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17 June 2011

Please ask for: Katey Johns, Democratic Support Officer
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AUDIT COMMITTEE

Date: Monday 27 June 2011

Time: 10am

Venue: Warspite Room, Council House

Members:

Councillor Dr. Mahony, Chair

Councillor Stevens, Vice Chair

Councillors Evans, Stark and Thompson.

Independent Members:

Mr Clarke and Mr Stewart, plus one vacancy.

Members are invited to attend the above meeting to consider the items of business overleaf.

Members and officers are requested to sign the attendance list at the meeting.

Please note that unless the chair of the meeting agrees, mobile phones should be switched off and speech, video and photographic equipment should not be used in meetings.

Barry Keel
Chief Executive

AUDIT COMMITTEE

AGENDA

PART I – PUBLIC MEETING

1. TO NOTE CHAIR AND VICE CHAIR

The committee will be asked to note the chair and vice chair appointed at the Annual General Meeting held on 20 May 2011.

2. APOLOGIES

To receive apologies for non-attendance submitted by Committee Members.

3. DECLARATIONS OF INTEREST

Members will be asked to make any declarations of interest in respect of items on this agenda.

4. MINUTES

(Pages 1 - 8)

To confirm the minutes of the meeting held on 25 March 2011.

5. CHAIR'S URGENT BUSINESS

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

6. RECRUITMENT OF INDEPENDENT MEMBER

To note progress on the recruitment of additional Independent Members.

7. INTERNAL AUDIT ANNUAL REPORT 2010/11

(Pages 9 - 56)

The Council's internal auditor will submit the Annual Report 2010/11.

8. ANNUAL GOVERNANCE STATEMENT 2010/11

(Pages 57 - 80)

The Director for Corporate Support will submit the Annual Governance Statement 2010/11.

9. OPERATIONAL RISK MANAGEMENT - UPDATE REPORT

(Pages 81 - 92)

The Director for Corporate Support will submit a report.

10. RISK MANAGEMENT - ANNUAL REPORT (Pages 93 - 102)

The Director for Corporate Support will submit a report.

11. ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITIES FOR 2010/11 (Pages 103 - 138)

The Director for Corporate Support will submit the Annual report on Treasury Management Activities for 2010/11.

12. STATEMENT OF ACCOUNTS 2010/2011

The Director for Corporate Support will provide a verbal update.

13. INTERIM REPORT AND UPDATE TO FINANCIAL AUDIT PLAN 2010/2011 (Pages 139 - 158)

The Council's external auditor, Grant Thornton, will submit a report.

14. EXTERNAL AUDIT PLAN PROGRESS REPORT (Pages 159 - 160)

The Council's external auditor, Grant Thornton, will submit a report.

15. VFM REVIEW OF THE PROCURE TO PAY PROJECT (Pages 161 - 190)

The Council's external auditor, Grant Thornton, will submit a report.

16. AUDIT COMMISSION

The Council's external auditor, Grant Thornton, will provide a verbal update.

17. POSITION STATEMENT - DIVISION OF CHILDREN FROM CARE - EFFICIENCY THEME (Pages 191 - 192)

The panel will be provided with a position statement on the division of children from care.

18. AUDIT COMMITTEE FORWARD WORK PLAN 2011/12 (Pages 193 - 196)

The Committee will note its work plan for the forthcoming year.

19. EXEMPT BUSINESS

To consider passing a resolution under Section 100A(4) of the Local Government Act 1972 to exclude the press and public from the meeting for the following item(s) of business on the grounds that it (they) involve the likely disclosure of exempt information as defined in paragraph(s) of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

PART II (PRIVATE MEETING)

AGENDA

MEMBERS OF THE PUBLIC TO NOTE

that under the law, the Committee is entitled to consider certain items in private. Members of the public will be asked to leave the meeting when such items are discussed.

NIL.

Audit Committee

Friday 25 March 2011

PRESENT:

Councillor Berrow, in the Chair.
Councillor Evans, Vice Chair.
Councillors Murphy, Stark and Thompson.

Independent Member: Mr Clark

Apologies for absence: Mr Stewart (Independent Member)

Also in attendance: Councillor Bowyer, Cabinet Member for Finance, Property, People and Governance, David Northey, Head of Finance, Sue Watts, Assistant Head of Devon Audit Partnership, Mike Hocking, Head of Corporate Risk and Insurance, Julie Hosking, Risk Management and Insurance Officer, Barrie Morris and Kate Jefferies, Grant Thornton, Richard Woodfield, Corporate Information Manager, Candice Sainsbury, Policy and Planning Officer and Ross Jago, Democratic Support Officer.

The meeting started at 10.00 am and finished at 12.05 pm.

Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.

72. DECLARATIONS OF INTEREST

Name	Minute No. and Subject	Reason	Interest
Councillor Evans	79. Internal Audit Plan	School Governor	Personal
Mr Clark	79. Internal Audit Plan	School Governor	Personal

73. MINUTES

Agreed the minutes of the meeting held on the 21 January 2011.

74. CHAIR'S URGENT BUSINESS

Recruitment of Independent Member

It was reported by the Democratic Support Officer that the recruitment process for a new independent member was ongoing.

75. **STRATEGIC RISK REGISTER - MONITORING REPORT**

The Director for Corporate Support submitted an update in respect of Operational Risk Management. In attendance to present the report was the Head of Corporate Risk and Insurance who advised that –

- a. the report provided a summary of the latest formal monitoring exercise completed for the risk register;
- b. the number of strategic risks reported had reduced from 34 to 32. One new risk had been added and two had been deleted, one further risk had been merged with risk numbers 43 and 68;
- c. the number of red risks in the traffic light summary had reduced from nine to six;
- d. paragraph four of the report highlighted the results of the 2010 benchmarking club. Plymouth had achieved an above average score when compared to the other 103 club members.

In response to questions from members of the committee it was reported that-

- e. with regard to the benchmarking club Leicester City Council had scored low because of consistent weaknesses across the board;
- f. the lowest score on the Plymouth questionnaire was with regard to partnership working. Previously the comprehensive performance assessment robustly challenged significant partnerships; the benchmarking exercise looked at how good governance and use of resources was applied across all partnerships;
- g. of the 103 authorities within the benchmarking club the comparator authorities that were chosen were the best fit to Plymouth. Good strategy would remain effective despite the size of the authority.

Agreed to note and endorse the current position with regard to the Strategic Risk Register.

76. **RISK CHAMPION UPDATE - SERVICES FOR CHILDREN AND YOUNG PEOPLE**

The Policy and Planning Manager (Children's Services) introduced a report on managing risk in services for children and young people, it was reported that –

- a. the ethos within the service was proactive toward risk. The service was experienced in managing risk and had well developed structures in place which were highlighted in the report;
- b. risks were often highlighted in operational risk registers in response to local and national developments such as the 'Baby P' and 'Little Teds' incidents;

- c. the process of identifying and managing risk was supported by the 'risk champion' in conjunction with the relevant service managers and assistant directors who attended an operational risk management meeting;
- d. the process was overseen and signed off by the Director of Services for Children and Young People via a bi-annual departmental management team meeting;
- e. there were highly experienced managers in the service areas that were able to identify risk and respond accordingly before risk had an impact on families.

In response to questions from members of the committee it was reported that;

- f. risk management was embedded in the department, major national incidents such as 'Baby P' made the department immediately more risk averse. The emergency planning exercise "short sermon" taught the service a number of lessons on how to respond in an emergency and the service was looking at how to further document the steps taken during an emergency situation;
- g. regarding the reduction of numbers of children in care there was mitigating work ongoing to address this and further information could be provided outside of the meeting. The reduction target would be tracked by the quarterly Joint Performance and Finance report;
- h. risk was only elevated to the corporate register if the service director felt that the risk needed to be managed at a higher level. The Head of Corporate Risk and the Corporate Management Team provided scrutiny and challenge with regards to elevating risk above the departmental risk registers;
- i. an invest to save proposal would be presented to Cabinet on the 29 March 2011 and the Overview and Scrutiny Management Board on the 6 April 2011 regarding Autistic Spectrum Disorder.

Agreed that;

- (1) the report was noted;
- (2) a position statement regarding the reduction of children in care and the implications of failure to the budget would be presented at the next meeting of the committee.

77. ANNUAL AUDIT FEE 2011/12

The City Council's external auditor, Grant Thornton, submitted its Annual Audit fee letter, confirming the audit work and fees for 2011-2012. It was reported that there had been a 10 per cent reduction in scale fees for unitary authorities which reflected no inflationary

increase in 2011-2012, a reduction in scale fees resulting from the new approach to local value for money audit work and a reduction in scale audit fees of 3% reflecting lower ongoing costs after implementing International Financial Reporting Standards.

Agreed that details of fees and associated value added tax would be provided to the committee for the years 2009-2010, 2010-2011 and 2011-12.

78. **AUDIT PLAN 2010/11 PROGRESS REPORT**

The City Council's external auditor, Grant Thornton, provided a verbal update on progress against its audit plan for 2010-2011. It was reported that –

- a. the council had identified a number of work streams in relation to the International Financial Reporting Standards. Some figures had been finalised and 31 March 2009 balance sheets were yet to be reviewed;
- b. there was a number of fixed asset reclassifications and ongoing discussions with regard to group accounts. A report would be forwarded to the June meeting of the committee;
- c. interim audit was in progress and would be reported to the committee in June;
- d. the value for money programme of work had been started. The procurement aspect would be the first piece of work completed and would be reported to the committee in June. Work streams were still under discussion with the council and further work would take place over the summer.

79. **INTERNAL AUDIT PLAN 2011/12**

The assistant head of Devon Audit Partnership (DAP) submitted the internal audit plan 2011 – 2012. The Report –

- a. detailed information on the legislative requirements for local authorities to provide and Internal Audit service in accordance with the accounts and audit regulations 2006;
- b. commented on the delivery of the councils internal audit provision by Devon Audit Partnership (DAP);
- c. commented on the internal audit resources available to take forward the 2011-2012 plan, details of the specific audit reviews to be undertaken and the number of days required for this work.

In response to questions raised it was reported that –

- d. new academies were not required to have internal audit but DAP were pursuing this area of work. It was clear that the academies were being business minded and investigating other avenues for their audit needs;

- e. there was a risk to loss of business if more schools decided to bid for academy status, DAP was actively seeking additional business to mitigate this risk;
- f. good feedback had been provided to DAP on their work and robust challenge with regard to the Life Centre and the South West Devon Waste Partnership.

Agreed that -

- (1) the internal audit plan for 2011- 2012 is approved;
- (2) a report on the number of schools no longer using DAP for internal audit is provided to the June committee.

80. **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - PROGRESS REPORT**

The Head of Finance provided a verbal progress report on International Financial Reporting Standards (IFRS). It was reported that –

- a. the deadline for the first full set of IFRS complaint financial statements would meet the statutory deadline of 30 June 2011;
- b. implications of the IFRS were being considered in all aspects of the authority's business;
- c. steps have been taken to ensure that IFRS knowledge and skills are captured and embedded in the authority to enable good financial reporting in future years;
- d. draft accounts would be provided for the 30 June 2011, approval was not required at this stage, council would approve once the audit was complete;
- e. IFRS would closer align the local authority to the private sector;
- f. Plymouth City Council were not as advanced as planned but were 'on track' with good ground work in place.

Agreed

- (1) that a report on the cost of the "Arm Chair Auditors" project for January, February and March 2011 and the figures for unique page hits be provided to the next meeting of the committee;
- (2) that a training session would be provided to members on International Financial Reporting Standards.

81. **AUDIT COMMITTEE FORWARD WORK PLAN**

Agreed that the Audit Committee forward work programme be approved.

82. **INFORMATION GOVERNANCE**

The Corporate Information Manager provided a verbal update on how information management principles were being embedded throughout the organisation. It was reported that there had been four main actions -

- a. an information risk champion was appointed in each directorate to embed information security policy across the authority;
- b. the risk champions were asked to complete a template on information management risk for their directorate, the results would be available in summer 2011;
- c. a workshop would be provided, led by the chief security officer from Microsoft. The workshop would provide expertise and information regarding security risks which were impacting on organisations across the country;
- d. staff induction would be strengthened with more details included on information management and staff presentations would also be provided.

83. **EXEMPT BUSINESS**

Agreed that under Section 100(A)(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

84. **INFORMATION GOVERNANCE (E3)**

In response to question from the committee it was reported that –

- a. Plymouth City Council ensured that all laptops were encrypted and any devices that were not encrypted were being recalled. Schools have been provided with advice to encrypt their devices;
- b. none of the laptops stolen from schools had been recovered;
- c. Hertfordshire Council had received a fine as the organisational arrangements regarding information governance were not properly in place, this related to their use of laptops and faxes;
- d. it was impossible to always remain 100 per cent secure, the key was that an awareness of information security was embedded at all levels of the authority;

- e. a date for the workshop on information security had not yet been confirmed.

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CITY OF PLYMOUTH

Subject: Internal Audit – Annual Report 2010/11

Committee: Audit Committee

Date: 27 June 2011

Cabinet Member: Cllr Ricketts

CMT Member: Director for Corporate Support

Author: Martin Gould, Head of Devon Audit Partnership/
Sue Watts, Asst Head, Devon Audit Partnership

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Ref: AUD/SW

Key Decision: No

Part: I

Executive Summary:

This report summarises the work undertaken by Devon Audit Partnership during 2010/11, reviews the performance and effectiveness of the Internal Audit service, and provides an audit opinion on the adequacy of internal controls. The report is particularly relevant, therefore, to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulations 2011

Corporate Plan 2011-2014:

The work of the Section assists the Authority in maintaining high standards of public accountability and probity in the use of public funds. The Section has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land**

None

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment etc.

The work of the Audit Service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

Recommendations and Reasons for recommended action:

It is recommended that:-

- 1) the report be noted
- 2) the Audit Committee endorse the adequacy and effectiveness of Plymouth's internal audit for the year ended 31 March 2011.

Alternative options considered and reasons for recommended action:

None, as failure to maintain an adequate and effective system of internal audit would contravene Accounts and Audit (England) Regulations 2011

Background papers:

Internal Audit Annual Plan 2010/11

Sign off:

Head of Fin	AB 8/6/11 MC 8/6/11	Head of Leg		Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member: Sue Watts, Asst Head, Devon Audit Partnership											

I INTRODUCTION

1.1 The Audit Committee, under its Terms of Reference contained in Plymouth City Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

1.2 The Internal Audit plan for 2011/12 has already been presented and approved by Audit Committee on 25 March 2011. The following report and appendices, therefore, set out the background to audit service provision, reviews work undertaken in 2010/11, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 The Accounts and Audit (England) Regulations 2011 confirm the requirement that all Authorities need to carry out an annual review of the effectiveness of its internal audit, and need to consider the results of that review as part of its consideration of the system of internal control which is incorporated into their Annual Governance Statement (AGS) accompanying the annual Statement of Accounts.

2 BACKGROUND

2.1 Service Provision

2.1.1 The Internal Audit (IA) Service for Plymouth City Council is delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000; the Partnership was formed on 1st April 2009. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

2.1.2 In carrying out its responsibilities Internal Audit liaises with all Directorates of the Authority. The Service consults with Departments in compiling its audit plans and meets regularly with Council Officers to review and monitor progress on recommendations arising out of audits and investigations. There is also close liaison with external agencies eg the external Auditors and the Police.

2.2 Regulatory Role

2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:

- **Section 6 of the Accounts and Audit (England) Regulations 2011** which states 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”
“.....a larger relevant body must, at least in each year, conduct a review of the effectiveness of its internal audit”
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including CIPFA's Code of Practice for Internal Audit in Local Government and the Institute of Internal Auditors' Standards and Guidelines.

2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

2.2.4 The Internal Audit Strategy sets out how the service will be provided and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the audit function.

3 OBJECTIVES AND SCOPE

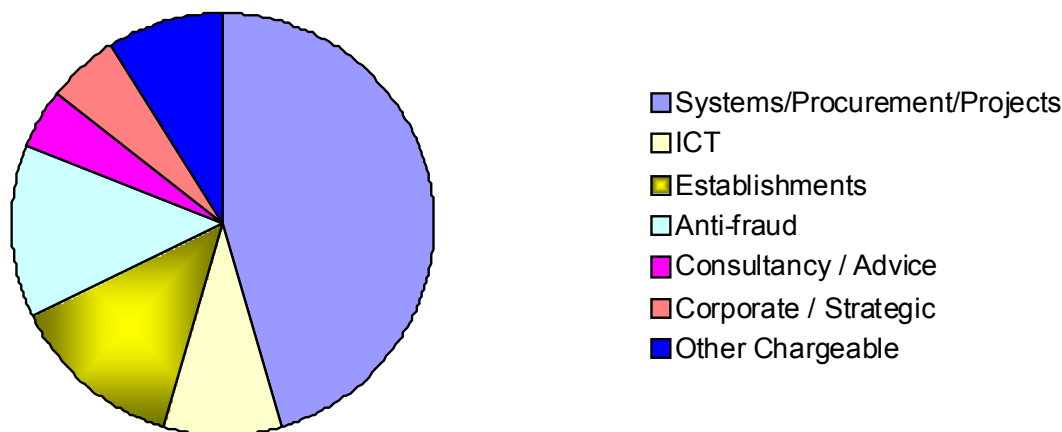
3.1 The original and updated Internal Audit Plans for 2010/11 were submitted to, and agreed by, the Audit Committee on 26 March and 15 November 2010 respectively.

3.2 This report now compares the work carried out with the work that was planned; presents a summary of work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year.

4 INTERNAL AUDIT COVERAGE 2010/11

4.1 Delivery Against Plan

4.1.1 The following chart shows the proportion of direct audit days provided in the year ended 31 March 2011, by type of audit. Appendices 1 and 2 show, respectively, delivery of actual reviews and schools' audits against the original plan. It is pleasing to report that 94% of the 2010/11 audit plan was delivered in terms of reviews undertaken, which was achieved with greater efficiencies than in previous years and with a consequential reduction in resources deployed.



4.2 Systems / Procurement Reviews / Projects

4.2.1 Systems audits accounted for the largest element of the audit plan for the year and these are summarised in Appendix I. Further details are provided in Appendix 4, together with individual audit opinions for each review undertaken.

4.2.2 As mentioned above, the majority of the 2010/11 planned work programme was completed by 31 March, or was in progress at the end of the year. It was necessary to defer three reviews due to resource issues; whilst six additional reviews or unplanned pieces of work were added to the year's audit programme. Three systems reviews were deferred or cancelled at the clients' request.

4.2.3 Devon Audit Partnership has continued to attend and support a number of Project Boards and Project Teams set up to oversee significant and high profile procurement, construction, or system / service implementation projects. Projects include major procurements such as the South West Devon Waste Partnership, Plymouth Life Centre and Leisure Management, the construction of Tor Bridge High (the former Estover College) and Highview schools. During the year, Internal Audit was invited to join the Corporate Accommodation Strategy project.

4.2.4 Throughout the year, we have been asked to review and provide advice on these projects, in particular to emphasise the importance of good project governance, risk management as well as the compliance with robust procurement practices and procedures, careful definition and agreement of contracts and regular, robust monitoring of contracts throughout their duration. All of these are essential to protect the interests of the Council, its staff and taxpayers.

4.2.5 During 2010/11 Internal Audit continued to support the South West Devon Waste Partnership Waste PFI project as it progressed through Competitive Dialogue. This culminated in the submission of final tenders at the beginning of November and their subsequent evaluation over the following weeks, leading to the announcement of a preferred bidder in January. Internal Audit was present at the opening of the two bids and the numerous bid evaluation meetings, to witness that procedures were followed correctly. We then verified the evaluation scores and reviewed the evaluation process prior to the approval of the preferred bidder. Internal Audit was able to report to the Project Executive Board that the bids were received and opened in accordance with recognised procedures, that the evaluation process had been carried out in line with the agreed, published criteria and methodology and the overall scores reported to the Board and Joint Working Committee were correct.

4.2.6 With regard to the letting of the Leisure Management contract, Devon Audit Partnership have been engaged throughout the Competitive Dialogue process to ensure that each stage of the procurement was undertaken efficiently, effectively and transparently. We were present at the opening of bids submitted as part of the Invitation to Submit Outline Solutions (ISOS) and Call for Final Tender (CFT) stages of the procurement process. Audit can give assurance that the bid opening process was followed correctly on both occasions and DAP continued to provide support during the discussions with the preferred bidder up to the signing of contracts in May.

4.3 ICT (Computer Audit)

4.3.1 The 2010-11 ICT audit plan was created in accordance with the partnership's approach to risk based audit planning and allows us to review the Council's business-critical systems in a systematic and structured manner. The planning approach responds to emerging risks, priorities and projects and builds on our previous work.

4.3.2 We completed reviews of information management, information security, business continuity and the new data centre proposals that form part of the Council's Accommodation Strategy. We have followed up our previous work on the OLM Carefirst application and reviewed the SAP HR Payroll application.

4.3.3 Our concerns in relation to corporate information management arrangements have been previously reported to Audit Committee (November 2010). We found that although an apparently sound framework of information governance arrangements exists, effective and reliable information management practices have not yet been embedded throughout the organisation and the Council is not managing its information assets effectively at present.

4.3.4 Our work on information security management provides a similar picture in that effective arrangements at the corporate level are not embedded throughout the organisation. The arrangements for the security and eventual disposal of electronic information are of a good standard and compare favourably with the Information Commissioner's top six most frequently found causes of security breaches and remedial actions. On the other hand, this review has identified a number of weaknesses in the present arrangements for the security of the Council's physical information assets eg paper records.

4.3.5 Business continuity arrangements are of a good standard. The limitations imposed on ICT infrastructure resilience and recovery by having a single data centre have already been reported to the Head of Policies, Performance and Partnerships for consideration as part of the ongoing corporate business continuity planning process. The issue of a second data processing centre has a wider significance through its role in the Council's Accommodation Strategy and the issues associated with the future of the Civic Centre building. The Council's decisions regarding the future of the Civic Centre and Windsor House therefore impact both on the future business continuity arrangements and the progress of the ICT projects associated with the Accommodation Strategy.

4.4 Establishment Audits

4.4.1 Internal Audit fulfilled 100% of the schools' audit plan in 2010/11 by completing 34 schools' audits in the year. The requirements to meet the challenges of Financial Management Standard in Schools (FMSiS) were significant for schools in their first attempt; however the majority of schools met the standard prior to its abolition in November 2010. The FMSiS will be replaced by a simpler standard in September 2011 (the Schools Financial Value Standard) which will be applicable to all maintained schools but, now, not independent schools or academies.

4.4.2 We have been part of the DfE pilot study on the Schools Financial Value Standard (SFVS) which has, in general, received positive comment from the pilot schools. Comments have been restricted to procedural aspects of its completion and the need for training and support. We have fed back similar comments and the need for LA's to positively engage with the schools following review of their SFVS self-assessments.

4.4.3 Based on our work to date, systems and controls in schools are of a "Good to High Standard" and generally mitigate the risks identified.

The three key matters arising from schools' audits are the:

- demonstrable financing of school improvement plans;

- non-compliance with CRB checking and incomplete database records;
- incomplete and ineffective inventories.

4.4.4 Recommendations have been made to reduce risks to relevant schools; and, in other cases, recommendations have been made to strengthen what are reasonably reliable procedures.

4.4.5 One primary and eleven secondary schools have now become academies. Closure audits have been completed for two of these schools and reported issues were provided to the Department for Services to Children & Young People (as requested), and to the schools for action.

4.4.6 DAP are in the process of marketing and bidding for internal audit provision to academy schools across Devon. It is considered that retention of the internal audit for these schools would be beneficial to both the schools and the audit service as a whole.

4.5 Special Investigations and Anti-Fraud Work

4.5.1 Throughout the year, Internal Audit have been informed of instances of possible fraud or irregularities which have either led to advice being given to management on courses of action and improvements to controls, or auditors conducting formal investigations into the allegations.

4.5.2 In 2010/11, Internal Audit received 29 matters requiring investigation which came from officers and members of the public. Investigations into 21 of those concerns have now been completed and investigations are on-going in respect of the remaining cases.

4.5.3 Examples of the type of irregularities investigated include:-

- Misuse of Council resources
- Misuse of IT
- Breaches of the Council's Code of Conduct
- Financial irregularities

Results of the investigations included two members of staff resigning and five other employees receiving disciplinary sanctions.

4.5.4 Co-ordination of the work associated with the 2010/11 National Fraud Initiative (NFI) exercise has continued. The exercise, which is run every two years by the Audit Commission, requires all councils to provide data for cross-matching with information supplied by other organisations, such as the Department for Works and Pensions and the NHS, to identify potential cases of fraud and error. In October 2010, the Council provided data for areas such as payroll, creditors, care homes, various types of licences as well as parking permits and blue badges.

4.5.5 In February this year, the Council received a total of 14,548 data matches as a result of the above exercise. Of these matches, the Audit Commission categorised 2,723 as the highest priority. Since that time, Devon Audit Partnership has engaged with the departments affected and agreed action plans to deal with the matches received, and this work remains ongoing.

4.5.6 The Whistleblowing Policy, which was revised during 2010/11 and approved by the Audit Committee on 23 July 2010, aims to encourage staff to raise any legitimate concerns they have in relation to the Council's activities. The policy, which supports the Council's Anti-Fraud and Corruption Policy makes it clear that legitimate concerns can be raised without fear of reprisals.

A total of three Whistleblowers have come forward during 2010/11 of which:

- A departmental investigation into allegations regarding the personal use of hire cars led to a member of staff being issued with a written warning and a management review of associated procedures being undertaken;
- An Internal Audit investigation into allegations regarding the disposal of a Council asset found no substance to the allegations made. However, recommendations were made to tighten associated procedures;
- A departmental investigation into the alleged inappropriate promotion of 3rd party services concluded that there was no substance to the allegations made.

4.6 Consultancy / Advice

4.6.1 Internal Audit was consulted by all sectors of the Authority on many and varied topics including, for example, interpretation of financial regulations/standing orders, VAT, reclamation of funding, commercial catering controls, transfer of land to schools educational trusts, document retention, tenders etc.

4.6.2 The pro-active involvement of Internal Audit in control issues relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse. This early involvement is also intended to prevent unnecessary criticism when a formal audit review is undertaken and Departments are actively encouraged to seek advice at the outset of any changes.

5 ADDED VALUE

5.1 Devon Audit Partnership is committed to providing value for money to the Council and its stakeholders and, where possible, to identifying examples of specific, tangible benefits achieved through its work. Appendix 6 attached lists several examples of such benefits achieved by internal audit during 2010/11, but the following highlights just a couple:-

5.2 Housing Benefit Subsidy Claim

5.2.1 Internal Audit played a significant role in working with the Housing Benefit Team and Finance to mount a successful challenge to the DWP in respect of the 2008/09 Housing Benefit (HB) subsidy claim. Following qualification of the claim, the Secretary of State proposed to recover £540k from the Authority but, as a result of this collaborative working, this has subsequently reduced to £127,763 a saving of £412k.

5.2.2 As a result of observations made during the challenge exercise, Internal Audit identified a framework to mitigate the risk of the department failing to maximise its HB subsidy in the future. This was distributed to key staff from Housing Benefits and Finance who are most closely involved in the subsidy claim process to act as a check list upon which they can gain assurance that the claim process is robust in the future.

5.2.3 On receiving confirmation from the DWP of the revised figure, the Revenues and Benefits Service Manager emailed "this is fantastic news. A big thank you to all of you for the hard work

you put into this to 'make it right', it was a difficult claim and we have certainly learned a lot from this experience”.

5.3 NI 179 Value for Money

5.3.1 National Indicator 179 related to the total net value of ongoing cash-releasing value for money gains and the Council was required to submit it's efficiency savings to DCLG for 2009/10 by 22 July 2010. Once the savings for the year had been submitted by the various service areas to the Finance Dept, Internal Audit carried out a review of the arrangements in place to report on the savings achieved. Some weaknesses in the system were identified and Internal Audit worked closely with Finance officers to ensure that the Council had a robust framework in place for effectively identifying, recording and reporting efficiency savings achieved. In addition to driving improvements in business processes, Internal Audit also identified additional efficiency savings of £600k.

5.3.2 Whilst central government advised in October 2010 that the collection and submission of NI179 value for money gains was ending with immediate effect, the Council still has to make efficiency savings and the work carried out by Internal Audit supports this ongoing requirement.

6 REVIEW OF INTERNAL AUDIT SERVICE 2010/11

6.1 Staffing

6.1.1 Devon Audit Partnership operated throughout 2010/11 with an approved total establishment of 41.6 FTE. These resources were distributed throughout all clients of the partnership and staff were utilised at more than one client. Due to ongoing vacancies the partnership has not operated at full establishment during the year although, where appropriate, agency staff have been employed on a temporary basis. Arrangements are currently in hand to recruit additional auditors on fixed-terms contracts.

6.2 Audit Service Quality

6.2.1. The service we provide is designed to ensure compliance with the standards for internal audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice for Internal Audit in Local Government in the UK. The latest Code of Practice was published in December 2006, and Devon Audit Partnerships' processes continue to comply with the professional standards required.

6.2.2 Within the Devon Audit Partnership we have comprehensive procedures to ensure that all audits are conducted to the required standard. In particular, the scope of audit and audit brief are approved, before site work commences, by the appropriate Audit Manager, who also reviews each draft and final report before it is issued to ensure that all key controls have been properly evaluated and that adequate audit evidence has been obtained to support the findings. In addition, our work is subject to annual review by the Council's external auditors, Grant Thornton, who continue to rely on our work to support their audit opinion.

6.2.3 The Partnership continues to participate in the Audit Benchmarking Club administered by CIPFA. This has facilitated a comparison of our practices, coverage and costs with other council internal audit services. The most recent comparisons continue to show that we deliver a cost-effective service with a very high level of compliance with “good practice”.

6.2.4 During the year we have continued to include a “client satisfaction survey” with audit reports, for a confidential response to the Head of the Devon Audit Partnership. The vast majority of those returned have continued to be very positive about the audit service received, the audit report, and the conduct of the audit by our team members, and this is a tribute to their professional conduct of the audits.

6.2.5. Based on the responses received, 98% of the responses covering all areas of the audit were “satisfactory” or “very satisfactory”, and for a number of audits (39%) every single response was “very satisfactory”. The analysis of responses for this year shows that very high standards have been maintained, which is a very commendable achievement by the team.

6.3 Performance

6.3.1. There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators (LPI's):

Local Performance Indicator (KPI)	2010/11	2010/11
	Target	Actual
Percentage of Audit Plan Completed	90%	94%
Percentage of fundamental / material systems reviewed annually	100%	84%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	72%
Final reports produced within target number of days (currently 10 days)	90%	97%
Average level of sickness absence	2%	3%
Percentage of staff turnover	5%	0%

6.3.2 As mentioned in para 4.1.1 above, the percentage completion of the audit plan for 2010/11 was above target, and was delivered in a fewer number of days than originally planned. Efficiencies from the DAP partnership are now being realised through, for example, the use of audit management software, sharing of auditor experience and expertise between offices, functional team structures etc.

6.3.3 As is the norm, some material systems’ reports had not been issued by the end of year, but work was substantially complete and there were no matters of serious concern to be reported.

6.3.4 The customer satisfaction results derive from questionnaires completed after each audit, and the results continue to demonstrate the very high regard placed on the service by all parts of the Authority.

6.3.5 Timeliness of issuing both draft and final reports is an area which is kept under constant review. The below target draft report PI is largely due to some reports being delayed in the first half of the year because of timing issues around schools’ holidays.

7. REVIEW OF INTERNAL AUDIT BY EXTERNAL AUDIT

7.1 Internal Audit is obliged under the Accounts and Audit Regulations to meet the standards specified in CIPFA’s Code of Practice for Internal Audit in Local Government. These standards

set out specific essential requirements of an Internal Audit department which include eg independence, staffing and training, planning, recording, performance and effectiveness etc.

7.2 External Auditors use CIPFA standards as a model against which to regularly assess and report on the competency and effectiveness of Internal Audit, to enable them to place reliance on Internal Audit's work as part of the 'managed audit' arrangements.

7.3 The External Auditors have recently completed a review of the Internal Audit arrangements and have stated in their Interim Report to Audit Committee today that "overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council".

8 INTERNAL AUDIT OPINION

8.1 The Chief Internal Auditor is required to provide the Council with an assurance on the adequacy and effectiveness of its accounting records and of its system of internal control in the Council. In giving our opinion it should be noted that this assurance can never be absolute. The most that the internal audit service can provide to the Council is reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control.

8.2 A summary of Internal Audit's opinion on the individual reviews carried out during the year is included in Appendix 3, with more details provided in Appendix 4.

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

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

8.5 Directors have been provided with details of Internal Audit's opinion on each audit review carried out in 2010/11 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be accompanying its published Statement of Accounts for 2010/11.

8.6 Overall, and based on work performed during 2010/11, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

8.7 Significant Issues

8.7.1 In September 2010, the Internal Audit Service issued a report which concluded that fundamental weaknesses existed in the Council's corporate information management

arrangements. The findings of that report were accepted by the Council's Chief Information Officer and Corporate Information Manager and were discussed at Audit Committee in November 2010.

