Chamber, Forde House, Brunel Road, Newton Abbot, TQ12 4XX at **10.00 am**

Yours sincerely

NEIL AGGETT
Democratic Services Manager

Distribution:

- (1) The Members of the Audit Scrutiny Committee (subject to confirmation of Executive Members by the Leader)

Councillor Chris Clarence (Chairman)
Councillor Ted Hockin (Vice-Chairman)
Councillor Alistair Dewhirst
Councillor Timothy Golder
Councillor Mike Haines
Councillor Ann Jones
Councillor Bill Thorne
Councillor Martin Wrigley

A link to the agenda on the Council's website is emailed FOR INFORMATION (less reports (if any) containing Exempt Information referred to in Part II of the agenda), to:

- (1) All other Members of the Council
(2) Representatives of the Press
(3) Requesting Town and Parish Councils

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

Public Access Statement

- There is an opportunity for members of the public to ask questions at this meeting. Please submit your questions to comsec@teignbridge.gov.uk by **12 Noon** on the Friday before the meeting.
- If you would like this information in another format, please telephone 01626 361101 or e-mail info@teignbridge.gov.uk
- Agendas and reports are normally published on the Council's website <http://www.teignbridge.gov.uk/agendas> 5 working days prior to the meeting. If you would like to receive an e-mail which contains a link to the website for all forthcoming meetings, please email comsec@teignbridge.gov.uk
- Reports in Parts I and III of this agenda are for public information. Any reports in Part II are exempt from publication due to the information included, under the provisions of the Local Government Act 1972.

AGENDA

Part I

1. Apologies for Absence
2. Minutes of the previous meeting
The minutes of the meeting (previously circulated) held on 14 December 2017 were signed as a true and accurate record.
3. Agreement of the agenda between Parts I and II
4. Matters of urgency/matters or report especially brought forward with the permission of the Chairman.
5. Declarations of Interest.
6. Grant Thornton Reports (Pages 1 - 36)
 - Committee update.
 - 2018/19 Audit Plan
 - Assurance responses (to follow).
7. Internal Audit Quarterly Progress Report (Pages 37 - 42)
The report provides information on the work undertaken by the Internal Audit Section and the level of assurance gained for each area audited.
8. Risk Based Verification Policy (Pages 43 - 46)
The report seeks comment on amendments to the policy to enable continued administration of new claims for housing benefit and council tax support.

9. Updated Treasury Management Policy Statement and Lending List (Pages 47 - 56)
The report provides detail of the updated Lending List and Strategy.
10. Internal Audit Plan 2018-2019 (Pages 57 - 76)
The Plan sets out the plan of internal work to ensure the adequacy of the control environment.
11. Financial Instructions and Contract Procedure Rules Waivers (Pages 77 - 80)
The report provides information on the number of times the financial instructions or contract procedures rules have been waived.
12. Work Programme:
 - to identify areas of work for future meetings of the Committee;
 - to identify any training needs.
13. Forde House Campus - update
To receive a verbal update report on car parking and other measures associated with the new arrangements at Forde House.

Part II (Private)

Items which may be taken in the absence of the Public and Press on the grounds that Exempt Information may be disclosed.

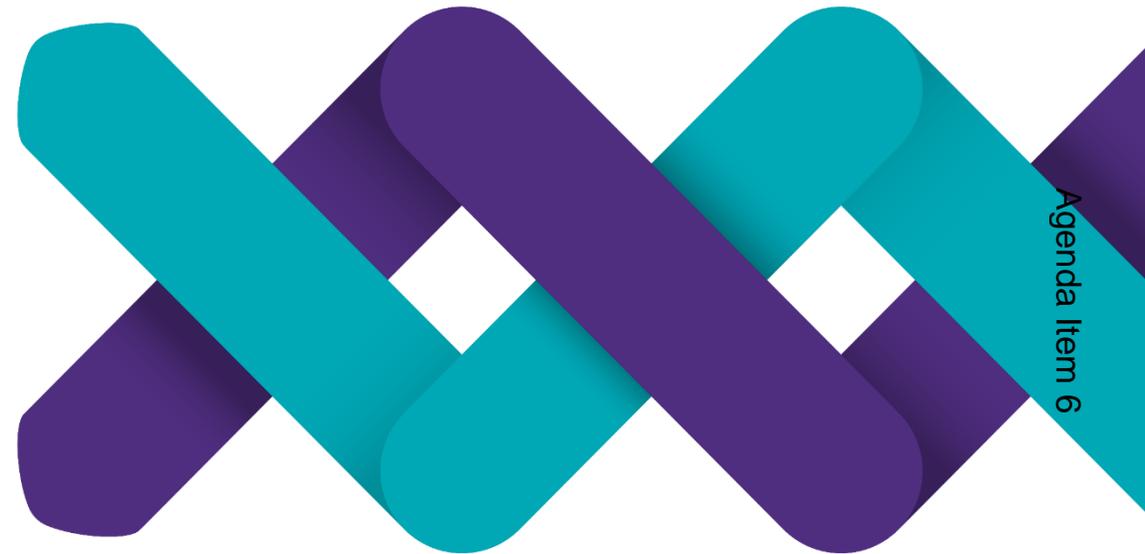
14. Risk Based Policy Appendix (Pages 81 - 86)

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Audit Progress Report and Sector Update

Teignbridge District Council
Year ending 31 March 2018

22 March 2018



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Introduction



Geraldine Daly
Engagement Lead

T 0117 305 7741
E geri.n.daly@uk.gt.com



Steve Johnson
Audit Manager

T 0117 305 7868
E steve.p.johnson@uk.gt.com

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

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

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

Progress at 9 March 2018

Financial Statements Audit

We have planned for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in February 2018. Our interim fieldwork visit included:

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

The findings from our interim audit are summarised at page 6 to 8. Recommendations are included in the action plan at Appendix 1.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 4 June with findings reported to you in the Audit Findings Report at the 19th July 2018 Audit Committee meeting.

Value for Money

Our value for money work is in progress and we have reported to you our initial risk assessment within the Audit Plan. The next stage of the work focuses on the following significant risks:

- Strategic financial planning – sustainable resource deployment

Our detailed assessment will be undertaken in April and May 2018, when we will review the Council's arrangements for putting together and agreeing its medium term financial plan, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2017/18 and beyond.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Chief Finance Officer in January as part of our regular 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

Officers were invited to our Local Government workshops held in February. Our workshops are designed and delivered by our highly experienced public sector assurance team and will help officers prepare for your financial statements audit by highlighting potential risk areas and giving an opportunity for discussion and questions.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Issued 19 April 2017
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	January 2018	Issued 2 March 2018, presented to 22 March 2018 Audit Committee
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	22 March 2018 Detailed in this update
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	19 July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	30 July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	September 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

	Work performed	Conclusions and recommendations
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Early substantive testing	We have undertaken substantive testing in relation to months 1 – 9 of the financial year for the following areas: Operating expenditure Employee Remuneration.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements

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Sector Update

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

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

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

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

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

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

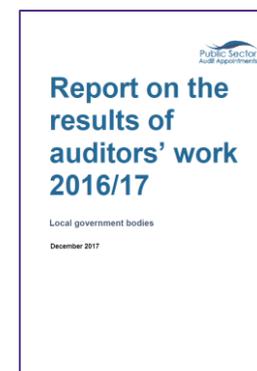
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance
- “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

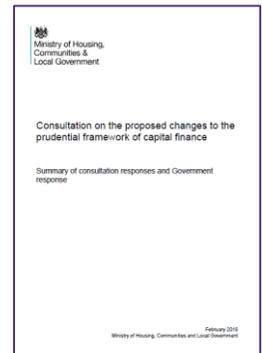
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any Local Authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a Local Authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your **Chief Finance Officer** briefed members on the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

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

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

.The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your Chief Finance Officer briefed members on the impact of the changes to the prudential code?



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

GDPR

Questions for your organisation:

Can your organisation erase personal data effectively?

Have you appointed a Data Protection Officer if required to have one?

How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 Local Authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, Local Authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse Local Authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication

Challenge question:

Is your Council considering the risks and governance issues for its commercialisation agenda?



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

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

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

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

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

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



The tool enables you to immediately:

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

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

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

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



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Council considered the potential for an independent review of telecommunications and utility costs?

Links

Grant Thornton website links

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

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

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

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MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

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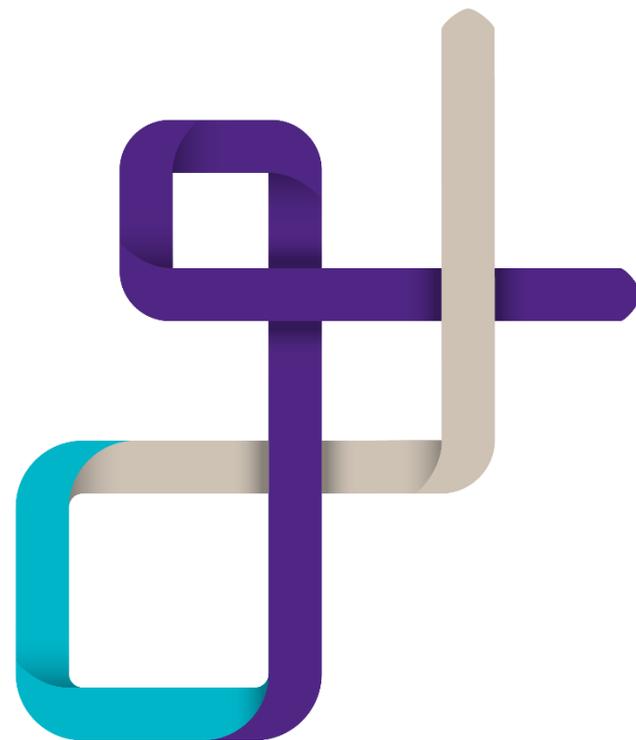
External Audit Plan

Teignbridge District Council

Year ending 31 March 2018

22 March 2018

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Your key Grant Thornton team members are:

Geraldine Daly

Engagement Lead

T 0117 305 7741

22 E geraldine.n.daly@uk.gt.com

Steve Johnson

Audit Manager

T 0117 305 7868

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

Emma Dowler

In Charge Auditor

T 0117 305 7619

E Emma.Dowler@uk.gt.com

Section

1. Introduction & headlines
2. Deep business understanding
3. Significant risks identified
4. Reasonably possible risks identified
5. Other matters
6. Materiality
8. Value for Money arrangements
9. Audit logistics, team & audit fees
10. Early close
10. Independence & non-audit services

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Appendices

- A. Revised ISAs

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Teignbridge District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Teignbridge District Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Scrutiny Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Scrutiny Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraudulent revenue recognition
- Management override of controls
- Valuation of Property, Plant and Equipment (PPE)
- Valuation of Pension Fund Liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1,207,000 (2016/17 - £1,248,000), which equates to 1.8% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £60,000 (2016/17 - £62,000).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:

- Strategic financial planning – sustainable resource deployment

Audit logistics

Our planning and interim visit took place in February 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £48,363 (2016/17 - £48,363) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version was published in December 2017.