8.7.2 The report included an 'Action Plan' which is now being progressed. The Corporate Information Manager attended Audit Committee, in March 2011, to update them on the positive steps that are being taken to embed information management principles throughout the organisation and other key actions are being taken to formalise responsibilities and improve staff training and awareness.

8.7.3 Information management is a far reaching and complex process and many of the issues raised in the report are dependant upon one another. It is therefore essential that the recommendations are implemented in the correct sequence, in order to ensure that the required improvements are achieved.

8.7.4 The Audit Service has now completed a follow-up exercise to establish the extent of progress made towards implementing the recommendations contained within the report and this review has confirmed that the agreed actions are being taken in a logical and orderly fashion. Progress will continue to be monitored and reported on a regular basis. A summary of the weaknesses identified in the initial review and results of the recent follow-up is attached at Appendix 5.

9. RECOMMENDATIONS

It is recommended that:

- 1) the report be noted
- 2) the Audit Committee endorse the adequacy and effectiveness of Plymouth City Council's system of internal audit for the year ended 31 March 2011.

System Review		Report issued	In progress	Deferred to	Notes
Draft(D)	Final(F)	Date	31/03/11	2011/12	
Material Systems					
			✓		
Housing Benefits 10/11	F	3-Feb-11			
Creditors 10/11	F	8-Jul-10			
Main Accounting System, including budgetary control 09/10	D	31-Mar-11			
CareFirst - Child Independent Placements 09/10	F	4-Aug-10			
CareFirst - Care Leavers (CYPS) 10/11	D	1-Mar-11	✓		
CareFirst - Residential Care Payments (Comm Serv) 10/11	F	24-May-10			
HR / Payroll System 09/10	D	31-Mar-11			
Council Tax 10/11	D	31-Mar-11			Final Report issued 18 May 2011.
Loans and Investments 09/10	F	29-Jun-10			
Loans and Investments 10/11	D	28-Mar-11			
Capital Accounting Arrangements 09/10	F	13-Jan-11			
NNDR 10/11	F	14-Feb-11			
Debtors 10/11	F	25-Mar-11			
Cash Collection 09/10	F	26-Apr-10			
Cash Collection 10/11	F	31-Mar-11			
Supporting People 09/10	F	20-Apr-10	✓		
Supporting People 10/11					
Commercial Rents 09/10 (Follow-Up)	F	22-Jun-10		✓	Insufficient resources
CareFirst - Children Independent Placements 09/10 (Follow-Up)	F	18-Oct-10	✓		Unplanned - SPOC ICT Helpdesk taking responsibility mid year for access to key financial systems.
CareFirst - Dom Care 09/10 (Follow-Up)					
Single Point of Contact Help-Desk					
Grants					
New Growth Points Grant 09/10	F	8-Jun-10			
Supporting People Grant 09/10	F	20-Apr-10			
National Stroke Strategy Grant 09/10	F	3-Jun-10			
Urban Bus Challenge Grant 09/10	F	27-Jul-10			Unplanned
New Burdens Grant	F	28-Jun-10			Unplanned
Other Systems - Development & Regeneration Directorate					
PCH Monitoring			✓		
Plymouth Market			✓		Working with department to update working practices and procedures. Full review requested for 2011/12.
Concessionary Fares 09/10	F	24-Jun-10			
Concessionary Fares 09/10 Follow-Up	F	31-Mar-11			
Parks Services - Equipment Store 09/10 Follow-Up	F	25-Oct-10			
Housing Retained Services - Choice Based Lettings 09/10	F	11-Oct-10			
Housing Retained Services - Choice Based Lettings 09/10 Follow-Up	F	31-Mar-11			

System Review		Report issued	In progress	Deferred to	Notes
	Draft(D) Final(F)	Date	31/03/11	2011/12	
Other Systems - Corporate Support					
SAP Development			✓		
Lifecycle of Employment					Originally deferred to 10/11 by dept but now no longer required as SAP system to be decommissioned.
Governance/Monitoring of Capital Programme	F	30-Mar-11			
CRB Disclosure Checks Review 09/10	F	13-Aug-10			
CRB & Independent Safeguarding Authority (inc CRB 09/10 Review Follow-Up)	D	30-Mar-11	✓		
Customer Relations Management (CRM)					Draft Progress Report issued 9 May 2011
Telephony			✓		Draft Progress Report issued 9 May 2011
Revenues & Benefits Cheque Payments	F	10-Sep-10			Unplanned review requested by Director for Corporate Support
2008/09 HB Subsidy	n/a	28-Feb-11			Joint working with HB to challenge the 2008/09 Subsidy Claim leading to reduction of circa £400k in amount of subsidy to be repaid to DWP
Other Systems - Chief Executive					
Stretch Target 6 (Drugs)					Initial work undertaken before decision taken by client not to proceed with challenging the national indicator calculations
LAA - National Indicator Set 09/10 (General Framework)	F	13-Sep-10			
LAA - NI179 09/10	F	20-Jul-10			
LAA - National Indicator Set 10/11 (Performance Reward Grant)	F	19-Jan-11			
Other Systems - Cross Cutting Reviews					
Management of Partnerships	F	18-Nov-11			
Carbon Management			✓		
DCal (transaction testing) 09/10 Follow-Up	D	17-Mar-11			Final Report issued 6 April 2011
Other Systems - Community Services Directorate					
Data Quality	F	20-Oct-11			
Safeguarding Adults				✓	Deferment - insufficient resource.
Individual Budgets			✓		On-going monitoring and advice on progress of project and development of system controls
Mt Edgcombe - End of Year Accounts 09/10	F	14-Jun-10			
Trade Waste 09/10 Follow-Up	D	17-Mar-11			Final Report issued 6 April 2011
Fleet and Garage 09/10	F	24-May-10			
Fleet and Garage 09/10 Follow-Up	D	17-Mar-11			Final Report issued 6 April 2011
Mt Edgcombe Trading	F	25-Mar-11			
New Deal Arrangements 09/10 (Devonport Regeneration Community Partnership - DRCP)	F	26-Jul-10			
Direct Payment Financial Monitoring - Follow-Up 09/10	F	12-May-10			
Other Systems - Children's Services Directorate					
Data Quality - Capita One EMS	F	30-Mar-11			
Learning Skills Council transfer					Initial work undertaken before Government decision to abolish
ContactPoint	F	1-Jul-10			Compliance Certificate issued July 2010. System closed down by Government.
Review of Local Safeguarding Children Board (LSCB) 09/10 Follow-Up	F	9-Mar-11			

System Review	Report issued		In progress 31/03/11	Deferred to 2011/12	Notes
	Draft(D) Final(F)	Date			
Procurement / Contract Audit					
BSP Executive Board and School Construction Projects			✓		On-going monitoring and advice on progress of project and risk management process
Corporate Procurement Policies and Strategies			✓		Advice on revision to Contract Standing Orders and procurement procedures
Life Centre Project and Leisure Management Contract			✓		On-going monitoring and advice on progress of project and risk management process
Procure to Play Project (P2P)			✓		
Waste Management - SWDWP (Waste PFI)			✓		Review of procurement process, on-going monitoring and advice on project and risk management
Commissioning and Contracting - Adult Social Care				✓	Deferment - insufficient resource.
Schools PFI Contract Monitoring 09/10 Review - Follow-Up	F	1-Sep-10			
Waste Management - Interim Solution 09/10 Review - Follow-Up	F	2-Jun-10			
Security Contract 09/10	F	3-Sep-10			
Security Contract 09/10 Review - Follow-Up			✓		
Highways Amey Contract	F	3-Sep-10			
Highways Amey Contract 09/10 Review - Follow-Up			✓		
ICT Audit					
Material Systems IT Review 09/10	F	5-May-10			
Material Systems IT Review 10/11	D	24-Mar-11			Final Report issued 12 May 2011.
Information Governance - Government Connect 09/10	F	13-May-10			
Carefirst 5 System Review			✓		Replacement pending, ongoing watching brief
Carefirst 6 (Children)/ Programme Board/Follow up	F	28-Jun-10			
Implementation of Single Sign-On			✓		On-going monitoring and advice on progress of project and risk management process
Corporate Information Management	F	30-Sep-10			
File Storage (Includes S:\ & F:\ Drives)					No longer required as per Asst Director ICT.
Information Security	F	3-Mar-11			
Program Management System (PMG)			✓		Briefing Note issued
Corporate Business Continuity	D	16-Mar-11			Final Report issued 14 April 2011
Partnership Working (ICT Systems)			✓		Briefing Note issued
HR/Payroll / SAP	D	31-Mar-11			
New Data Centre	D	2-Mar-11			Additional review at request of AD for ICT - Final Report issued 26 May 2011.
Follow up of previous work			✓		Work carried out throughout 2010/11.
Internal Audit Consultancy on IT Issues / Projects / Policy			✓		Work carried out throughout 2010/11.
Corporate/Strategic Initiatives					
Audit Committee			✓		
CAA					No longer applicable
Benchmarking			✓		
Policy Development & Advice			✓		
External Audit			✓		
Whistleblowing			✓		
Annual Governance Statement			✓		

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SCHOOLS ESTABLISHMENT AUDITS - PROGRESS AGAINST INTERNAL AUDIT PLAN 2010/11				
ESTABLISHMENT	Reports Issued		Deferred to	Notes
	Draft (D)	Date		
	Final (F)		2011/12	
Primary Schools				
FMSiS Assessment Only				
Thornbury Primary	F	Jul-2010		
Plympton St Mary C of E Infant	F	Dec-2010		
FMSiS Re-Assessments				
Salisbury Road Primary	F	Nov-10		
Whiteleigh Community Primary	F	Nov-2010		
Combined Routine Audit and FMSiS Assessment				
Estover Primary School	F	Sep-2010		
Manadon Vale Primary School	F	Sep-2010		
Compton C of E Primary School	F	Feb-2011		
Leigham Primary School	F	Oct-10		
St Joseph's Catholic Primary School	F	Feb-2011		
Pomphlett Primary School	F	Nov-11		
High Street Primary School	F	Dec-10		
Hoe Primary School	F	Nov-2011		
High View Primary School	F	Jan-11		
Goosewell Primary School	F	Dec-2010		
Holy Cross Catholic Primary School			✓	Deferred Summer to 2011at schools request
Old Priory Junior School	F	Mar-2011		
Widey Court Primary School	F	Mar-2011		
Hyde Park Infant School	F	Mar-2011		
Plympton St Maurice Primary School	F	Apr-2011		Work completed in Mar-11
Ford Primary			✓	Deferred Summer to 2011at schools request
Morice Town Primary School	D	Mar-11		
Ernesettle Primary School			✓	Deferred Summer to 2011at schools request
Mayflower Community School	D	Mar-11		
Shakespeare Community School	D	Apr-11		Work completed in Mar-11
Special Schools				
Combined Routine Audit and FMSiS Assessment				
Longcause Community Special School	F	Sep-10		
Courtlands School	D	Feb-11		
Mill Ford School	D	Mar-11		
Secondary Schools				
Routine Audits Only				
Tamarside Community College	F	Jun-2010		
John Kitto Community College	D	Jun-2010		
Combined Routine Audit and FMSiS Assessment				
Coombe Dean	F	Apr-2010		
St Boniface	F	May-2010		
Lipson Community College	D	Jul-2010		
Devonport High School for Girls	D	Oct-2010		
Ridgeway School	F	Mar-2011		
Stoke Damerel Community College	F	Jan-2011		
Devonport High School for Boys	D	Apr-2011		Work completed in Mar-11
Plymouth Tuition Service				
Centre For Young Parents – Wood View C	D	May-11		Work completed in Mar-11

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**INTERNAL AUDIT - END OF YEAR PROGRESS REPORT 2010 - 11
SUMMARY OF REVIEWS AND AUDIT OPINIONS**

Appendix 3

System Review	Report Issued		Opinion	Action Plan in Place
	Draft - D Final - F	Date		
Capital Accounting Arrangements 09/10	F	13-Jan-11	Good Standard	✓
CareFirst - Care Leavers (CYPS) 10/11	D	1-Mar-11	Good Standard	
CareFirst - Child Independent Placements 09/10	F	4-Aug-10	Good Standard	✓
CareFirst 6 (Children)/ Programme Board/Follow up	F	28-Jun-10	N/A	✓
CareFirst - Dom Care 09/10 (Follow-Up)	F	18-Oct-10	N/A	N/A
Cash Collection 09/10	F	26-Apr-10	Good Standard	✓
Cash Collection 10/11	F	31-Mar-11	High Standard	✓
Commercial Rents 09/10 (Follow-Up)	F	22-Jun-10	N/A	N/A
Concessionary Fares 09/10	F	24-Jun-10	Improvements Required	✓
Concessionary Fares 09/10 (Follow-Up)	F	31-Mar-11	N/A	✓
ContactPoint	F	1-Jul-10	Compliance Certificate Issued	N/A
Corporate Business Continuity	D	16-Mar-11	Good Standard	
Corporate Information Management	F	30-Sep-10	Fundamental Weaknesses	✓
Council Tax 10/11	D	31-Mar-11	Good Standard	
CRB Disclosure Checks 09/10	F	13-Aug-10	Good Standard	✓
CRB & Independent Safeguarding Authority (inc CRB 09/10 Review Follow-Up)	D	30-Mar-11	Good Standard	
Creditors 10/11	F	3-Feb-11	Good Standard	✓
Data Quality (Community Services)	F	20-Oct-10	Improvements Required	✓
Data Quality (CYPS)	F	30-Mar-11	Improvements Required	✓
DCal 09/10 Follow-Up	D	17-Mar-11	N/A	N/A
Debtors 10/11	F	25-Mar-11	Good Standard	✓
Devonport Regeneration Community Partnership 09/10	F	26-Jul-10	Good Standard	✓
Direct Payment Financial Monitoring - Follow-Up 09/10	F	12-May-10	N/A	✓

**INTERNAL AUDIT - END OF YEAR PROGRESS REPORT 2010 - 11
SUMMARY OF REVIEWS AND AUDIT OPINIONS**

Appendix 3

System Review	Report Issued		Opinion	Action Plan in Place
	Draft - D Final - F	Date		
Fleet and Garage 09/10	F	24-May-10	Improvements Required	✓
Fleet and Garage 09/10 (Follow-Up)	D	17-Mar-11	N/A	N/A
Governance/Monitoring of Capital Programme 10/11	F	30-Mar-11	Good Standard	✓
Housing Retained Services - Choice Based Lettings 09/10	F	11-Oct-10	Improvements Required	✓
Housing Retained Services - Choice Based Lettings 09/10 (Follow-Up)	F	31-Mar-11	N/A	N/A
HR / Payroll System 09/10	F	24-May-10	Good Standard	✓
HR / Payroll System (inc IT review) 10/11	D	31-Mar-11	High Standard	
Information Governance (Government Connect) 09/10	F	13-May-10	Improvements Required	✓
Information Security	F	3-Mar-11	Improvements Required	✓
LAA - National Indicator Set 09/10	F	13-Sep-10	Improvements Required	✓
LAA - National Indicator Set (Performance Reward Grant)	F	19-Jan-11	Assurance Given	N/A
Loans and Investments 09/10	F	29-Jun-10	Good Standard	✓
Loans and Investments 10/11	D	28-Mar-11	Good Standard	
Local Safeguarding Childrens Board 09/10 (Follow-Up)	F	9-Mar-11	N/A	N/A
Main Accounting System 09/10	F	8-Jul-10	Good Standard	✓
Main Accounting System 10/11	D	31-Mar-11	Good Standard	
Main Accounting System IT Review 09/10	F	8-Jul-10	Good Standard	✓
Management of Partnerships	F	18-Nov-11	Improvements Required	✓
Material Systems IT Review 09/10	F	5-May-10	Improvements Required	✓
Material Systems IT Review 10/11	D	24-Mar-11	Good Standard	
Mt Edgcombe – End of Year Accounts 09/10	F	14-Jun-10	Good Standard	✓
Mt Edgcombe Trading 10/11	F	25-Mar-11	Improvements Required	✓
National Non Domestic Rates 10/11	F	14-Feb-11	Good Standard	✓

**INTERNAL AUDIT - END OF YEAR PROGRESS REPORT 2010 - 11
SUMMARY OF REVIEWS AND AUDIT OPINIONS**

Appendix 3

System Review	Report Issued		Opinion	Action Plan in Place
	Draft - D Final - F	Date		
National Stroke Strategy Grant 09/10	F	3-Jun-10	Assurance Given	N/A
New Burdens Grant 09/10	F	28-Jun-10	Assurance Given	N/A
New Growth Points Grant 09/10	F	8-Jun-10	Assurance Given	N/A
Parks Services – Equipment Store 09/10 (Follow-Up)	F	25-Oct-11	N/A	N/A
Revenues & Benefits Cheque Payments	F	10-Sep-10	Assurance Given	✓
Schools PFI Contract Monitoring 09/10 Review - Follow-Up	F	1-Sep-10	N/A	N/A
Security Services Contract 09/10	F	3-Sep-10	Improvements Required	✓
Supporting People 09/10	F	20-Apr-10	High Standard	✓
Supporting People Grant 09/10	F	20-Apr-10	Assurance Given	N/A
Trade Waste 09/10 (Follow-Up)	F	2-Jun-10	N/A	N/A
Urban Bus Challenge Grant 09/10	F	27-Jul-10	Assurance Given	N/A
Waste Management - Interim Solution 09/10 Review - Follow-Up	F	2-Jun-10	N/A	N/A

INTERNAL AUDIT - SIX MONTH PROGRESS REPORT 2009 - 2010
Audit Assurance Opinion Definitions

Appendix 3a

There are four standards of assurance used to form an opinion on a system.

These are detailed in the table below:

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

INTERNAL AUDIT – END OF YEAR PROGRESS REPORT 2010 / 2011 AUDIT OPINION ON SYSTEM REVIEWS COMPLETED

General Notes

The following Audit Opinions are based on control weaknesses identified at the time of the reviews. In most cases action plans have been agreed for responsible managers to implement audit recommendations or suitable alternative controls; implementation of action plans will be reviewed as part of Internal Audit's routine follow-up procedures.

Business Continuity Management Arrangements 2010/11

A tremendous amount of very good work has been done in respect of business continuity planning in recent years and the arrangements in place for managing the corporate business continuity planning process were found to be of a "Good Standard". The Council is now well placed to deal with the immediate effects of a disruption of services and then to recover to a position of 'business as usual' in a controlled and well managed way. The recommendations made in this report only serve to strengthen what are already reasonably reliable procedures.

Capital Accounting 2009/10

The consistent application of internal controls ensured that the Capital Accounting System (Fixed Asset Register) has continued to operate to a "Good Standard". The Council has a Corporate Asset Management Plan and Capital Strategy in place and the operation of the fixed asset register was in accordance with accounting standards and the Council's Financial Regulations. Acquisitions and disposals were identified, recorded and authorised, whilst periodic reconciliations contribute to the accuracy and reliability of information held on the register for capital assets.

Care Leavers 16+ Service 2010/11

The Service was found to be managed to a "Good Standard" on both on the care and clerical sides. The processes for providing services and payment of allowances and accommodation through the corporate systems have been embedded in the administrative support systems of the Service and the Child Payments Team.

Efforts are being made to reduce the amount of cash required to pay weekly allowances by encouraging more young people to have their money paid into bank accounts. However, there appears to be a reluctance by the banks to provide bank accounts for these young people as they are potentially deemed to be high risk.

A major concern for the Service is the Southwark Judgement made in May 2009 which determined that council's have a duty to provide accommodation to homeless 16 and 17 year-olds whose family support networks have disintegrated. This placed additional pressure on the budget but the review found that the situation was being closely monitored by the Service and the supporting accountants.

Cash Collection 2009/10

The Cash Office is a key front line service whose objective is to provide an effective and efficient service to the Council's paying customers. It also plays a pivotal role in ensuring income is collected and recorded accurately and correctly; and banked promptly. Our observations, enquiries and tests have shown that these objectives are being achieved and maintained to a "Good Standard".

Cash Collection 2010/11

In addition to providing an over the counter payment service which ceased on 31 March 2011, the Cashiers Section also supports the corporate function by receiving, receipting, allocating and banking all of the Council's income.

Internal control arrangements operating within the Cash Receipting System were found to be operating to a "High Standard". A stable and experienced work force, together with well embedded systems and procedures, has ensured that standards are maintained.

In recognition of the consistently high level of service that they provide to their customers, the Cashiers Team was awarded the Customer Service Excellence (CSE) accreditation in 2010.

Child Independent Placements (CIPS) 2009/10

The review found that, in the main, internal controls within CIPS was operating to a "Good Standard". This was evidenced by accurate recording of panel decisions, as well as good administration of the Needs and Outcomes Statements, Options Appraisals and individual contracts that is carried out in the Commissioning for Children's Services Team. Good processes were found to be in place for the payment, monitoring and reconciliation of the fortnightly payments which is, at present, carried out by the Admin Support Manager (ASM) Fostering and the Assistant Accountant within the Finance Team.

Choice Based Lettings 2009/10

The opinion formed was that improvements are required due to the need for better partnership wide governance. However, the audit provides assurance that PCC has taken appropriate steps to ensure that data migrated from the old Plymouth Housing Register to the new Abritas system remained accurate and that bandings reflected applicants' personal circumstances. Furthermore, where governance and security weaknesses were identified, PCC staff have continued to take a robust stance to ensure that issues are resolved as early as practicable.

There are many factors directly associated with partnership working that potentially undermine the good work that has been conducted locally by PCC staff. Of most concern is that data processing standards are not consistent and of a high enough standard throughout the whole partnership. This is almost certain to impact upon the fair and consistent processing of applications and increase the risk of data security breaches.

Concessionary Fares 2009/10

Since April 2008, it became mandatory for the Council to provide free off peak travel on local bus services to eligible residents of the Council. Approximately 59,000 residents, including about 6,700 disabled people, have been issued with free bus passes under the Scheme. The scheme has been promoted well in Plymouth and has been successful in achieving its aim of giving eligible residents the opportunity for greater freedom and independence to travel around Plymouth. However, there are some concerns surrounding the administration of the scheme which include the accuracy and reliability of records maintained by the bus operators and the potential for fraudulent or incorrect use of passes and the opinion formed was "Improvements Required".

Corporate Information Management 2010/11

At the time of the audit review it was found that there were a number of fundamental weaknesses in the current information governance arrangements that would continue to restrict the Council's ability to manage its information assets securely and effectively, unless the role of the SIRO was implemented effectively and the approved Information Management Principles embedded throughout the organisation.

Those weaknesses if not addressed could result in poorly informed decisions at any level of the organisation and could have an adverse impact on the provision of frontline services, the effectiveness of partnership working, the completeness and accuracy of the Authority's annual accounts and the performance of the Council as a whole. Failure to comply with statutory requirements was also a significant risk.

The Audit Service has maintained a watching brief and has recently undertaken a follow-up exercise to establish the extent of the progress made towards implementing the recommendations made. This review has confirmed that the Director for Corporate Support has taken on the role of SIRO and that the other agreed actions are being implemented in a logical and orderly fashion, providing an improved level of internal control.

Council Tax 2010/11

2010/11 was a challenging year set against continuing economic problems and payment issues experienced by customers of Santander, contributory factors which did result in Council Tax collection rates being below target set. However, although the target was not achieved, the consistent application of internal controls and sound debt recovery practices did result in an 0.9% increase on collection rates when compared to 2009/10. Performance was regularly monitored and a number of initiatives developed to further improve collection rates. Overall the system was found to be operating to a "Good Standard".

CRB Disclosure Checks 2009/10

Overall the Council was found to have policies and procedures in place, which in the main, appeared to be in line with the guidance published by the Criminal Records Bureau. However, conflicting guidance has been issued by the Department of Health and Ofsted in relation to the roles which may be subject to a CRB disclosure check.

Clarification is required to ensure that managers/officers understand the roles and criteria which indicate the need for a CRB disclosure check. Other areas requiring action include

clarification of the Council's position on CRB portability and improving access to policies for School's including communication of their publication. Overall the opinion formed was "Good Standard".

CRB and Independent Safeguarding 2010/11 (draft)

The audit review found that the systems and procedures operated by the central CRB Team are of a "Good Standard". Policy and guidance documents were found to be up to date, easily accessible and informative. The transfer of CRB records to the SAP system appeared to have been systematically undertaken, ensuring that CRB data is properly managed and utilised effectively.

Completed forms are received by the CRB Team for processing from many different sources and the quality of the data received was found to vary greatly. However, it was evident from the work carried out centrally in processing the forms prior to submission to the Criminal Records Bureau that the Team are aware of the information to check to ensure that delays are minimised. These checks along with the QA process help to ensure that the data now maintained in the SAP system is accurate.

The CRB Code of Practice clearly shows the expected requirements of registered bodies. Comparison of the processes in operation to the information contained within the Code of Practice showed significant compliance. Where non compliance was identified the work required to resolve the issues is minimal.

Creditor System 2010/11

The audit review has found that the internal control environment continues to operate to a "Good Standard". Changes during the year, including the requirement that only suppliers registered via Sell2Plymouth are used, means that greater control can be exercised over the management of suppliers and value for money is obtained.

Staff awareness has been raised to ensure that controls to prevent duplicate payments are not bypassed. 'Fiscal Duplicate Payment Finder', software which facilitates the identification of potential duplicate payments was installed in December 2010.

Data Quality - Capita ONE 2010/11

Capita ONE is a multi user database comprising of approximately 14 modules with input to the system carried out in a number of teams. Testing identified some generic issues and the opinion formed was "Improvements Required". Staff were aware of the importance of data quality, but with limited resources and staff shortages found it difficult to continue with important validation checks on the system to verify data received from 3rd parties. An action plan has been agreed to address the issues identified.

Data Quality – Government Returns 2010/11

There are a number of statutory returns which are completed within Community Services

but this audit concentrated on the quality of data for three of these returns:

- The Referrals, Assessments and Packages of Care Collection (RAP);
- Adult Social Care Combined Activity Return (ASC-CAR);
- Personal Social Services Expenditure Return (PSS EX1).

Internal controls on the completion of the returns were found to be of a “Good Standard”, with staff having a good understanding of the significance of the returns and the importance of accuracy.

Debtors 2010/11

The Council has continued in its drive to improve the debt collection rate and provide an efficient debt collection system which is operating to a “Good Standard”. Service areas are encouraged to collect payments in advance wherever possible, a tactic which appears to have significantly improved collection rates on Trade Waste. In addition, the Central Recovery Team take pro-active measures to collect income prior to the due date by making contact with customers before formal non-payment reminders are generated.

The responsibility for dealing with returned and rejected direct debits has been allocated to the Cashiers Team and controls over returned direct debits have been tightened. Other changes include the referral of debts between £200 and £500 to a private firm of solicitors. This method of recovery is in its infancy, although early indications are encouraging.

Devonport Regeneration Community Partnership (DRCP) 2009/10

The audit review focussed on the DRCP Succession Strategy which has been developed by DRCP in consultation with its key partners, to sustain the improvements delivered through the New Deal grant programme beyond the ten year lifetime. The strategy was found to be of a “Good Standard”.

Fleet Management 2009/10

The systems and procedures operated by Fleet Management are currently not as robust as they could be and the audit has identified some key issues which if addressed, would assist the service in becoming more competitive. Although the opinion formed was “Improvements Required” the staff reaction to the audit was positive, advice and suggestions that were made were taken on board and in some cases implemented immediately.

Governance and Monitoring of the Capital Programme 2010/11

Overall the governance and monitoring of the Capital Programme was found to be of a “Good Standard”. Proactive measures have been taken promptly by the Council to respond to the challenges arising from the current economic downturn and the change in Government, following the general election in May 2010. The capital programme is under constant review and the Council’s ability to fund capital investment is considered through continuous monitoring and reporting of calls on funding streams.

At the time of the review, work to clarify the impact of the October 2010 Comprehensive Spending Review decisions was on-going with regular updates reported to the Capital Delivery Board (CBD), Corporate Management Team (CMT) and Members.

The introduction of the Invest to Save scheme where capital resources are used to reduce the cost of delivering services and improve the quality and effectiveness of services will deliver on going savings for the Council.

HR/Payroll System 2009/10

Consistent application of internal controls have ensured that PCC employees have been paid accurately, on time and in accordance with their contract of employment. The system continues to operate to a “Good Standard” and further efficiencies may be achieved through improved utilisation of the e-HR SAP system and review of payroll processes, together with the roll-out of Managers Online (MOL) which was due to be piloted from April 2010.

HR/Payroll System 2010/11 (inc IT review) (draft)

A “High Standard” has been achieved in respect of the Payroll Material Systems audit, with no recommendations being made in this area. Working processes are now highly evolved and there is little room for further efficiencies under current arrangements due to limiting factors such as, the diversity of employment contracts, the complexity of the SAP application and the prohibitive cost of enhancement, and other operational issues outside of the control of HR/ Payroll.

The maintenance of the SAP application and database remains costly and relies upon a range of both internal and external expertise and resources. Governance arrangements for administering the computer application remain complex and there is some room for continued improvement to communication and database monitoring processes. This becomes more and more crucial as key hardware components will operate outside of a maintenance contract from November 2011, and demand upon all system components increases as the database grows.

Information Governance (Government Connect) 2009/10

The Government Connect system (Gov Connect) provides a robust and secure means of sending and receiving communications between approved local and central government bodies. Whilst the arrangements in place within the ICT department for managing the Council’s use of the Government Connect system and for ensuring compliance with the Code of Connection (CoCo) were found to be of a good standard, a number of issues were identified that could threaten the continued availability of the system as a result the overall opinion formed was “Improvements Required”.

Information Security 2010/11

The review found that although the Council has a sound framework of information security arrangements in place at a corporate level, “Improvements are Required”. The risks associated with information security are well understood and a formal procedure has been established for reporting, monitoring and investigating any security breaches that do occur.

Key roles and responsibilities have been clearly assigned and a comprehensive set of information security policies and guidelines have been approved and published in the intranet document library. However, many of these important documents were created in 2007/8 and they have not been reviewed in accordance with the approved time scales.

At present ongoing information security awareness training is not being provided for all members of staff and in the absence of such training, individual staff actions could put the Council at risk of an information security incident. An action plan to improve this situation has been agreed and the first information security awareness training was delivered by a Microsoft Security Advisor to elected Members, CMT and Team Plymouth on 26 May.

LAA - Data Quality – National Indicator Set 2009/10

Data quality arrangements were considered as part of the Use of Resources (UoR) assessment and a sample of 10 national indicators were reviewed. It was found that overall, Plymouth City Councils data quality arrangements are of a good standard and provide the structure by which performance management processes can be carried out in a robust and comprehensive manner. However further action is required to strengthen and fully embed arrangements throughout the organisation and the opinion formed was “Improvements Required”.

A dedicated piece of work was also undertaken on National Indicator 179 which related to the total net value of ongoing cash-releasing value for money gains and Internal Audit identified additional efficiency savings of £600k for reporting to the DCLG.

LAA – Data Quality – National Indicator Set (Performance Reward Grant) 2010/11

Overall, it was found that the systems for recording, reporting and publishing the LAA performance indicators were of a “Good Standard”. Reward grant claimed was £3.066m of which 50% was payable, following regulation changes in May 2010.

Loans and Investments 2009/10

The Treasury Management (TM) Team continue to provide an effective service with cash flow maintained at an appropriate level and demonstrating compliance with CIPFA’s Code of Practice. Internal controls continue to operate to a “Good Standard” with the TM Board continuing to meet on a regular basis to discuss, review and approve investment and borrowing decisions.

Loans and Investments 2010/11 (draft)

The review found a robust policy framework within which the Treasury Management activity takes place and the overall opinion was a “Good Standard”. The Audit Committee provides independent scrutiny of the Treasury Management Policy and Procedures and a TM board comprising senior officers and members meets regularly and receives regular updates of trading activity. Forecasting is accurate, enabling cash flow to be managed effectively.

Main Accounting System 2009/10

The consistent application of internal controls ensures that the Main Accounting System (including budgetary control) continues to operate to a “Good Standard”. It was noted that budget forecasting during the current year has continued to improve, demonstrated by a lack of the significant swings in forecasts as experienced in previous years with reasons for budget

variations being clearly laid out in the bi-monthly joint finance and performance reports to Cabinet.

Main Accounting System 2010/11

The consistent application of internal controls ensures that the main accounting system continues to operate to a “Good Standard”. Information contained in the Joint Finance and Performance reports continues to develop and the process of challenging significant budget variations has become embedded within the culture of the organisation.

The Overview and Scrutiny Management Board have again provided robust challenge and review of the proposed budget for 2010/11.

Main Accounting System IT Review 2009/10

The Civica General Ledger (MAS) application is well managed, with clear governance and communication arrangements in place to ensure that it operates as required by the Finance Service. However, some concerns exist with regard to the number of users with “Full Access” to the computer system and with some of the privileges that Civica application support have been allocated on the corporate computer network.

Management of Partnerships 2010/11

Plymouth City Council is involved in many partnerships to enable the delivery of its Corporate Priorities and the associated outcomes for local people.

The Council's overall arrangements for managing its involvement in partnerships requires further improvement to ensure a consistent robust approach is adopted across the authority that will mitigate the associated risks.

Material Systems IT Review 2009/10

This review has confirmed that, as in previous years, the majority of the common processes and procedures, undertaken within the ICT department in respect of the Council's material systems, are carried out in a secure, well-managed and professional manner and are now of a good standard. During the past year, significant progress has been made in a number of key areas but the exercise has also highlighted other areas in which improvements are still required in order to raise the standards still further.

The overall audit opinion of “Improvements Required” is based on an assessment of the individual risks in ‘normal circumstances’. However, when considered together, the combined potential impact of some of the risks identified, does raise concerns regarding the Council's ability to ensure the continued availability of its material systems, in the event of a major disaster. (i.e. where the probability of the event occurring is unlikely but its impact on the business of the Council would be significant.)

Material Systems IT Review 2010/11 (draft)

The evidence obtained during the course of this review confirms that the majority of the processes and procedures in place within the ICT department in respect of the Council's material systems, are of a “Good Standard”. The department has continued to refine its organisational structure and working practices in order to establish a service that is better

placed to respond to the business needs of the organisation in a well organised and professional manner.

Mt. Edgumbe Accounts 2009/10

In accordance with Regulation 6 of the Accounts and Audit Regulations 2003 Devon Audit Partnership has carried out a review of the Mount Edgumbe Joint Committee's financial accounting systems and internal control arrangements in place during 2009/10 financial year. The opinion formed was that in all significant respects the control objectives were being achieved throughout 2009/10.

However, it was noted that as at the 31 March 2010 Mount Edgumbe Joint Committee reported a £300K deficit and nil reserves.

Mt. Edgumbe Trading 2010/11

There are three powerful factors that create specific difficulties in the running of successful and profitable retail trading activities at Mount Edgumbe. They are the geographic position, the location of the trading outlets within the country park and the current staffing arrangements.

In terms of the controls in place mitigate trading risks, there are weaknesses in stock control procedures and "Improvements are Required" in the areas of Governance, Cash Collection and Accountancy and Budgetary Control.

National Non Domestic Rates (Business Rates) 2010/11

The Revenues & Benefits service has developed a three year business plan with the following four key priorities;

- Improved collection rate for Council Tax and Business Rates;
- Improved processing times for Housing Benefit assessments;
- Reducing the cost of service delivery;
- Improving customer satisfaction with service delivery.

Consistent application of internal controls and effective debt recovery practices resulted in the NNDR collection rates exceeding targets up to the end of February 2011 despite the continuing difficulties posed by the economic climate. There was however a shortfall of 0.20% at the end of March but this was as a result of the credits carried due to the government deferral scheme* being posted to 2011/12.

Proactive use of benchmarking data by Revenues & Benefits management is underway, striving to improve the service's performance and cost effectiveness further. The overall opinion formed was of a "Good Standard".

*** On 31 March 2009 the government announced that business ratepayers would be able to defer 60 per cent of their 2009/10 rates bill increase. This would be paid back over 2010/11 and 2011/12.**

OLM CareFirst System 2009/10

In October 2009, the Audit Service issued a draft report which concluded that “fundamental weaknesses” existed within the Carefirst system. The findings of the report were accepted by the CareFirst Programme Board, now chaired by the Assistant Chief Executive on behalf of the Corporate Management Team. This has ensured that appropriate resources have been allocated to address the weaknesses identified in all four control areas reviewed, namely, Compliance and Governance, Information and Data Security, Change Management and Operational Procedures.

The Audit Service has maintained a watching brief and has recently completed a high level follow-up exercise to establish the full extent of the progress made. The follow-up review found significant improvements in the governance arrangements in CareFirst’s administration which has a positive influence upon all areas of internal control. As a result of this, better resourcing, and improvements made in the three other control areas covered, the overall audit opinion has improved from “Fundamental Weaknesses” to “Improvements Required”.

Revenues & Benefits Cheque Payments 2009/10

Following negative publicity arising from the issue of a misprinted refund cheque, the Director for Corporate Support commissioned Devon Audit Partnership to undertake a review of the adequacy of the systems deployed in the production of Council Tax refund cheques. For completeness, the review was expanded to include Non Domestic Rate refunds and Housing Benefit payments.

The review found that overall, the systems and procedures were operating to a good standard but there appeared to be an intermittent fault in the Academy System which when it occurred, resulted in cheque details being wrongly aligned for Council Tax and NNDR but not for Housing Benefit cheques. The fault has been reported to the software supplier and manual checks have been put in place pending resolution of the problem.


Security Services Contract Monitoring Review 2009/10

The review identified a lack of robust monitoring processes for six of the seven security contracts that the City Council had entered into since April 2008. As a result an opinion of “Improvements Required” was formed. The review could not find direct evidence that rates paid were being applied consistently, in accordance with those quoted in the contracts. In addition, there was a lack of one main point of contact for each contract within the Council although this has subsequently been rectified. There was limited monitoring of performance and achievement of service standards in accordance with the contracts, undertaken.

Supporting People 2009/10

The Supporting People Services’ operational procedures continue were found to be administered to a “High Standard”. Recent password quality and data security improvements made to the CareFirst computer application have assisted in improving the level of assurance in the area of data security.

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	<u>INTERNAL AUDIT SERVICE</u> High Priority Weaknesses Identified	
Client	Director for Corporate Support (Senior Information Risk Officer)	
System	Corporate Information Management (2010-2011) – Final Audit Report issued September 2010	
Matter Arising	Recommendation	Responsible Officer / Target Date
<p>Information Governance is not recorded consistently as a risk across the Authority.</p> <p>It is identified as a 'Medium' risk in the Council's Strategic Risk Register and in the ICT department's Operational Risk Register. However, although various information-related issues are included in other departmental Risk Registers, information governance itself is not considered to be a risk and does not appear in any of them.</p>	<p>The Senior Information Risk Officer (SIRO) should ensure that this issue is addressed through the Operational Risk Management Group and that Information Governance becomes a mandatory inclusion in every department's operational risk register.</p>	<p>Head of Corporate Risk and Insurance</p> <p>Target Date: 11/11/10</p>
Management Response to Audit Report issued September 2010		
<p>Recommendation agreed. A way forward in raising the profile of the risk issues would be to make Information Governance a mandatory risk for inclusion in all directorate/departmental Operational Risk Registers - this would then promote regular monitoring in line with well-established existing processes to DMTs, CMT and Members of Audit Committee.</p> <p>The Council's Corporate Information Manager attended a meeting of the Operational Risk Management Group (ORMG), on 15th October 2010, to take them through the key issues in order to achieve consistency in the way that risks are recorded and monitored. This will be followed up by more detailed guidance at the next meeting of the ORMG in December 2010.</p>		
Update as at May 2011		
<p>'Information Governance' is now included in all departments' Operational Risk Registers.</p> <p>In March 2011, the Council's insurance brokers (Heath Lambert) provided an Information Governance training workshop for Risk Champions, to clarify what their role was and what action they needed to take.</p> <p>A standard risk assessment template has now been developed to assist Risk Champions in assessing the specific risks within their areas and once this template has been completed, it will be used to identify issues for inclusion in the departmental operational risk registers. The template is scheduled to be completed by the end of June 2011.</p>		

Matter Arising	Recommendation	Responsible Officer / Target Date
<p>The topic of Information Management lacks a sufficiently high profile within the Council. i.e. There is no regular monitoring of progress on information management issues at Committee level.</p>	<p>The SIRO should seek to formalise Member and Committee reporting arrangements for the management and oversight of information management across the organisation, in a manner similar to that already in place for topics such as Risk Management and RIPA reporting procedures.</p>	<p>Head of Corporate Risk and Insurance</p> <p>Target Date: Process to commence from 11/11/10</p>
<p>Management Response to Audit Report issued September 2010</p>		
<p>Recommendation agreed. Once Information Governance has been included in every department's operational risk register, it will be managed through the existing Risk Management process, which includes regular reports to Audit Committee.</p>		
<p>Update as at May 2011</p>		
<p>The Audit Committee already receives regular Risk Management reports which now include both strategic and operational information governance issues.</p>		

Matter Arising	Recommendation	Responsible Officer / Target Date
<p>Other than the identified 'Caldicott Guardians' in the Adult Health and Social Care and the Children and Young People areas, there are no Information Lead Officers in any of the Council's other directorates.</p>	<p>The Corporate Information Manager should take action to ensure that:</p> <ol style="list-style-type: none"> a. An Information Lead Officer is identified in each directorate and that their responsibilities are incorporated into their Role Profiles and linked to their Staff Appraisal Objectives. b. Assistant Directors identify all information management roles within their directorates and include them in the relevant Role Profiles and Staff Appraisal Objectives. 	<p>Corporate Information Manager Target Date: 31/12/10</p> <p>Corporate Information Manager Target Date: 31/12/10</p>
Management Response to Audit Report issued September 2010		
<p>Recommendation agreed. The need to identify departmental Information Lead Officers is set out in the Council's approved Information Management Strategy and the Corporate Information Manager will pursue this issue as agreed.</p>		
Update as at May 2011		
<p>The SIRO has written to all Directors, asking them to appoint Information Lead Officers (ILOs), within their service areas, to contribute to a corporate Information Management steering group and also to identify their staff that have a specific role in relation to information systems in use.</p> <p>Work has already commenced on this major task and it is expected that further significant progress will be made throughout the current year.</p> <p>The Corporate Information Manager will agree the 'role' of the ILOs with them at the inaugural meeting of the Information Management Steering Group and ensure that the details are included in their role profiles.</p>		
Matter Arising	Recommendation	Responsible Officer / Target Date

<p>There is no corporate steering group in place to manage the changes needed in order to implement the requirements of the Council's Information Management Strategy and embed its Information Management Principles.</p>	<p>The Corporate Information Manager should instigate the formation of an Information Management Steering Group, comprised of the nominated Information Lead Officers from each directorate (See section 1.4 above) and with formal Terms of Reference, to manage the implementation of the Council's Information Management Strategy and the embedding of its approved Information Management Principles throughout the organisation.</p>	<p>Corporate Information Manager</p> <p>Target Date: 31/12/10</p>
<p>Management Response to Audit Report issued September 2010</p>		
<p>Recommendation agreed. The group will be convened once the directorate Information Lead officers have been identified.</p>		
<p>Update as at May 2011</p>		
<p>The existing Management Information Security Forum (MISF) will become the wider Management Information Steering Group and will include the directorate ILOs as well as other officers who are involved in information governance and security issues. The steering group will also be attended by the Assistant Director for ICT.</p>		
<p>Matter Arising</p>	<p>Recommendation</p>	<p>Responsible Officer / Target Date</p>

The principles of the Council's approved Information Management Strategy have not yet been fully embedded throughout the organisation.	The Corporate Information Manager should ensure that the Action Plan, attached to the IMS, is updated and should then gain the approval and commitment of CMT for the allocation of the corporate and directorate budgets (and other resources) needed in order to ensure its completion.	Corporate Information Manager Target Date: 30/4/11
Management Response to Audit Report issued September 2010		
Recommendation agreed. The action plan will be updated and approval sought.		
Update as at May 2011		
<p>New target dates for the Action Plan will need to take into account the results of the departmental information risk assessment exercise, which is currently underway. Once this exercise has been completed, at the end of June 2011, the Corporate Information Manager will then update the Information Management Strategy Action Plan.</p> <p>A number of budget and resource allocations have already been agreed for 2010/11 and 2011/12, examples of which are shown below:</p> <p>The Corporate Accommodation Strategy – including the provision of a new data centre.</p> <p>Investment in Carefirst – including improved system administration.</p> <p>Improvements in data management e.g. HR/Payroll and Housing systems.</p> <p>The new telephone and 'hot desking' technologies.</p>		
Matter Arising	Recommendation	Responsible Officer / Target Date

<p>Information Management is not covered as a specific topic in the Council's corporate induction process and there are no formal training courses available in-house in respect of information management (except for the e-learning course for Government Connect email users, which is only taken by a limited number of staff).</p>	<p>The SIRO should ask the Assistant Director for HR and Organisational Development to amend the corporate induction programme to include coverage of the aims, objectives and requirements of the Council's Information Management Strategy.</p>	<p>This issue will need to be actioned by the Assistant Director for HR and Organisational Development and a target date agreed.</p>
<p>Management Response to Audit Report issued September 2010</p>		
<p>The Assistant Director for ICT and the Corporate Information Manager both agree that the recommended action is necessary and important but its implementation has not yet been confirmed by the Assistant Director for HR and Organisational Development. This issue will be pursued and an update provided to the next Audit Committee.</p>		
<p>Update as at May 2011</p>		
<p>The corporate induction programme is currently being reviewed with the aim of improving its content, the way in which it is delivered and its overall effectiveness. The Assistant Director for HR and Organisational Development has agreed that the subject of information management will be addressed as part of this process.</p> <p>The new procedure will commence in July 2011 after which, the results of the trial will be assessed and any required changes will be reported to CMT for approval.</p>		
<p>Matter Arising</p>	<p>Recommendation</p>	<p>Responsible Officer / Target Date</p>

<p>Comprehensive written policies, procedures, instructions and user guidance notes, covering all aspects of information management, are readily available to all computer users via the Document Library on Staffroom. However, they are not so readily available to non-computer users who may also handle equally valuable physical forms of information.</p> <p>Furthermore, staff do not acknowledge receipt and understanding of Council policies and procedures, etc</p>	<p>The SIRO should ask the Assistant Director for HR and Organisational Development to ensure that all departmental induction programmes are amended to include a section covering of the aims, objectives and requirements of the Council's Information Management Strategy and of the Council's information management policies and guidelines, etc. e.g. the Information Security Policy.</p>	<p>This issue will need to be actioned by the Assistant Director for HR and Organisational Development and a target date agreed.</p>
Management Response to Audit Report issued September 2010		
<p>The Assistant Director for ICT and the Corporate Information Manager both agree that the recommended action is necessary and important but its implementation has not yet been confirmed by the Assistant Director for HR and Organisational Development. This issue will be pursued and an update provided to the next Audit Committee.</p>		
Update as at May 2011		
<p>The departmental induction programmes are currently being reviewed with the aim of improving their content, the way in which they are delivered and their overall effectiveness. The Assistant Director for HR and Organisational Development has agreed that the subject of information management will be addressed as part of this process.</p> <p>The new procedure will commence in July 2011 after which, the results of the trial will be assessed and any required changes will be reported to CMT for approval.</p>		
Matter Arising	Recommendation	Responsible Officer / Target Date

<p>Although PCC acknowledges that information is its second most important asset, the Authority does not know what information it actually holds or where it is all stored.</p> <p>Although there are long established inventory procedures in place for recording and controlling physical assets, there is no approved system for recording information assets.</p> <p>As things stand, the Council cannot be sure that it holds an up to date 'single version of the truth' and it cannot ensure that its information assets are being used to their full potential.</p>	<p>The SIRO should initiate the introduction of corporate Records Management capabilities, throughout the organisation, by asking the Corporate Information Officer/Manager to prepare appropriate recommendations for approval, together with proposed timescales for their implementation.</p>	<p>Corporate Information Officer/Manager</p> <p>Target Date: 31/3/11</p>
Management Response to Audit Report issued September 2010		
<p>Recommendation agreed. The Corporate Information Manager will prepare a report for the SIRO.</p>		
Update as at May 2011		
<p>The Council's ICT Strategy already acknowledges the need to implement corporate records management systems.</p> <p>The Corporate Information Manager's report to the SIRO will need to address any records management issues that are identified as a result of the information risk assessment exercise that is currently underway and it will therefore be compiled after this exercise has been completed at the end of June 2011.</p>		
Matter Arising	Recommendation	Responsible Officer / Target Date

<p>Although responsibility for the security and appropriate use of information assets is clearly set out throughout the Council's Financial Regulations, the general concept of 'Information Ownership' has not yet been embedded throughout the organisation.</p>	<p>The SIRO should write to all Chief Officers to formally remind of their specific responsibilities in respect of information management and security and asking them to identify all of their information systems and pass these details on to the Corporate Information Officer, together with the name of the 'Owner' of each of them.</p>	<p>Corporate Information Officer/Manager</p> <p>Target Date: 1/12/10</p>
<p>Management Response to Audit Report issued September 2010</p>		
<p>Recommendation agreed. The Corporate Information Officer/Manager will draft the communication on behalf of the SIRO.</p>		
<p>Update as at May 2011</p>		
<p>The SIRO has written to all CMT members reminding them that "All Directors are responsible for information as a Council asset" and a briefing session has also been arranged, for Councillors and senior officers, to raise their awareness of the security risks that the Council faces today.</p> <p>Work is underway to identify all of the Council's information systems and to assign an 'owner' to each of them. This is a lengthy task and it is anticipated that further significant progress will continue to be made throughout the current financial year.</p>		
<p>Matter Arising</p>	<p>Recommendation</p>	<p>Responsible Officer / Target Date</p>

<p>Section D.I.20 of Financial Regulations sets out the responsibility of Chief Officers “To ensure that, where appropriate, computer based and other operational systems containing relevant information are registered in accordance with the Data Protection and related legislation, and that staff are aware of their responsibilities under the legislation.”</p> <p>However, there is no formal process in place to enable them to do this and this exposes the Council to the risk of ‘Failure to comply with statutory requirements’. (See Item R46 on the Strategic Risk Register)</p>	<p>The SIRO should initiate the introduction of a formal Data Protection Act registration system, throughout the organisation, by asking the Corporate Information Manager to prepare an appropriate procedure document, together with proposed timescales for its implementation.</p>	<p>Corporate Information Manager</p> <p>Target Date: Ongoing.</p> <p>(It will not be possible to implement an effective system until an initial information audit has been completed.)</p>
<p>Management Response to Audit Report issued September 2010</p>		
<p>Recommendation agreed. However, this recommendation cannot be implemented until an Information Management Steering Group has been established and a full information audit has been carried out. It will then be possible to collate and maintain the data protection registration details from the initial information audit and any subsequent changes to it.</p>		
<p>Update as at May 2011</p>		
<p>The Information Management Steering Group is being established and work will then begin on an information audit and the implementation of a formal Data Protection Act registration system.</p>		

DEVON AUDIT PARTNERSHIP ADDED VALUE FOR PLYMOUTH CITY COUNCIL 2010/11

Devon Audit Partnership is committed to providing value for money to the Council and its stakeholders and, where possible, to identifying examples of specific, tangible benefits achieved. The following are examples of recent benefits delivered by Internal Audit:-

Challenge to 2008/09 HB Subsidy

Internal Audit played a significant role in working with the Housing Benefit Team and Finance to mount a successful challenge to the DWP in respect of the 2008/09 Housing Benefit (HB) subsidy claim. Following qualification of the claim, the Secretary of State proposed to recover £540k from the Authority but, as a result of this collaborative working, this has subsequently reduced to £127,763 a saving of £412k.

As a result of observations made during the challenge exercise, Internal Audit identified a framework to mitigate the risk of the department failing to maximise its HB subsidy in the future. This was distributed to key staff from Housing Benefits and Finance who are most closely involved in the subsidy claim process to act as a check list upon which they can gain assurance that the claim process is robust in the future.

On receiving confirmation from the DWP of the revised figure, the Revenues and Benefits Service Manager emailed “this is fantastic news. A big thank you to all of you for the hard work you put into this to 'make it right', it was a difficult claim and we have certainly learned a lot from this experience”.

Data Quality

Robust performance information based on good quality data is critical to supporting the strategic decisions needed to effectively manage services, deliver shared priorities and achieve outcomes for the people of Plymouth. Internal Audit were engaged to examine and comment on the adequacy of the arrangements in place to accurately and effectively report performance.

Within Community Services, auditors worked alongside Policy and Performance Officers to provide independent assurance on the adequacy and effectiveness of management and operational arrangements for the collection of data and completion of the Government returns. The accuracy, validity and timeliness of the RAP (Referrals, Assessment & Packages of Care), ASC-CAR (Adult Social Care Combined Activity) and PSSEX (Personal Social Services Expenditure) returns were also reviewed.

Feedback received from Community Services was that they appreciated the ‘objective eye’ to their approach and that our report was valuable in improving their methods and lent weight to their own vision for improvement. Auditors are currently in the process of repeating this exercise for the current RAP and ASC-CAR returns.

NI 179 Value for Money

National Indicator 179 related to the total net value of ongoing cash-releasing value for money gains. Prior to the submission of the Council's efficiency savings for 2009/10 Internal Audit reviewed the arrangements in place to report on the savings achieved for the year. Some weaknesses in the system were identified and Internal Audit worked closely with Finance officers to ensure that the Council has a robust framework in place for effectively identifying and reporting efficiency savings achieved in the future. In addition to driving improvements in business processes, Internal Audit also identified additional efficiency savings of £600k.

Whilst central government no longer requires this information to be reported to them in the future, the Council still has to make efficiency savings and the work carried out by Internal Audit supports this ongoing requirement.

Standards & Good Practice Guide for Revenues Staff

Internal Audit have played a primary, pro-active role, working with managers of the Revenues Division, in the setting up and rolling out of a Standards and Good Practice Guide for Revenues staff. This included a series of presentations to staff and followed investigations into the use of partnership organisations' I.T. systems by Council employees. The aim of the presentations was successfully achieved by improving awareness of what staff in the Division can and cannot do in relation to data held by the Council and its partners, and positive feedback was received with regard to the value added.

Internal Audit / External Audit Relationship

Devon Audit Partnership considers that strong working relationships have been forged between Devon Audit Partnership and Grant Thornton. This conviction was supported by the recently departed Grant Thornton Audit Manager who expressed her appreciation of the depth of knowledge and skills the internal audit team possess and the way in which the team had helped her to develop an understanding of how Plymouth City Council works.

Positive Feedback Received from Clients

- Following an audit of a Plymouth school prior to changing to Academy status, the Senior Education Advisor responded "an object in swift and effective audit practice. Getting this final report out so quickly will help enormously". The Business Manager of this same school thanked the auditor both for the report and the way he dealt with the process. At the time, the school administration was under considerable pressure due to the change in school status and expressed appreciation that due to the approach the auditor adopted he had not "made life much worse".

- The Business Manager of another secondary school stated that the auditor “has a great understanding of the pressures facing the financial administration in schools and offers pragmatic and sensible solutions which always improve our processes. I am extremely grateful for his help during the audit and as an advisor at other times.”
- Following achievement of the standard in financial management in schools (FMSIS), the Business Manager of a primary school responded as follows “thank you, this is really great news. Can I say a personal thank you for all your help and patience over the last few months in guiding this new boy through the process.”
- After a complex and lengthy irregularity investigation carried out by Internal Audit which followed complaints received from members of the public, those local citizens wrote a letter to formally thank the Auditors involved for their help. The letter stated that Auditors “grasped the situation very quickly and took our concerns seriously from the beginning. We appreciated the way you kept us informed and were always there to answer all our questions. You undertook your role in a professional manner, yet still remained approachable.”
- Comments from the Education Advisor for ICT and E-Learning following the review of Capita ONE was that the verbal feedback and discussion was particularly useful and the report timely, coming at a point where decisions on the future of Capita ONE and the functionality it provides are being reviewed by Children’s Services in the light of the capacity of the Council and future needs of the department.
- Following the review of the corporate management arrangements for business continuity, the Civic Protection Officer commented on how beneficial the report was and on the courtesy, understanding and very good advice provided by the auditor.
- The Headteacher of one of the City’s new primary schools confirmed that they found “the whole process was a very useful audit tool, which enabled us to rally focus on what we needed to do to improve our systems. It was also good to know we were doing so much right. This was a great confidence builder.”
- “An independent overview is always appreciated” (Strategic Procurement Manager commenting on our review of Security Services Contract)
- Devon Audit Partnership’s work and robust challenge on the following projects, the Plymouth Life Centre, Leisure Management and South West Devon Waste Partnership, has received good feedback from management and Members. The Project Boards and Teams have welcomed Audit’s input and assurance.

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CITY OF PLYMOUTH

Subject:	Annual Governance Statement 2010/11
Committee:	Audit Committee
Date:	27 June 2011
Cabinet Member:	Councillor Ricketts
CMT Member:	Director for Corporate Support
Author:	Mike Hocking, Head of Corporate Risk and Insurance
Contact:	Tel: 01752 304967 Email: mike.hocking@plymouth.gov.uk
Ref:	CRM/MJH
Key Decision:	No
Part:	I

Executive Summary:

Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement (AGS).

The purpose of the AGS is to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified.

The Accounts and Audit (Amendment) (England) Regulations 2006 also introduced a requirement to include an annual review of the effectiveness of the internal audit system.

This report outlines the process followed in order to produce the AGS for 2010/11 and recommends approval of the Statement prior to signature by the Leader, the Chief Executive and the Director for Corporate Support.

The report also provides an opinion on the effectiveness of the internal audit system for the same period.

The proposed Statement for 2010/11 is attached to the report.

Corporate Plan 2011/14:

Maintaining sound systems of internal control and risk management enables the Council to monitor and review the key risks that may prevent it from achieving its corporate objectives.

Implications for Medium Term Financial Plan and Resource Implications:

Including finance, human, IT and land:

None arising specifically from this report.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc:

The Risk Management Strategy specifically supports the processes which underpin the production of the Annual Governance Statement.

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to :

- a) Note the processes adopted for the production of the 2010/11 Annual Governance Statement.
- b) Endorse the adequacy and effectiveness of the system of internal audit.
- c) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Director for Corporate Support.

Alternative options considered and reasons for recommended action:

Not applicable.

Background papers:

Accounts and Audit (Amendment)(England) Regulations 2006
Accounts and Audit (England) Regulations 2011

Sign off:

Fin	SW	Leg	D.S.	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Assistant Director for Democracy and Governance											

**Report of Director for Corporate Support to Audit Committee
27 June 2011**

Annual Governance Statement 2010/11

1. Introduction

- 1.1 This report outlines the background to the statutory requirement to produce an Annual Governance Statement (AGS) and describes the process followed in producing the AGS for 2010/11 for publication with the Annual Statement of Accounts.

2. The Council's Statutory Responsibility

- 2.1 Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement).
- 2.2 There is also a requirement under the Accounts and Audit (Amendment) (England) Regulations 2006 for the AGS to include a review of the effectiveness of the internal audit system.
- 2.3 The purpose of the AGS process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management, in order to give assurance as to their effectiveness and/or to produce a management action plan to address identified weaknesses in either process.
- 2.4 The AGS is required to be approved at a committee of the Council and this sits most comfortably with Audit Committee, as its terms of reference include both internal control and risk management.
- 2.5 The proposed Annual Governance Statement for 2010/11 is attached to this report.

3. Effective Review and the Control of Risk

- 3.1 The statutory responsibility to publish an Annual Governance Statement requires the Council to review its key risks, and to identify and publish the actions that it intends taking to improve or resolve those risks.
- 3.2 These risks primarily relate to the achievement of the Council's core objectives and strategies and, therefore, the AGS provides an opportunity to formally review governance structures and processes that underpin their delivery.

4. Scope of the AGS

- 4.1 The AGS spans the whole range of local authority activities and includes those controls designed to ensure:

- the authority's policies are put into practice
- the organisation's values are met
- laws and regulations are complied with
- required processes are adhered to
- financial statements and other published information are accurate and reliable,
- governance arrangements are in place for significant partnerships
- human resources and other resources are managed efficiently and effectively

- 4.2** In establishing and defining the system of internal control the AGS provides a mechanism by which the authority can maintain, review and keep up to date its control environment. It links internal audit findings, external audit and inspection reports and the risk management process and provides an effective review of the Council's risk management and control mechanisms.
- 4.3** The Council's control environment is managed through a number of core processes and procedures which are defined within the body of the AGS.
- 4.4** The AGS has been compiled by carrying out an annual review of the control environment which has involved researching and formally recognising and recording the processes already in place across the Authority.
- 4.5** Recognising that preparation of the AGS is a wide-ranging and corporate issue that should not be owned by any one department, a Working Group of key officers was established to oversee the process. This Group comprised:
- Head of Corporate Risk and Insurance
 - Assistant Director of Democracy and Governance
 - Audit Manager, Devon Audit Partnership
 - Head of Finance
 - Policy and Planning Manager
 - Head of Legal Services
- 4.6** The Working Group is responsible for producing the AGS which is then approved by the Corporate Management Team and Cabinet Planning prior to ratification by the Audit Committee.
- 4.7** The Council's external auditors will consider the arrangements in place to enable preparation of the AGS, including the degree to which the Council recognises and can demonstrate corporate ownership of its governance arrangements.
- 5. The Assurance Gathering process**
- 5.1** Those with responsibility for signing the AGS need to feel confident that the information used to review the control environment is complete and accurate. The AGS is therefore required to be signed by the most senior officer and the most senior member (ie the Chief Executive and the Council Leader). It is also signed by the Director for Corporate Support as the officer responsible for overseeing the production of the AGS.

- 5.2** Although the production of the AGS is required by the Accounts and Audit Regulations, and the AGS is included with the Statement of Accounts, the responsibility for securing effective internal control does not rest solely with Finance staff.
- 5.3** Preparation of the AGS has therefore involved a variety of people charged with delivering corporate governance:
- Directors, Heads of Service and managers assigned with the ownership of risk and the delivery of services
 - the Chief Financial Officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts
 - the Monitoring Officer in meeting his statutory responsibilities
 - Elected Members (e.g., through Audit or Scrutiny Committees)
 - others responsible for providing assurance (e.g. Internal Audit and Risk Management)
- 5.4** The primary source of information which informs the content of the AGS comes from Assurance Questionnaires completed by Directors, Heads of Service and other senior managers covering key questions around the internal control and governance framework.
- 5.5** When completing these questionnaires respondents are asked to review a number of sources where internal control/governance weaknesses may be identified:
- Risks identified in Strategic and Operational Risk Registers
 - Issues arising from Internal Audit Reviews completed in 2010/11
 - Issues arising from external inspections
 - Audit Commission Annual Audit and Inspection Letter

6. Code of Corporate Governance Self-Assessment/Annual Review

- 6.1** In accordance with the CIPFA/SOLACE framework document *Good Governance in Local Government*, the Council has adopted a local Code of Corporate Governance which was approved by Audit Committee on 31st March 2008.
- 6.2** The framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with the six core principles of good governance set out in the Code.
- 6.3** The AGS Working Group has carried out this annual review and is satisfied that the governance framework described more fully in the Governance Statement attached to this report satisfies the compliance requirements of the CIPFA/SOLACE model Code.

7. Review of Internal Audit System

- 7.1** Continuous review of the effectiveness of the Council's internal audit system is conducted by the Audit Committee whose terms of reference (paragraph 2.2) include, specifically, inter alia:
- To agree the annual Internal Audit Plan

- To monitor the progress and performance of Internal Audit
- To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council

7.2 The Chief Auditor's annual report is being considered at the same time as this report and invites Members to endorse the adequacy and effectiveness of the system of internal audit for the year ending 31st March 2011.

7.3 It is recommended that this endorsement forms part of the Annual Governance Statement for 2010/11.

8. Partnerships Governance

8.1 The Council has drawn up a register of partnerships which are assessed for significance.

8.2 The most significant partnerships have their own risk registers and manage risk as a routine part of performance management.

8.3 A draft Code of Good Practice for partnership management has been produced and is due to be consulted upon and will be used to improve consistency and provide a standard approach to managing partnerships and, in particular, managing risk and sharing good practice.

9. Identifying control weakness significant for the purpose of the AGS

9.1 Whilst there is no absolute definition of the term, the following indicators (provided by CIPFA) have been used to help in considering whether or not an issue is significant enough to be reported on in the AGS:

- it seriously prejudices or prevents achievement of the principal objective of the authority;
- it has resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- it has led to a material impact on the accounts
- the Audit Committee advises it should be considered significant for this purpose;
- the Head of Internal Audit reports on it as significant, for this purpose, in the annual opinion on the internal control environment;
- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- the issue has resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer

10. Conclusion

10.1 The attached AGS identifies the outcome of the review of the effectiveness of Plymouth City Council's governance arrangements, covering internal audit, internal

control and risk management systems and also identifies significant governance issues together with details of actions being taken to address them.

II. Recommendations

II.1 Members of the Audit Committee are recommended to:

- a) Note the processes adopted for the production of the 2010/11 Annual Governance Statement.
- b) Endorse the adequacy and effectiveness of the system of internal audit.
- c) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Director for Corporate Support.

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PLYMOUTH CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2010/2011

Scope of Responsibility

Plymouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Plymouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

Plymouth City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on our website under "Constitution".

This Annual Governance Statement explains how the Council has complied with the Code and also how it meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Plymouth City Council for the year ended 31st March 2011 and up to the date of the approval of the Annual Report and Statement of Accounts.

The Governance Framework

The internal control environment comprises all the processes and procedures in place for the sound running and well being of the Council. It is designed with the intention of:

- establishing and monitoring the achievement of the Council's objectives
- facilitating policy and decision making
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, assessing and managing risks that threaten the delivery of the authority's objectives
- ensuring the economical, effective and efficient use of resources and securing continuous improvement in the way in which the authority's functions are exercised
- managing performance to reduce impact on the environment and managing environmental risks
- managing and reporting of financial information for the authority
- managing performance of the authority and subsequent reporting

The following is an overview of the key elements of Plymouth City Council's control environment. It is not meant to be exhaustive but indicative of the controls adopted by the Council in meeting its aims and objectives. The Council has a number of measures in place to establish and monitor its key aims and objectives and to ensure that the resources used in delivering those objectives are utilised in an economical, effective and efficient way.