The Council has already made commercial investments and has a capital programme that will require Prudential borrowing.

Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas.

The Council is not part of any combined authority proposals. However, the Council is working alongside 16 other local authorities in Devon and Somerset, two national parks, three Clinical Commissioning Groups, and the Heart of the South West Local Enterprise Partnership (LEP).

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Early close

This will be the first year that the Council plans to meet the earlier Statutory deadline to publish its audited accounts by 31 July 2018.

The Council's Finance team is currently undertaking the arrangements to close earlier. The audit is planned for June 2018 and the Council's Audit Scrutiny Committee is planned for 19 July 2018, with Full Council sign off scheduled for 30 July 2018.

Key challenges

Financial pressures

Central government grant funding will reduce over the next three years with cash reductions of £1.1 million, £1 million and £0.8 million.

This loss of income is planned to be replaced through increased business rate retention because of Teignbridge's estimated growth in business rates, and increased income from other income streams, such as Sales, Fees and charges.

The Council is not forecasting a shortfall in funding in its three year financial plan to 2021 and Teignbridge is prepared for the grant reductions and continues to make savings and generate income.

General reserves are predicted to remain at levels considered prudent by the Council.

Capital programme

The Council has extensive plans to investment in the District.

The capital programme details schemes that amount to £15,000,000 in the current year and a further £72,000,000 over the next three financial years.

Funding of these is through Revenue, the use of capital receipts, grants and external funding, but primarily through Prudential borrowing.

Delivery of this programme will be a significant challenge for the Council.

Our response

- We will consider your arrangements for managing and reporting your financial resources, including your progress on devolution and/or use of investment vehicles as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.].</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Teignbridge District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Teignbridge District Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of property, plant and equipment</p>	<p>The Council revalues a proportion of its land and buildings annually, and ensures all assets are revalued within a five year cycle, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work Consider the competence, expertise and objectivity of any management experts used. Discuss with the valuer, the basis on which the valuation is carried out and challenge the key assumptions. Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding. Test a sample of revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
<p>Valuation of pension fund net liability</p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out Undertake procedures to confirm the reasonableness of the actuarial assumptions made. Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Employee remuneration</p>	<p>As the payroll expenditure comes from a number of individual transactions and represents a significant percentage (50%) of the Council's operating expenses (net of Housing Benefits) there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • review the monthly trend analysis of employee costs to identify any unusual or irregular movements. • Agree employee remuneration disclosures to the supporting documentation.
<p>Operating expenses</p>	<p>Non-pay expenses on other goods and services also represents a significant percentage (50%) of the Council's operating expenses (net of Housing Benefits). Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • test the calculation of year end accruals • undertake cut-off testing of expenditure to ensure there are no unrecorded liabilities.

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Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

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Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

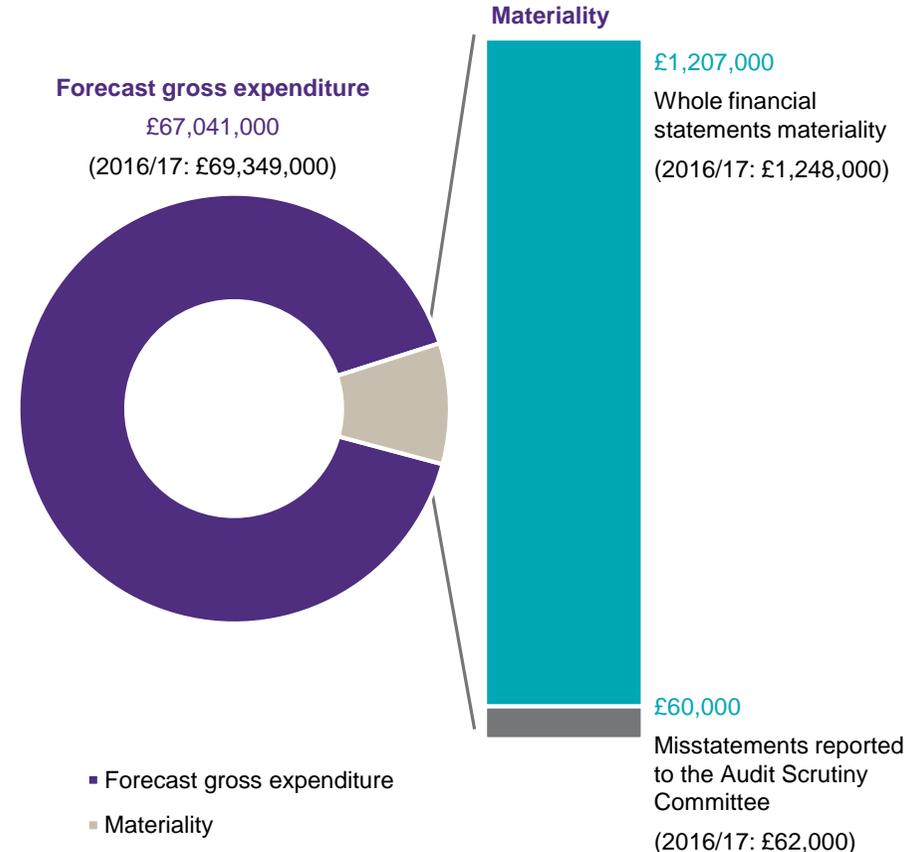
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality to be £1,207,000 (2016/17 £1,248,000), which equates to 1.8% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Scrutiny Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Scrutiny Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60,000 (2016/17 £62,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Scrutiny Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

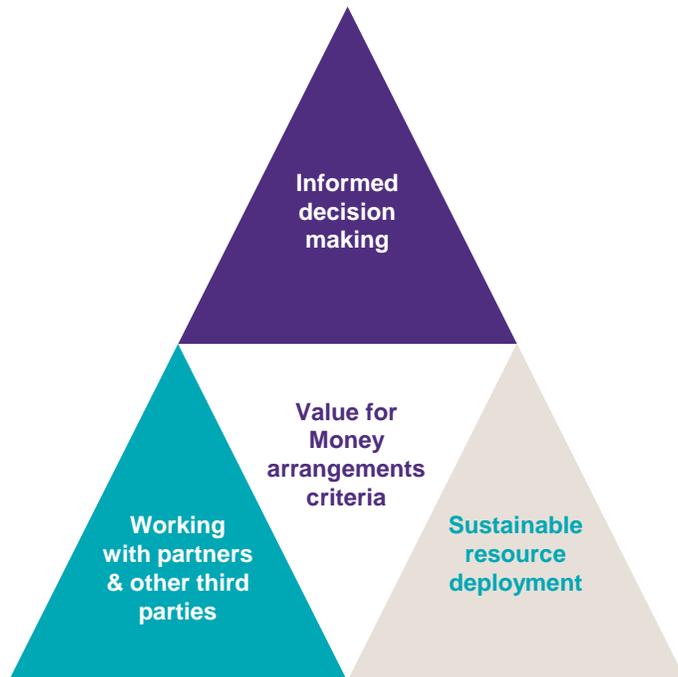
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:

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Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Strategic financial planning – sustainable resource deployment

The Council's medium term revenue budget summary shows the Council will require £217,000 of its reserves to Balance the budget in 2020/21. The Revenue Support Grant will have been cut to zero by 2018/19 and overall the Council faces a 12% cut in cash income in each of the three years. Identification and delivery of the required efficiencies will need careful management.

We will review the Council's arrangements for putting together and agreeing its medium term financial plan, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2017/18 and beyond.

Audit logistics, team & audit fees



Geraldine Daly, Engagement Lead

Geraldine is responsible for the overall delivery of the audit. She will meet regularly with senior management of the Council and will attend Audit Scrutiny Committee meetings.



Steve Johnson, Audit Manager

Steve oversees day to day planning and manages the work of the In-charge auditor and associates to ensure that the audit work is focused on the key areas of the financial statements risks and compliance with relevant accounting standards and guidance.



Emma Dowler, Audit Incharge

Emma is responsible for the on-site delivery of the audit work. She assigns activities across the team and ensures it is completed satisfactorily.

Audit fees

The planned audit fees are no less than £48,363 (2016/17: £48,363) for the financial statements audit no less than £5,478 (2016/17: £7,500) for the grant certification. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

No non-audit services were identified

Service	Fees £	Threats	Safeguards
Audit related			
No non-audit fees			
Non-audit related			
Non-audit services			
Governance at Heart of the SW LEP	35,750	Y	The work was carried out for the Heart of the South West LEP has been undertaken, by a separate team, Independent of the Audit team. The work was commissioned and billed to Somerset County Council. We are obliged to inform you of this work.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The Council's use of the going concern basis of accounting is appropriate• The Council has disclosed any identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for Members and the auditor	We will be required to include the respective responsibilities for Members and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence

DATE: 22 March 2018

REPORT OF: Audit Manager

SUBJECT: INTERNAL AUDIT QUARTERLY PROGRESS REPORT

PART I

RECOMMENDATION

To note the report.

1. PURPOSE

To advise Members of recent progress against the Audit Plan and the outcomes of completed audits.