Plymouth has a strong vision to become one of Europe's finest, most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone. The vision is driven by "Plymouth 2020" – the local strategic partnership of public, private and third sectors and was originally outlined the Sustainable Community Strategy 2007-20, which acts as a framework to enable services and investments to be delivered in a more responsive, better co-ordinated and sustainable way.

The partnership has subsequently produce the Plymouth Report which provided a comprehensive analysis of need and capacity in the city and laid the foundations for agreement around four priorities which will drive and help realise the city's vision:

- Deliver growth
- Raise aspirations
- Reduce inequality
- Provide value for communities

These are supported by a number of long term and medium term outcome measures, which have again been agreed across the partnership. Plymouth 2020 is also in the process of looking at how it can build on both the Sustainable Community Strategy and the Core Strategy of the Local Development Framework, while at the same time responding to requirements in the Localism Bill. The result is likely to be an overarching Plymouth Plan 2011-31 into which other strategies and plans feed.

The Council produces a **Corporate Plan** which sets out where it is now and its challenges and ambitions for the next three years in relation to transforming the organisation, improving customer experience, making efficiency savings and contributing to the four shared priorities.

The Corporate Plan 2011–2014 was approved by Council in February 2011 and sets out the Council's strategic direction. The focus has moved away from the previous fourteen corporate improvement priorities to now concentrate on the four City wide top level priorities.

These priorities are now the focus of scrutiny by Overview and Scrutiny, Cabinet and the Corporate Management Team, allowing for more detailed examination and debate of fewer, more significant issues than has previously been possible.

The Corporate Plan also provides the framework used by departments in developing their **Business Plans** which establish and monitor the achievement of objectives at service and team level.

The Annual Audit and Inspection letter (November 2009) found that the Council had sound arrangements in place across all areas of use of resources, with particularly strong performance in managing finances. The Council's organisational assessment concluded that it performed well, that performance management arrangements are much improved and that it has the leadership, capacity and capability it needs to deliver future improvements, while the city received a green flag under Comprehensive Area Assessment for the way it works in partnership to address civil emergencies.

The **Constitution** aids the financial management of the Authority and is complemented by **Financial Regulations** and **Standing Orders**, which document protocols and procedures for members and officers in conducting the business of the Council.

Ensuring the Council complies with **Law and Regulations** is ultimately the responsibility of the Assistant Director for Corporate Support (Democracy and Governance), who is the Council's statutory Monitoring Officer, and a series of controls are in place to address compliance issues.

In March 2008 the Council adopted a **Code of Corporate Governance** based on best practice as recommended by CIPFA (The Chartered Institute of Public Finance and Accountancy) and SOLACE (The Society of Local Authority Chief Executives). The Code is reviewed annually as part of the preparation of this Governance Statement.

The **Financial Management** of the Council is based upon a semi-devolved structure – the Statutory Finance Officer role rests with the Director for Corporate Support with a Head of Finance reporting to the Assistant Director for Finance, Assets and Efficiencies. A Finance Manager is based in each department.

There is a Cabinet Member with responsibility for Finance who meets regularly with the Director for Corporate Support. Regular one to one meetings are also held with each Director and the Director for Corporate Support.

Regular, timetabled meetings are held between the Director for Corporate Support and the Assistant Director for Finance and senior finance managers who sit on the management teams of departments and provide financial management advice and guidance.

A key element of **budgetary control** is the **budget monitoring process**. For 2010/11, at the start of each month, Finance provided departmental finance reports to all budget managers. These are reviewed at the next Department Management Team meeting and variances discussed and action taken as appropriate followed by monthly monitoring "scorecard" reports to the Corporate Management Team. Formal quarterly joint Finance and Performance reports go to the Corporate Management Team, Cabinet meetings and to the Overview & Management Scrutiny Panel. This will continue for 2011/12.

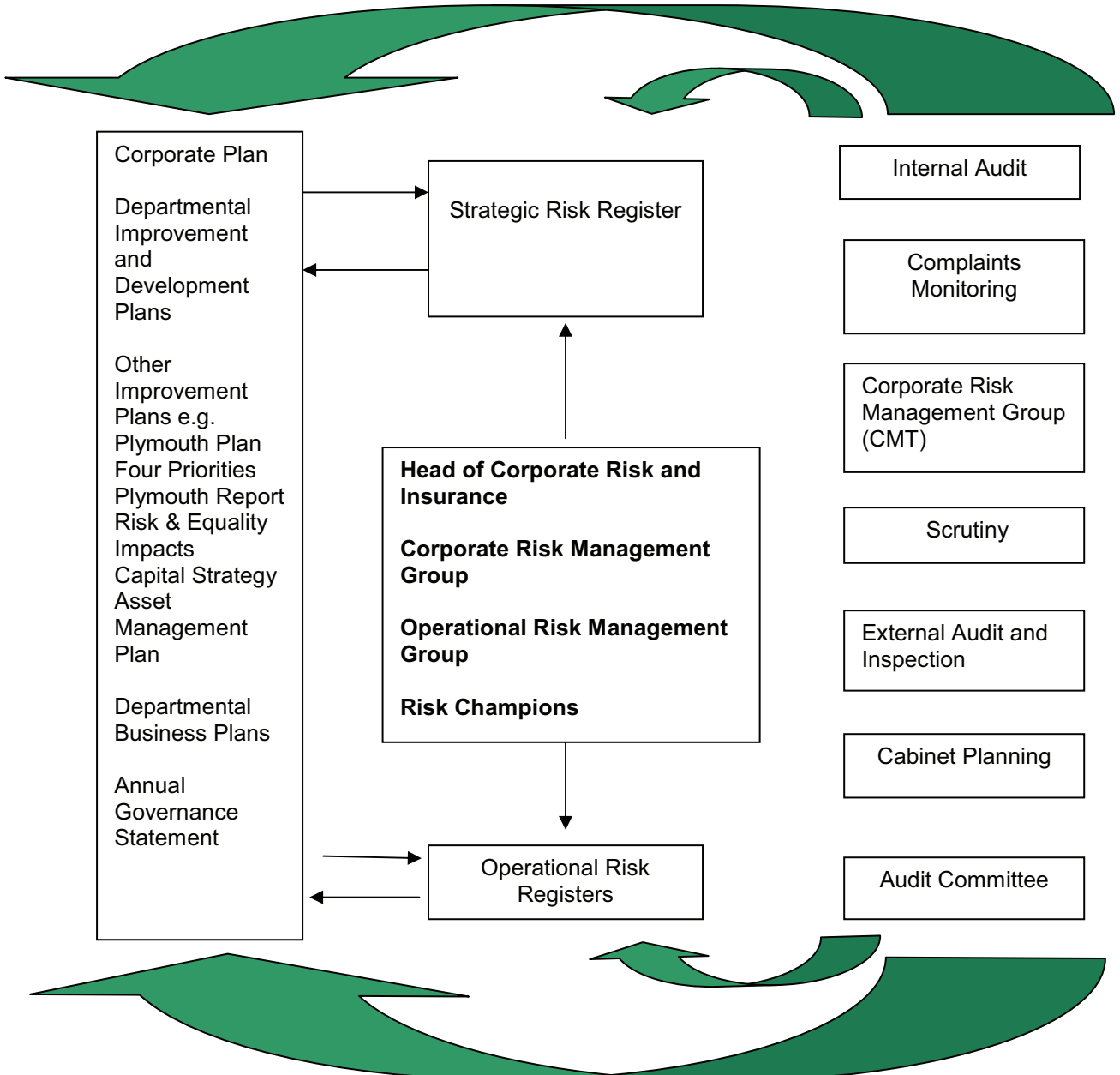
The Finance Management Team (FMT) comprising the Finance Managers and Head of Finance meet fortnightly to manage this process and to review all financial matters.

The Council has adopted a new **Competency Framework** covering all employees as part of its commitment to ensure that there is a clear set of standards that underpins the performance, behaviours, work, knowledge and skills of its staff to help the Council deliver its vision and the key priorities in the Corporate Plan.

The Management of Risk

The overall framework for managing risk is illustrated by the following diagram:-

Monitoring and Review process



How the Council Monitors Risk

The Council maintains Strategic and Operational Risk Registers to record and monitor progress against the key risks which threaten the Council's corporate and service objectives. Registers record, against each of these risks, controls which are already in place and also identify additional controls to enhance the control environment, acting as an action plan to address and improve risks at all levels.

Objectives identified in operational level Business Plans include links where appropriate to the Corporate Plan to ensure that each Service can identify where it contributes to the delivery of the Council's key strategic aims.

The Council invests significant resources into the management of risk through Strategic and Operational Risk Management Groups. A Risk Management Strategy and Policy Statement has been developed and risk registers are monitored using the corporate performance management system, ePerform, as well as creating links to Business Plans and key performance indicators.

Registers and controls are continuously monitored and are updated regularly at a departmental level and through meetings of the Strategic and Operational Risk Management Groups with Member input at Cabinet Planning and subsequent ratification at Audit Committee.

Operational Risk Registers allow departments to monitor potential risks that may threaten the delivery of their service objectives and to escalate a risk to the strategic level for inclusion in the Strategic Risk Register if it is a cross-cutting risk or if it is considered to threaten the strategic objectives of the Council.

Operational Risk Registers are now being fully integrated with Service objectives in line with revised corporate Business Planning arrangements.

The authority acknowledges its responsibilities with regard to environmental risks and is taking action to identify and mitigate future impact.

The Council's Civil Protection Unit, in partnership with the Local Resilience Forum, Devon and Cornwall Police and other key partners, works to identify and manage potential environmental risk and the impact of civil emergencies.

Partnerships Governance

The Council increasingly delivers services via partnership delivery mechanisms and recognises that this creates risks as well as opportunities.

Accordingly, the Council has produced a Partnerships Register which assesses each partnership for significance.

Senior Officers and/or Members sit on the board of most of Plymouth City Council's main partnerships and group organisations and therefore take an active part in discussions/decisions

Significant partnerships have their own risk registers and risk is managed as a routine part of performance management.

In order to improve consistency and produce a standard approach to partnerships, particularly with regard to the management of risks and opportunities, the Council has

produced a draft Partnerships Code of Practice which will be consulted upon with key stakeholders. The Council has also developed formal protocols on the sharing of information and knowledge.

These include regular meetings and working groups to prepare for and review key activities including Plymouth City Council's Group Statement of Accounts and the imminent implementation of International Financial Reporting Standards.

Group organisations have recently been asked to produce assurance questionnaires or their own governance statements to ensure robust governance arrangements are in place. These questionnaires will be reviewed by Plymouth City Council officers who will work together with the Group organisation to resolve any control weaknesses or risks.

Complaints Monitoring

The Council also addresses the management of risk through its internal complaint procedures.

The Standards Committee monitors issues raised through the Local Government Ombudsman to ensure learning and improvement to prevent repetition.

A complaints database has been developed and improvements in the reporting facilities database have helped the Council to monitor and respond quickly to its customers needs.

The Role of Audit

Internal Audit

Internal Audit undertakes an objective programme of audits to ensure that there is sound and adequate risk management and internal control in place across the whole of the City Council. It also supports the authority in accounting for and safeguarding the Council's assets and interests from error, fraud, waste, poor value for money or other losses.

Independent advice, continuous appraisal of systems and other processes are provided to all levels of management on, for example, risk identification, internal controls, anti-fraud and other corporate policies and regulations.

The scope of Internal Audit also includes new developments and government initiatives such as partnership working and other corporate governance issues.

Internal Audit forms an intrinsic part of the risk management and scrutiny function, which ensures that there are robust arrangements for monitoring and review, and that adequate processes are in place for managing the Council's internal affairs and its relationship with key stakeholders, which are required to demonstrate effective corporate governance.

Continuous review of the adequacy and effectiveness of the internal audit system is included in the terms of reference of the Audit Committee and a formal annual review is conducted by that Committee based on the Chief Auditor's annual report.

Since 1st April 2009, Internal Audit services have been provided by Devon Audit Partnership, a partnership formed by Plymouth City Council, Devon County Council and Torbay Council Internal Audit departments.

The benefits of the consortium are:-

- staff resources can be deployed more flexibly and are better able to cope with vacancies and / or ad hoc work;
- sharing of best practice and access to a larger pool of specialist knowledge;
- economies of scale e.g. training, resourcing specialist skills such as IT and contract audit;
- providing for flexible deployment if and when necessary whilst allowing staff to build up specialist knowledge of the council(s) they are working within;
- providing better opportunities for staff to further careers within the internal audit function;
- applying common technology and methodology across all teams to improve efficiency, value for money and skills.

External Audit

Grant Thornton LLP continued to provide external audit services during 2010/11. They provide improvement, assessment and assurance services. In carrying out audit work they comply with the following statutory requirements:

- The Audit Commission Act 1998
- The Code of Audit Practice
- The Local Government Act 1999
- Accountancy and Audit Regulations 2003

They work with the council on the improvement planning process to ensure that the work they perform is co-ordinated and targeted on the Council's key areas for improvement.

The Audit Commission's Relationship Manager also co-ordinates the work of other inspectors as part of this process.

Audit Commission

In August 2010 the Department for Communities and Local Government (DCLG) announced plans to put in place new arrangements for auditing England's local public bodies.

Eventually the Audit Commission's responsibilities for overseeing and commissioning local audit will stop, as will their other statutory functions, including those relating to studies into financial management and value for money. At that point the Audit Commission will be disbanded.

The Audit Commission is working with the DCLG to consider ways of transferring their existing in-house audit practice into the private sector.

Until the new audit regime is introduced the Audit Commission will continue to appoint auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England and to oversee their work.

However, until consultations are complete, there is a degree of uncertainty regarding the future audit regime

Audit Committee

The Council's Audit Committee comprises five Councillors and three Independent Members supported by the Head of Finance and Devon Audit Partnership's Assistant Head of Partnership.

The Committee has responsibilities with respect to both Internal and External Audit, and monitors the nature and scope of audit work performed. It reviews reports and annual audit letters with departmental management, makes recommendations to Cabinet and oversees the interaction of the Council with its external auditor.

The Audit Committee has responsibility to:

- Approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the Council
- Monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders
- Monitor the progress and performance of Internal Audit
- Consider Internal Audit's annual report and comment annually on the adequacy and effectiveness of internal control systems
- Monitor the performance of the Treasury Management function
- Review and advise the Cabinet and Council on the content of the Annual Governance Statement and Statement of Accounts
- Keep under review corporate policies e.g. the Anti-fraud Strategy

Internal and External Audit work closely together to maximise opportunities for synergy between the two services.

Overview and Scrutiny

The Council has previously reviewed and updated its scrutiny arrangements and established an Overview and Scrutiny Management Board to co-ordinate the scrutiny function.

The Board challenges and supports the Cabinet and provides checks and balances by examining major policies, plans, services and financial issues. It is responsible for monitoring, reviewing, selecting and scrutinising decisions made by and on behalf of the Council. The Board was also responsible for scrutiny of the Local Strategic Partnership.

From May 2011 the Board is made up of twelve non-executive members (appointed on political proportionality) and two co-opted representatives which makes scrutiny independent of the Cabinet. The Chairs of the five Overview and Scrutiny Panels and seven other Councillors carry out the work of the Board.

There are five Overview and Scrutiny Panels each of which has a responsibility for scrutiny of a particular area of Council operation. The panels also discharge the Council's statutory function with respect to scrutiny of health and the crime and disorder reduction partnership. When carrying out their investigations, the Panels have the authority to ask Cabinet Members and Officers of the Council to attend meetings to answer questions the Panel might have about their work, the reason for decisions and why any problems have occurred within the Council's performance.

Review of Effectiveness

Plymouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control, including a review of the effectiveness of the system of internal audit. Assurance is sought from a number of sources including a review of Internal and External Audit and Inspection reports, review of current action and improvement plans, review of internal audit arrangements by the Audit Committee and through dialogue with key officers.

The Council is subject to a number of audits and inspections. These help to inform the development of a strong control environment and to develop risk management processes. The Council has an established Risk Management Policy.

In reviewing the current control environment, reports issued by external bodies (Audit and Inspection) and reports produced by Internal Audit have been reviewed to ensure that a comprehensive assessment of the current control issues has been made and that all potential areas of significant risk are being addressed within the internal control environment.

Directors complete an Assurance Questionnaire reviewing the control environment within their Department and the results of the questionnaires have been used to inform the assessment of significant governance issues for the Council.

Significant Governance Issues

As part of the review of the effectiveness of the system of internal control the governance issues summarised below have been assessed as being significant for the purposes of this Statement:

Medium Term Financial Strategy

The Council's Medium Term Financial Strategy (MTFS) was updated and presented to Cabinet following the Comprehensive Spending Review announcements of 20 October 2010 and earlier announcements from the Coalition Government.

The strategy has now been subject to further review as part of the 2011/12 detailed budget exercise and following the 2010/11 outturn position, and presented to Cabinet 7 June 2011.

The Comprehensive Spending Review (CSR) was published in October 2010 and national headlines are a real terms reduction of 28% in local authority budgets over the next four years. The fall in grant is more than 7% a year. However, it is difficult to do a straight comparison of 2011/12 funding from grants with previous years as the Government has included a number of specific grants within the formula grant, and excluded others previously included.

The revised Medium Term Financial Strategy, (MTFS), covers the period 2011-15. It identifies the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period against reduced funding. There remain a number of significant financial pressures that the council will face in the medium to long term including:

- the increased cost of waste collection and disposal;
- growing elderly population and care demand;
- increasing number of child care referrals;

- increasing expectation of effective partnership working alongside a reduction in funding for our key partners;
- significant shortfall in the funding of the council's pension fund;
- un-costed contingent liabilities

As an integral part of the 2011/12 budget, each department has developed Budget Delivery Plans, which for 2011/12 total £13.3m. It is now essential that we ensure robust, regular monitoring of progress against these plans.

Our ability to generate income also remains under pressure. We continue to strive to improve our income collection rates in all major areas including council tax, NNDR and sundry debtors. Challenging income targets have been set for 2011/12 however there is a risk that the economic climate could continue to impact on our ability to be able to achieve these targets.

Alongside existing financial pressures there is a need for significant future investment in our ICT systems. The council needs to fundamentally change the way in which it works to meet the challenging diminishing resources that we face and better joined up systems, integrated around the customer, will be crucial.

We still have an ambitious and significant investment programme in physical assets and local infrastructure. However the council has reviewed and updated its medium term capital programme considering the current economic climate, accounting for future risks around government capital allocations and achievability of capital receipts.

Civic Centre Listing

The listing of the Civic Centre as a Grade II building by English Heritage continues to have a potentially significant financial impact on the Council.

In order to properly address the impact of the Grade II Listing, the Council worked with English Heritage and Avanti Architects, to identify the scope of a variety of potential refurbishment options for the building.

Following the completion of the joint EH/PCC Feasibility Study the Council progressed with analysis of the Options arising from the Study and conducted a formal marketing exercise of the Council's freehold interest in the Civic Centre, Council House and the Civic Centre car park. Expressions of interest from developers have now been received and a number of development options are being considered in the context of the Council's overall Accommodation Strategy and current property market conditions.

As on-going work the Council continues to inspect, repair and maintain the premises taking appropriate action, given the restrictions of the listing, to mitigate any health and safety risks.

Employee Relations

The Council faces a potentially significant risk of litigation and awards relating to employment practices. It therefore maintains an in-house resource to advise on legal matters and risks in relation to employment issues and risks. The in-house resource

primarily acts on behalf of the Council for equal pay disputes, grievances and Employment Tribunal claims and case management discussions at Tribunal.

No provision for successful claims has been made within the Authority's accounts although a capitalisation direction has previously been offered on the conclusion of claims through compromise agreements.

The Comprehensive Spending Review in October 2010 imposed significant budget reductions across the Council which has necessitated a major review of staffing levels and costs.

Extensive negotiations are therefore continuing with Trade Unions over a package of proposed changes to staff Terms and Conditions.

The Trade Unions also continue to be consulted on the implications of departmental delivery plans drawn up to achieve budget reductions across all Services as a result of the Government spending cuts.

The Council's core system for payroll is expected to be retendered and transferred during 2011/12. Proposals and a business case will ensure sufficient resource and time allocated for the maintenance and provision of this core system including business continuity and a second data centre as part of the programme funding.

Health Inequalities

Health inequalities have been identified in the Plymouth Report as the most pressing equality issue in our city. This has led to significant differences in life expectancy between different Neighbourhoods and between men and women.

In order to address this, the council has worked with Plymouth 2020 partners to set targets to close this gap. An interim action plan was delivered last year to kick start work addressing health inequalities, and a new plan from 2011/12, is being developed via the Plymouth 2020 Partnership.

The council is seeking to be an early adopter of a Health & Well Being Board which will give further focus on health inequalities and identify need through a Joint Strategic Needs Assessment. The council is also working on plans for the transfer of Public Health from the Primary Care Trust to the council, which will support this agenda.

Carefirst

It was reported to the June 2010 Audit Committee that "Senior Management has demonstrated strong leadership by taking on board the findings of the 2009/10 audit review and taking swift and proactive action to address the issues raised". The associated improvement programmes continue, with the dedicated CareFirst Team providing the necessary core of expertise and focus.

The Carefirst application and associated work processes remain crucial components in the safeguarding and supporting of the vulnerable within the local community and funding has been identified for the CareFirst programme through to the 2014/15 financial year.

Improvements continue to be made in each of the four key areas of control identified within the 2009/10 internal audit report. Governance is much improved with good clarity, and

links, between strategic and operational structures, improved training processes and a good level of interest and support from members. Significantly, there has been a marked improvement in user perception of CareFirst, with the staged approach to process engineering and improving reporting providing both beacons of good practice and the champions for the changes occurring.

Although improvements are being made to operational procedures and data security, concerns still remain. Despite proceeding satisfactorily, improvements to operational processes will take time to re-engineer and implement across what is a wide array of service areas. Both user management and change management is vastly improved, but the human and cultural factors that impact on data security mean that good practice will take time to fully embed.

The Adult Social Care care-cycle like for like implementation is already underway with the staged transfer to CF6 commenced and completion planned for early July 2011. Work has also commenced on the enhancements to support the Adult Social Care Transformation programme with the first phase of mobile working planned for pilot in the early stages of July 2011.

A formal audit review of CareFirst is planned for the third or fourth quarter of 2011/12 following the migration of Adult Services to CF6, taking into account the key risks of change.

Waste PFI/Future Landfill Allowance Trading Scheme Liabilities

The Private Finance Initiative (PFI) procurement phase for a long-term waste solution was completed to budget and programme with contracts signed in March 2011. Defra confirmed their award of PFI credits to the project in March 2011 and operational commencement is scheduled for 2014 subject to obtaining planning approval in 2011/12.

The project delivery phase continues to be steered and monitored by a Partnership Joint Committee of Councillors and a Partnership Project Executive consisting of senior officers from each of the three Councils.

The project risk register has been refreshed to recognise the project delivery phase risks - the key risk being obtaining successful and timely planning approval. Operational delay consequences have been mitigated as far as possible within the PFI contract and continued waste disposal can be maintained through existing landfill contracts and by purchase of any LATS (Landfill Allowance Trading Scheme) credit shortfall - however continued landfill disposal will have additional budget implications.

Recycling rates improved by around 2% in 2010/11 through new initiatives and hence biodegradable waste to landfill also reduced which has ensured that the Council will remain within its LAT allowances for 2011/12. However it is still forecast that the Council will exceed its LATS allowances in 2012/13 and will need to purchase additional LATS credits until the new PFI solution is in place or the LATS scheme is abolished.

The Council's LATS strategy and purchase needs to be reviewed following the Government's Waste Strategy Review expected summer 2011.

Carbon Reduction Commitment Energy Efficiency Scheme (CRCEE)

Created by DECC and administered by the Environment Agency, the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEE) imposes a carbon tax onto 5,000 of the largest organisations in the UK. The first carbon tax year is April 2011 – March 2012, where £12 will be levied for every tonne of carbon Plymouth City Council emits. The tax is fixed until March 2013, after which the 'carbon credits' will be floated on an open market, and capped by 10% every year which is expected to increase the cost of carbon. The tax burden for 2010/11, payable in April 2012, is anticipated to be £350,000.

A league table will be published in October of each year showing the participants' ability to reduce carbon relative to each other. The first league table is due in October 2011, where participants will be compared against their ability to achieve 'Early Action Metric' points. Points are allocated based on an organisation's ability to manage carbon effectively according to a recognised standard, and based on the amount of energy covered by devices commonly known as 'Smart Meters'.

Plymouth City Council has taken following measures to mitigate against the legal, reputational and financial risks associated with the CRCEE:

- Setting up of a carbon management working group with relevant stakeholders across the council
- Working with internal audit to ensure compliance.
- Working towards accreditation of the carbon management standard ISO14064
- Installation of 'Smart meters' across our building portfolio and schools
- Using an energy management system for more effective energy demand and billing control

Partnerships

The Council increasingly delivers services via partnership delivery mechanisms and recognises that this creates risks as well as opportunities. In many instances these relationships bring additional grant funding to the Council and provide increased opportunities to improve the quality of life for the people of Plymouth.

Recognising that each partnership will require differing levels of governance depending on the complexity of the agreement, the Council has produced a Partnerships Register which assesses each partnership for significance.

Significant partnerships have their own risk registers and risk is managed through Partnership and Programme Boards as a routine part of performance management.

However, in order to improve consistency and produce a standard governance framework for the setting up and management of partnership arrangements, particularly with regard to financial implications and the management of risks and opportunities, the Council has produced a draft Partnerships Code of Practice which is due to be consulted upon with key stakeholders.

Information Governance

In September 2010, the Internal Audit Service issued a report which concluded that fundamental weaknesses existed in the Council's corporate information management arrangements. The findings of that report were accepted by the Council's Senior

Information Risk Officer and Corporate Information Manager and were discussed at Audit Committee in November 2010.

The report included an Action Plan which is now being progressed. The Corporate Information Manager has attended Audit Committee, in March 2011, to update them on the positive steps that are being taken to embed information management principles throughout the organisation and other key actions which are being taken to formalise responsibilities and improve staff training and awareness.

As a first step, the Operational Risk Management Group has led on the inclusion of information governance risks in all departmental risk registers and the baseline information from this exercise will inform future mitigation actions.

The Audit Service has now completed a follow-up exercise to establish the extent of progress made towards implementing the recommendations contained within the report and this review has confirmed that the agreed actions are being taken in a logical and orderly fashion. Progress will continue to be monitored and reported on a regular basis.

Health and Social Care Reforms

The proposed Health and Social Care Bill for the reform of the NHS currently under national consultation brings a range of potential opportunities and risks for the council. These include:

The establishment of *Health and Wellbeing Boards* to oversee the strategic commissioning of health improvement and the delivery of integrated services. As the proposed White Paper is under a further stage of consultation the exact implications are unclear: however in order to mitigate these the council alongside NHS Plymouth is piloting the new approach as a pathfinder.

The legal duty for councils to establish *HealthWatch* organisations to scrutinise the local NHS. The funding for these services is not yet clear and this remains a risk to the Council although there are strong indications that funding will reflect the current level in local LINKS which the Bill will abolish. Governance arrangements are a minor risk as the plan is for links to be governed nationally under an umbrella organisation. Risks to the council will be mitigated through the procurement process once the Bill is passed. The Council is supporting Links to become a pathfinder for HealthWatch.

The transfer of some *Public Health* responsibilities from the NHS to Local Government and the establishment of Public Health England. As yet the division of statutory duties and funding between Public Health England and Local Government remain unclear: risks are potential mismatches in the transfer of funding and responsibilities.

Establishment of *GP commissioning consortia* and the abolition of PCTs and Strategic Health Authorities remains a fundamental plank of the NHS reforms but the extent to which GPs will manage financial risk is still under debate. The key opportunity for the Council is around the need to establish new relationships with GPs as strategic commissioning partners and ensure the local arrangements particularly in relation to the Quality Innovation, Improvement and Productivity (QIPP) programme are maintained.

Actions underway to mitigate these risks include a programme of meetings and events with leading GPs to establish new relationships and accelerating of the Adult Social Care transformation programme and investment into social care reablement.

In addition to the NHS reforms, the national Transforming Community Services (TCS) programme has resulted in Plymouth in the separation of provider functions from commissioning within the PCT and the plans to establish a new organisation providing community health care as a social enterprise (SE). The current partnership arrangements for learning disability and mental health services will need to be reviewed as part of these changes.

Reduction in government funding for housing and regeneration schemes

As a result of the Comprehensive Spending Review, capital funding nationally has been reduced by 70%, and a new Affordable Rent Tenure (ART) is introduced with less grant per home and a correspondingly higher proportion of private sector funding and rent levels.

While we have a good programme for 2011/12, we need to ensure investment comes into Plymouth in the following years of the new CSR. Private Sector Renewal Grant has been deleted which reduces our ability to improve poor standard privately rented or owned homes, and support adaptations to the level we have previously.

To mitigate the impact of this we have:

- Engaged with partners to analyse the housing market impact and have developed a 'Plymouth ask' to maximise investment, while mitigating ART impact on affordability.
- Included Council owned sites for affordable housing as packages to input into the bids to ensure we capture and maximise investment into Plymouth
- Re-profiled and managed last year's capital spend to ensure we focus on essential / mandatory private sector housing issues to support adaptations and other private housing interventions over the next two years
- Begun a revision of the Private Sector Assistance Policy to include a range of loans as well as grants to stretch money further.

Statutory compliance – corporate asset management

Further to changes in the council organisation following initiatives like stock transfer, in order to ensure continuing legislative compliance and provide a clear and efficient service to customers and members of the public for identification of property responsibility, consideration is required over the internal ownership of Council land and buildings. There is potential risk for the council that currently buildings are not fully compliant for Legislative safety testing like gas, electricity and water. Non-compliance could expose the Council to the risk of prosecution and litigation for claims.

With further future potential operational changes like the council's accommodation strategy a consistent approach to management of council property is required to ensure opportunities for efficiencies are maximised and potential risks are minimised.

The Council is looking to move to a "Corporate Landlord" model under which the ownership and management of all corporate assets will be centralised in one area to ensure that all buildings are subject to existing corporate testing contracts.

Education Reforms

The Council's *Investment for Children* strategy which was adopted in December 2008 encourages schools to develop independence in the context of increased collaboration

between schools. The Councils relationship with schools is changing from a provider of education to a commissioner of education places. The Council's strategy maps out this different relationship.

The Academies Act 2010 has changed dramatically the way in which Schools can seek greater independence and the encouragements, particularly financial, have resulted in a rapid increase in the pace of this change. As of the 1st April 2011 Plymouth had the highest proportion of Academies in the country as 7 secondary schools converted on that date, taking the number of Academies in the city to 11.

Academy transfers result in a financial loss for central council budgets but a gain in academy budgets. The net position for Plymouth is a substantial gain. It was reported to CMT in the spring that the modelled position on the likely transfers would be of the order of £6m increase. Nevertheless there is a substantial risk that the reducing Council budgets, combined with reduction budgets from the fiscal position of all councils could result in a reduction of services to schools that remain in the maintained sector.

To mitigate the impact of this we have:

- Developed a Corporate Impact Group that includes Finance, Legal, Human Resources, Property and Education officers and which deals with the transfers and seeks long term protections in the legal transfer documents.
- Developed an Academy Trading Fair document that seeks to ensure there is clarity for Academies on the Local Authority services, their cost and their value.
- Worked through Head teacher associations, PASH, SHAP and PAPH, to maintain the challenge to Academies that retains the collaborative approach in the city.
- Maintained the cohesive nature of Schools Forum in the financial fairness and transparency in funding for schools which allows the financial effects of Academy transfers to be comprehensively understood.

Certification

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for further improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

To the best of our knowledge, the internal control environment as defined above has operated effectively during the year.

Barry Keel
Chief Executive

Cllr Vivien Pengelly
Leader of the Council

Adam Broome
Director for Corporate Support

Dated

Dated

Dated

CITY OF PLYMOUTH

Subject: Operational Risk Management Update Report

Committee: Audit Committee

Date: 27 June 2011

Cabinet Member: Councillor Ricketts

CMT Member: Director for Corporate Support

Author: Mike Hocking, Head of Corporate Risk & Insurance

Contact: Tel: 01752 304967
Email: mike.hocking@plymouth.gov.uk

Ref: CRM/MJH

Key Decision: No

Part: 1

Executive Summary:

At the meeting of the Audit Committee on 21st January 2011, I reported that Services were engaged in a revision to their Operational Risk Registers in order to identify and align risks with their Business Plans in accordance with corporate guidelines on operational risk management and business planning

This report now outlines the continuing progress being made across Services in delivering Operational Risk Registers.

The total number of operational risks now reported has increased from 118 to 131, comprising 2 high (red) risks, 71 medium (amber) risks and 58 low (green) risks.

Commentary on the high risk areas is included in the report together with details of control actions/mitigation in place.

Corporate Plan 2011/2014:

Operational Risk Registers are being aligned to Business Plan objectives which are in turn linked to the Corporate Plan and our four priorities. This ensures that appropriate links are identified with individual risks where control action contributes to the delivery of a key corporate objective.

Implications for Medium Term Financial Plan and Resource Implications:**Including finance, human, IT and land :**

None arising specifically from this report but control measures identified in risk registers could have financial or resource implications.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equality Impact Assessment etc:

None arising specifically from this report but community safety and health and safety risks are taken into account in the preparation of risk registers.

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to note the current position with regard to operational risk management.

Alternative options considered and reasons for recommended action:

Effective risk management processes are an essential element of internal control and as such are an important element of good corporate governance. For this reason alternative options are not applicable.

Background papers:

- Plymouth City Council Risk Management Strategy and Policy Statement
- Operational Risk Registers and associated working papers
- Business Plan guidance and template 2011-2014
- Previous reports on risk management to Audit Committee

Sign off:

Head of Fin	SW	Head of Leg	DS	Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member : Assistant Director, Democracy and Governance											

**Report of Director for Corporate Support to Audit Committee
27 June 2011**

Operational Risk Management Update Report

1. Introduction

- 1.1** At the meeting of the Audit Committee on 21st January 2011, I reported that Services were engaged in a revision to their Operational Risk Registers in order to identify and align risks with their Business Plans in accordance with corporate guidelines on operational risk management and business planning.
- 1.2** The business plan guidance and template has been revised for 2011-2014 and departments have been engaged in populating their service business plan templates to cover the next 3 year rolling plan.
- 1.3** This report now outlines the continuing progress being made across Services in delivering Operational Risk Registers in line with the Council's shared vision and priorities.
- 1.4** The total number of operational risks now being reported has increased from 118 to 131, comprising 2 high (red) risks 71 medium (amber) risks and 58 low (green) risks.
- 1.5** The increase in risks is mainly due to the addition of 13 new risks from the Assistant Chief Executive's Department following a risk workshop held in March and 8 new risks from Finance, Assets and Efficiencies following their business plan revision.
- 1.6** The report includes commentary on the high risk areas identified together with details of control actions/mitigation.

2. Background

- 2.1** Although the CAA inspection framework has been abolished, the performance drivers within the Use of Resources assessment remain a valid focus for the Council to continue on its improvement journey and, in particular, for the development of an effective risk management strategy.
- 2.2** We will therefore continue to work towards fully embedding risk management in the Council's core business processes in line with the original UoR Action Plan.

2.3 The good progress made towards achievement of this outlined in this report should provide Members with assurance that operational risks are now being identified effectively, mitigation actions put in place and Operational Risk Registers monitored routinely alongside the delivery of Business Plan objectives.

3. Operational Risk Registers and Analysis of Risks Identified

3.1 Departmental Risk Champions continue to make good progress in embedding the corporate risk management process to enable service level Operational Risk Registers to be brought in line with the business plan guidance and template 2011-2014.

3.2 In drawing up their Business Plans, Assistant Directors and Heads of Service are being asked to identify risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis at management team meetings, will be tracking the effectiveness of mitigation controls.

3.3 As the risk identification process includes quantification through a probability/impact assessment, Services should also be able to identify key risks and prioritise their use of scarce resources more effectively.

3.4 All Services have therefore now either completed Operational Risk Registers or are reporting work in progress in line with development of their Business Plans.

3.5 An update across directorates is provided below:

- **Children's Services**

The Children's Services risk register is divided into four divisions, Lifelong Learning, Commissioning, Policy and Performance, Learner and Family Support and Children's Social Care in line with the Children and Young People's Trust Plan.

No red risks are currently reported and there has been a decrease in the number of amber risks.

- **Development**

Development's operational risk register is divided into four categories of risk and these are Planning Services, Economic Development, Transport & Highways and Strategic Housing. Whilst there has been a drop in the number of operational risks, the department is reporting the potential for strategic risks to increase around the Growth Agenda for the City.

- **Community Services**

Risks are monitored every six months and the Risk Champion attends senior management meetings to meet individual officers, review their risks and also raise awareness of the risk management process.

There is a new amber risk relating to local nature reserves. As more people are being encouraged to go outside and view wildlife they are experiencing greater use and footfall. The risks are around budget constraints for on-going maintenance, particularly tree work. A Tree Strategy is being developed and tree surveys are being programmed on all LNR path networks.

- **Assistant Chief Executive**

A risk workshop was held on 16th March and a revised risk register has now been developed alongside the Business Plan and is awaiting ratification by the senior management team. The register will now be monitored regularly in line with the Business Plan.

- **Corporate Support**

Finance, Assets and Efficiencies (F,A & E) has developed an over arching service plan for 2011/12 that captures the key priority actions from Capital & Assets, Finance and Value for Money. To accompany this for 2011/12 there will also be an over arching risk register for F,A & E consisting of the top level risks from each service area but with each service area continuing to have their own risk register covering all their activities.

The **Revenues & Benefits** Business Plan is developed annually by the DMT with Team Managers' input and risks identified at this stage. Risks are then monitored and actions planned at monthly management meetings.

The **ICT** business plan is being finalised following recent office moves and risks aligned accordingly.

Legal Services.

Risks are aligned with the Legal Services Business Plan and are reviewed by the Management Team on a six monthly basis or sooner if a new risk is identified.

Human Resources and Organisational Development

All risk register monitoring dates are included in the HR & OD forward plan together with risk assessment monitoring dates.

There is one new amber risk in relation to the reduction of sickness absence and productivity. This is linked to strategic risk 36 (Management of Employee Stress) and a specific project is being scoped to look at the associated risks.

- 3.6** The table below shows the total number of risks now identified in operational risk registers across the Council and shows the comparison with the last monitoring period:

Risk Category	No. of Risks – Jan 11	No. of Risks – Jun 11	Deleted Risks Jun 11	New Risks Jun 11
Red (High)	4	2	0	1
Amber (Medium)	63	71	9	22
Green (Low)	51	58	6	5
Total	118	131	15	28

4. Red Risks

- 4.1** Of the four “red” risks identified in January 2011, one remains red while three have been reduced to amber following improvements to controls. One new red risk has been added since the last report as indicated below:

Department	Potential Risk	Comments / Mitigation
RED RISK Finance - Capital & Assets	<p>Failure to maintain trees on the corporate estate.</p> <p>Pockets of land retained by the Council following the stock transfer to Plymouth Community Homes now come under the control of Corporate Property. There is a need to complete a survey and register of trees on this land.</p>	<p>Council owned trees have been identified but condition surveys and an SLA has been agreed with Parks Services to complete the surveys and carry out any necessary remedial works with a target date for completion of Autumn 2011.</p> <p>Following this the management of all Council-owned trees will be centralised as part of the "Corporate Landlord" model currently being developed.</p>

NEW RED RISK Finance, Assets & Efficiencies	<p>Medium Term Financial Strategy issues</p>	<p>This risk is also included on the Strategic Risk Register. Robust delivery plan structure put in place for 2011/12. Progress is reported within quarterly finance and performance reporting.</p>
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Department	Potential Risk	Comments / Mitigation
FORMER RED RISK (Now amber) Children & Young People	<p>Inaccurate pupil number forecast in school admissions</p>	<p>The risk has been reduced to amber as mechanisms have been devised to improve the way information is received from schools whenever there is a change in pupil numbers.</p>

FORMER RED RISK (Now amber) Finance, Assets & Efficiencies	Failure to achieve carbon reduction targets	The carbon management plan is in place and a structure review is underway to assist in delivery.
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FORMER RED RISK (now amber) Human Resources & Organisational Development	HM Revenue & Customs Compliance (Risk of engagement of workers on incorrect employment basis incurring unforeseen tax and N.I. financial liabilities)	An audit has taken place and controls have been developed to ensure correct employment status is confirmed prior to engagement of staff.
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5. Risk Register Information

- 5.1** Operational Risk Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case in order to aid monitoring which is being built into the business plan monitoring framework in each Service.
- 5.2** Risks scored 5 and under are considered to be managed to an acceptable level and have been removed from registers and archived in line with the current Risk Management Strategy.
- 5.3** Risk information is being recorded on the corporate performance management system, ePerform, using the risk management reporting module until any successor system is implemented.
- 5.4** More detailed information on individual Services' risk registers can be obtained from the Head of Corporate Risk & Insurance, departmental risk champions or Heads of Service.

6. Update of Risk Management Strategy

- 6.1** The annual review of the Risk Management Strategy has been undertaken and revised in line with the Council's four new corporate priorities and the shared vision.
- 6.2** The updated version has now been published on the Intranet and can be downloaded from the Document Library

7. Information Governance

- 7.1** In September 2010, the Internal Audit Service issued a report which concluded that fundamental weaknesses existed in the Council's corporate information management arrangements. The findings of that report were accepted by the Council's Senior Information Risk Officer and Corporate Information Manager and were discussed at Audit Committee in November 2010.
- 7.2** The report included an Action Plan which is now being progressed. The Corporate Information Manager attended Audit Committee, in March 2011, to provide an update on the positive steps that are being taken to embed information management principles throughout the organisation and other key actions which are being taken to formalise responsibilities and improve staff training and awareness.
- 7.3** The Director for Corporate Support, as the Council's designated Senior Risk Information Officer, has asked all Directors to appoint Information Risk Officers within their service areas to establish what information systems they use and who is responsible for them. These officers are forming a corporate group to act as a conduit for implementation of improved and more consistent information governance across the Council.
- 7.4** To support this objective, and as a first step, the Operational Risk Management Group facilitated an Information Governance training workshop for risk champions on 18th March 2011.
- 7.5** The workshop introduced a standard risk template for the inclusion of a common set of information governance risks in all departmental risk registers and the baseline information from this exercise will inform future mitigation actions.
- 7.6** In addition, on 26 May the Assistant Director for ICT hosted a briefing for Members and Officers to raise awareness of cyber threats to our information security.

8. Risks and Corporate Business Processes

- 8.1** A key aim of the risk management strategy is to embed risk management considerations into core business processes such as strategic and financial planning, policy making, performance management, project/partnerships management and business planning.
- 8.2** Good progress has been made in all these areas as follows:
- **Strategic and Financial Planning** – Following analysis of the Plymouth Report, the council's priority focus has been reduced from 14 Corporate Improvement Priorities to 4: deliver growth, raise aspirations, reduce inequalities and provide value for communities.

Delivery plans are supported by risk logs and resources are allocated according to risk – assessed priorities so there is sustained focus on value for communities and the efficiency agenda.

- **Policy Making** – report authors preparing papers for Member decisions are required to include risk considerations in the front summary sheet for all Committee reports.
- **Performance Management** – the Council is looking at replacing the current Performance Management system – ePerform. Until the successor system is in place, risks will continue to be recorded in the risk management module and linked to strategic and service objectives. In addition, to support the development of a risk aware culture, risk management is now one of the five core management competencies in the Competency Framework and managers are therefore now routinely assessed on their performance in managing risk as part of their annual appraisal.
- **Project/Partnerships Management** – A broad-based, city-wide review of governance across the whole partnership landscape is proposed for this year in light of the Comprehensive Spending Review and its impact on both the Council and its strategic partners and also in the light of structural reforms around for example the future provision of healthcare services.
Project management arrangements under the control of the Corporate Property team include robust risk management elements.
- **Business Planning** – Operational Risks are now being routinely incorporated into departmental business plans as outlined in Section 3 of this report.

9. Conclusion

- 9.1 The Council's success in dealing with the risks it faces can have a major impact on the achievement of key promises and objectives and ultimately, therefore, on the level of service to the community.
- 9.2 The Council recognises that it is operating in a climate of unprecedented financial pressure and that it therefore needs to be innovative, resourceful, customer focused and provide greater value for money.

The achievement of delivery plan actions to deliver budget savings continues to be closely monitored by Services during 2011 with regular reporting on a risk rated basis to the Corporate Management Team.

- 9.3** The approach to operational risk management now being adopted is focussed on improving the ability of Services to manage those risks that may prevent them from delivery of their Business and Delivery Plans – this in turn should in time impact positively on outcomes for service users and, as the process becomes fully implemented as a routine business practice, will go a long way towards meeting the risk management requirements of effective corporate governance in line with external inspection and stakeholder expectations. It should also contribute effectively to reducing the Council’s overall budget deficit and to meeting the challenges of the current financial climate.
- 9.4** One of the responsibilities of the Audit Committee is to seek and receive assurances that the Council has an effective internal control framework in place which includes arrangements for the management of risk at both strategic and operational level.
- 9.5** This update report confirms that operational risks are now being identified across Services with clear links to Business Plan objectives and also confirms the good progress in embedding risk management in the Council’s other core business processes.
- 9.6** The Operational Risk Management Group is continuing to work with departmental Risk Champions to maintain the good progress to date and to further develop consistent application of risk management considerations across all operations of the Council.
- 9.7** The next progress report will be brought to Audit Committee in December 2011.
- 10. Recommendation**
- 10.1** Members of the Audit Committee are invited to note the current position with regard to operational risk management.

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Subject: Risk Management – Annual Report

Committee: Audit Committee

Date: 27 June 2011

Cabinet Member: Councillor Ricketts

CMT Member: Director for Corporate Support

Author: Mike Hocking, Head of Corporate Risk & Insurance

Contact: Tel: 01752 304967
Email: mike.hocking@plymouth.gov.uk

Ref: CRM/MJH

Key Decision: No

Part: I

Executive Summary:

This report summarises the work carried out during 2010/11 to develop the Council's approach to risk management and covers:

- Corporate and Operational Risk Management Groups
 - Risk Registers
 - Performance Management and Business Planning
 - Annual Governance Statement
 - Risk Management and the Competency Framework
 - Partnerships Governance
 - Intranet Risk Management Guidance
 - Information Governance
 - ALARM Benchmarking
 - Risk Management Maturity Review by Heath Lambert
 - Focus for 2011/2012
-

Corporate Plan 2011/2014:

Maintaining sound systems of internal control and risk management enables the Council to monitor and review the key risks that may prevent it from achieving its corporate and service objectives.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land :**

None arising specifically from this report.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc:

The Risk Management Strategy specifically supports the Council’s overall governance arrangements.

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to note the Annual Report.

Alternative options considered and reasons for recommended action:

Not applicable.

Background papers:

Strategic and Operational Risk Registers
Previous Audit Committee reports

Sign off:

Head of Fin	S.W.	Head of Leg	D.S.	Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member: Asst Director for Democracy and Governance											

Risk Management - Annual Report

1. Introduction

1.1 This report summarises the work carried out during 2010/11 to further develop the Council's approach to risk management.

1.2 The review covers :

- **Corporate and Operational Risk Management Groups**
- **Risk Registers**
- **Performance Management and Business Planning**
- **Annual Governance Statement**
- **Risk Management and the Competency Framework**
- **Partnerships Governance**
- **Intranet Risk Management Guidance**
- **Information Governance**
- **ALARM Benchmarking**
- **Risk Management Maturity Review by Heath Lambert**
- **Focus for 2011/2012**

2. Corporate and Operational Risk Management Groups

2.1 Members will be aware that the risk management strategy involves a two tier approach.

2.2 The Corporate Management Team (CMT) acts as the Corporate Risk Management Group (CRMG) with responsibility for the Strategic Risk Register and the overall risk management strategy.

2.3 CRMG has met four times in the past twelve months to receive and approve monitoring reports and to consider strategic risk issues prior to Cabinet Planning giving approval for reports to be presented to Audit Committee.

2.4 Directors have engaged fully in the risk management process in taking ownership of the Strategic Risk Register both formally at CRMG meetings and throughout the year in proposing amendments to the Register in line with changing circumstances and priorities for the Council.

2.5 As a result the Strategic Register has now been through 18 revisions since it was first drawn up eight years ago which is good evidence of the dynamic nature of the risk management process and its embeddedness at a strategic level.

2.6 Portfolio-holders at meetings of Cabinet Planning have also been engaged in considering and challenging risk management monitoring reports.

2.7 Matters of day to day operational risk management are the responsibility of the Operational Risk Management Group (ORMG) which is chaired by the Head of Corporate Risk & Insurance and comprises Risk Champions from each Directorate and/or Service.

- 2.8 The ORMG has met every 6 – 8 weeks to review and monitor Operational Risk Registers, to promote and develop a consistent approach to risk management and also to consider bids from departments for financial assistance from the Risk Management Fund towards risk reduction initiatives.
- 2.9 The Risk Management Fund is currently £50,000 per annum and is used as a pump-priming fund to enable departments to implement risk reduction initiatives in areas such as physical security improvements (fire/intruder alarms, CCTV etc), training, health and safety improvements etc.
- 2.10 A list of those projects supported by the Fund in 2010/11 is attached for information at Appendix A.

3. Risk Registers

- 3.1 Both Strategic and Operational Risk Registers are the subject of formal monitoring on a six-monthly basis with the results discussed and agreed firstly at CMT and secondly at Cabinet Planning prior to a monitoring report being presented to this Committee.
- 3.2 Monitoring reports are now routinely considered at each meeting of this Committee with Strategic and Operational risk updates provided to alternate meetings. Reports outline the direction of travel for all risks identified in risk registers and provide commentary on the effectiveness of the risk management processes in place.

4. Performance Management and Business Planning

- 4.1 The Council is looking at replacing the current Performance Management system – ePerform. Until the successor system is in place, risks will continue to be recorded in the risk management module and linked to strategic and service objectives.
- 4.2 Departmental Risk Champions continue to make good progress in embedding the corporate risk management process to enable service level Operational Risk Registers to be brought in line with the business plan guidance and template 2011-2014.
- 4.3 In drawing up their Business Plans, Assistant Directors and Heads of Service are being asked to identify risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis at management team meetings, will be tracking the effectiveness of mitigation controls.
- 4.4 This work is key to demonstrating further embeddedness of risk management considerations into the Council's corporate business processes.

5. Annual Governance Statement

- 5.1 The system of internal control in the Council is based on an ongoing process to identify and prioritise the risks or threats to the achievement of policies, aims and objectives and to evaluate the likelihood of those risks being realised and the impact should they occur.
- 5.2 In accordance with the CIPFA/SOLACE framework document *Good Governance in Local Government*, the Council has adopted a local Code of Corporate Governance which was approved by Audit Committee on 31st March 2008.
- 5.3 The framework recommends that the Council carries out annually a self-assessment of how it complies with the six core principles of good governance set out in the Code.

5.4 The AGS Working Group has carried out this annual review and is satisfied that the governance framework described in the Governance Statement satisfies the compliance requirements of the CIPFA/SOLACE model Code.

5.5 The monitoring processes now in place to manage risk through the Council's approach to risk management is proving to be an effective tool in contributing to the delivery of this statutory responsibility, with the Strategic Risk Register in particular largely informing the content of the AGS.

6. Risk Management and the Competency Framework

6.1 In 2009 the Council adopted a new Competency Framework covering all employees as part of its commitment to ensure that there is a clear set of standards that underpins the performance, behaviours, work, knowledge and skills of its staff to help the Council deliver its vision and the key priorities in the Corporate Plan.

6.2 Risk Management performance is one of five core management competencies in the Framework so that senior managers are now assessed on their contribution towards the delivery of the Corporate Risk Management Strategy as part of their annual appraisals.

7. Partnerships Governance

7.1 The Council is increasingly engaging in partnership arrangements to deliver its corporate objectives and this brings both risks and opportunities – it is therefore important that effective governance arrangements are in place to monitor the effectiveness of delivery mechanisms.

7.2 External inspections have confirmed that the Council's significant partnerships have effective risk management arrangements in place with risk registers monitored routinely by Programme and Project Boards.

7.3 However, there is a need for a more consistent approach to governance arrangements across all partnership working, more particularly in the light of the current economic climate and the threat of funding cuts to both the Council and potentially its key partners as well.

7.4 A broad-based, city-wide review of governance across the whole partnership landscape is proposed for this year in light of the Comprehensive Spending Review and its impact on both the Council and its strategic partners and also in the light of structural reforms around for example the future provision of healthcare services.

8. Intranet Risk Management Guidance

8.1 The Corporate Risk Management Team continues to develop guidance material which is available to managers and staff within a comprehensive risk management page on the Staff Room intranet site.

8.2 Current guidance covers the following frequently asked questions:

- What is a risk?
- What is risk management?
- Why is risk management important?
- How do I report a risk?
- What is the process for monitoring risks?
- Who is my risk champion?
- How do I apply for risk management funding?

- How does risk management fit with the Competency Framework?
- How do I arrange risk management training?

8.3 Information is also provided on risk management in business planning, ePerform and the Council's Code of Corporate Governance.

8.4 The latest version of the Strategic Risk Register, once approved by this Committee, is also published on the site.

9. Information Governance

9.1 In September 2010, the Internal Audit Service issued a report which concluded that fundamental weaknesses existed in the Council's corporate information management arrangements. The findings of that report were accepted by the Council's Senior Information Risk Officer and Corporate Information Manager and were discussed at Audit Committee in November 2010.

9.2 The report included an Action Plan which is now being progressed. The Corporate Information Manager attended Audit Committee, in March 2011, to provide an update on the positive steps that are being taken to embed information management principles throughout the organisation and other key actions which are being taken to formalise responsibilities and improve staff training and awareness.

9.3 The Director for Corporate Support, as the Council's designated Senior Risk Information Officer, has asked all Directors to appoint Information Risk Officers within their service areas to establish what information systems they use and who is responsible for them. These officers are forming a corporate group to act as a conduit for implementation of improved and more consistent information governance across the Council.

9.4 To support this objective, and as a first step, the Operational Risk Management Group facilitated an Information Governance training workshop for risk champions on 18th March 2011.

9.5 The workshop introduced a standard risk template for the inclusion of a common set of information governance risks in all departmental risk registers and the baseline information from this exercise will inform future mitigation actions.

9.6 In addition, on 26th May the Assistant Director for ICT hosted a briefing for Members and Officers to raise awareness of cyber threats to our information security.

10. Benchmarking

10.1 The Council joined a new national risk management benchmarking club in April 2010 which was a collaboration between ALARM and CIPFA.

10.2 In total 103 local authorities signed up and completed a survey questionnaire based on Alarm's National Performance Model for Risk Management in Public Services and designed to enable participants to test their organisation's performance against the major risk management standards, expectations of inspection bodies and criteria that inform the risk management element of the Annual Governance Statement.

10.3 The questionnaire comprised of 117 questions in total split into 7 sections which are listed in the results table below. The answers were then weighted to reflect their relative impact on performance and collated into a final score for each section based on the maturity level guide below:-

Section Heading “Enablers”	Score %	Level
Leadership and management	87	Driving
Strategy and Policy	75	Embedded & Integrated
People	83	Driving
Partnership, shared risks and resources	65	Embedded & Integrated
Processes and tools	85	Driving
Section Heading “Results”	Score %	Level
Risk handling and assurance	78	Driving
Outcomes and delivery	68	Embedded & Integrated

Maturity Level	Enablers	Results
Engaging	<10%	<10%
Happening	10 – 30%	10 – 25%
Working	30 – 55%	25 – 50%
Embedded & Integrated	55 – 80%	50 – 75%
Driving	80%+	75%+

- 10.4** The survey results were reported to this Committee in March 2011. The Council achieved an above average score in each of the Sections of the questionnaire when compared to the other 103 club members and this confirms that the Council’s Risk Management Framework is embedded and integrated in the Council’s core processes.
- 10.5** Contact has been made with one of the highest performing authorities in the Council’s peer group and officers will be comparing risk management approaches to ensure that current processes reflect best practice, for example around partnerships governance where the Council scored lower than in other areas.
- 10.6** The Council is also a member of the South West Unitaries Risk Management Group, a regional body set up specifically to promote benchmarking and exchange of good practice in risk management for single tier authorities.
- 11. Risk Management Maturity Review by Heath Lambert**
- 11.1** The Council appointed new Risk Management and Insurance Advisors, Heath Lambert, on the 1 October 2010 following a tender process. As part of their appointment, a review of our risk management arrangements was undertaken, focusing in particular on the level of embeddedness of risk management in our key corporate business processes.
- 11.2** The review reported a number of examples of “very good, even exemplary”, risk management practice. These included:
- Clear and effective sponsorship of risk management by senior management and elected members (as evidenced by the proactive roles of the officer and member risk management champions and the Audit Committee)
 - A well defined and current risk management strategy supported by clearly defined roles and responsibilities
 - The provision of supplementary guidance to key stakeholders including elected members, risk champions and those involved in partnerships
 - Engagement with professional bodies such as ALARM (the Public Risk Management Association) and also with national initiatives such as the ALARM/CIPFA National Benchmarking Club 2010
 - Ongoing efforts to integrate risk management with other key systems such as: business planning; procurement; the core competencies framework; the governance and management of partnerships; and the Project Management System

- Regular and well attended meetings of the Operational Risk Management Group and the active participation of the Risk Champions' network
- Effective use of a Risk Management Fund, accessed by a well-developed bid process
- Regular monitoring and reporting of risk management performance which clearly establishes the value added by risk management to corporate performance
- Positive results arising from historical inspections under the Comprehensive Area Assessment (achieving a score of 3 at the final inspection, reflecting continuing improvement)
- Ongoing development of communication about risk management, including use of the Council's intranet

12. Focus for 2011/2012

- 12.1** Whilst the Council can demonstrate that management of risk is now a key consideration in its overall corporate governance arrangements, further work will be ongoing to ensure that risk management considerations continue to be embedded into core business processes.
- 12.2** The focus for 2011/12 will therefore be to ensure that management of risk is further developed as an explicit feature in the areas of:
- Strategic planning
 - Financial planning
 - Policy making and review
 - Performance Management
 - Partnerships
 - Information Governance

13. Conclusion

- 13.1** There is now good evidence of the development of a risk management culture within the Council with proactive engagement of Members, Directors and Heads of Service, and senior operational managers – this culture is now supported by a mandatory assessment of risk management performance as part of the Competency Framework annual appraisal process.
- 13.2** The Council now has well-developed and proven risk management processes in place which have been integrated into business planning, budget, project and performance management,
- 13.3** This Annual Report should therefore give Audit Committee members assurance as to the adequacy and effectiveness of the internal control arrangements and, in particular, the contribution of risk management to the overall governance framework.
- 13.4** Further work is planned in 2011/12 to ensure that these arrangements continue to be developed and enhanced.

14. Recommendation

- 14.1** The Audit Committee is recommended to note the Annual Report.

RISK MANAGEMENT BIDS APPROVED 2010/11**1. Community Services (Libraries) – Fire door in staff room at St.Budeaux Library (10/01)**

Exit door in staff room replaced with a fire door to allow safe exit for staff in the event of a fire.

£307.50

2. Corporate Property – Fencing at Honicknowle Lane footpath (10/02)

To provide a barrier between the steep slope of the footpath and the road, preventing the risk of injury to children and other users of the path.

£7,073.31

3. ICT – Electrical safety training for ICT engineers (10/03)

To ensure safer working conditions for engineers who have to work on equipment that cannot be switched off whilst being maintained. No in-house course available.

£2,340.00

4. Community Services – Security improvements for Schools Library Service (10/04)

Upgrade of intruder alarm and installation of radio panic alarm, both connected to Police if activated.

£479.78

5. Culture, Sport & Leisure (Plymouth West Devon Records Office) – Safer ladder for accessing records from high storage area (10/06)

Taller ladder, including a platform to allow safer access by staff to records held on top shelves.

£669.75

6. Culture, Sport & Leisure (Plymouth West Devon Records Office) – Installation of two smoke detectors and alarm ringer on mezzanine level (10/07)

There were previously no smoke detectors in this area which is frequently accessed by both staff and volunteers.

£501.00

7. Community Services – Automatic door entry system with exit alarm at Colwill Lodge (10/08)

To provide easier access to the building for people with learning and physical disabilities and prevent injuries to staff and visitors assisting them.

£3,007.34

8. Corporate Property (Facility Management) – New access control system at Prince Rock Depot (10/09)

A system providing direct access control at the vehicular access gate for staff and regular visitors, enabling security staff to concentrate on new or casual visitors and ensure they are properly signed in with site safety advice and direction to their destination.

£7,500.00

9. Corporate Property – Cost of desktop exercise to identify trees in land parcels owned by Corporate Property (10/10)

To enable a monitoring regime to be established in respect of trees identified and reduce the risk of damage or injury to the public.

£7,500.00

10. Development & Regeneration (Social Inclusion Unit) – Safety measures at Bay View Gypsy & Traveller Site (10/11)

Installation of traffic calming measures and gas bottle storage cages.

£1,935.00

11. Human Resources & Organisation Development – Iron keys to store information for Emergency Response & Business Continuity Plans (10/13)

To ensure that essential staffing information is accessible during an emergency situation.

£168.75

12. Corporate Support (Democracy & Governance) – Provision of Information Governance workshop and risk identification toolkit (10/15)

Training and guidance for Risk Champions to assist the Council in the process of identifying risks associated with Information Governance and preventing penalties imposed by the Information Commissioner's Office.

£2,500.00

13. Corporate Support (Health & Safety) – Cost of calibration of vibration equipment (10/17)

To enable the Council to continue to monitor equipment and reduce the risk of injury to employees.

£345.00

14. ICT – Feasibility study to evaluate a new PVP service (10/14)

Feasibility study for a computerised PVP – (Potentially Violent Person) register.

£5552.00

Total (14) £39,879.43

Subject:	Annual Report on Treasury Management Activities for 2010/11
Committee:	Audit Committee
Date:	27 June 2011
Cabinet Member:	Councillor Bowyer
CMT Member:	Director for Corporate Support
Author:	Sandra Wilson (Corporate Accountancy and Finance Manager)
Contact:	Tel: (01752) (30)4942 e-mail: sandra.wilson@plymouth.gov.uk
Ref:	Acct/SW
Key Decision	No
Part:	I

Executive Summary:

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its Treasury Management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2010/11 including the final position on the statutory Prudential Indicators.

The report includes a number of benchmarking indicators for investments and using these indicators shows that the City Council's investment performance compares favourably with other Unitary Authorities.

The Council's external loan borrowing at 31 March 2011 stood at £286.383m. The borrowing strategy for the year was to reduce the Council's underlying level of borrowing and investments should market conditions allow. Long term borrowing has reduced by £1.511m during the year. This is less than originally anticipated, due mainly to the movement in interest rates and gilts which made early repayment of debt expensive in terms of premature redemption penalties. The Council continued to maximise the use of short term borrowing at favorable rates to meet cash flow requirements, which has led to an overall increase in total borrowing of £19.824m at year end. Short term borrowing is generally taken for periods of less than 1 month.

The use of short term borrowing has also led to an increase in investments at year end of £8.918m, leaving total investments of £165.802m. Of this amount £65.600m was invested in instant access call accounts and could be withdrawn without penalty should circumstances require.

In terms of the impact against the revenue budget, an overall favorable variance of (£1.437m) was achieved in the year. This is mainly as a result of savings in interest payable from taking the Devon pre re-organisation debt in house and longer term investments being taken at above target rate.

In line with the recommendations in the Revised Code of Practice, this report is submitted to Audit Committee as the Committee responsible for scrutiny of the Treasury Management function.

This report is required to be submitted to full Council.

Corporate Plan 2011-2014:

Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective treasury management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the Counter party list under constant review.

Recommendations & Reasons for recommended action:

1. Audit Committee note the Treasury Management report for 2010/11.
2. The report be referred to Full Council as required by the CIPFA Treasury Management Code of Practice (TMP note 6).
3. Audit Committee approve the changes to the Treasury Management Practices as outlined at Appendix 5.

Alternative options considered and reasons for recommended action:

None- requirement to report to Council on the Treasury Management activities for the year.

Background papers:

- Treasury Management Strategy report to Audit Committee 5 February 2010
 - 2010/11 Budget Papers – presented to Full Council 1 March 2010
 - Mid Year Review report to Audit Committee 15 November 2010
 - Joint Finance and Performance report for 2010/11 to Cabinet 7 June 2011
-

Sign off:

Fin	DJN 1112.002	Leg/ Dem& Gov	TH0018	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

Annual Report on Treasury Management Activities for 2010/11

I. Introduction

- I.1 Treasury Management in Local Government is underpinned by the CIPFA Code of Practice on Treasury Management in the Public Services (The Code) and in this context is the “*the management of the Council’s investments and cash flows, its banking, money market and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*”.
- I.2 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy, and as a minimum, formally report on their treasury activities and arrangements to Full Council at least twice a year- mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.
- I.3 This report outlines the Treasury Management activities in 2010/11, providing information on progress and outcomes against the approved strategy, and builds on the mid year report presented to Audit Committee and Full Council in November 2010.
- I.4 The responsibility for implementing and monitoring Treasury Management polices and practices and for the execution and administration of Treasury Management decisions is delegated by the Council to its Section 151 Officer – the Director for Corporate Support, and is overseen by a Treasury Management Board consisting of senior officers within Finance, Assets and Efficiencies and the portfolio Member for Finance, Property and People.
- I.5 The day to day operation of the treasury management activity is carried out in accordance with detailed Treasury Management Practices (TMP’s). These are required to be updated annually. The TMP’s applicable to 2010/11 were approved by Audit Committee at its meeting of 15 November 2010.
- I.6 The Council works closely with its treasury management advisors Arlingclose who assist the Council in formulating views on interest rates when determining the Treasury Management Strategy, regular updates on economic conditions and interest rate expectations, and advice on specific borrowing and investment decisions.
- I.7 This report:
- a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
 - b) presents details of capital financing, borrowing, debt rescheduling and investment transactions for the year 2010/11;
 - c) provides an update on the risk inherent in the portfolio and outlines actions taken by the authority during the year to minimise risk;
 - d) gives details of the outturn position on treasury management transactions in 2010/11;

- e) confirms compliance with treasury limits and Prudential Indicators (PI's) and outlines the final position on the PI's for the year.