2. BACKGROUND

2.1 The Audit Plan is approved by the Audit Scrutiny Committee in March annually and progress is reported at every meeting thereafter.

2.2 Internal audit reviews lead to an opinion on the effectiveness of the framework of risk management, control and governance of the area under review. Assurance opinions are graded as follows:

Excellent	☆☆☆☆	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	☆☆☆	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some areas for improvement have been identified.
Fair	☆☆	There is a basic control framework in place, but most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Poor	☆	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

3. AUDIT PLAN 2017-2018 – Progress at 22 March 2018

PROJECT	STATUS	OPINION
Governance Review and AGS	Complete	Good
Housing Enforcement	Complete	Good
Planning	Complete	Good
LAHS Housing Data Return	Complete	Good
Corporate Purchasing Cards	Complete	Good
Coastal Monitoring Programme Grant	Complete	Good
Safeguarding	In Progress	-
Community Infrastructure Levy	Complete	Good
Emergency Planning & Business Continuity	In Progress	-
Election Fees Review	C/fwd 18-19	-
Health and Safety	Complete	Good
Building Control	Complete	Good
Crime and Disorder Partnership (Grant Claim)	Not required	-
Teign Estuary Partnership	TOR Agreed	-
Information Governance	In Progress	-
Risk Register	In Progress	-
Council Tax	Complete	Good
Benefits and Council Tax Support	In Progress	-
Bacs / Smarter Pay (Income and Banking)	Draft Report Issued	Good
Creditor Payments	Complete	Good
Debtors	In Progress	-
Main Accounting and Budgetary Control	In Progress	-
NDR (Business Rates)	Draft Report Issued	Good
Treasury Management	Complete	Excellent
Payroll – on hold due to Midland iTrent project	-	-
Register of Interests, Hospitality and Gifts	Complete	Good

Summarised findings for audits recently completed is shown in **Appendix A** below.

4. CONCLUSION AND RECOMMENDATION

13 audits have been completed, 10 are in progress, and due to be completed within this audit cycle. Generally, controls were found to be in place and risks well managed for the areas examined. The payroll audit has been postponed as the payroll team are busy migrating to a new system. Although internal audit are not formally on the project board for this, we receive project team minutes and keep a watching brief commenting on control requirements where needed. The review of Election fees will be rolled forward to next year's plan.

Members are recommended to note the report.

Sue Heath - Audit Manager

Wards affected	<i>N/A</i>
Contact for any more information	<i>Sue Heath – Audit Manager – 01626 215258</i>
Background Papers (For Part I reports only)	<i>Audit Files and Final Reports File 2017 – 2018</i>
Key Decision	<i>N</i>
In Forward Plan	<i>N</i>
In Audit Scrutiny Work Programme	<i>Y</i>

**TEIGNBRIDGE DISTRICT COUNCIL
AUDIT SCRUTINY COMMITTEE**

Summary of Internal Audits Completed this Quarter

PROJECT TITLE	SUMMARY
<p>Treasury Management</p> <p>Audit Opinion: Excellent ☆☆☆☆</p>	<p>The annual review of the Treasury Management function to ensure key controls are in place and effective covering policy and procedures, risk management, fidelity guarantee insurance, reconciliations, monitoring and reporting and data security.</p> <p>The system has effective internal controls and is very well managed. The first two quarters saw the team deal with 247 transactions of 13 fixed loan, 66 call account, 44 money market fund transactions and 124 Lloyds deposit transfers. The total net interest received for this period is £13,497 with a forecast year –end total of £35,085. The average daily lend is £12.3 million. There has been no borrowing or overseas activity.</p>
<p>Creditors</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>In previous years, internal audit have reviewed the creditor system in depth and have regularly advised on control measures needed for the prevention of mandate fraud and duplicate payments.</p> <p>The scope of this year's audit focused purely on the data quality and accuracy of input into the creditors system. As well as substantive testing on the verification checks made by the authorising officers and the creditors team before payments are processed.</p> <p>The review covered the controls in place for the following key risks to the Creditors system:</p> <ul style="list-style-type: none"> • Inaccurate data; • Payment made to the wrong creditor or incorrect bank account; • Non-compliance with legislation or tax regulations; • System failure; • The authority pays for goods not received; • Incorrect VAT. <p>The audit also revisited the recommendations presented in the previous audit report and followed up their implementation. Assurance was Good.</p>

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**TEIGNBRIDGE DISTRICT COUNCIL
AUDIT SCRUTINY COMMITTEE**

Summary of Internal Audits Completed this Quarter

PROJECT TITLE	SUMMARY
<p>Health and Safety</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>Policies and procedures in place to manage and administer the internal Health & Safety function were examined and evaluated to ensure the Council's responsibilities are being met. The review considered the following risks:</p> <ul style="list-style-type: none"> • Non-compliance with legislation and regulations; • Officers not aware of their responsibilities; • Ill health, injuries, accidents and incidents occur and / or increase; • Adverse publicity and reputational damage. <p>Findings were positive with processes found to be controlled and risks managed. Some recommendations were made relating to the annual review of the policy, training available on the new corporate training facility and reporting mechanisms.</p>
<p>Bacs / Smarter Pay (Income and Banking)</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>This review focused on electronic Bacs payments as a new Bacs Smarter Pay system was being introduced and covered the controls in place for the following risks to the Smarter Pay system:</p> <ul style="list-style-type: none"> • Bacs transmission not completed • Bacs records are missed or put in twice • Rejected Bacs payments • Fraudulent Bacs payments • Non-compliance with legislation • Data is not held securely • Business continuity <p>Assurance was Good. Recommendations included the continuation of checks of the Bacs numbers and value shown on Smarter Pay and retaining evidence of these, as well as, checking the Bacs Input report against the BACSTEL report once the Bacs processing is complete to ensure that the payments compare to the total value of records submitted. Also, for smart cardholders to sign an '<i>Employee Agreement</i>' so they are aware of their responsibilities and security measures to be taken, as well as the terms and conditions of card use.</p>

**TEIGNBRIDGE DISTRICT COUNCIL
AUDIT SCRUTINY COMMITTEE**

Summary of Internal Audits Completed this Quarter

PROJECT TITLE	SUMMARY
<p>Follow Up Audits</p> <p>The effectiveness of audits is increased if agreed actions are implemented. The audit cycle allows for a follow up check to be made on any important recommendations at an agreed time after each review. Details of completed follow ups are shown below:</p>	
<p>Housing Enforcement</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>Original audit: September 2017. Followed up: February 2018</p> <p>6 of the 9 recommendations actioned and implemented. 3 remain on-going.</p>
<p>42 Non-Domestic Rates (Business Rates)</p> <p>Audit Opinion: Good ☆☆☆</p>	<p>Original audit: March 2017. Followed up: March 2018</p> <p>Both of the recommendations made have been actioned.</p>
<p>Other Work</p> <p>GDPR - With the GDPR (General Data Protection Regulation) imminent, one of our auditors has undertaken GDPR support work for the information management group, helping to raise awareness of the new requirements around departments through attendance at team meetings, and provision of 1-1 advice.</p> <p>One Teignbridge Transformation Project - project assurance and GDPR compliance roles are undertaken by the Audit Manager and Auditor.</p> <p>Investigations – a number of investigations including 5 management issues and one fraud investigation have been completed</p>	

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence **Cllr EXECUTIVE PORTFOLIO-HOLDER:** Cllr Stuart Barker

DATE: 22 March 2018
REPORT OF: Nigel Piller – Housing Benefit & Council Tax Team Leader
SUBJECT: Risk Based Verification Policy

PART I – Report
PART II – Appendix 1

Recommendation

That the Audit Scrutiny Committee note the content of this report and agree the changes to the Risk Based Verification Policy detailed at Appendix 1.

Purpose

The purpose of this report is to ask members to approve the Risk Based Verification policy for the coming year.

Background

Housing Benefit Regulations require local authorities to obtain information which allows an accurate assessment of a claimant's entitlement to benefit to be made. However with the exception of a national insurance number and proof of identity, they do not specify what evidence is required in support of the claim. Consequently over the years, quality checking and fraud detection have led to a complex and burdensome process of verification.

In 2011 the Department for Work and Pensions (DWP) changed this requirement and now allows local authorities to carry out this verification using a risk based approach for new benefit claims.

Risk Based Verification is a method of applying different levels of checks to new Housing Benefit claims according to the risk associated with those claims. Claims are assessed prior to payment and put into 1 of 3 categories – **Low, Medium or High** and this determines the requirement to gather evidence. The risk category is determined by proprietary software using statistical information and experience gathered over many years about what type of claim represents what level of risk.

Teignbridge adopted this new approach with effect from June 2013 following approval of the policy by Audit Scrutiny Committee on 21 March 2013.

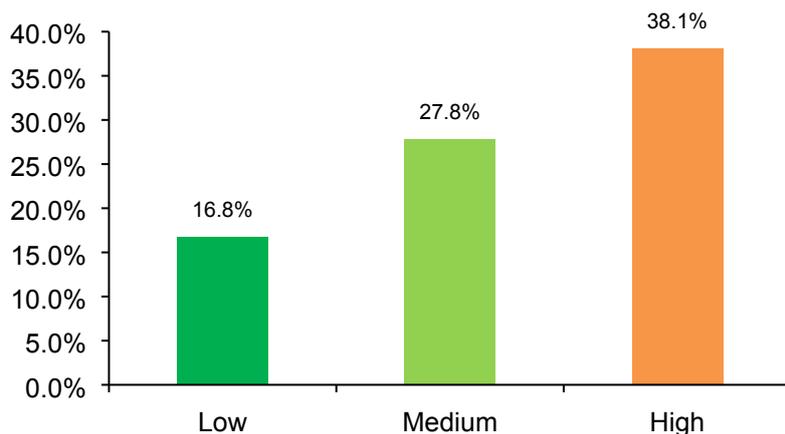
We have monitored the effectiveness of RBV since its introduction and can report as follows:

Current distribution of risk scores

Low – 46%
 Medium – 40%
 High – 14%

These scores fall within the expected risk score tolerances.