- 1.8 In accordance with TMP note 6, the report is required to be presented to Full Council.
- 1.9 The Treasury Management Practices for 2011/12 have been updated and the changes are outlined at Appendix 5. These now require approval by Audit Committee. The full document is available as follows:

[TM Practices update 11-12 at 01-04-11.doc](#)

2. The Economy and Events in 2010/11

- 2.1 Before reviewing the Council's performance for the year it is appropriate to outline the national and economic background within which Council Officers operated during 2010/11:
 - The economy grew by 1.3% in calendar year 2010.
 - Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%.
 - The Bank Rate was held at 0.5%.
 - Significant reductions were made to public expenditure, in particular local government funding.
 - Credit ratings of European banks were downgraded.
 - The sovereign rating of Spain was also downgraded but remained in the 'double-A' category.
 - 5-year and 10-year gilt yields fell to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.
 - Following the Chancellor's announcement on the Spending Review on 20 October 2010, HM Treasury instructed PWLB to increase the average borrowing rate on all new loans to an average of 1% above UK Government Gilts to take effect immediately.
- 2.2 A more detailed review has been provided by the Council's advisors, Arlingclose, and is attached at Appendix 1.
- 2.3 Appendix 2 outlines the various Interest rates in force during the year.

3. The Council's Strategy for 2010/11

- 3.1 The Council's Treasury Management Strategy which incorporates the annual Investment Strategy was approved by Full Council on 1 March 2010. As an overriding principle, the strategies proposed that in the current financial climate the Council should continue to seek to reduce the underlying level of borrowing and investments. The Council should seek to make greater use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments.
- 3.2 The mid year report outlined that in the light of changes made to PWLB borrowing rates as part of the Government's Comprehensive Spending Review the Council's borrowing policy for the remainder of the year would be to maximise short term borrowing and cashflow balances to finance the Capital Programme.

Review of the Council's Performance 2010/11

4. Treasury Portfolio

- 4.1 Table 1 shows the Council's overall Treasury Portfolio at the end of 2010/11 compared to 2009/10.

Table 1

31/3/2010 £m	Average Interest rate %		31/3/2011 £m	Average Interest rate %
28.889	5.8084	External Borrowing Long-term:	61.315	5.4001
130.000	4.4202	PWLB	130.000	4.4202
0.083	3.5574	Market	0.083	1.1660
73.650	0.3685	Bonds	94.985	0.4800
232.622	3.3095	Temporary Borrowing	286.383	3.3222
33.937	5.2395	Total PCC Borrowing	0	0
266.559	3.5552	Total Loan debt	286.383	3.3222
33.156	8.7300	Long-term liabilities		
1.954	n/a	PFI Schemes	31.753	8.7300
35.110		Finance leases*	1.441	n/a
301.669		Total Long term Liabilities	33.194	
(153.051)	2.1000	Total External Debt	319.577	
148.618		Total Investments	(165.802)	1.7207
		Net Borrowing/(Net Investment) Position	153.775	

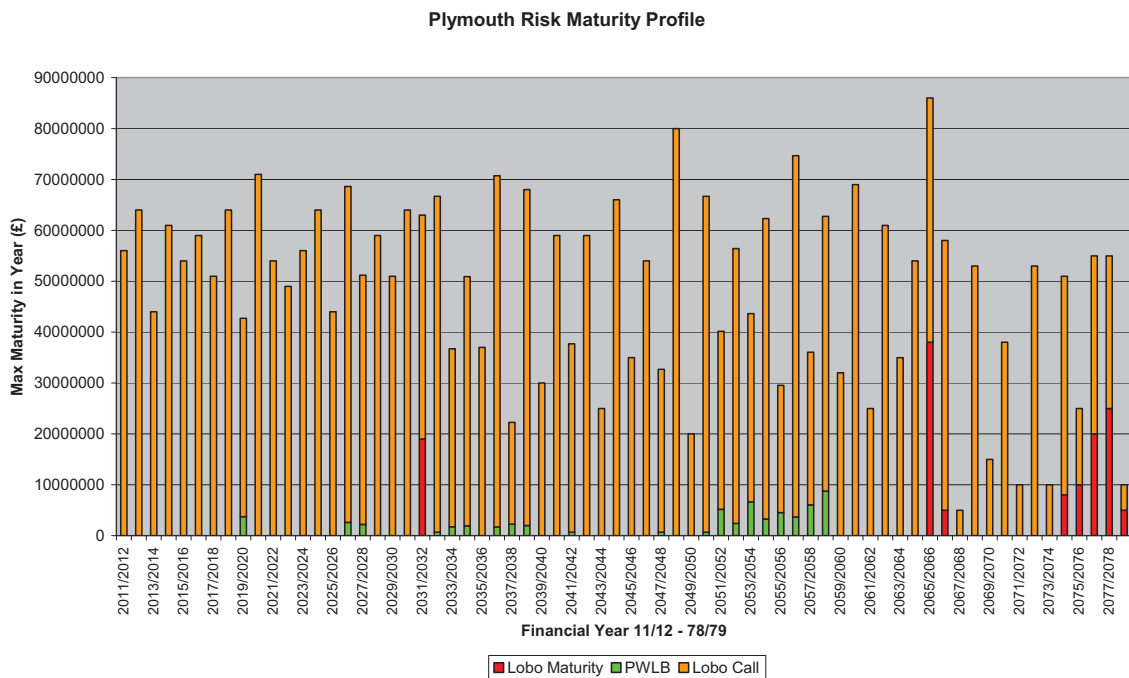
*subject to change in final statutory accounts

- 4.2 The total external debt as shown above includes long term liabilities in respect of PFI schemes or finance leases as these liabilities are seen as a credit arrangement thus increasing the Council's total debt and must be taken into account within the statutory borrowing limits. The Council has one PFI scheme, the contract with Pyramid to build and run the schools at Woodview campus and Riverside. The move to producing statutory accounts on an International Financial Reporting Standard (IFRS) basis has resulted in a reclassification of a number of leases from operating to finance leases. These have been added to the Council's Balance Sheet and previous years Balance Sheets restated as appropriate.

5. **Borrowing**

- 5.1 The borrowing strategy for the year, should market conditions allow, was:
- To manage out the risks inherent in the existing portfolio in terms of the proportion of market loans to PWLB
 - To reduce the underlying level of debt
- 5.2 After considering the risks inherent in the existing portfolio and the outlook for interest rates in the short term, the capital financing borrowing requirement for 2010/11 was to be financed from short-term fixed rate borrowing or variable rate borrowing where rates were lower than those available to the Council on it's investments. Where borrowing rates were higher than investment rates internal resources would be used in lieu of borrowing with borrowing only taken to cover short term cash flow requirements. Capital expenditure levels, market conditions and interest rate levels would be monitored during the year in order to minimise borrowing costs over the medium to longer term.
- 5.3 The strategy report in particular outlined the risks to the Council in terms of its borrowing levels, highlighting the higher weighting of market loans to PWLB debt. This has been addressed in part during the year as a result of taking the Devon debt in-house which required a transfer of an equivalent amount of PWLB loan debt. No new long term borrowing has been taken out during the year.
- 5.4 Figure 1 below shows the maturity profile of the long term debt for the Council as at 31 March 2011.
- 5.5 The debt portfolio continues to include £130m of LOBO (market) loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed adversely. This is reflected within the maturity profile shown above (in amber) to enable officers to risk manage the Council's cashflows. During the year £49m of LOBO loans entered the period where they could have been called, but options were not exercised by the relevant banks.

Figure I



5.6 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit
- The Operational Boundary

5.7 The borrowing limits for 2010/11, originally approved by Council in March 2010, were as follows:

- Authorised limits £347m
- Operational Boundary £295m

These limits were revised to increase the limits to allow greater flexibility to take short-term borrowing to cover cashflow requirements, and approved by Full Council as part of the Prudential Indicators on 28 February 2011, The approved updated limits were as follows:

- Authorised limits £349m
- Operational Boundary £322m

5.8 The maximum debt outstanding during 2010/11 was £320.817m on 28 March 2011 (including £33.194m for the PFI and finance lease liabilities). This was within both the authorised limit and the operational boundary.

- 5.9 Table 2 shows the movement in the borrowing portfolio during the year. Although total debt has increased by £19.824m over the year this is due to the greater use of short term temporary borrowing to cover cash flow and financing of the capital programme at year end. The Council's long term debt has reduced by £1.511m which is in line with the approved strategy.

Table 2 Movement in Borrowing Portfolio

	Balance on 01/04/10 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 31/03/11 £000s	Increase/ (Decrease) in Borrowing
Short Term Borrowing	73,650	(1,080,735)		1,102,070	94,985	21,335
Long Term Borrowing	158,972	(1,239)		33,665	191,398	32,426
Devon Debt	33,937		(272)	(33,665)	0	(33,937)
Total Borrowing	266,559	(1,082,246)	(272)	1,102,070	286,383	19,824

- 5.10 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31 March 2011 was estimated at £257.493m .

5.11 Devon Debt

During the year, Officers successfully negotiated the transfer of pre LGR debt of £33.665m, administered by Devon County Council, to the City Council. As a result of the transfer, Plymouth achieved net savings of (£1.122m) in terms of interest and loan repayments in 2010/11 and will gain greater flexibility over the management of the debt with the option to repay/reschedule the debt at a later date when terms become more favourable.

5.12 New borrowing in year

The use of short-term borrowing has been the most cost effective means of financing of capital expenditure and cashflow requirements. Matching short-term borrowing with the availability of liquid deposits held in bank call accounts has lowered overall treasury risk by allowing flexibility to reduce debt and investment levels at short notice should credit conditions deteriorate.

At the start of the year the Council had £73.650m of short term loans. These are generally taken for periods of less than 30 days, repaid and replenished with new loans as subject to availability and favourable rates during the year. At the end of the year the Council had £94.985m of short term loans.

The average period of new loans taken in the year was for 27 days at an average interest rate of 0.347%. This is below the bank base rate. Short term loans are generally taken from other local authorities.

5.13 Debt Repayment

The loan repayments made in the period relate to the Principal on the Devon County Debt loans prior to transfer on 25 June 2010.

5.14 Debt Rescheduling

There has been no debt rescheduling in the period. Officers along with the Council's advisers Arlingclose will continue to monitor PWLB interest rates looking for opportunities to repay any debt maximising the savings achieved whilst maintaining a balanced maturity profile.

5.15 Overall Debt Performance for the year

The average interest rate on the debt as at 31 March 2011 was 3.3222%, an overall reduction over the previous year end position. This is due in part to the lower average rate on loans previously administered by Devon after taking these in house.

Loan transactions were taken at various times throughout the year and at various rates. Taking all the transactions in the year, the overall average borrowing rate for 2010/11 was 3.5476% compared with a rate of 4.3092% for 2009/10.

6. Investments

Managing Investment Risk

6.1 The Guidance on Local Government Investments in England gives priority to Security and Liquidity of investments and the Council's aim is to achieve a Yield commensurate with these principles.

6.2 Security

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2010/11 This restricted new investments to the following, although as indicated not all of the instruments were used during the year:

- The Debt Management Office
- Other Local Authorities
- AAA-rated Stable Net Asset Value Money Market Funds (not used 2010/11)
- Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US).
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank (not used 2010/11).

- 6.3 Table 3 summaries the counter parties available during the year together with the approved limits. The Counter Party list is kept under constant review and counter parties removed or limits adjusted as appropriate.

Table 3 Approved Counter Party Listing in force 31 March 2011

Financial Asset Category	Criteria	Maximum Investment	Maximum Investment Term
Government Debt Office	Central Government Office	No Limit	12 Months
UK Banks and Building Societies	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£30m	12 Months
Foreign Banks	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£10m	12 Months
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset value investing predominantly in Government securities. AAA with a Constant Net Asset investing in instruments issued primarily by financial institutions.	2.5% of overall investment portfolio	Call
Bonds Issued by Multilateral Development banks	AAA or Government Guaranteed Eurosterling Bonds	Total investment £20m or 10% of investment portfolio	10 years

- 6.4 Figure 2 below shows the actual split of deposits by country/sector as 31 March 2011. Table 4 provides more detail on the actual deposits by counter party group.

Figure 2

**PCC DEPOSITS BY COUNTRY/SECTOR AT 31st MARCH 2011 - Total Deposits
£165,801,756.85**

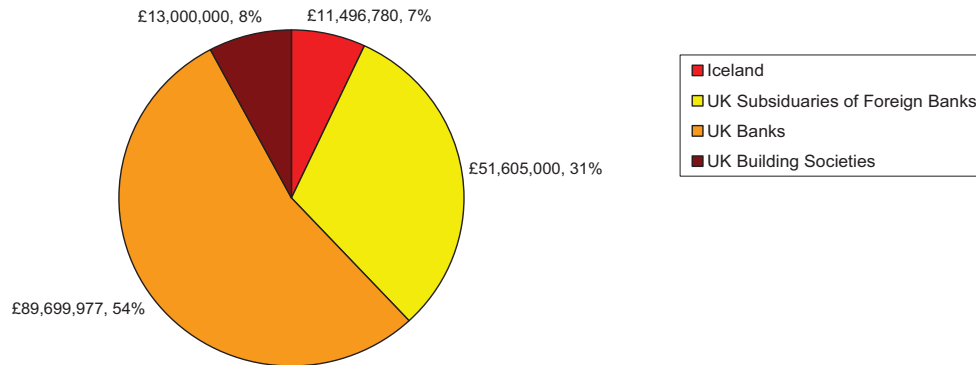


Table 4

Group	Bank/Institution	Total deposits £m
RBS Group	Royal Bank of Scotland	25.000
	Ulster Bank Ireland	5.000
Total RBS Group		30.000
Lloyds Banking Group	Bank of Scotland	29.700
Barclays Banking Group	Barclays	30.000
National Australia Bank Group	Clydesdale Bank	21.705
Nationwide Building Society	Nationwide Building Society	13.000
Banco Santander Group	Santander UK	29.900
Iceland deposits	Lansbanki Island	4.000
	Heritable Bank	1.497
	Glitnir	6.000
Total Deposits @ 31st March 2011		165.802

6.6 The movement in the investment portfolio during the year was as follows:

Table 5 Movement in Investment Portfolio

Investments	Balance on 31/3/10 £000	Investments Made £000	Maturities/ £000	Balance on 31/03/11 £000	Avg Rate % / Avg Life to maturity (days)
Short Term Investments (less than 1 year)	123,051	899,275	(872,524)	149,802	1.3895%/ 87days
Long term Investments (over 1 year)	30,000	0	(14,000)	16,000	6.485%/ 192 days
Total Investments	153,051	899,275	(886,524)	165,802	

- 6.7 The majority of the short term deposits were held in call or short term notice accounts. Appendix 3 provides more detail on the new longer term deposit investment activity for the year. The maximum approved term for new deposits in 2010/11 was 364 days.
- 6.8 CLG investment guidance which came into effect 1 April 2010 recommended that strategies should show details of assessing credit risk. Counterparty credit quality is assessed and monitored with reference to:
- Credit Ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's);
 - Credit Default Swaps;
 - GDP of the country in which the institution operates;
 - the country's net debt as a Percentage of GDP;
 - Sovereign Support Mechanisms /potential support from a well-resourced parent institution;
 - Share Price.
- 6.9 The Council's treasury advisors, Arlingclose, have developed a matrix to score the credit risk of an authority's investment portfolio. The matrix allocates a numerical score based on the credit rating of an institution, with a AAA rated institution scoring 1, and a D rated institution scoring 15. This is then weighted to reflect both the size of the deposit and the maturity term of the deposit. The aim is to achieve an overall score of 5 or lower on both weighted averages to reflect an investment approach based on security. The lower the score the better the security of the deposit.
- 6.10 Table 6 shows the rating currently attached to the Council's portfolio and its movement during the year using this matrix.

Table 6 **Credit Risk Matrix**

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2010	4.25	AA-	4.65	A+
30/06/2010	4.31	AA-	4.42	A+
30/09/2010	4.22	AA-	4.51	A+
31/12/2010	4.27	AA-	4.59	A+
31/03/2011	4.20	AA-	4.75	A+

Note : These scores exclude any deposits with Icelandic banks.

Based on the scoring methodology, the Council's Counterparty credit quality has been maintained through the year. Section 6.15 compares the authorities performance with that of other authorities who are clients of Arlingclose.

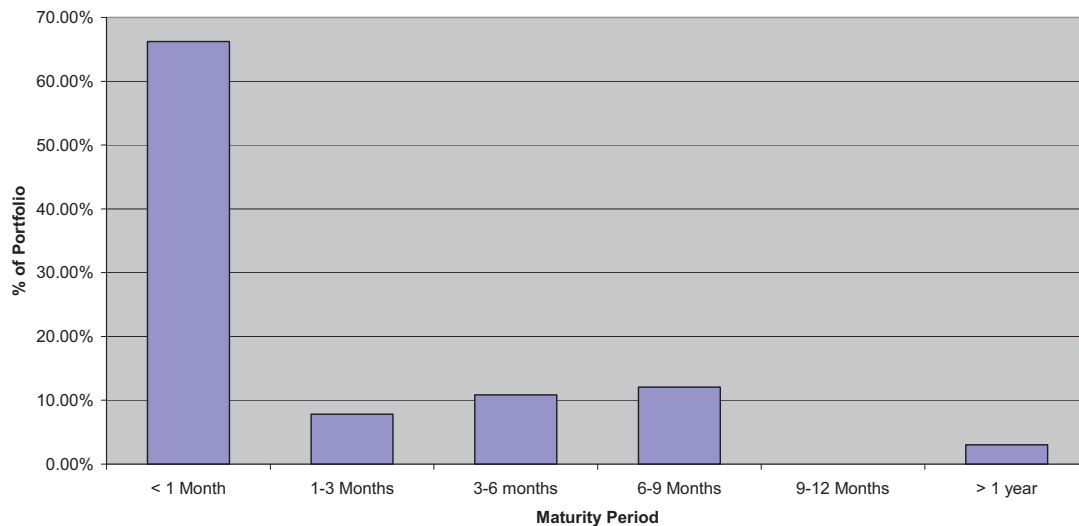
6.11 Liquidity

In keeping with the CLG’s Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and the use of call accounts.

6.12 The maturity profile of the Councils deposits is represented in figure 3. This shows a large proportion of deposits maturing in less than one month reflecting the deposits in call accounts giving the liquidity requirement to cover any adverse changes in market conditions. The Treasury Management Board has set a requirement that at least £15m should remain within callable deposits at all times.

Figure 3

Plymouth City Council Investment Maturity Profile 31st March 2011



6.13 Yield- Investment performance for the year

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

6.14 During 2010/11 the Council invested for a range of periods from overnight to 364 days, dependent on the Council’s cash flows, Officer’s interest rate view and the interest rates on offer, and the economic climate. The Council’s treasury management officers work to a benchmark rate of return, the 7 day London Interbank Bid (LIBID) rate – which is the rate which can be achieved on the London interbank market for cash deposits of 7 days and is regarded as the standard benchmark. The 7 day rate is calculated on a daily basis and averaged for the year. Table 7 below compares the average return achieved by the in-house team with the benchmark. An average rate of 1.0708% was achieved for new investments in the year against a budget of 1%.

Table 7

	Average Investment	Benchmark Rate %	Actual Return %
Internally Managed	£161.969m	0.50	1.7207

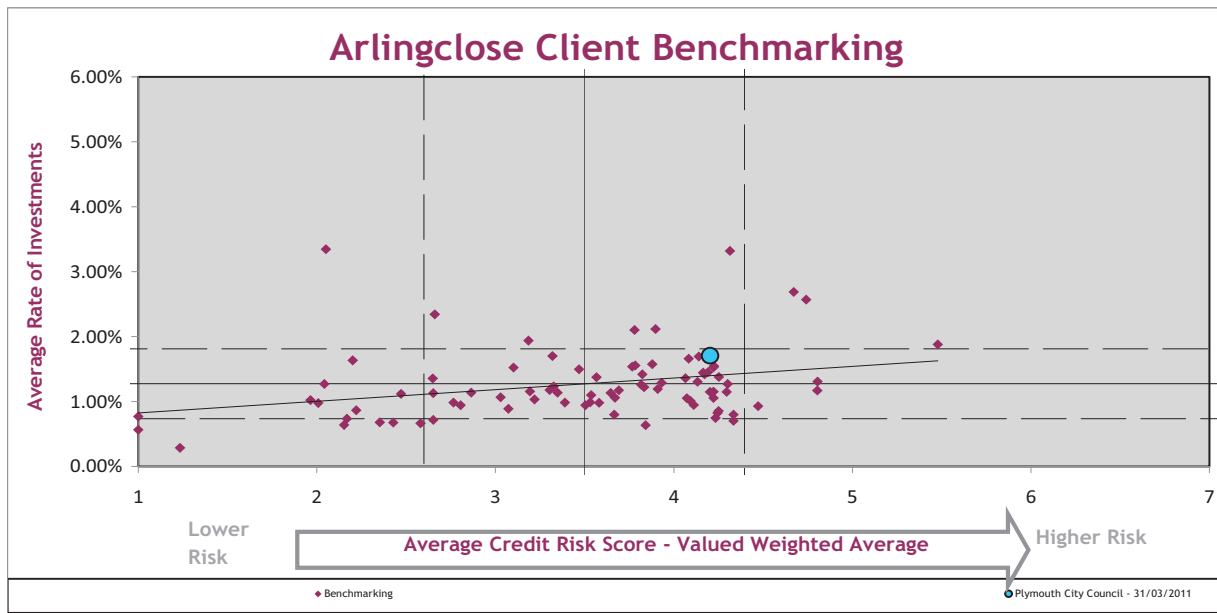
The table shows that the internal performance exceeded the benchmark for the year, despite the restricted investment counterparty list.

6.15 During the year, Arlingclose developed a set of benchmarking criteria to enable comparisons on investment performance to be made on data provided by all their clients. To compare like with like the following graphs compare our investment performance with other authorities. This is based on data provided to 31 March 2011. The results of the benchmarking are discussed at regular strategy meetings with the Advisors. The benchmarking has to be taken in the context of risk appetite and the legacy investments that the Council has in its portfolio.

6.16 The graphs used for comparison are:

1. Value Weighted Average v Return
2. Time Weighted Average v Return
3. Average number of days to Maturity v Return

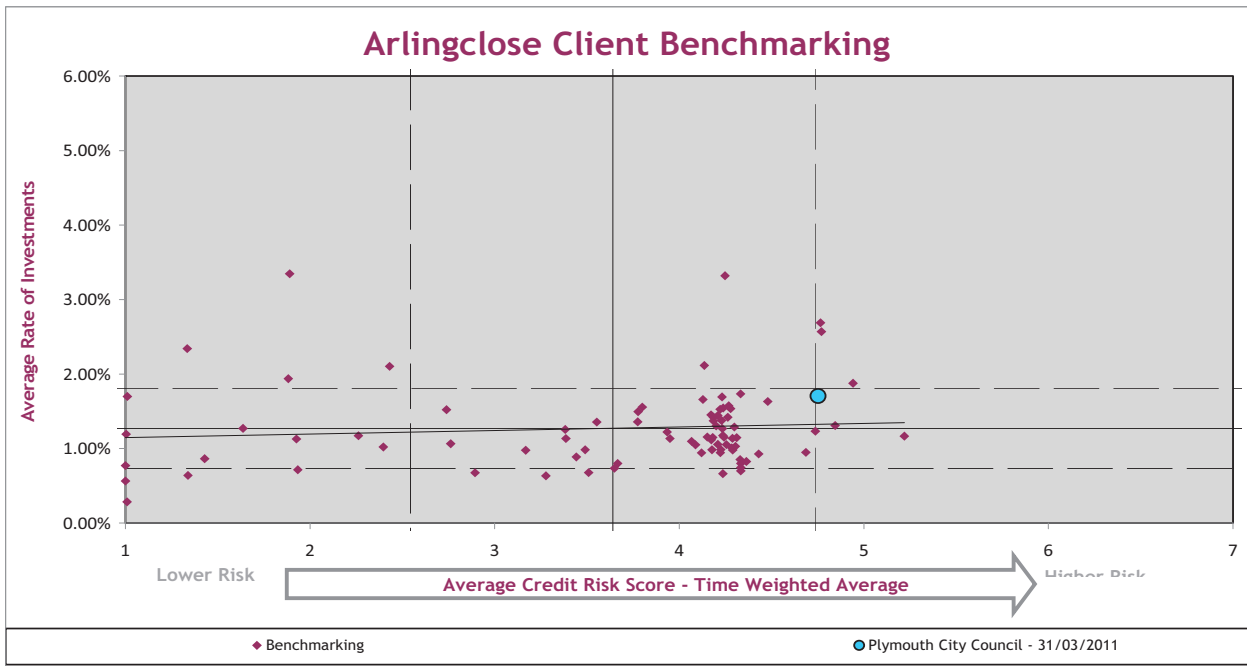
Figure 4 Value Weighted Average V Return



As a general rule the aim should be to convert a greater average length of portfolio duration into a greater than average return. There should be a positive correlation between duration and return, therefore a best fit line sloping upward from left to right.

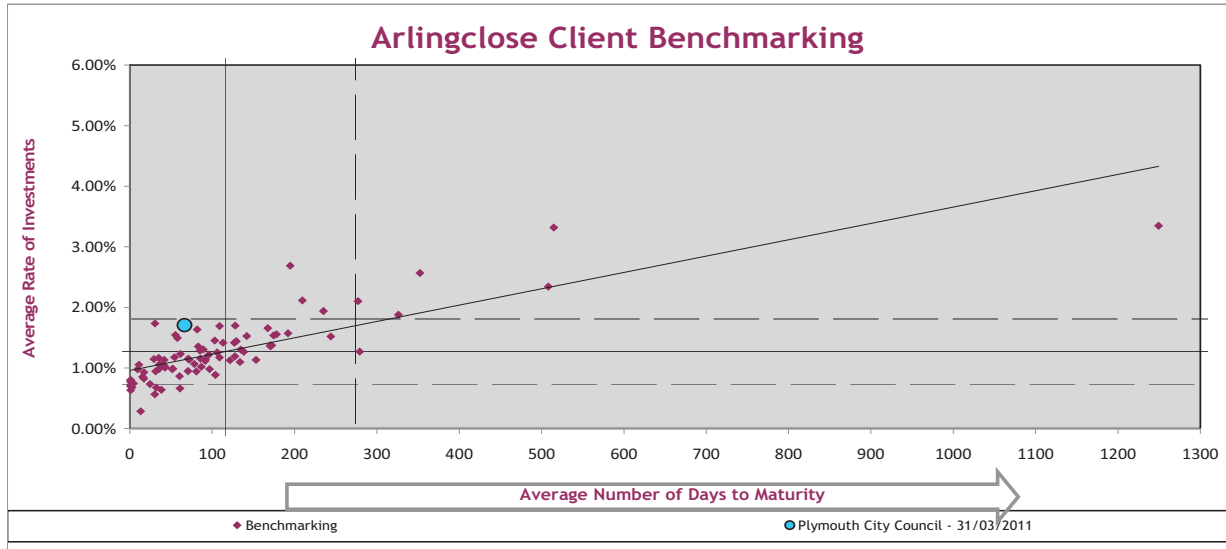
However, this chart should not be viewed in isolation from other measured parameters and it should be noted that a high Average number of days to maturity does not necessarily mean a higher risk, in fact the reverse may be considered to be true in some cases. As can be seen from this graph, Plymouth City Council are converting duration in into a higher return than many of their peer group.

Figure 5 Time Weighted Average V Return



Longer term investments are inherently more risky. Ideally authorities should move towards the top left hand corner of the graph. Therefore it is preferable to see risk taken converted into return at a greater than average rate. This should be seen as a longer term goal and in some cases portfolios may be adversely affected by legacy positions within a portfolio which can exert a negative influence for a considerable period.

Figure 6 Average Number of days to Maturity V Return



This graph shows the duration of investments against return. Plymouth is doing well compared to other authorities and this reflects the use of call accounts earning above bank base rate, and the legacy investments in Ulster Bank, parent group RBS, which are high rate but due to mature in the next few months.

7. Icelandic Banks Update

7.1 The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

7.2 Heritable Bank £3m

The Council received a further dividends totaling 15.13p in the £ in 2010/11, bringing total dividends paid to date to 50.11%. The actual amount recovered to 31 March 2011 was £1,503,220.15, plus interest of £76,643.38. Based on current projections from the administrators a total recovery of almost 85% is expected with dividends continuing on a quarterly basis until September 2012.

7.3 Glitnir £6m and Landsbanki £4m

Recovery of monies in Glitnir and Landsbanki remain subject to court proceedings. However initial hearings have indicated that local authority deposits will be granted priority status. Should this be upheld by the Supreme Courts the Council could expect to recover the following amounts:

- Glitnir 100%
- Landsbanki 94%

The Council took advantage of a Capitalisation Direction and accounted for potential Icelandic bank losses in its accounts for 2009/10. This was a year in advance of the requirements under Regulations and has enabled the potential losses to be written off over a 20 year period.

The situation with regard to the recovery of monies invested in Glitnir and Landsbanki continues to be subject to court hearings as outlined above and the Council has therefore decided not to adjust the impairment charge in its accounts for 2010/11. The Council, working with the LGA and Bevan Brittan remains committed to maximising the recovery of its investments. The cost of the continuing external legal advice has been met from the Icelandic bank reserve. A sum of £0.052m has been incurred in 2010/11.

8. Revenue Implications of Treasury Management

- 8.1 The expenditure arising from the Council's borrowing and lending accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment), and premiums and discounts written out to revenue from previous debt rescheduling. Some of the interest receivable is passed onto specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. Table 8 below shows the income and expenditure arising from these transactions in 2010/11. The revenue implications are reported to Cabinet as part of the quarterly performance and finance monitoring reports. Overall Council Officers achieved a favourable variance against budget of (£1.437m).

Table 8 Summary of Capital Financing Costs 2010/11

	2010/11 Budget £000	2010/11 Outturn £000	Variance £000
External Interest payments	7,556	8,945	1,389
Interest payable (PFI)	0	2,835	2,835
External Interest received	(2,821)	(2,802)	19
Recharged to HRA	0	(159)	(159)
Interest transferred to other accounts	200	215	15
Premiums / Discounts written out to Revenue	(189)	(186)	3
Debt Management Expenses	130	147	17
Treasury Management Cost	4,876	8,995	4,119
Minimum Revenue Provision	7,150	6,968	(182)
Minimum Revenue Provision (PFI)	0	703	703
Devon County Council Residual Debt Charges	3,153	709	(2,444)
Recharges for unsupported borrowing	(1,822)	(1,762)	60
Recovered from trading Accounts	(2,758)	(2,913)	(155)
PFI Grant	0	(3,538)	(3,538)
Net Cost to General Fund	10,599	9,162	(1,437)

9. Compliance with Prudential Indicators

Under the arrangements set out in the Prudential Code for Capital Finance in Local Authorities, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code, and for establishing a range of Prudential Indicators covering borrowing limits and other treasury management measures. The Prudential Indicators for 2010/11 were approved by Council on 1 March 2010 (borrowing limits updated 28 February 2011). The latest position on the indicators is set out in Appendix 4.

10. The MRP Policy 2010/11

10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. The Regulations outline MRP options as follows:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

10.2 The MRP policy for the year is required to be approved by Full Council at the start of the year. The MRP policy for 2010/11 was included within the Treasury Management Strategy report that was approved at the Council meeting on 1 March 2010.

10.3 Revisions to the policy are permitted during the year providing these are also approved by Full Council. Full Council at its meeting of 28 February 2011 approved that the policy for 2010/11 be amended to reflect more accurately the calculation for supported borrowing.

10.3 The final policy for the year 2010/11 is therefore:

Supported Borrowing

For borrowing supported by Revenue Support Grant the Council will use the Regulatory Method (option 1) to calculate MRP. For the purposes of the calculation, an adjustment, referred to as adjustment A, will continue to be made to the CFR at the value attributed to it in financial year 2004-05.

Unsupported Borrowing

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual instalments over the life of the asset.

Capitalisation Directions

For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual instalments over 20 years in line with DCLG guidance.

PFI/Leases

MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS will be based on a charge equal to the amount that has been taken to the Balance Sheet to reduce the liability.

- 10.4 In all cases MRP commences in the financial year following the one in which the expenditure is incurred or when the asset becomes operational if this is later.

11. Balanced Budget

- 11.1 The Council complied with the Balanced Budget requirement.

12. External Service Providers

- 12.1 Arlingclose is appointed as the Council's treasury management advisor. The Council is clear as to the services it expects and is provided under the contract. The service provision is comprehensively documented. The Council paid a sum of £20,000 in 2010/11 for this service.