Error Detection Rate



The RBV process also incorporates the functionality to randomly escalate **Low** or **High Risk** cases to **Medium Risk**. This is both a DWP requirement and ensures the veracity of the Risk Based Verification process is maintained “Performance monitoring will be undertaken on a monthly basis to ensure the effectiveness of the approach. This will include the percentage of cases presented in each risk category and the levels of fraud and error detected in each.

The monitoring will also identify and outline how much fraud and/or error has been detected in blind sample cases and we have established that we are detecting higher levels of fraud an error.

Performance

Over the period that RBV has been in place, there has been a 37%¹ improvement in processing times for new claims with cases now taking an average of just over 14.5 days² between receipt and decision date.

46% of new claims are returned as low risk which means more resources are targeted at the medium and high risk cases.

DWP Requirements

The DWP require any local authority adopting RBV to have in place an RBV policy. The DWP circular S11/2011 issues guidance on what should be contained in the

¹ Processing times for 2012/13 - 23.21 days

² Processing times for 2017/18 – 14.67 days

policy and who should approve it. We drew up our RBV policy in accordance with these guidelines and the original policy was approved on 21 March 2013.

Changes for 2018-19

We are seeing much greater take up of digital and automated services and, in view of this, the policy has been reviewed and updated for 2018-19. The revised policy provides for verification of identity for low and medium risk cases to be achieved via the use of scanned images. This change has been approved by the following designated officers: Housing Benefits and Council Tax Team Leader, Revenue, Benefits and Fraud Manager and Chief Finance Officer, and is now submitted to Audit Scrutiny for approval for the year 2018-19.

Timescale

The policy need to be approved by 31 March 2018 in order to take effect in 2018-19.

Nigel Piller
Housing Benefit and Council Tax Team
Leader

Wards affected	All
Contact for any more information	Nigel Piller Ext 5527 or Tracey Hooper Ext 5266
Background Papers (For Part I reports only)	Audit Scrutiny Report 21 March 2013 and DWP Circular S11/2011
Key Decision	No
In Forward Plan	No
In O&S Work Programme	No
Community Impact Assessment attached:	Not required
Appendices attached:	Appendix 1 – RBV Policy, Part II

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TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 22 FEBRUARY 2018
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Background

The Local Government Act 2003 requires local authorities to “have regard” to the Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management (TM) Code and Prudential Code. Teignbridge District Council is guided by the CIPFA *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017*, which requires that local authorities report annually on their treasury strategy and plan before the start of the year. The *Prudential Code* requires local authorities to set and revise prudential indicators, while the Ministry of Housing, Communities & Local Government (MHCLG) 2018 *Statutory Guidance on Local Government Investments (3rd Edition)* requires authorities to produce at least one investment strategy setting out policies for managing investments to be presented to Full Council for approval prior to the start of the financial year.

Treasury Management Policy Statement

The recently revised CIPFA *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017* recommends in Section 6 that an organisation’s treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities. There is no change from the previous edition, however the statement is shown in full below:

1. Teignbridge District Council defines its treasury management activities as:
The management of its investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. Teignbridge District Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. Teignbridge District Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

Please see the Treasury Management Strategy below for more information about policies for borrowing and investments.

The revised Code also recommends that all public service organisations adopt the following four clauses:

Clauses to be adopted

1. Teignbridge District Council will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 22 FEBRUARY 2018
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- Suitable treasury management practices (TMPs), setting out the manner in which Teignbridge District Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 2. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed by its TMPs.
- 3. Teignbridge District Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with Teignbridge District Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- 4. Teignbridge District Council nominates the Audit Scrutiny Committee to be responsible for ensuring the effective scrutiny of the treasury management strategy and policies.

Treasury Management Strategy

Managing Risk

It is CIPFA's view that the overriding aim of the treasury management function should be the effective identification, monitoring and control of risk. The TM Code identifies the main treasury management risks. These are considered in detail within Teignbridge District Council's TM Practices, which are available within Finance. This strategy sets out the council's approach to investments and borrowing and in particular, credit and counterparty risk, liquidity risk, interest rate risk and refinancing risk.

Interest rate risk

This is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on an organisation's finances, against which it has failed to protect itself adequately.

The treasury management team actively monitors interest rates and provides a monthly interest forecast report in order to regularly assess the impact of interest rate changes on the council's budgets.

The council does not currently have any long-term external borrowing. However there are policies in place through the Prudential Indicators to ensure a planned and well-balanced spread of maturity dates. This is in order to reduce the prospect of having to negotiate refinancing at an unfavourable time.

The review of the Treasury Management Code has removed the requirement for an interest rate exposure indicator. However, the council's policy is to aim to keep a maximum of 10% of its borrowings in variable loans.

The council does not use financial instruments based on derivatives for interest rate risk management.

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Investments

MHCLG have recently (February 2018) updated their statutory investment guidance. In conjunction with the updated TM Code, the definition of “investments” covers all financial assets including those which are held primarily for financial return such as investment property portfolios. It is recognised that this may include investments which are not managed as part of normal treasury management.

Investments can fall into one of four categories:

Specified investments (short term, sterling investments made with a body of high quality, the UK government or local authorities). Teignbridge District Council’s treasury management transactions fall into this category, supporting effective treasury management activities.

Loans (for local enterprises as part of a wider strategy for economic growth)

Non-specified investments (any financial investment that is not a loan and does not meet the criteria of specified investments).

Non-financial investments (generally involving a physical asset that can be realised to recoup the capital investment).

Security

As stated in the MHCLG investment guidance, the council’s treasury management investment priorities are security of the principal sums and liquidity, keeping money readily available for expenditure when needed. Yield becomes a consideration after the priorities have been satisfied.

All investments made for treasury management purposes are “specified” investments as defined in the MHCLG investment guidance; in sterling, with a maturity of no more than one year, placed with the UK government, other local authorities or bodies and investment schemes of high credit quality, determined by the lending list.

In relation to treasury management, the maximum value and period of investment with any one organisation will be dependent on a score based on credit ratings. Institutions are graded to allow larger sums and longer investments with the strongest banks and building societies, capitalising on the better terms available while actively maintaining a breadth of counterparties, allowing us to spread our investments and achieve effective risk management.

One organisation is defined as a banking group or other institution, including any subsidiaries. If the maximum amount is invested with one subsidiary, no more will be invested within that group.

For non-financial investments, there is a requirement for proposed business cases to demonstrate rigorous due diligence checks prior to investment, followed by regular monitoring of the value and performance of the asset. Teignbridge District Council’s investment in Market Walk falls into this category. Specialist consultants were involved in the extensive due diligence phase of this investment.

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Annual assessments of fair value are carried out and monitored against the original capital investment, to take account of changes in the market and other conditions. To date, the underlying assets continue to provide sufficient security for the capital investment.

The revenue budgets arising from this investment are monitored as part of the budget monitoring which feeds into the regular reports provided by the Chief Finance Officer to CLT and Executive. In addition, the estates team track rent receipts and market conditions for early indications of potential problems. They report regularly to senior officers and have brought update reports to committees upon request.

Teignbridge District Council has made provision to create an earmarked reserve from sums paid in relation to differentials in the value of non-financial investment assets. As well as acting as a contingency against the failure of non-financial investments to achieve their expected fair value, this will over time create a fund to cover the purchase costs (eg. legal fees) of future investments.

Credit and counterparty risk

This is the risk of failure by a counterparty to meet its contractual obligations, particularly as a result of diminished creditworthiness. Teignbridge District Council regularly monitors the standing of counterparties it does or may deal with and maintains an authorised lending list including the maximum periods for which funds may be committed, which is updated quarterly.

Use of ratings

The MHCLG investment guidance requires that the annual strategy statement details the authority's use of ratings and external treasury advisors.

There are three main ratings agencies: Fitch, Moody's and Standard and Poor. These agencies provide an opinion on the ability of the institutions to repay short and long-term investments, whether there is likelihood of them receiving state support should they run into difficulties and their general financial strength.

The council's TM schedules require that institutions meet the following minimum ratings:

Ratings Agency	Long Term	Short Term	Baseline Credit Assessment/ Bank viability
Fitch	BBB	F2	bbb
Moody's	Baa2	P2	baa2

While ratings from all agencies are considered, our scoring system is based on those of Moody's and Fitch. Standard and Poor do not cover some of the institutions on our list. Ratings are reviewed quarterly. In addition, they are monitored if there is any news of changes in the press and before any investment. If ratings have fallen below the minimum acceptable level, an alternative would be sought.

In addition to considering ratings from agencies, use is made of market indicators, such as share prices where available. Financial news is monitored in sector journals and the quality press. Daily relevant financial news updates and market commentaries are received by email from brokers and the Council's bank. These enable assessment of future treasury risks and scenarios in order to

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develop suitable risk management strategies. Teignbridge District Council does not use external treasury management advisors.

Liquidity

Length of treasury management investments will take into consideration that monies are available to meet large regular outgoings such as BACS payments for creditors, benefits and salaries and other regular commitments such as precepts and non-domestic rates contributions. A cash flow planner is maintained with details of regular payments and receipts.

Other information is recorded as it becomes available, for example payments in relation to capital projects. This is in order to identify whether Teignbridge District Council may be exposed to the effects of potential cash flow variations and shortfalls. The maximum length of an investment will depend both on when funds will be required and on the ratings of the institution with which the investment is placed.

Treasury management practices have been adopted in accordance with Teignbridge District Council's policy statement, whilst adhering to the approved borrowing limits and lending list. These activities are carried out daily to ensure the current account bank balance is near to zero in order to maximise investment returns whilst minimising risk and protecting capital.

In the case of non-financial investments, it is recognised that it may not be possible to give priority to security and liquidity over yield due to the nature of the assets. It is expected that the risks associated with non-financial investments are clearly set out as part of the reporting required in line with the capital approval process. This would include market assessments, the nature and level of competition, how market/customer needs will evolve over time and barriers to entry and exit. In the case of Market Walk, specialist consultants were appointed to provide detailed analysis.