- 12.2 The Council is also clear that overall responsibility for treasury management remains with the Council.

13. Training

- 13.1 CIPFA's revised Code requires the Director for Corporate Support to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

- 13.2 The CLG's revised Investment Guidance also recommends that a process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

- 13.3 The Council commissioned a Treasury Management awareness and training session from external consultants Griffiths Morley and this was delivered on 22 January 2010. The Council subsequently provided an updated session for members on 10 January 2011.

- 13.4 During the year, the Council's treasury management officer has successfully completed and been awarded a Certificate in International Treasury Management- Public Finance (CERT TM- PF). This is an accredited course for treasury management specialists in the Public Sector, supported by CIPFA. Officers also attend regular workshops and seminars on treasury management.

- 13.5 The Council continues to keep its training requirement under review.

14. Recommendations

- 14.1 Audit Committee note the Treasury Management report for 2010/11.
- 14.2 The report be referred to Full Council as required under the CIPFA Treasury Management Code of Practice (TMP note 6).
- 14.3 Audit Committee approve the changes to the Treasury Management Practices as outlined at Appendix 5.

Arlingclose Review of the Economy for 2010/11

Economic Outlook for 2010/11

At the time of determining the strategy for 2010/11, interest rates were expected to remain low in response to the fragile state of the UK economy. Spending cuts and tax increases seemed inevitable post the General Election if the government had a clear majority. The markets had, at the time, viewed a hung parliament as potentially disruptive particularly if combined with a failure to articulate a credible plan to bring down government borrowing. The outlook for growth was uncertain due to consumers and corporates trimming their spending and financial institutions exercising restraint in new lending.

The economy's two headline indicators moved in opposite directions – growth was lacklustre whilst inflation spiked sharply higher. The economy grew by just 1.3% in calendar year 2010; the forecast for 2011 was revised down to 1.7% by the Office of Budget Responsibility in March. Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%. The Bank Rate was held at 0.5% as the economy grappled with uneven growth and the austerity measures set out in the coalition government's Comprehensive Spending Review. Significant reductions were made to public expenditure, in particular local government funding.

The US Federal Reserve (the Fed) kept rates on hold at 0.25% following a slowdown in American growth. The European Central Bank maintained rates at 1%, with the markets expecting a rate rise in early spring.

The credit crisis migrated from banks to European sovereigns. The ratings of Ireland and Portugal were downgraded to the 'triple-B' category whilst the rating of Greece was downgraded to sub-investment grade. The sovereign rating of Spain was also downgraded but remained in the 'double-A' category. The results from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only 7 out of the 91 institutions failed the 'adverse scenario' tests. The tests were a helpful step forward, but there were doubts if they were far-reaching or demanding enough. The main UK banks' (Barclays, HSBC, Lloyds and RBS) Tier 1 ratios all remained above 9% under both the 'benchmark scenario' and the 'adverse scenario' stress tests. The tests will be repeated in the Spring of 2011.

Gilts benefitted from the decisive Comprehensive Spending Review (CSR) plans as well as from their relative 'safe haven' status in the face of European sovereign weakness. 5-year and 10-year gilt yields fell to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.

During the year money market rates increased marginally at the shorter end (overnight to 3 months). 6 - 12 month rates increased between 0.25% to 0.30% over the 12 month period reflecting the expectation that the Bank Rate would be raised later in 2011.

Interest rates applicable 2010/11

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2010	0.50	0.35	0.35	0.42	0.51	0.81	1.26	1.54	2.07	2.82
30/04/2010	0.50	0.30	0.30	0.43	0.53	0.83	1.29	1.70	2.23	2.95
31/05/2010	0.50	0.45	0.50	0.61	0.60	0.85	1.35	1.46	1.89	2.58
30/06/2010	0.50	0.35	0.35	0.45	0.61	0.94	1.38	1.40	1.79	2.42
31/07/2010	0.50	0.40	0.40	0.50	0.71	1.01	1.46	1.36	1.75	2.39
31/08/2010	0.50	0.40	0.55	0.50	0.71	1.00	1.45	1.20	1.47	2.02
30/09/2010	0.50	0.30	0.25	0.51	0.72	1.01	1.46	1.24	1.51	2.05
31/10/2010	0.50	0.48	0.40	0.51	0.72	1.01	1.46	1.26	1.53	2.08
30/11/2010	0.50	0.40	0.51	0.51	0.72	0.88	1.46	1.32	1.66	2.30
31/12/2010	0.50	0.40	0.40	0.51	0.72	1.01	1.47	1.49	1.94	2.61
31/01/2011	0.50	0.40	0.55	0.52	0.64	1.04	1.52	1.74	2.21	2.90
28/02/2011	0.50	0.40	0.54	0.53	0.68	1.09	1.56	1.85	2.29	2.95
31/03/2011	0.50	0.30	0.50	0.54	0.80	1.11	1.58	1.85	2.31	2.96
Minimum	0.50	0.30	0.25	0.42	0.51	0.75	1.00	1.13	1.37	1.92
Average	0.50	0.39	0.43	0.50	0.67	0.98	1.44	1.50	1.90	2.54
Maximum	0.50	0.55	0.55	0.80	0.80	1.11	1.58	1.97	2.49	3.19
Spread		0.25	0.30	0.38	0.29	0.36	0.58	0.84	1.12	1.26

Table 2 : PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.81	2.84	4.14	4.21	4.60	4.61	4.63
30/04/2010	089/10	0.85	2.86	4.13	4.20	4.61	4.61	4.60
28/05/2010	127/10	0.73	2.46	3.76	3.83	4.36	4.38	4.38
30/06/2010	171/10	0.67	2.27	3.54	3.62	4.22	4.28	4.27
30/07/2010	217/10	0.70	2.29	3.55	3.62	4.32	4.41	4.40
31/08/2010	259/10	0.63	1.84	3.05	3.13	3.82	3.93	3.93
30/09/2010	303/10	0.64	1.88	3.14	3.86	4.00	4.03	4.02
29/10/2010	346/10	1.58	2.90	4.23	5.06	5.2	5.22	5.2
30/11/2010	390/10	1.56	3.05	4.40	5.18	5.26	5.25	5.23
31/12/2010	430/10	1.65	3.33	4.58	5.18	5.23	5.20	5.16
31/01/2011	040/11	1.79	3.57	4.80	5.40	5.46	5.44	5.40
28/02/2011	080/11	1.87	3.61	4.75	5.33	5.38	5.35	5.31
31/03/2011	126/11	1.89	3.57	4.71	5.27	5.30	5.27	5.24
Low		0.60	1.81	3.05	3.82	3.93	3.93	3.92
Average		1.19	2.79	4.05	4.72	4.79	4.78	4.76
High		1.99	3.84	5.00	5.50	5.55	5.53	5.48

Appendix 2

Table 3: PWLB Repayment Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.56	2.38	3.82	4.35	4.36	4.26	4.19
30/04/2010	089/10	0.62	2.43	3.83	4.37	4.38	4.33	4.30
28/05/2010	127/10	0.50	2.04	3.44	4.12	4.15	4.11	4.10
30/06/2010	171/10	0.44	1.86	3.23	3.98	4.05	4.00	3.97
30/07/2010	217/10	0.47	1.88	3.23	4.08	4.18	4.13	4.10
31/08/2010	259/10	0.40	1.45	2.73	3.57	3.70	3.66	3.62
30/09/2010	303/10	0.41	1.48	2.82	3.62	3.77	3.76	3.73
29/10/2010	346/10	0.47	1.61	3.03	3.93	4.09	4.07	4.03
30/11/2010	390/10	0.45	1.75	3.20	4.06	4.15	4.10	4.06
31/12/2010	430/10	0.54	2.04	3.39	4.07	4.12	4.05	3.99
31/01/2011	040/11	0.68	2.27	3.62	4.28	4.35	4.29	4.22
28/02/2011	080/11	0.76	2.32	3.57	4.21	4.26	4.20	4.13
31/03/2011	126/11	0.78	2.29	3.53	4.15	4.19	4.12	4.07
	Low	0.37	1.40	2.73	3.57	3.70	3.66	3.62
	Average	0.55	1.97	3.33	4.07	4.15	4.10	4.06
	High	0.88	2.54	3.94	4.47	4.46	4.38	4.35

Table 4: PWLB Borrowing Rates – Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.78	2.94	4.18	4.53	4.60	4.62
30/04/2010	089/10	--	1.82	2.96	4.16	4.53	4.61	4.62
28/05/2010	127/10	--	1.52	2.55	3.79	4.24	4.36	4.39
30/06/2010	171/10	--	1.38	2.36	3.58	4.06	4.23	4.27
30/07/2010	217/10	--	1.42	2.38	3.58	4.11	4.33	4.40
31/08/2010	259/10	--	1.12	1.92	3.09	3.61	3.82	3.91
30/09/2010	303/10	--	1.14	1.96	3.18	3.67	3.87	3.96
29/10/2010	346/10	--	2.11	2.98	4.27	4.84	5.07	5.16
30/11/2010	390/10	--	2.19	3.14	4.44	4.99	5.19	5.25
31/12/2010	430/10	--	2.43	3.42	4.62	5.05	5.19	5.23
31/01/2011	040/11	--	2.62	3.66	4.84	5.25	5.40	5.45
28/02/2011	080/11	--	2.71	3.69	4.79	5.18	5.33	5.38
31/03/2011	126/11	--	2.69	3.65	4.74	5.14	5.28	5.31
	Low		1.10	1.89	3.09	3.61	3.82	3.91
	Average		1.91	2.87	4.08	4.55	4.72	4.77
	High		2.88	3.93	5.03	5.38	5.51	5.55

Table 5: PWLB Repayment Rates - Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.40	2.59	3.89	4.27	4.35	4.37
30/04/2010	089/10	--	1.46	2.63	3.90	4.29	4.38	4.39
28/05/2010	127/10	--	1.18	2.23	3.53	4.00	4.13	4.16
30/06/2010	171/10	--	1.05	2.04	3.31	3.82	3.99	4.04
30/07/2010	217/10	--	1.08	2.06	3.32	3.87	4.09	4.17
31/08/2010	259/10	--	0.82	1.61	2.82	3.36	3.59	3.68
30/09/2010	303/10	--	0.83	1.65	2.91	3.43	3.63	3.73
29/10/2010	346/10	--	0.92	1.79	3.12	3.71	3.95	4.05
30/11/2010	390/10	--	0.99	1.94	3.29	3.86	4.07	4.14
31/12/2010	430/10	--	1.21	2.22	3.47	3.93	4.07	4.12
31/01/2011	040/11	--	1.40	2.46	3.69	4.13	4.29	4.34
28/02/2011	080/11	--	1.49	2.50	3.64	4.06	4.22	4.27
31/03/2011	126/11	--	1.47	2.46	3.60	4.02	4.16	4.20
	Low		0.75	1.57	2.82	3.36	3.59	3.68
	Average		1.17	2.15	3.41	3.90	4.08	4.14
	High		1.65	2.74	4.02	4.40	4.47	4.47

Table 6: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2010	0.65	0.65	0.70			
30/06/2010	0.65	0.70	0.70			
30/09/2010	0.65	0.70	0.70			
31/12/2010	0.70	0.70	0.75	1.60	1.60	1.65
31/03/2011	0.67	0.76	0.88	1.57	1.66	1.78
Low	0.65	0.65	0.68	1.55	1.56	1.58
Average	0.66	0.68	0.73	1.57	1.61	1.68
High	0.70	0.79	0.90	1.60	1.69	1.80

Term Deposit Investments made during the year

Investments are made short term in call/notice accounts to cover cash flow and longer term to maximise and guarantee future income. The longer-term deposits made in 2010-11 are detailed in the following table.

Counterparty	Amount	Start Date	End Date	Term (Days)	Rate %
Barclays	£5M	08/04/10	07/04/11	364	1.55
Santander UK	£1M	09/04/10	10/05/10	31	0.84
Santander UK	£1M	09/04/10	09/06/10	61	0.87
Santander UK	£1M	09/04/10	09/07/10	91	0.94
Santander UK	£1M	09/04/10	09/08/10	122	1.02
Santander UK	£1M	09/04/10	09/09/10	153	1.09
Santander UK	£1M	09/04/10	11/10/10	185	1.18
Santander UK	£1M	09/04/10	09/11/10	214	1.26
Santander UK	£1M	09/04/10	09/12/10	244	1.34
Santander UK	£1M	09/04/10	10/01/11	276	1.41
Santander UK	£1M	09/04/10	09/02/11	306	1.48
Santander UK	£1M	09/04/10	09/03/11	334	1.55
Santander UK	£1M	09/04/10	08/04/11	364	1.62
Nationwide	£5M	04/06/10	03/06/11	364	1.37
Nationwide	£5M	22/07/10	21/07/11	364	1.37
Santander UK	£1M	06/09/10	07/03/11	182	1.33
Bank of Scotland	£5M	06/09/10	05/09/11	364	2.00
Bank of Scotland	£5M	12/10/10	11/10/11	364	1.90
Bank of Scotland	£5M	16/11/10	15/11/11	364	1.90
Bank of Scotland	£5M	14/12/10	13/12/11	364	2.00
Santander UK	£1M	08/02/11	09/05/11	90	1.10
Santander UK	£1M	08/02/11	08/06/11	120	1.18
Santander UK	£1M	08/02/11	08/07/11	150	1.29
Santander UK	£1M	08/02/11	08/08/11	181	1.70
Santander UK	£1M	10/03/11	09/09/11	183	1.41

Prudential Indicators 2010/11

There is a requirement under the Local Government Act 2003 for local authorities to have regard to Cipfa's Prudential Code for Capital Finance in Local Authorities (the "Cipfa Prudential Code") when setting and reviewing their Prudential Indicators. The Code requires a report to Full Council on compliance with the Prudential Indicators set.

The Council's Prudential Indicators are outlined in Annex I. The following comments explain in more detail the purpose of each indicator.

Estimates of Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

The final spend on the capital programme for 2010/11 was £69.718m.

Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Non Current Tangible Assets, the Revaluation Reserve and the Capital Adjustment Account, and any other balances treated as capital expenditure.

The Prudential Code provides the following statement as a key indicator of prudence: "in order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Authorised Limit and Operational Boundary for External Debt:

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR. There are two borrowing limits specified within the Code.

The Authorised Limit

This is the absolute borrowing limit beyond which any borrowing is prohibited until revised by the authority. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit is set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

The Operational Boundary

This limit is intended to cover the probable borrowing needs of the authority during the year. It is a focus for day to day Treasury Management and a means by which the authority manages its external debt within the self imposed Authorised limit. It is lower than the Authorised limit because cash flow variations may lead to the occasional breach of this indicator.

Upper Limits for Fixed and Variable Interest Rates

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits as:

- Fixed rate interest rate exposure: net fixed rate debt (fixed rate debt less fixed rate investments) as a % of total net debt (total debt less total investments)
- Variable interest rate exposure: net variable rate debt (variable rate debt less variable rate investments) as a % of total net debt (total debt less total investments)

The fixed rate indicator generally remains high reflecting historical policy to take long term fixed rate debt and short term investments (investments for less than 1 year are classified as variable rate).

Borrowing at fixed rates for long periods can give the opportunity to lock into low interest rates and provide stability but risks missing possible opportunities to borrow at low rates in the medium term, or to convert short term loans into long term if long term rates were to fall.

The upper limit for variable rate exposure was set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments. The updated upper limit of 200% on fixed interest rate exposure allowed for periods when short term deposits would exceed variable rate debt due to balances/cashflow.

Upper Limit for sums invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Ratio of Financing Costs as a % of Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The ratio is based on the cost of interest on borrowing and the minimum revenue provision, less Interest and Investment income.

Incremental Effect of Additional Programme on Council Tax

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax.

During 2010/11 the strategy was to minimise new long term borrowing, with the borrowing requirement being met as far as possible from short term loans. Actual borrowing undertaken was therefore less than the borrowing assumed in the Formula Grant assumptions and has resulted in a negative impact on the Council Tax in 2010/11.

Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The Council continues to have a high number of Lobo (lenders Option, Borrowers Option) loans which may be subject to rate change or repayment at specified intervals. On specified dates the Lender has the option to vary the rate. If the option is taken the Council (Borrower) has the option to repay the loan. Therefore the loan may be subject to repayment on a number of occasions throughout the life of the loan. These repayment possibilities are included in the limits set for the maturity of fixed rate borrowing.

Appendix 4

Annex I

PRUDENTIAL INDICATORS	2010/11		
	Originally Approved £m	Approved Update £m	Outturn/ Upper limit £m
<u>Affordable Borrowing Limits</u>			
Capital Expenditure	93.317	77.457	69.718
Capital Financing Requirement As at 31st March	265.704	261.149	257.493
Authorised limit for External Debt			
Borrowing	312	317	288
Other Long Term Liabilities	35	32	33
Total	347	349	321
Operational Boundary			
Borrowing	260	290	289
Other Long Term Liabilities	35	32	33
Total	295	322	321
Limit for Fixed Rate Exposure			
Net Fixed Rate (borrowing less investments)	200%	200%	161.34%
Limit for Variable Rate Exposure			
Net variable Rate (borrowing less investments)	85%	85%	30.88%
Upper limit for sums invested over 364 days	£25m	£25m	£21m
Capital Financing Cost as a % of Revenue Stream	%	%	%
- Plymouth Debt	6.11	6.12	6.68
- Devon Managed Debt	1.56	0.36	0.36
Total	7.67	6.48	7.04
Incremental Effect of Additional Programme on Council Tax (Band D p.a.)	£0.34	-£2.52	-£2.61

Appendix 4

Maturity Structure of Fixed Rate Borrowing				
Debt Maturity Limits 2010/11	Upper Limit		Lower Limit	
	Original Limit Set	In year upper limit reached	Original Limit Set	In year lower limit reached
Under 12 months	65%	52.60%	0.00%	29.30%
12 Months and within 24 months	65%	33.44%	0.00%	5.19%
24 months and within 5 years	55%	16.09%	0.00%	5.19%
5 years and within 10 years	50%	5.48%	0.00%	1.93%
10 years and within 20 years	45%	2.50%	0.00%	1.09%
20 years and within 30 years	45%	5.37%	0.00%	1.25%
30 years and within 40 years	45%	0.72%	0.00%	0.00%
40 years and within 50 years	55%	21.50%	0.00%	12.71%
50 years and above	50%	0.00%	0.00%	0.00%

Appendix 5

Summary of Changes to TM practice 11-12 approved by Director for Corporate Support on 1st April 2011.

- **Schedule 1.1.1. Criteria to be used for creating/ managing approved counterparty list/limits**

Pages 4 and 5. - Updated in line with 11-12 approved Treasury Management strategy to allow deposits up to 2 years – Up to £10m with approved UK banks and building societies and up to £5m with approved foreign banks.

- **TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

Page 36 5.4.6 Senior Accountant (Corporate Accountancy – Technical)

The responsibilities of this post include: -

Updated to make recommendations for deposits up to 2 years – previously 1 year.

Page 38 5.6 Dealing Limits

Limit for the Senior Accountant (Corporate Accountancy - Technical) and Accountants (Corporate Accountancy -Technical) together with approved cover updated to:

Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies or Head of Finance.

Schedule:**I.1.1. CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS**

4. The approved investment counterparty list is determined by the following criteria:
Changes are highlighted.

ORGANISATION	INVESTMENT CRITERIA	MAX AMOUNT	MAX PERIOD
Government Debt Office	Central Government Office	No Limit £10m	12 Months 2 Years
UK Banks	Minimum credit rating: Fitch – Long-Term A+ Short-Term FI Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£30m £10m	12 Months 2 years
UK Building Societies	Minimum credit rating: Fitch – Long-Term A+ Short-Term FI Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£30m £10m	12 Months 2 Years
Foreign Banks	Minimum credit rating: Fitch – Long-Term A+ Short-Term FI Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£10m £5m	12 Months 2 Years
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset value investing predominantly in Government securities. AAA with a Constant Net Asset investing in instruments issued primarily by financial institutions.	2.5% of overall investment portfolio	Call

Bonds Issued by Multilateral Development banks	AAA or Government Guaranteed Eurosterling Bonds	Total investment £20m or 10% of investment portfolio	10 years
--	---	--	----------

- I. The maximum period of lending is 2 (Two) years for deposits other than in EIB/Government bonds where the limit will be 10 years.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.4.6 Senior Accountant (Corporate Accountancy – Technical)

The responsibilities of this post include (changes highlighted): -

- Carrying out or delegating the execution of transactions to the treasury management team
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Treasury Management Board, Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies, Head of Finance and Corporate Finance & Accountancy Manager.
- Identifying and recommending opportunities for improved practices.
- Prepare and update, making recommendations for including counterparties on the Council's lending list following the advice of the Council's Treasury Management advisors..
- Authority to borrow for periods up to 1 year and lending up to 1 month.. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Director for Corporate Support or Assistant Director of Finance, Assets & Efficiencies.
- Make recommendations on all lending up to 2 years and borrowing over 1 year maturity.

5.6 DEALING LIMITS

The following posts are authorised to deal:-

Senior Accountant (Corporate Accountancy – Technical) (changes highlighted)

No dealing limits for loans up to 1 year.

Deposits up to 1 month with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.

Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies or Head of Finance.

Accountant (Corporate Accountancy – Technical)

Deposits up to 15 Days with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.

Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies or Head of Finance.

Loans overnight only (includes weekend) with maximum value of £15m.

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Plymouth City Council Interim Report and Update to Financial Audit Plan 2010-11

June 2011



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1. Introduction

Introduction

This report provides additional information on our audit approach, as previously set out in our Audit Plan 2010-11 issued in December 2010, as well as an update on our response to key risks from the results of interim audit work.

Use of this report

This report advises you of the matters arising from our interim work and should not be used for any other purpose or be given to third parties without our prior written consent. Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, system or control weaknesses or opportunities for improvements in management arrangements that might exist.

The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice, as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

We have set out our findings and the associated recommendations are in an appendix to this report. We have agreed actions to implement the recommendations made with appropriate Council staff.

Acknowledgements

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

Grant Thornton UK LLP
June 2011



2. Executive summary

The table below provides a summary for the Audit Committee of the work performed to date and our key findings. For further detail refer to the relevant section within this report. How this work has been performed is outlined in the Audit Approach section, on pages 4 to 6.

Audit approach	<ul style="list-style-type: none">• There have been no changes to our audit approach as set out in our Audit Plan 2010-11.
Risk assessment	<ul style="list-style-type: none">• The audit risks were outlined in our Audit Plan 2010-11. To date, we have not identified any new risks facing the Council.
Review of internal controls	<ul style="list-style-type: none">• We have evaluated the design effectiveness of internal controls over the financial reporting process through a combination of inquiry and observation procedures and, where appropriate, systems walkthroughs.• We have raised five recommendations from our review of controls, which are set out in Appendix B.
Review of internal audit	<ul style="list-style-type: none">• We have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.• We have raised two recommendations for further improvement, which are set out in Appendix B.
IFRS arrangements review	<ul style="list-style-type: none">• Our review identified that the Council is making adequate progress in its transition to IFRS. We acknowledge that there is still some work being undertaken by the Council to collate and review all relevant information. We will review this work and the related accounting entries during the final accounts audit.

3. Our accounts audit approach

Audit approach reminder

We will:

- work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently;
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved;
- consider the materiality of transactions when planning our audit and when reporting our findings; and
- continue to review and provide feedback on the work the Council has performed through its transition to International Financial Reporting Standards (IFRS).

The logistic details of our annual accounts audit, as agreed with the Director for Corporate Support, are detailed in Appendix A.

In summary, our audit strategy comprises:

<p>Planning</p>	<ul style="list-style-type: none"> • Updating our understanding of the Council through discussions with management and a review of the management accounts • Reviewing IFRS transition arrangements
<p>Control evaluation</p>	<ul style="list-style-type: none"> • Reviewing the design and implementation of internal financial controls including IT, where they impact on the financial statements • Assessing audit risk and developing and implementing as appropriate audit strategy • Assessing internal audit against the CIPFA Code of Practice
<p>Substantive procedures</p>	<ul style="list-style-type: none"> • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate • Reviewing material disclosure issues in the financial statements
<p>Completion</p>	<ul style="list-style-type: none"> • Performing an overall evaluation of the accounts and control environment • Determining an audit opinion • Reporting to the Audit Committee

3. Our accounts audit approach (continued)

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than **£135,000** (below this level we consider errors to be trivial) will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements. We will then consider what impact, if any, not adjusting has on our audit opinion.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Internal audit

We will work with the Devon Audit Partnership to ensure our audit approach takes account of the risks identified by it and the work it has conducted; subject to our review of the effectiveness of the internal audit function.

Review of IT and outsourced systems

The Council make extensive use of Information Technology (IT) to process financial transactions and produce its financial statements. Accordingly, our approach requires a review of the Council's internal controls in the IT environment.

We have involved IT specialist team members during the audit. This approach is based on the complexity of IT used in the Council's significant transaction cycles and a control risk assessment.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. As a result, we focus our control review on the high risk areas of the financial statements.

3. Our accounts audit approach (continued)

We are also required to assess whether controls have been implemented as intended. We have done this through a combination of inquiry and observation procedures and, where appropriate, systems walkthrough tests. However, our work cannot be relied upon to identify all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

Transition to International Financial Reporting Standards (IFRS)

The IFRS based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) has effect from 1 April 2010. The 'transition date' to IFRS is therefore 1 April 2009.

The Council is responsible for the preparation of a restated opening balance sheet as at 1 April 2009 following the introduction of International Financial Reporting Standards (IFRS) and in accordance with the Code.

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work to date has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of

the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010-11 final accounts audit. This assessment has focused upon material balances either in regard to their value or nature.

We have met regularly with the Council's finance team to discuss issues arising and to review progress in making the transition to IFRS. We consider that the Council has made adequate progress in preparing for the production of the 2010-11 accounts and restated comparatives in accordance with the 2010-11 Code of Practice. Although the Council intended to provide restated 2009-10 accounts for audit in January 2011, their work fell behind schedule. Consequently the adjustments to prior year comparatives will be reviewed as part of our final accounts audit in July 2011.

Our work to date has not identified areas of non-compliance with the Code nor any issues which had not already been considered by the Council.

4. Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the audit issues identified in our Audit Plan for 2010-11 and have set out below the outcome of work completed to date and further work planned.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

Our update of the audit and assurance risks facing the Council has not identified any new risk areas.

Issue	Audit areas affected	Work completed	Further work planned
<p>The 2010-11 financial statements may not be prepared in accordance with IFRS</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> We have reviewed the Council's arrangements for completing the transition to IFRS. We have reviewed the draft accounting policies against the requirements of the IFRS Code. We have continued to meet regularly with the Council's finance staff to provide timely review of proposed accounting treatment under IFRS. 	<ul style="list-style-type: none"> We continue to discuss the implication for any developing issues with the finance team. Material areas that are impacted by the transition to IFRS will be reviewed in detail at the time of the final accounts audit. We will review the final accounting policies on receipt of the final accounts.
<p>There may be insufficient finance resource to deliver statutory requirements by 30 June 2011</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> We have monitored the Council's progress against its IFRS project plan and are satisfied that the Council is on track to deliver its first set of IFRS accounts by 30 June 2011. 	<ul style="list-style-type: none"> We continue to liaise with the Council's finance team on an on-going basis to discuss emerging issues and respond to technical queries.

4. Update on accounts audit risk assessment (continued)

Issue	Audit areas affected	Work completed	Further work planned
<p>Pressures over financial performance may affect the Council's ability to deliver its budget and provide services to the public</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> We have reviewed the Council's financial performance for the year against its agreed budget, noting a forecast overspend of £105,000. We have reviewed the Council's arrangements to achieve planned savings through the 'Procure to Pay' project. 	<ul style="list-style-type: none"> We will review the Council's financial performance outturn and its achievement of savings against plan. Our audit work will address audit risks in relation to understatement of expenditure and the use of reserves.
<p>Revaluation of fixed assets are not correctly accounted for</p>	<p>Property, plant and equipment</p>	<ul style="list-style-type: none"> We have discussed proposals to reclassify assets to ensure the categorisation and valuations are appropriate. 	<ul style="list-style-type: none"> We will review any valuations undertaken to ensure that these comply with the requirements of IFRS, particularly in relation to the valuation of schools being performed in 2010-11.

5. Results of interim audit work

Scope

As part of the interim audit, and in advance of our final accounts audit visit, we considered:

- the effectiveness of the Internal Audit function;
- Internal Audit's work on the Council's key financial systems;
- the controls over key systems relevant to our accounts risks; and
- the Council's information technology controls.

The findings from our work are set out in this section of our report on an exception basis. We have included recommendations identified by our work in the appendix B to this report. We have agreed actions to implement the recommendations with the finance team.

The internal audit function

We review Internal Audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.

Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.

However, we have identified a small number of areas where the current arrangements could be strengthened further. Our review has highlighted that although each audit file is subject to robust review by an audit manager, there is no overall quality assurance process in place to ensure that audit staff are complying with the Devon Audit Partnership's audit manual. A quality review by other partnership staff would provide the Council with further assurance that the work of the Internal Audit function is being delivered effectively.

Recommendation 1

Internal audit should implement a quality assurance process to demonstrate compliance with the audit manual.

In assessing the effectiveness of Internal Audit work, we reviewed two Internal Audit files to ensure that:

- systems were adequately documented;
- key controls have been identified and evaluated;
- key controls have been tested; and
- weaknesses have been reported to management.

We have identified that although the samples selected by internal audit provide adequate coverage of the period being tested, there is no justification recorded on file to support the number of items selected. This may result in the samples selected being either too large or too small.

5. Results of interim audit work (continued)

Recommendation 2

Internal audit should ensure that the justification for the sample sizes used is documented on the audit file.

Journal entry controls

We have identified from our review of journal controls that the Council continues to rely on the integrity of user access controls rather than requiring journals to be authorised. This introduces the risk that incorrect or fraudulent journals posted into the ledger may not be detected

Recommendation 3

The Council should ensure that high risk journals are appropriately authorised prior to being posted.

We have reviewed the staff members with access to post journals and note that over 70 users with this access have not posted journals in the first ten months of the financial year. We have also identified that the Council's IFRS consultant has been given this level of access although this had not been used in the period we reviewed.

Recommendation 4

Users with journal access should be periodically reviewed to remove those whose duties do not include posting journals.

Our review has identified a small number of journals where there was no description of the nature and reason for the journal, which is required by the Council's journal entry procedures.

Recommendation 5

Staff members should be reminded of the need to enter a relevant description when posting a journal. Compliance with the Council's journal procedures should be monitored.

Maintenance of supplier masterfile

Access to amend supplier details on the Council's system, including bank details, is restricted to the creditors team and any changes made are electronically logged.

Changes do not require authorisation and there is no subsequent review of the amendments that have been made. This creates the risk that unauthorised changes to supplier details, particularly bank details, may not be detected.

Recommendation 6

Changes to supplier details should be authorised, or a periodic review of changes made should be performed.

5. Results of interim audit work (continued)

Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system, and concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

We have, however, identified a number of areas where improvements could be made. We do not consider these to pose a significant risk to the accounts and have reported them to management through our interim audit feedback meeting. The most significant of these is detailed below.

At the time of our review we examined the administration accounts set up within the 'Active Directory' to ascertain whether they were necessary and appropriate and whether such accounts were subjected to periodic review. We have noted that accounts with this level of access are not subject to periodic review and the number of accounts set up with admin access was excessive. This may lead to unauthorised access to the Council's systems.

Recommendation 7

Management should review access levels, including staff with administration access on a periodic basis to ensure that these remain appropriate.

Prior year recommendations

As part of our planned programme of work, we followed up the recommendations made in our 2009-10 interim report.

We made two low priority recommendations relating to the Council's IT systems, specifically reducing the account lock-out threshold and the implementation of an intrusion detection and prevention system. There has not been any progress on addressing these issues and we have reported this to management.

6. Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

Introduction and Background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010-11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009-10 accounts and full published IFRS accounts for 2010-11.

Basis of assessment

This report details the findings of our initial review. For each significant balance sheet item, we have considered the Council's arrangements against each of the following questions:

- Are the Council's arrangements for identifying and reporting their accounting policy adequate?
- Are the Council's arrangements for identifying and reporting their adjusted UK GAAP values at 1 April 2009 and 1 April 2010 adequate?
- Are the Council's arrangements for reporting IFRS values adequate?
- Are the Council's arrangements for restating their notes to the balance sheet adequate?
- Are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green rating using the following definitions:

Green (G)	Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.
Amber (A)	Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. There is evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red (R)	The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Where items and areas have been assessed as amber, we have discussed these with officers to support the preparation of first set of IFRS accounts.