Staff training

The MHCLG investment guidance requires that the annual strategy gives details of procedures for reviewing and addressing the training needs of the authority's treasury management staff and members.

All new members are offered a Budget and Financial Management Seminar, which includes an overview of Treasury Management.

Treasury staff receive internal training from experienced staff and managers. Staffing is arranged so that a bank signatory (all experienced managers), is always available for consultation on decisions. Procedure and system notes, together with official guidance from CIPFA and the MHCLG are maintained for consultation within the section. These are updated for any changes, which are also communicated to the relevant staff. Bank signatories are professionally qualified accountants, with the officers carrying out daily procedures either studying with or AAT-qualified. Cover staff have regular experience of carrying out the procedures.

In relation to non-financial investments, the Council's Estates team has the experience of RICS-qualified staff. The Council has working relationships with a range of specialist

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consultants whose areas of expertise include property management, development and infrastructure, investment and valuation.

Lending list

The current authorised lending list has been updated to take account of changes in ratings and banks and is shown below for approval.

Type of Lender	Details	
1. Current Banker	Lloyds Bank	£3,000,000 limit
2. Local Authorities	All	£3,000,000 limit
3. UK Debt Management Office Deposit Facility (UK government AA/Aa2/AA rated) no limit.		
4. UK Treasury Bills (UK government AA/Aa2/AA rated) no limit.		
5. Public Sector Deposit Fund	AAAmmf	£3,000,000 limit
6. Standard Life Sterling Liquidity Fund	AAAmmf	£3,000,000 limit
7. Top UK-registered Banks and Building Societies, subject to satisfactory ratings.		

Institution	Tier	90 day limit	180 day limit	364 day limit	Overall limit
		£	£	£	£
Close Brothers Ltd	1	3,000,000	2,000,000	1,000,000	3,000,000
Santander UK plc	1	3,000,000	2,000,000	1,000,000	3,000,000
Nationwide Building Society	1	3,000,000	2,000,000	1,000,000	3,000,000
Lloyds Bank plc and Bank of Scotland plc	1	3,000,000	2,000,000	1,000,000	3,000,000
Barclays Bank plc	2	2,000,000	1,000,000		2,000,000
Coventry Building Society	2	2,000,000	1,000,000		2,000,000
Leeds Building Society	2	2,000,000	1,000,000		2,000,000
Clydesdale Bank	3	1,000,000			1,000,000
Nottingham Building Society	3	1,000,000			1,000,000
Skipton Building Society	3	1,000,000			1,000,000
Yorkshire Building Society	3	1,000,000			1,000,000

Officers will continue to seek the best rate, balanced against risk, at the time of investment. Use of call and notice accounts with Santander, Lloyds, Barclays, Clydesdale and Close Brothers continue. These accounts provide access to flexible deposits, with a range of access options and interest rates. Treasury Bills, an AA/Aa2/AA (very securely) rated, short dated form of Government debt which are issued by the Debt Management Office via a weekly tender are also included on the lending list, offering the Council an additional secure investment option.

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Bank regulations force banks to maintain “capital buffers”, classifying their deposits according to duration. Instant access accounts and short deposits are not attractive to banks as they cannot be counted towards those buffers. For this reason, interest rates on most “call” accounts remain low. Due to the internal financing of the Market Walk purchase, the daily average available for lending has been reduced. However, analysts anticipate that the Bank of England will raise base rate by a further 0.25% to 0.75% around the third quarter of 2018.

Borrowing

Section 33 of the Local Government Finance Act 1992 requires each council to set a balanced budget. The treasury management function will comply with this requirement. This means that increases in capital expenditure must be limited to a level at which increases in financing charges from increased borrowing, such as interest and minimum revenue provision, and increases in running costs are affordable for the foreseeable future. Teignbridge District Council adheres to the Prudential Code, which underpins “prudential” borrowing by ensuring that the Council takes into account the following factors:

- Strategic service objectives (in line with the Teignbridge 10)
- Stewardship of assets
- Value for money (project appraisal as required by the capital approval process)
- Prudence and sustainability (factors such as the implications of external debt; looking at whole life costing and the impact on revenue budgets)
- Affordability
- Practicality (achievability of the capital programme and staff resource requirements)

Teignbridge District Council adheres to the MHCLG investment guidance which states that money may not be borrowed in advance of need in order to invest at a profit. Any decision to borrow in advance for capital projects or debt maturities would only occur if there was a clear business case to do so. Borrowing may occur to cover temporary shortfalls in cash balances.

The Council will adopt a flexible approach to borrowing, making use of internal resources and keeping shorter term borrowing under review in comparison to longer term borrowing costs. This approach has minimised financing costs for capital projects where appropriate. Acceptable sources of loans as stated in the TM schedules are the PWLB, the emerging UK Municipal Bonds Agency, local authorities, public bodies and UK banks and building societies. Officers will also review alternative sources of borrowing and select those offering the best value for money to the Council at the time the funding is required.

Prudential indicators

The Prudential Code requires local authorities to set prudential indicators for capital finance for the forthcoming and following years, monitoring actual figures from previous years where required. This is done before the beginning of the forthcoming year, through the processes established for the setting and revising of the budget. The prudential indicators may be revised at any time, following due process and taking into account their affordability. The prudential and treasury indicators in appendix 10 take into account the affordability of the Council’s capital

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finance plans, ensuring that borrowing remains within prudent and sustainable levels and that treasury management decisions are taken in accordance with good practice.

Minimum Revenue Position (MRP) Annual Statement:

Regulation 28 of The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 states that 'A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'. The provision is made from revenue in respect of capital expenditure financed by borrowing or credit arrangements.

With all options MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'. However MRP guidance has been issued (updated February 2018 by MHCLG), which makes recommendations to authorities on the interpretation of that term. Authorities are legally obliged to 'have regard' to the guidance.

The first recommendation given by the guidance is to prepare, before the start of each financial year, an annual statement of the policy on making MRP in respect of that financial year and submit this to Full Council for approval. The guidance recommends that 'prudent' provision should be made in accordance to the following:

- That the provision should ensure that debt is repaid over a period similar to one over which the capital expenditure provides the benefit, or if it is government-supported borrowing, over the period in the grant determination.
- That the provision should be calculated by one of the four methods that the Secretary of State considers appropriate to making prudent provision although it is recognised that other approaches are not ruled out.

Prior to 8 December 2015, option 3, the asset life (equal instalment) method was adopted. On 8 December 2015 option 4, the depreciation method, was adopted, placing reliance on proper accounting practices as the charge is calculated according to the depreciation charge on the relevant asset. This method continued into 2016-17 and 2017-18, except where it would not result in the appropriate prudent provision, when option 3, the asset life (equal instalment) method would be adopted.

In 2018-19 it is again proposed to adopt option 4, the depreciation method, unless that method would not result in appropriate prudent provision in line with CIPFA guidance (for example, relating to the purchase of land or assets where there is no policy for disposal). Where that is the case, it is proposed that option 3, the asset life (equal instalment) method would be adopted.

Investment assets may be sold to repay any outstanding debt liabilities. Where these assets are unfunded, it is proposed that payments made in respect of providing a fund against differentials in value (such as improvements which do not add value or market fluctuations or the purchasing costs of new investment assets), will be paid into an earmarked reserve. This protects the

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council's revenue budgets, demonstrating prudence. The value of the reserve will be dependent upon the calculation of appropriate payments, taking into account the valuation and useful economic life of each relevant unfunded asset. It will vary according to the accumulation and use of these sums.

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TEIGNBRIDGE DISTRICT COUNCIL

AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Cllr Chris Clarence

DATE: 22 March 2018

REPORT OF: Audit Manager

SUBJECT: INTERNAL AUDIT PLAN 2018-2019

PART I

RECOMMENDATION

To approve the Internal Audit Plan and Charter.

1. PURPOSE

1.1 This report presents the proposed work of internal audit work for 2018-19, and the internal audit terms of reference (Charter) for members' approval.

2. BACKGROUND

2.1 The Council is required under the Accounts and Audit Regulations (2015), to maintain an adequate and effective internal audit service which evaluates the effectiveness of the Council's risk management, control and governance processes.

2.2 Audit work must be carried out in conformance with the Public Sector Internal Audit Standards which require the preparation of a risk-based plan to determine the priorities of the internal audit activity. The plan should outline the assignments to be carried out and the resources required.

2.3 The minimal level of audit is not prescribed but it must be considered sufficient to give an annual evidence based assurance opinion at the end of the year.

3. AUDIT PLAN 2018-2019

3.1 This year's proposed plan is attached at **Appendix A**.

3.2 The following factors were taken into account in planning this year's audit work:

TEIGNBRIDGE DISTRICT COUNCIL

- the Teignbridge Ten projects and strategic priorities;
- the contents of Risk Registers;
- value or volume of transactions and complexity of systems or functions;
- vulnerability or past susceptibility to fraud or error;
- time since last audited and results of any other reviews;
- knowledge gained through our audits and involvement in corporate work e.g. BEST2020 Business Improvement Group;
- changes to systems either planned or known to have occurred;
- local, national and legislative issues;
- views of the senior management and statutory officers

3.3 A list of all auditable activities showing those within and outside scope this year is attached **Appendix B**. It is normal for some areas to be audited very rarely, or not at all, as resources are concentrated on the higher risk activities. The Plan must be viewed as a working document, subject to in-year changes as necessary given the challenges Local Authorities are currently exposed to.

3.4 **Resources** - the Plan will be delivered by the in house team of 2.5 full time equivalent posts (Audit Manager and 1.5 Auditors) supplemented by a small budget for external resource. This provides a total of approximately 555 net days, although a proportion of these are spent on corporate work and projects. Where assurance has been provided by other bodies, we will make use of this where appropriate to do so.

4. AUDIT CHARTER

- 4.1 Internal Audit's purpose, authority and responsibility must be formally defined to give it the status to carry out its work independently and objectively.
- 4.2 This is covered by a **Charter** attached at **Appendix C** which members are asked to review and approve.

5. RECOMMENDATION

- 5.1 Members are recommended to **approve** the **Audit Plan** and **Charter**.

Sue Heath - Audit Manager

Wards affected	<i>N/A</i>
Contact for any more information	<i>Sue Heath – Audit Manager – 01626 215258</i>
Background Papers (For Part I reports only)	<i>Public Sector Internal Audit Standards Council Strategy and Risk Registers</i>
Key Decision	<i>N</i>
In Audit Scrutiny Work Programme	<i>Y</i>

TEIGNBRIDGE DISTRICT COUNCIL

INTERNAL AUDIT - ANNUAL AUDIT PLAN 2018-2019

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

NB: Audit Plans should be considered flexible and adjustable, to address emerging risks, organisational changes, and revised priorities during the year.

SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge (*see project key below)	2018/19
	10	Days
	Project	

5 Financial Systems Assurance

(Core systems are those areas that are fundamental to providing controls assurance for internal financial control)

BENEFITS & COUNCIL TAX SUPPORT	1/6/9	Ensures accurate and timely payment of Housing Benefit and Council Tax Support.	10
COUNCIL TAX	All	Calculates, collects and accounts for Council Tax including recovery procedures for non-payment.	10
CREDITOR PAYMENTS	All	Pays the authority's creditors and internal payments promptly and accurately. Counter-fraud work to guard against bank mandate fraud and duplicate payments is included.	10
DEBTORS	All	Invoices, accounts for, and recovers debts due to the authority.	10
INCOME & BANKING	All	Receipt, banking, control of, and accounting for income due to the Authority. Covers electronic payments, direct debits and cheques (where these are still accepted).	10

SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge (*see project key below)		2018/19
	10		Days
	Project		

Financial Systems Assurance (Cont.)

MAIN ACCOUNTING & BUDGETARY CONTROL	All	Accounts for the Council's activities and ensures budgetary requirements are met. Verification of approved budget to the Financial Management System. Good Financial Management and Budgetary control are essential as funding reductions continue.	10
PAYROLL	All	Ensures prompt and accurate payment of employees. The new Midland iTrent Payroll system will go live during this audit year which raises the risk rating for this area.	15
NDR (Business Rates)	All	Calculates, collects and accounts for Non-Domestic Rates including recovery procedures for non-payment. Extra time has been allocated due to Teignbridge participation in the Business Rates Pilot and the need to maximise business rates income.	15
TREASURY MANAGEMENT	All	Manages the authority's cash flow and invests funds to maximise income from interest earned whilst minimising risk. Also covers loans received i.e. borrowing.	5

Other Systems Assurance

ESTATES	3/4/6	To ensure land rental and review processes are efficient including Market Walk management.	15
COASTAL MONITORING PROGRAMME	2/4/6/10	Interim audit of the Environment Agency funded 5 year South West coastal monitoring programme for which Teignbridge are strategic lead.	5

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SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge 10 Project	(*see project key below)	2018/19 Days
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Other Systems Assurance (continued)

COMMUNITY INFRASTRUCTURE LEVY (CIL)	1/3/4/6/8	Testing of CIL calculation and collection systems to ensure accurate billing and collection and application of exemptions.	10
HOUSING COUNTER FRAUD WORK	1/9	Scope to be agreed with Housing Manager. This audit time has been allocated to focus on housing tenancy fraud and, subject to agreement with third parties, the review may involve joint exercises with registered providers to identify potentially fraudulent tenancies.	25
LEISURE CENTRES	5/8	Review of NALC, Broadmeadow and Dawlish Leisure Centres to ensure risks are managed.	20
LICENSING	4/9	Review of licensing system including Hackney Carriages to ensure risks are managed.	10
TRAVEL AND SUBSISTENCE	All	Review of travel and subsistence system including test check of payments.	10
BACS - SMARTER PAY SYSTEM	All	Requested follow-up audit to ensure the new Smarter Pay system is embedded and security controls are working effectively.	5
CAR LOANS	All	Review of the system and administration of the car loan scheme with substantive testing of calculations and repayments.	10
CORPORATE PROCUREMENT (CREDIT) CARDS	All	Review of spending (probity check) and controls to manage and reconcile card use.	10
HR	All	Requested audit following re-modelling of the service - carried forward from 2017-2018. Scope to be agreed with management.	15

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SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge 10 Project	(*see project key below)	2018/19 Days
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Other System Assurance Work (continued)

INFORMATION GOVERNANCE & CYBER SECURITY RISK	All	Information Governance features annually in the plan focussing on topical issues such as storage; access; sharing; disposal; PCIDSS; user education; cloud; third parties cyber threats etc. on a rolling basis. The Auditor is a member of Teignbridge's Information Governance Group.	15
GDPR (General Data Protection Regulation)	All	Links to Information Governance above - the Council needs to ensure it is compliant with the new data protection laws coming into force in May 2018. As a member of the Information Management Group the Auditor has helped support the Council's approach to date and this work is likely to be ongoing.	20

Risk Based Auditing

62 RISK REGISTER	All	This project covers risk management and sample testing the mitigations within the Council's Risk Registers. The processes in place to manage risks (mitigations) will be verified to ensure that they are operating in practice. The audit will provide direct assurance that key risks are being managed.	15
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ICT Systems Assurance

ICT	All	Teignbridge's ICT services are delivered by Strata and audited by the Devon Audit Partnership (DAP). An allocation of time has been included to pick up any risks we may need to assure that are not covered by DAP.	10
ICT DEVON INFOSEC PARTNERSHIP	All	The Information Security Partnership consists of Information Technology professionals and auditors from the Devon-wide Authorities. It meets approximately quarterly with the objective of developing standards and policies and working practices in relation to Information Security.	5

SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge (*see project key below)		2018/19
	10		Days
	Project		

Fraud / Special Investigations / Other Requested Work

COUNTER FRAUD	All	Pro-active counter fraud activity based on fraud risk assessment; Anti Fraud & Corruption Strategy; Whistleblowing Policy; Anti Money Laundering Policy; Anti Bribery mitigations. Assessment and benchmarking of counter-fraud arrangements.	20
CONTINGENCY	All	Contingency for fraud, irregularity and other investigative work or ad hoc requests for projects.	40

Governance Work

63 CORPORATE GOVERNANCE REVIEW	All	Review and assessment of governance arrangements. Collating supporting evidence to support the Annual Governance Statement. Involves a one-to-one interview with all Business Managers and consultation with other stakeholders.	15
REGISTER OF INTERESTS, HOSPITALITY & GIFTS	All	Requested audit to assist with the implementation of recommendations from the 2017-18 audit.	5

Carried Forward

ALLOWANCE FOR WORK IN PROGRESS AT YR END	All	To allow for completion of audits in progress at year end.	20
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Advice / Consultancy

ADVICE AND CONSULTANCY	All	Allowance for time spent on providing risk and control advice to officers, management and members.	30
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SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge 10 Project	(*see project key below)	2018/19 Days
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Other (Non Audit) Work

ANNUAL GOVERNANCE STATEMENT (AGS)	All	Co-ordinate production of the AGS following Governance Review above.	5
FINANCIAL INSTRUCTIONS and CONTRACT PROCEDURE RULES	All	Review and update documents. Provision of advice to officers and allowance of time for dealing with Waivers and monitoring reports to Audit Scrutiny.	10
NATIONAL FRAUD INITIATIVE (NFI) DATA MATCHING	All	The Audit Manager performs the NFI Key Contact Role and co-ordinates the investigation of matches.	10
CORPORATE WORK	All	Corporate Task and Finish Groups are commissioned by the Managing Director to examine specific corporate issues. Internal Auditors are members of various Task and Finish, and other groups - these currently include: Health and Wellbeing, Comments and Complaints Review Board, Information Management Group, and the Infrastructure Requirement Board for Strata. Project assurance is also provided for the One Teignbridge transformation project and the Audit Manager is involved in the BEST2020 business improvement process.	50

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Audit Management & Administration

AUDIT ADMINISTRATION and KNOWLEDGE	-	Time recording / orders / invoices / team meetings / corporate meetings / general administration / etc.	25
AUDIT FOLLOW UP	-	Involves ensuring previously agreed actions have been implemented.	10
AUDIT MANAGEMENT	-	Audit Planning / assigning projects / monitoring and control of resources / audit work quality review / reporting to Audit Committee / liaison with external audit / annual review of effectiveness etc.	20

SYSTEM OR ACTIVITY TO BE AUDITED	Teignbridge (*see project key below) 10 Project	2018/19 Days
TOTAL RESOURCES REQUIRED 2018-2019		555
Gross Resource Available: 2.51 x Whole Time Officers		654
Less known commitments:		
- Annual Leave:		-84
- Bank Holidays:		-25
- Training (provision for CPD and corporate training included):		-25
- Unplanned Absence (contingency only)		-3
- Other (inc. JE Panel / Election Duty / etc.)		-12
Total Internal Resource available (no. days)		505
 External Resource (no. days)		50
NET RESOURCES AVAILABLE 2018-2019		555

SYSTEM OR ACTIVITY TO BE AUDITED**Teignbridge** (*see project key below)
10
Project**2018/19**
Days**KEY TO THE COUNCIL'S PROJECTS****Project 1: A ROOF OVER OUR HEADS** - provide more, better and affordable homes**Project 2: CLEAN SCENE** - keep the district clean**Project 3: GOING TO TOWN** - invest in town centres**Project 4: GREAT PLACES TO LIVE AND WORK** - provide well designed, quality neighbourhoods**Project 5: HEALTH AT THE HEART** - improve health and wellbeing**Project 6: INVESTING IN PROSPERITY** - create jobs and wealth**Project 7: MOVING UP A GEAR** - improve travel options**Project 8: OUT AND ABOUT AND ACTIVE** - provide opportunities for healthy active lifestyles and leisure**Project 9: STRONG COMMUNITIES** - liaise with, help and support our communities**Project 10: ZERO HEROES** - to reduce waste and carbon emissions

99 **"All": This** encompasses the "What else we will do" elements of the Strategy which include: effective spending; increased income; be customer focussed; work in new smarter ways; continuously improve efficiency; deliver services fairly.

Sue Heath
Audit Manager
Mar-18

TEIGNBRIDGE DISTRICT COUNCIL
Auditable Activities Shown Over a 3 Year Period

APPENDIX B

Note: Some low-medium risk areas have no time allocated. These can still be audited if their risk profile changes.

AUDITABLE SYSTEM / ACTIVITY	RISK H/M/L	18-19	19-20	20-21	Notes
Core Financial Systems					
Benefits & Council Tax Support	H	✓	✓	✓	
Income and Banking	H	✓	✓	✓	
Council Tax	H	✓	✓	✓	
Creditor Payments	H	✓	✓	✓	
Debtors	H	✓	✓	✓	
Main Accounting & Budgetary Control	H	✓	✓	✓	
NDR (Business Rates)	H	✓	✓	✓	
Payroll	H	✓	✓	✓	
Treasury Management	H	✓	✓	✓	
Strategic Place					
Capital Projects	H		✓		
Estates (inc. land rental/rent review process)	H	✓			
Economic Development	H				
Building Maintenance / Property Management	M		✓		
Markets	L				
Tourism and Marketing (inc. Info Centres)	L				
Car Parks	H		✓		
Coastal Monitoring Programme	M	✓		✓	
Planning - Dev Control / Enforcement	H			✓	
Community Infrastructure Levy & S.106	H	✓	✓	✓	
Building Control	H			✓	
Land Charges	M		✓		
Street Naming and Numbering	L				
Housing Homelessness	M			✓	
Housing Allocations (Devon Home Choice)	M		✓		
Housing Counter Fraud Work	M	✓			
Housing Data Returns (HIP HSSA / P1E)	L				
Housing Finance	M		✓		
Housing Enforcement	H			✓	
Housing Grants and Loans (Private Sector)	M		✓		
Housing Empty Homes / NHB	H		✓		
Customer Svcs (Comments / Complaints)	M		✓		

TEIGNBRIDGE DISTRICT COUNCIL
Auditable Activities Shown Over a 3 Year Period

APPENDIX B

Note: Some low-medium risk areas have no time allocated. These can still be audited if their risk profile changes.

AUDITABLE SYSTEM / ACTIVITY	RISK H/M/L	18-19	19-20	20-21	Notes
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Environmental Health and Wellbeing

Abandoned Vehicles	L				
Cemeteries	L				
Beaches/Resorts/Beach Huts/Boat Storage	L				
Dog Warden Scheme	L				
Leisure Centres	H	✓			
Leisure Sites - Seasonal	H		✓		
Licensing inc. Hackney Carriages	M	✓			
MOT Services / Workshop Charges	L			✓	
Parks/Open Spaces (inc.Grnds Maint Contract)	M		✓		
Waste, Recycling and Cleansing	H		✓		
Stores inc Fuel Supplies	M			✓	
Utilities and Water Monitoring	H		✓		
Emergency Planning & Business Continuity	M			✓	
Env Health Food /Water Sample/Noise/Pest etc)	M			✓	
Crime & Disorder Partnership (Annual Claim)	L				

Corporate Services / Governance / Council Wide

Risk Register (Audit of Mitigations)	H	✓	✓	✓	
Absence Monitoring / Flexitime Scheme	L				
Authorised Signatories	L				
BACS - Smarter Pay System	M	✓			
Banking (Contract and Charges)	M			✓	
Car Loans / Leases	L	✓			
Central Printing / Stationery / Office Supplies	L				
Cheque Control	L				
Credit Cards	M	✓			
Corporate Governance Review	M	✓			
Councillors' Community Funds & Elector Fund	M			✓	
Data Quality of Business Information	M		✓		
Direct Debits	L				
Elections	M	✓			
Fees and Charges	L			✓	
Freedom of Information	L		✓		
Grants - Certifying Various Returns	M				

TEIGNBRIDGE DISTRICT COUNCIL
Auditable Activities Shown Over a 3 Year Period

APPENDIX B

Note: Some low-medium risk areas have no time allocated. These can still be audited if their risk profile changes.

AUDITABLE SYSTEM / ACTIVITY	RISK H/M/L	18-19	19-20	20-21	Notes
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Corporate Services / Governance / Council Wide (continued)

Health and Safety

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Strata ICT Services

Internal audit assurance for Teignbridge's ICT company Strata Service Solutions is provided by Devon Audit Partnership (DAP). A small allocation of time has therefore been made to cover any residual auditing that may be required locally to supplement the DAP assurance.

ICT Audit - Local Contingency / Assurance Map	H	✓			
ICT Audit - Devon Infosec Group Membership	H	✓			
Information Security (ongoing programme of assurance)	H	✓			
GDPR	H	✓			
HR - Recruitment, Absence, etc.	M	✓			
HR - Learning and Development	M			✓	
Insurance	M		✓		
Long Service Awards	L				
Media and Communications inc. Social Media	M		✓		
Member Allowances	L				
Mortgages	L				
Old Forde House Management (re-charges etc.)	L				
Partnerships/Grants/Funding External Bodies	M		✓		
Petty Cash Control Account Reconciliation	L				
Postages	L				
Procurement / Contracts / Tendering	M			✓	
Register of Officer Interests	M	✓			
Removal & Disturbance Allowances	L				
Regulation of Investigatory Powers Act (RIPA)	L				
Safeguarding	H		✓		
Transport / Corporate Vehicle Management	M			✓	
Travel & Subsistence	M	✓			
VAT	M		✓		

TEIGNBRIDGE DISTRICT COUNCIL
Auditable Activities Shown Over a 3 Year Period

APPENDIX B

Note: Some low-medium risk areas have no time allocated. These can still be audited if their risk profile changes.

AUDITABLE SYSTEM / ACTIVITY	RISK H/M/L	18-19	19-20	20-21	Notes
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Other / Non-Audit

Counter Fraud Work (Policy reviews, Anti Money Laundering, Whistleblowing, fraud risk assessment, advice & fraudline referrals)	-			✓	
Task and Finish Groups and BEST 2020	-			✓	
Transformation - One Teignbridge	-			✓	
AGS	-			✓	
Financial Instructions and Contract Rules	-			✓	
National Fraud Initiative	-			✓	
Advice and Assistance (general)	-			✓	

INTERNAL AUDIT CHARTER 2018-2019

INTRODUCTION

This document describes the purpose, authority, and principle responsibilities of the Council's Internal Audit Section.

DEFINITION, FUNCTION and MISSION OF INTERNAL AUDIT

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

Internal Audit will advise management where internal control systems can be improved, and seek to promote compliance with corporate policies and procedures, and accomplishment of corporate priorities, through its systematic review of the Council's activities. It aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

AUTHORITY, INDEPENDENCE, and OBJECTIVITY

Internal Audit's statutory authority is derived from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations which state that:

“a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control...”

To be effective, Internal Audit must remain sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner which facilitates impartial and professional judgements and recommendations. Internal Auditors should therefore have no operational responsibilities. Where this is not the case, assurance over such functions will be overseen by a party outside the internal audit activity.

Internal Audit forms part of the Council's Governance and Communications service. The Audit Manager reports organisationally to the Director, and functionally to the Audit Scrutiny Committee (*who act as “the Board” for the purposes of the Public Sector Audit Standards*) on audit matters. Close liaison with the Chief Finance Officer is also maintained to ensure his Section 151 duties are fulfilled, and the Audit Manager has direct access to the Managing Director as and when required.

Internal Audit staff will have unrestricted access at any time to such records, assets, personnel and premises, including those of partner organisations, as necessary for the proper fulfilment of their responsibilities. Any officer, or member of the Council shall, if required, make available such documents or records required for audit purposes and shall supply the auditor with such information and explanation as considered necessary for that purpose.

This statutory role and rights of access are recognised and endorsed within the Council's Financial Instructions (Constitution) and Internal Audit Manual.

STANDARDS & PROFESSIONALISM

There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. Proper practice is defined by the Public Sector Internal Audit Standards which are used to guide audit activity. Team members are also governed by the Code of Ethics of their professional body as well as the Council's internal Code of Conduct.

For an internal audit function to be effective, the following core principles must be present:

- Integrity
- Competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with strategies, objectives and risks of the organisation
- Demonstrates quality and continuous improvement
- Effective communication
- Promotes organisational improvement
- Is insightful, proactive and future focussed

SCOPE AND RESPONSIBILITIES

Directors and Business Managers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services.

The scope of Internal Audit allows for unrestricted coverage of the control environment comprising risk management and corporate governance. This means that all of the Council's operations, resources, services and responsibilities are included. Where the scope of Internal Audit's work extends to services provided through partnership, an assessment will be made as to whether Internal Audit staff conduct assurance work themselves, or rely on assurance provided by others.

Internal Audit activity includes:

- Reviewing, appraising and reporting on the soundness and adequacy of systems of internal control, whether operations are being carried out as planned, and corporate priorities being met
- Reviewing, appraising and reporting on the reliability and integrity of financial and management information, including data quality and performance measurement
- Assessing and reporting on the extent to which assets and interests are accounted for and safeguarded from loss
- Supporting and encouraging improvements in the efficiency, economy and effectiveness of services
- Provision of advice on all aspects of risk and control, including interpretation of the Council's Financial Instructions and Contract Procedure Rules
- Advising on control and risk implications of enhancements to existing/new systems
- Promoting and encouraging best practice in the Council's risk management and governance processes through review and appraisal of arrangements
- Working in partnership with other bodies to secure robust internal control that protects the Council's interests
- Co-ordinating with the work of external auditors and other review functions
- Investigating frauds and irregularities where necessary and undertaking other special investigations where appropriate

INTERNAL AUDIT MANAGEMENT

The Audit Manager is responsible for:

- Managing the Internal Audit service, determining the scope and methods of audit activity
- Ensuring that Internal Audit staff operate within current auditing standards and ethical standards of the professional bodies of which internal auditors are members
- Ensuring that Internal Audit staff are impartial, unbiased, and avoid conflicts of interest
- Developing operational Audit Plans based on an assessment of risk and in consultation with senior management; submission of Audit Plans to the Audit Scrutiny Committee for approval; and implementation thereafter
- Taking account of the adequacy and outcomes of risk management, performance management and other assurance processes when compiling Audit Plans
- Maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out Audit Plans
- Liaison with the Council's external auditors to achieve co-ordination of work where possible both with external audit and other review agencies where appropriate
- Reporting to the Corporate Leadership Team (*i.e. "senior management" as defined by the Public Sector Internal Audit Standards*) and the Audit Scrutiny Committee on the results of audit activities, and the effectiveness of the actions taken by management to implement agreed recommendations
- Reviewing the Council's risk management and governance arrangements
- Providing the Corporate Leadership Team and the Audit Scrutiny Committee with an annual assurance statement on the adequacy of the Council's internal control systems

FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, cannot guarantee that fraud and corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors will, however, be alert in all their work to the risks and exposures that could provide opportunity for fraud or corruption.

Internal Audit will investigate suspected frauds and irregularities where appropriate, and will act upon reports received via the Council's Whistleblowing Policy in accordance with its Anti Fraud, Theft and Corruption Strategy.

The Audit Manager must be informed of all suspected or detected fraud, corruption or improprieties so they may be considered in terms of the adequacy of the relevant internal controls, and be evaluated for the annual opinion on the control environment.

AUDIT REPORTING

Audit assignments will be the subject of formal reports in order to communicate the findings of the audit and encourage management to take prompt mitigating action if risks have been identified.

Reports will be issued in draft form to the managers responsible for the area under review for agreement of the factual accuracy of findings. On receipt of management comments, including acceptance or rejection of recommendations, reports will be finalised with agreed action dates where applicable. Each report will include an opinion on the adequacy of the control environment appertaining to the activity that has been audited. Reports with Fair or Poor assurance ratings will be reviewed by the Corporate Leadership Team to ensure actions to address risks are adequate.

Full audit reports will be provided to members of the Audit Scrutiny Committee and a summary of all audit work provided quarterly. If the failure to implement an audit recommendation is deemed to present the Council with an unacceptable risk, the matter will be reported to the Audit Scrutiny Committee and the manager concerned may be required to give an explanation.

At the end of each audit year, the Audit Manager will deliver an annual assurance opinion and report which can be used to inform the Council’s Annual Governance Statement. The annual opinion will conclude on the overall adequacy of the framework of governance, risk and control, and will summarise the work that supports the opinion.

LOCAL AND NATIONAL ISSUES AND RISKS

The annual audit planning process ensures that new or emerging risks are considered. The Audit Manager meets with members of the extended Corporate Leadership Team to discuss the issues and risks inherent to their service areas and identify any potential areas of concern for audit review. Risk registers are examined to ensure high scoring risks are taken into account. The audit ‘universe’ (list of auditable activities) and resulting plan are further informed by the review of Council minutes; corporate knowledge, and issues arising from past audits. Audit involvement in the BEST2020 service reviews has been particularly useful in this context.

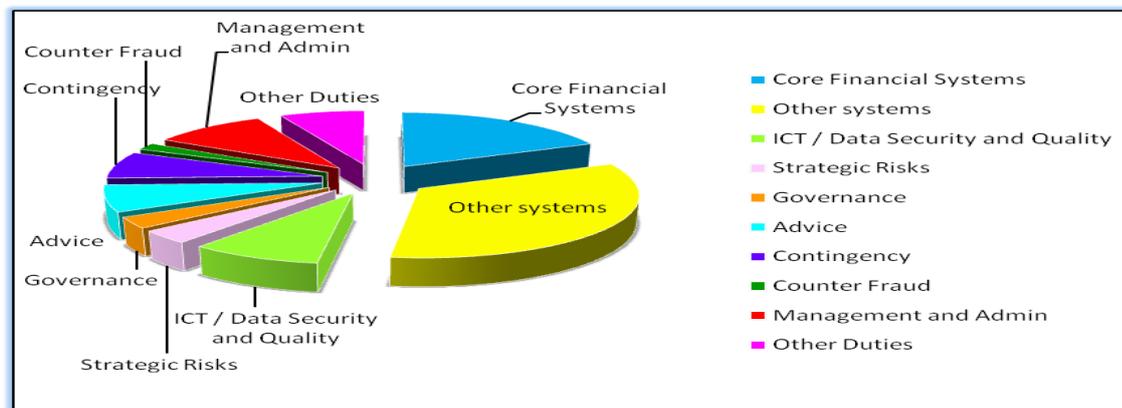
The Audit Plan is approved by the Audit Scrutiny Committee, however, it is recognised that this is flexible and can be revised should unforeseen issues arise throughout the year. Individual audit projects within the plan focus on the control systems for key risks within each area. Both systems based and risk based approaches may be used. Mitigating actions from the operational risk register may also be tested to assess how well risks are being managed.

Awareness of national issues is maintained through membership of and subscription to professional bodies such as the Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance Accountants’ Advisory Services; Better Governance Forum; liaison with external audit; and with colleagues in other local authorities.

In 2016 the Council launched a 10 year Strategy. Project Managers are assigned to lead on 10 key themes. The Audit Plan indicates which strategic project each audit contributes to.

PROVISION OF THE SERVICE

The service is provided by an in-house team with an establishment of 2.5 full time equivalent posts which results in a provision of 505 net available days. This is supplemented by a small budget to buy in external resource where needed. Some of the internal audit time is, however, directed to corporate work such as working groups and service reviews.



The audit team will deliver audit work in accordance with the Public Sector Internal Audit Standards.

Service delivery is monitored through a quality assurance and improvement programme which includes key performance indicators such as achievement of the Audit Plan, customer feedback, assessment against the Standards, and a value for money indicator which is used to benchmark the cost of the service. An external assessment must be conducted once every five years to remain compliant with the Standards. This is due to be undertaken in March 2018. The results will be communicated to the Corporate Leadership Team and the Audit Scrutiny Committee.

RESOURCES AND SKILLS

The current level of resources (outlined above) is considered sufficient to deliver this year's Plan. Additional requests for work will be controlled to ensure they are kept within available contingency allowance, and do not compromise assurance work.

Auditors are encouraged to develop their skills and knowledge through undertaking various training programmes. The Council recognises both CIPFA and the Chartered Institute of Internal Auditors (CIIA) qualification for internal auditing. Two team members currently have CIIA qualifications.

Training needs are assessed on an ongoing basis and are formally reviewed during annual staff Personal Development and Performance meetings. The aim is to ensure auditors are operating at a level which fulfils client requirements and meets professional standards.

If the necessary skills for a particular assignment were not available in house, the additional resources budget provides flexibility to source these externally, as required.

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AUDIT SCRUTINY COMMITTEE

CHAIRMAN: Councillor Chris Clarence

DATE: 22 March 2018

REPORT OF: Audit Manager

SUBJECT: FINANCIAL INSTRUCTIONS and
CONTRACT PROCEDURE RULES – WAIVERS

PART I

RECOMMENDATION

That the report is noted.

1. PURPOSE

To inform Members of the number of times the Financial Instructions and Contract Procedure Rules have been waived and the reasons for this.

2. BACKGROUND

- 2.1 The Financial Instructions and Contract Procedure Rules provide the framework for managing the Council’s financial affairs. They apply to every member and officer of the Council and anyone acting on its behalf.
- 2.2 Sometimes there are instances where the rules cannot be followed and requests are made to waive them. One of the following criteria must be met:

1	LIFE OR DEATH There is significant chance that the life or health of officers, members, or the public will be put at real risk.
2	INCREASED COST / LOSS OF INCOME The Council will incur significant avoidable costs or lose significant income.
3	LIMITED MARKETS The Council would be wasting its time tendering as supply of the product or service is demonstrably restricted to one or few businesses.
4	EMBARRASSMENT The Council would be criticised for failing to act promptly.

TEIGNBRIDGE DISTRICT COUNCIL

3. WAIVERS

The following waivers have been processed since the July 2017 monitoring report:

Proposing Officer	Proposal / Reason	Approval
Dafni Sifnioti Project Manager	South West Coastal Monitoring Programme Purchase of additional data storage at Plymouth University in line with the MoU in place with the University. Value: £10,000	Tony Watson Business Manager 13/02/18
Daron Hand Group Building Surveyor	Beachcomber Café, Teignmouth Removal of unexpected additional asbestos containing materials found during refurbishment works. Value: £20,823	Tony Watson Business Manager 15/12/17
Leigh Florence Projects Manager	Ecology Surveys To appoint Ecology Solutions Limited to provide continuity of surveys across the land allocation covering NA3 and Decoy, Newton Abbot. Value: £9,000 (exc VAT)	Tony Watson Business Manager 31/01/18
Donna Best Estates & Development Manager	Market Walk, Newton Abbot Removal of existing and purchase of new air conditioning units. Value: £8,495	Tony Watson Business Manager 02/02/18
Chris Braines Waste and Cleansing Manager	Waste and recycling collections Purchase of consultancy support for collection round remodelling from the current software provider to support officers. Value: £27,600	Lorraine Montgomery Business Manager 14/02/18
Steven Ayres Ranger	Purchase of a sit in All Terrain Vehicle Use of only John Deere dealer in the South West who are also able to meet size and weight requirements. Value: £12,516.24 (exc VAT) -£2,250 trade in on existing vehicle.	Lorraine Montgomery Business Manager 14/02/18
Alison Dolley Private Sector Housing Team Leader	Pilot External Wall Insulation Scheme EDF have approached Teignbridge to undertake external wall insulation on 12 park homes via their selected contractor. Value: £61,286 (DCLG additional funding received which can be used outside of Better Care Funding requirements).	Phil Shears Managing Director 22/02/18

TEIGNBRIDGE DISTRICT COUNCIL

4. RECOMMENDATION

That the report be noted.

Sue Heath
Audit Manager

Wards affected	-
Contact for any more information	<i>Sue Heath – Audit Manager – 01626 215258</i>
Background Papers (For Part I reports only)	<i>Financial Instructions Waivers File – Internal Audit</i>
Key Decision	-
In Forward Plan	-
In O & S Work Programme	-

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