6. Adequacy of arrangements - findings

Assets

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	A	A	A	A	A	A
Investment properties	G	A	A	A	A	A
Current and non-current investments	G	A	A	A	A	A
Trade & other receivables	G	A	A	A	A	A

Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables	A	A	A	A	A	A
Current & Non-current borrowings	A	A	A	A	A	A
Non-current trade & other payables	G	A	A	A	A	A
Provisions	G	A	A	A	A	A
Non-current other liabilities	G	A	A	A	A	A
Taxpayers' equity	N/A	N/A	N/A	N/A	N/A	A

6. Adequacy of arrangements – amber ratings

Balance sheet item	Reason for rating	Next steps
All areas	<p>Reporting of UK GAAP and IFRS values At the time of our review, the Council had not restated the 2009-10 accounts and therefore the reconciliation between UK GAAP and IFRS figures was not complete.</p>	<p>Adjustments made upon transition, including adjustments identified under UK GAAP, will be reviewed as part of our final accounts audit</p>
All areas	<p>Supporting notes Restated disclosure notes had not been completed at the time of our review.</p>	<p>Supporting notes and disclosures to be drafted by the Council and agreed to supporting working papers.</p>
All areas	<p>Preparation of working papers The Council has made adequate progress in preparing working papers to support the adjustments made upon transition and will complete these as part of the preparation of restated accounts.</p>	<p>Working papers to be finalised and presented for audit along with the 2010-11 and restated 2009-10 accounts.</p>
Minority of areas	<p>Accounting policies Draft accounting policies were presented for review in January 2011, with a minority of areas still requiring finalisation.</p>	<p>Final accounting policies to be reviewed through our final accounts audit.</p>

5. Overall conclusion and recommendations

Overall project planning arrangements for IFRS transition

Overall, we are satisfied that the Council's approach to project planning was appropriate, with detailed impact assessments carried out to identify areas of risk.

We note that the restatement process has fallen behind schedule as a result of work required to prepare the 2011-12 budget following the funding settlement and unexpected staff absence. As a result, we will audit both the 2010-11 accounts and the transition adjustments made to the 2009-10 comparatives as part of our final accounts audit in July 2011.

Conclusion

Overall at this stage we are satisfied that the processes undertaken by the Council have enabled management to highlight the accounting, explanatory, and presentational adjustments required for restatement to IFRS. Significant work has been required alongside the closedown process in order to complete the restated comparatives and we will continue to raise any issues identified during our audit with the Council's finance team.

Acknowledgements

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

Appendix A - Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Interim audit including internal controls review	February & March 2011
Interim audit report	June 2011
Commence accounts audit fieldwork	4 July 2011
Annual report to those charged with governance (ISA 260)	September 2011
Annual Audit Letter	November 2011

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, which was issued in February 2011.

Engagement team

In accordance with our Audit Plan 2010-11 issued January 2011, the main engagement team for the accounts audit will include:

Name	Role	Contact details
Barrie Morris	Engagement Lead	T: 0117 305 7708 E: barrie.morris@uk.gt.com
Kate Jefferies	Audit Manager	T: 0117 305 7678 E: kate.jefferies@uk.gt.com
Chris Roach	In-charge Auditor	T: 0117 305 7720 E: chris.roach@uk.gt.com

Appendix B - Action plan

Rec No.	Recommendation	Priority	Management Comments	Responsibility & implementation date
1	Internal audit should implement a quality assurance process to demonstrate compliance with the audit manual.	Medium	<p>Already in place</p> <p>The new staff structure in DAP means that each Auditor has their work reviewed by different managers across the partnership. This means our quality assurance process, and compliance with the audit manual, is more robust as it results in greater consistency and sharing of best practice between teams.</p>	Partnership Management Team In place
2	Internal audit should ensure that the justification for the sample sizes used is documented on the audit file.	Medium	<p>Agreed</p> <p>Sample sizes need to be risk-based & appropriate for each review, which means some auditor judgement is necessary. Further consideration will be given as to how best to accomplish both adequacy of testing and cost effectiveness.</p>	DAP Managers 30 Sept 11
3	The Council should ensure that high risk journals are appropriately authorised prior to being posted.	High	<p>Agreed</p> <p>Officers continue to encourage staff to append supporting documentation to journals wherever possible and consider this to be a more manageable and cost effective control. However, officers will look to review the potential to add journal authorisation to some journals based on high value/high risk.</p>	Corporate Accountancy and Finance Manager March 2012
4	Users with journal access should be periodically reviewed to remove those whose duties do not include posting journals.	Medium	<p>Agreed</p> <p>A review will be undertaken and journal access removed for staff who do not use this facility. A particular focus will be undertaken on the access of senior staff who may be required to review and authorise transactions, to ensure there is adequate separation of duties.</p>	Corporate Accountancy and Finance Manager September 2011

Appendix B - Action plan (continued)

Rec No.	Recommendation	Priority	Management Comments	Responsibility & implementation date
5	Staff members should be reminded of the need to enter a relevant description when posting a journal. Compliance with the Council's journal procedures should be monitored.	Low	Agreed Officers regularly remind staff of the need to enter adequate descriptions and attach supporting documents to journals. The corporate accountancy team monitor via monthly reports; in future will consider access removal for persistent misuse.	Corporate and Accountancy Finance Manager On-going
6	Changes to supplier details should be authorised, or a periodic review of changes made should be performed.	High	Agreed Reviewed as part of P2P Project and currently being reviewed as part of category management project and the updated Procurement Standing Orders within the Constitution (Financial Regs)	Strategic Procurement Manager 30 September 2011
7	Management should review access levels, including staff with administration access on a periodic basis to ensure that these remain appropriate.	Medium	Agreed The systems administration has been handed to ICT in the last few months. It is a standard process to review and limit all administration accesses on a continuing basis, with a formal review at the end of each financial year.	ICT Strategy & Programme Manager On-going



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2010-11 Audit Plan update						
Work area	Reason performed	Work objective	Draft to lead officer	PCC lead officer	Progress to date	
Financial statements						
Interim Report & Update to Financial Audit Plan	Code of Audit Practice	To gain assurance from systems of financial control for opinion	June 2011	Malcolm Coe	Completed. Final report presented to Audit Committee on 27 June 2011	
Annual Report to Those Charged with Governance (ISA260 report)	Statutory requirement	To summarise the findings from our final accounts and other Code work that impacts on our opinion and discuss with those charged with governance	September 2011	Malcolm Coe	Work planned for July and August 2011, with reporting after completion of the final accounts audit	
Accounts opinion	Code of Audit Practice	To provide an opinion on the accounts	September 2011	Adam Broome	To be issued following final accounts audit	
Value for Money (VfM) conclusion						
VfM risk assessment	Code of Audit Practice	To identify areas of risk to the VfM conclusion and where more detailed work is required	September 2011	Adam Broome	Risk assessment complete	
Procure to Pay	Code of Audit Practice	Local risk based work	March 2011	Malcolm Coe	Completed. Final report presented to Audit Committee on 27 June 2011	
Financial Resilience	Code of Audit Practice	Local risk based work, will consider key assumptions and budget pressures in the MTFS including adult social care	September 2011	Malcolm Coe	Work being scoped following approval of MTFS in June 2011 to commence in July 2011	
Project management	Code of Audit Practice	Local risk based work, proposed tracers include Life Centre, waste contract and accommodation strategy	September 2011	Malcolm Coe	Work being scoped to commence in July 2011	
VfM conclusion	Code of Audit Practice	To provide conclusion on the Council's arrangements for achieving VfM	September 2011	Adam Broome	To be finalised following completion of risk-based work and audit of the 2010-11 accounts. To be reported through the ISA260 report	
Other reports						
Annual Audit Letter	Code of Audit Practice	To summarise key findings and conclusions from the work performed under our audit plan	November 2011	Barry Keel	To be drafted following issue of accounts opinion and VfM conclusion	
Certification Work Report	Agents for the Audit Commission	To certify claims and returns required by the Audit Commission	December 2011	Adam Broome	Work to be completed from September to December 2011	

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Grant Thornton

Plymouth City Council

VFM Review of the Procure to Pay Project

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1 Overview

1.1 Background

In light of the Government's Spending Review in October 2010 and the local government settlement in December 2010, significant savings are required to be made by councils across the country.

Plymouth City Council (the Council) plans to make £26 million of savings over the three year period 2011-14. As part of a wider corporate cost reduction programme the Council has identified a target of £9 million savings from procurement related activity. The Procure to Pay (P2P) project is planned to deliver £4 million of this, with a further £5 million to be delivered through a category management project.

The Council has a central Strategic Procurement Unit (SPU), which was established in 2004, that supports the procurement and commissioning activity that takes place across all council services, and has responsibility for co-ordinating the procurement savings programme.

The procurement savings programme represents a significant proportion of the overall Council's savings programme, and aims to reduce the Council's planned budget for external expenditure by 4.1% in total over a three year period. As it is essential that the Council delivers the planned savings in order to meet its operational and financial commitments the risks associated with delivering the savings programme need to be identified and appropriate arrangements put in place to manage them effectively.

The P2P project has six work streams with the majority of savings expected to be achieved through the "buyer rollout" work stream, which goes live on 1 April 2011. The allocation of savings by year of the project and work stream will need to be updated following approval of the revised Corporate Support Services delivery plan.

Our review has been undertaken as part of our 2010/11 Value for Money (VFM) Code of Audit Practice work ("the Code"). The Code allows auditors to undertake specific pieces of audit work that feed into the VFM conclusion.

1.2 Scope of our work

The scope of our work related to the P2P project and covered the following:

- review how the procurement savings programme supports the achievement of the Council's medium term financial strategy (MTFS) and corporate priorities;
- review the robustness of the procurement implementation plan, with particular regard to the associated project management framework;
- determine the effectiveness of the associated benefits realisation strategy, with particular regard to how savings will be measured and validated;
- review the Council's approach to risk management in relation to the procurement savings programme; and

- identify any issues relating to the programme management and governance arrangements of the procurement savings programme.

We conducted our review through:

- a desktop review of documents;
- discussions with officers involved in the delivery of the P2P project; and
- discussion with officers in services that are affected by the P2P project.

We set out in our Audit Plan for 2010-11, presented to the Audit Committee in January 2011, that we would undertake work in relation to project management. We have reflected in this report some commentary in relation to the Council's project management arrangements, but have not made any specific recommendations regarding those arrangements. We will undertake and report our review of the Council's project management arrangements in the summer of 2011.

1.3 Key findings

Corporate alignment

The P2P project is aligned to the new corporate priority to provide value to communities. It forms part of the Corporate Support Services delivery plan and we believe there is clarity at a corporate level, regarding the need to deliver the P2P project.

Project governance arrangements

The P2P governance arrangements were originally set out in the Project Initiation Document (PID) in April 2010. Since that date the project manager has changed and so have a number of work stream leads. We found that there is a lack of clarity regarding the new project structure and as both the former and current project manager are also work stream leads, there is a risk that accountability and ownership are confused, which could impact on the effective implementation and monitoring of the project.

Approach to risk management

The Council is broadly compliant with its risk management strategy for this project. There is a project risk register in place which is monitored regularly, although there is scope to enhance the structure of the register, documentation of required actions and residual risk scores. The use of an issues list is good practice to record live risks which need to be actively managed, but it needs to be enhanced further to ensure accountability and progress on managing and resolving issues can be monitored more effectively.

Robustness of Implementation plan

The Council has sought to follow a PRINCE2 project management methodology for P2P, rather than the Council's project management procedures. The work streams of the project are in various stages of implementation, but there has been a lack of clear communication across the Council. The absence of a project communication plan is likely to have contributed to a lack of fully effective stakeholder engagement. The allocation of the savings target across the three year period of the project has continued to change as the Council's budget has been refined. In March 2011 the target for 2011-12 increased to £1.2 million from £0.75 million, and appears to represent more of a budget gap that needs

to be filled rather than a realistic level of savings which the Council expects it can deliver. Overall, the Council considers that the savings target of 4.1% to be delivered through procurement to be prudent when compared to the targets of other Councils of between 7% and 8%.

Effectiveness of benefits realisation

The Council does not have a benefits realisation strategy for the balancing the budget programme or the P2P project. The arrangements for performance management need to be developed as a matter of priority, including how financial and non-financial benefits will be measured and monitored.

1.4 Conclusion

The Council has a clear vision to deliver £4 million of procurement savings through its P2P project over the three year period starting 1 April 2011. It is clear that there is a strong commitment, and ambition, for a wide range of improvements and reforms in how the Council manages its procurement activity. It believes it has set a prudent target, based on a baseline assessment, to deliver net revenue savings. The framework to deliver these has continued to develop since January 2010 but further work is still required to introduce effective implementation plans and to realise the financial and non-financial benefits.

Whilst we are currently able to conclude that proper arrangements are in place to support a positive value for money conclusion for Plymouth City Council for 2010-11, progress is required to address the high level recommendations set out at Appendix A, which will inform our conclusion for 2011-12 and subsequent.

1.5 Recommendations

Our detailed recommendations are set out in the body of this report, and summarised in an action plan set out in Appendix A.

1.6 Acknowledgements

We would like to take this opportunity to thank the Council's officers for their assistance provided during the course of our review. A list of those consulted is included at Appendix B.

1.7 Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Practice and should not be used for any other purpose or copied to third parties without our written consent. We assume no responsibility to any other person.

This report includes only those matters that have come to our attention as a result of the work performed. This work has not been designed to identify all matters that may be relevant in respect of the Council's P2P project.

**Grant Thornton
March 2011**

2 Project governance arrangements

2.1 Introduction

This section covers the alignment of the project to the Council's corporate priorities and the project's governance arrangements, including the approach taken with regard to risk management.

The timings of the key reports and decision relating to the project are set out in the table below.

Table 1: Key decisions and reports in the P2P project

Key decision / report	Date
Procure to Pay Lean Process Strategy, approved by Head of Value for Money	January 2010
Procure to Pay Project Initiation Document (PID)	April 2010
Buyer Roll-out Business Case, approved by Corporate Management Team	October 2010
Progress reports to Corporate Support Project Delivery Board, approved at each meeting	Monthly since December 2010

2.2 Alignment to corporate priorities and the MTFS

Corporate priorities

The Council's Corporate Plan 2011-2014, which was presented to the Cabinet in February 2011, sets out the shared priorities for delivering the Council's vision with its Plymouth 2020 partners. This includes providing value for communities, which is translated as 'work together to maximise resources to benefit customers and make internal efficiencies'. It also sets out that the Council's efficiency wide focus includes 'improving commissioning and procurement to get better value from contracts and from our purchasing of goods and services'.

As part of the wider Balancing the Budget programme the Council has identified the need to make procurement related savings. One of the Council's mechanisms to do this is via the P2P project. The intention is for this project to deliver £4 million of savings in the three year period ending 2013-14, with the P2P project commencing implementation during 2010-11 so that savings are realised from 1 April 2011. The Council intends to make a further £5 million of procurement related savings through category management.

Consequently our review indicates that the P2P project supports the Council's corporate priority to provide value to communities.

Before the Council updated its Corporate Plan for 2011-2014, it had 14 Corporate Improvement Priorities (CIPs). The P2P Strategy set out that it supported CIP 14, providing better value for money, and that it supports the restructure of goals by increasing customer focus, efficiencies and minimising business risks.

MTFS

The Council is in the process of updating its MTFS, following the Government's Spending Review in October 2010 and the local government finance settlement in December 2010. We understand the revised version will also reflect recent budget changes, and will be published in April 2011. As such, we have not reviewed the MTFS, because it has not been drafted. We understand that the revised version is intended to align with the new corporate priorities.

Underpinning the revised MTFS are 13 delivery plans, two of which are combined to form the Corporate Support Services and Customer Services delivery plan. These delivery plans set out a series of actions and projects as part of the Balancing the Budget programme, where savings, efficiencies, or increased income are planned over the period 2011/12 to 2013/14. One of the projects within the Corporate Support Services and Customer Services delivery plan is P2P.

2.3 Project governance arrangements

P2P project board

The P2P project is overseen by a project board. Members of the board, as set out in the P2P PID, are as follows:

- Assistant Director for Finance, Assets and Efficiencies - Chair
- Head of Value for Money
- Head of ICT or delegate to represent ICT
- Strategic Procurement Manager
- Head of Finance
- Representative for Human Resources
- Representative for Assistant Chief Executive
- Representative for Devon Audit Partnership

The P2P PID defines the project board's role as:

- monitor progress on the project;
- challenge the project team and project manager;
- represent the business interests within the project;
- provide an escalation route for resource conflicts;
- provide impartial and objective support to the project; and
- carry out a project assurance function.

In addition, members of the project board are to act as the organisation’s P2P champions and will represent the project and delivery of the P2P strategy, and secure buy in from the Directors and senior officers within the Council.

The project sponsor is Paul Chapman, Head of Value for Money and Efficiency. When the Project was initiated the Project Manager was Kim Worthington, Product Portfolio Manager. Following the restructuring of the finance function in 2010 the Project Manager role was reassigned to Nicola Allen, who is also a Product Portfolio Manager.

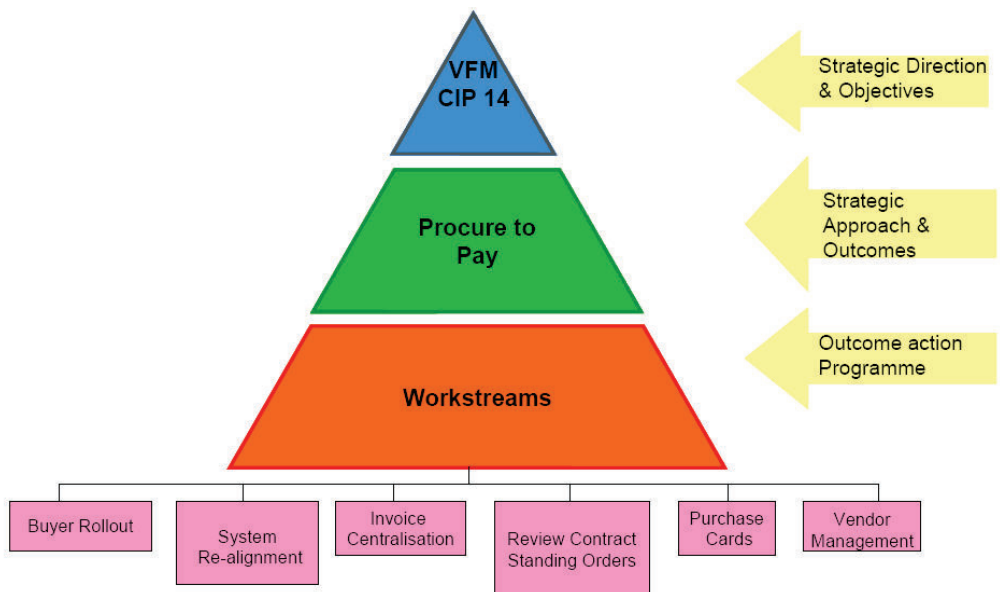
The P2P project board has recently been replaced by the Corporate Support Project Delivery Board. The Senior Responsible Officer (SRO) for the P2P project is Adam Broome, Director for Corporate Support, who is accountable for the delivery of project outcomes. This new board oversees all projects being led by the Corporate Support directorate. The Council plans to set up a 'Peoples Panel' where project outcomes and achievements will be monitored, and practical issues will be discussed and addressed, and then feed into the Corporate Support Project Delivery Board.

Recommendation 1
 The P2P PID should be updated to reflect the revised project governance arrangements structure.

P2P structure

When the project was initially set up, it was aligned to Corporate Improvement Priority (CIP) 14, 'Providing better value for money. Priorities have now been consolidated into four priorities across the city. P2P has six work streams, as set out below.

Exhibit 1: High level project structure



The scope of each work stream are summarised in the table below, along with work stream leads and work stream timescales.

Table 2: P2P work streams, their leads, scope and timescales

P2P work stream	Lead in PID	Scope in P2P strategy	Timescale in P2P strategy
Buyer rollout	Maria Schingen, Product Portfolio Manager Now changed to Kim Worthington, Product Portfolio Manager	To cease local procurement of non-standard items, centralising it to designated buyers	February 2010 - April 2011 Now forecast to complete July 2011
System re-alignment	Paul Harris, Principal Systems Analyst Now changed to Martin Felgate, Senior Accountant	To ensure that all reporting and allocation on the Civica system reflects actual organisational structures. This safeguards Civica data integrity and allows for accurate management information	March - June 2010 Now forecast to complete March 2011
Invoice centralisation	Sharon Taylor, Senior Financial Services Officer Now changed to Julie McMillan, Income Maximisation Manager	To cease local processing of invoices and centralise all invoice processing into the Creditors section	February 2010 - March 2011
Review of contract standing orders	Nicola Allen, Product Portfolio Manager	To update current contract standing orders, communicate and monitor new approved standing orders	March - July 2010 Now forecast to complete April 2011
Purchase cards	Kim Worthington, Product Portfolio Manager Now changed to Martin Felgate, Senior Accountant	To select the most cost effective purchase card option for the Council, test and implement it across the council and schools	May - November 2010
Vendor management	Nicola Allen, Product Portfolio Manager	To create a rationalised, approved, monitored vendor base under the central control of Creditors and Procurement	February - April 2010 Now forecast to complete November 2011

It is good practice to breakdown a complex project into separate elements. We consider the approach taken by the Council to be reasonable.

Project management

The Council's project management procedures set out that the project manager should lead, manage and coordinate the project team on a day-to-day basis, and the project team should deliver the required outputs and deliverables. The project manager, Nicola Allen, is also responsible for the vendor management work stream and the review of contract standing orders work stream, as set out in table 2 above. She is assigned a number of the tasks for these in the project plan, as well as tasks in vendor management and the review of contract standing orders. The previous project manager, Kim Worthington, was originally responsible for the purchase card work stream.

Where an individual performs the role of project manager and is required to deliver an element of the project as work stream lead, there is a risk that accountability becomes confused, which may impact on the effective delivery of the project.

Recommendation 2

The Council should ensure that the roles of P2P project manager and work stream leads should not be assigned to the same individual.

In addition, elements of the project governance have changed during the implementation of the project and, whilst in itself, this is not bad practice, given changing circumstances, we have not been able to identify a clear record of the changes or of the new project governance arrangements. Our fieldwork indicates that the absence of a clear structure and overarching governance has resulted in a lack of clarity regarding roles and responsibilities in the P2P project. This may have contributed to the apparent delays in the delivery of the project to date, which the Council has recognised. The timescales set out in the P2P lean process strategy in January 2010 have not, or are not forecast to be, achieved for four of the six work streams, as set out in table 2 above.

The savings identified for the project are to be realised over the three year period commencing 1 April 2011. It is essential that all benefits are robustly monitored over the life of the project, and a lack of clarity on roles and responsibilities may impact detrimentally on the ownership of benefits targets across the six work streams. Benefits realisation is discussed further in section 3.3.

Recommendation 3

The project structure and governance arrangements need to be re-defined in light of current circumstances, including a Memorandum of Roles and Responsibilities of all key stakeholders involved in the project.

Progress reports are presented to the Corporate Support Project Delivery Board on a monthly basis and it this Board oversees progress against the Corporate Support Services and Customer Services delivery plan. Further detail on performance management is included in section 3.3 of our report.

2.4 Approach to risk management

Risk management strategy

The Council's risk management strategy 2010 requires that risk management is embedded in the Council's processes, including project management, making risk management an integral part of project planning. The strategy requires a risk register to be maintained which should include possible consequences of the risk identified, the potential impact and likelihood of the risk, existing controls in place to mitigate each risk and planned actions to mitigate risks, with relevant timescales and responsible officers. Medium to long term risks are required to be included on the strategic risk register and those affecting day-to-day departmental operations should be on operational risk registers.

Strategic risk register

In the Council's strategic risk register, the risk of not delivering the P2P project and £4 million savings over 3 years is captured within risk 21 titled MTFs. The consequences of this risk include failure of the budget and failure to deliver corporate priorities, it is assessed as the highest score which is 25, with a residual risk score also of 25. This links to the old Corporate Improvement Priority 14, providing better value for money, before the priorities were updated, which is also set out earlier in this section of our report. We consider that the P2P project is appropriately aligned to the Council's strategic risk register.

Corporate Support Services delivery plan

The Council's Delivery Plans provide the link between risk against the Council's strategic priorities and the risk assessment of individual projects. The Corporate Support Delivery Plan includes procurement and identifies P2P / buyer roll out for 'driving efficiencies out of external purchasing'. The plan sets out the lead officer, projected savings, impacts of failure to deliver and a risk assessment. The major risk identified is 'not being able to identify savings made across departments' and this is amber rated and the response states that buyer roles will be established and a system to capture savings implemented.

P2P project risk register

The P2P project is following the Council's risk management strategy, and follows good practice, as it uses a project risk register which is routinely reported to the Corporate Support Board. The P2P Lean Strategy sets out key risks, how they will be assessed (scored) and how they will be mitigated. The P2P PID set outs that a risk analysis would be completed by the project team at the first meeting. A project risk register is in place and each P2P Corporate Support Board report includes an updated version with 'open' risks on it.

However, the project risk register is not fully compliant with the Council's policy. It does not clearly distinguish between existing controls in place to mitigate risks and the planned actions which need to be put in place to mitigate risks. These are both incorporated within one column titled 'control'. Whilst mitigating controls are documented it appears that a number of the controls are not in place i.e. they set out something that will happen in the future. There is no timescale or responsible officer assigned to these future actions.

The report to the Corporate Support Board in March 2011 includes 12 risks, eight of which are high and four are medium. Four of the risks have been scored as 25, the highest possible score. There is no residual score of each risk after consideration of the mitigating

control. This does not appear to be a requirement of the Council's risk management strategy, but it is the approach adopted for the strategic risk register and represents best practice.

It is important that the risk assessment is fully documented, in order that the Council focuses resource in the areas of greatest risk of not delivering the required outcomes. Where high residual risks are identified, the Council needs to decide whether, and how, to address these.

We have reviewed the four risks that were assessed at the highest score of 25 in March 2011, and would make the following observations in relation to two of the risks.

- Risk - Ensuring on-going compliance will reduce the identified efficiencies and the project viability cannot be ensured. This risk is not clearly defined and it is unclear why ensuring on-going compliance is being treated as a risk.
- Risk - Delay in buyer implementation could result in loss of funding secured for 2010-11. The control states that a purchase order will be raised and goods received before the end of March 2011, this appears to be a future action rather than a control in place. This report was prepared at the end of February 2011, which means only one month was available to purchase and receive the goods identified.

Mitigating controls and planned actions to mitigate risks should be SMART i.e. specific, measurable, achievable, realistic and timely. Where actions are clearly defined, there is increased opportunity to deliver them. Our review of the risk register has identified that it is not clear how the Council intends to address some of the risks identified.

The risk register does not include a risk in relation to monitoring benefits realisation. Section 3.3 of our report sets out that the Council does not have a benefits realisation plan in place. The Council has recognised a clear need to identify how benefits will be realised but has not formally documented how this will be done. Without this, the Council is limited in its ability to determine whether the project is on track to deliver its objectives. Many of the P2P risks the Council has identified may impact on benefits realisation, rather than this being a separately identifiable risk. It may be appropriate to include a column for the type of risk in the risk register so, for example, it is clear if the risk primarily relates to key areas such as people, data and benefits realisation.

Recommendation 4

The P2P project risk register should be enhanced by:

- ensuring it complies with the Council's risk management strategy, distinguishing between controls in place and required actions, with timescales and responsible officers assigned;
- documenting the residual risk score for each risk, where residual risks remain high, decisions should be made as to whether, and how, to address these risks;
- more clearly identify risks and controls, rather than process, in place to mitigate them; and
- identifying the type of risk.

P2P issues list

In addition to the risk register, the Council has followed good project management practice by using a project issues log, which it has called an issues list. This records “live risks” that need to be actively managed, and the Corporate Support Board reports state that they need to be resolved as a matter of urgency.

The issues list could be enhanced to meet all of the requirements of a full issues log. It currently sets out a description of each risk, whether it is open or closed, and the recommended action, but does not currently:

- identify the risk on the risk register to which the issue relates;
- the date the issue was raised or closed;
- the impact of the issue, for example on other work streams or projects;
- the owner of the action to manage the issue, when the issue was assigned, and the date by when the recommended action should be completed; or
- whether the issue is work stream related or whether it is at project level.

The issues log could also usefully include a column to record lessons learned arising from the management of the issue.

Recommendation 5

The P2P issues list should be developed to meet the requirements of an issues log.

3 Project management

3.1 Introduction

This section covers the delivery of the project, in particular, the robustness of the implementation plan and effectiveness of the benefits realisation strategy, and how benefits will be measured and validated.

3.2 Robustness of implementation plan

Project management

The Council's project management procedures, rolled out in May 2010 and updated in November 2010, set out the documentation that is required to be maintained when undertaking a project. It distinguishes between major projects, which are those with a cost of over £500,000, and minor projects, which are those with a lower cost, unless specified risk factors make it a major project.

The required documentation for a major project should be initially compiled during the appraisal stage and reviewed, updated and reported on throughout the life of the project. For minor projects this should be tailored appropriately. Key documents include:

- Initial Project Proposal - alerts key and significant persons outside the related department of possible and future work.
- Communications Plan - defines parties with a project interest and means and frequency of communication with them.
- Project Execution Plan - statement of policies and procedures defined by the Project Director, setting out the project scope, objectives and relative priorities.

The Council has confirmed that these procedures have not been followed for P2P and, as a result, the above documents have not been produced. The Council identified the implementation cost of the P2P project in the related PID as £23,500, excluding staff costs. The cost of the purchase card work stream was stated as £5,000, and vendor management as £18,500 which is grant funded. The Corporate Support Services delivery plan states the revenue cost of implementing buyer rollout is 'to be confirmed'. The full cost of a significant project should be quantified before a project commences, so that resource implications can be fully understood and managed, and so the return on investment is clear.

Recommendation 6

The full cost of projects should be budgeted prior to a project commencing.

The cost of not implementing the project is not achieving the targeted £4 million savings. Therefore, the project management disciplines required of major projects could be usefully

applied to a savings project of this nature, albeit the known cost of delivering the P2P project does not explicitly meet the criteria of a major project. We will consider the clarity and application of the project management procedures as part of our separate project management review, which is planned in the summer of 2011.

The P2P project sponsor has confirmed that, whilst P2P does not meet the capital project definition of spending more than £500,000, P2P is a major project for the Council. This is a revenue efficiency delivery project for which the Council has sought to develop appropriate project management arrangements. These differ from the Council's project management procedures, which we consider to be focussed toward capital projects.

Documents have been produced that the Council considers to be in line with the PRINCE2 project management methodology, including a PID, Business Case for the buyer rollout work stream, and a project plan. The PID covers many of the requirements of a project execution plan, although it is not as comprehensive or detailed, although, as mentioned above, the execution plan appears to be more appropriate for capital projects.

We have confirmed through our work that not all key managers with responsibility for delivering the P2P project and its work streams were aware of the Council's project management procedures. Whilst the P2P Strategy was developed before the updated project management procedures were issued, the project board has recognised the need for these key documents which should enable the more effective delivery of the project.

Recommendation 7

The Council's project management procedures should be followed, or an alternative methodology justified and formally approved by the project board.

Project communication

It is essential that the Council identifies all the key stakeholders at the outset of all projects, analyses their communication needs and agrees the communication channels to be used, the frequency of communication, and who is responsible for managing the communication. This increases the ability to effectively deliver a project, and manage risks identified, such as stakeholder buy in. Without effectively structured and planned communication, there is a risk that the Council does not have buy-in from stakeholders and that the project's effective implementation could be compromised.

Our interviews with a number of stakeholders within services identified that the key difference between the restructuring of the finance service and the current changes in procurement is communication. Officers stated they feel a lack of ownership in the procurement changes, predominantly due to uncertainty over what is happening, for example in how the role of the central buyers will meet their requirements.

We also identified a strong understanding of the need to make savings through procurement, to both protect front line services and jobs. Consequently, whilst there is a mixed level of awareness of the P2P project itself, there is a clear appetite for involvement in the project and the successful delivery of its objectives.

The majority of interviewees commented that they would have liked earlier involvement in this project. In some service areas there was also a perception that initiatives or views developed in the Civic Centre are imposed on those who operate in other locations. This is

one of the symptoms of not having a communications plan at the outset of the project and results in a lack of potential engagement and buy in from service areas.

Recommendation 8

A project communication plan should be produced and implemented to manage relationships with internal and external stakeholders.

Project plan

The project plan, which is a Gantt chart, specifies the high-level tasks required to deliver this project, their anticipated duration, start and finish dates and a responsible officer is assigned each task. The Council has stated that detailed action plans will be produced to supplement the overall project plan. The plan is comprehensive and represents good practice, and it is being used as a live document to track the Council's progress with the project.

P2P savings target

As already noted, the savings target for the P2P project is £4 million over a three year period starting 1 April 2011. This is part of a larger procurement saving of £9 million, which includes £5 million for category management savings.

The P2P savings are to be delivered through reductions in external expenditure from the Council's net revenue external budget i.e. excluding capital and grant funded items. The net revenue external spend has been identified as £164 million, therefore the targeted savings represent 2.4% of this.

In addition, the category management savings are to be made from the gross budget (net revenue plus capital) which is currently £216 million, representing a savings target of 2.3%. After taking account of expected revenue budget and capital reductions, the Council have calculated this to be a total saving of 4.1% over the three year period.

In setting this target the Council has undertaken a review of the savings achieved or forecast by other local authorities. It understands others are targeting between 7% and 8% savings and therefore considers that 4.1% is a realistic, if prudent, target. Our review has not been able to establish further information or detailed assumptions to support why the headline savings target in P2P is £4 million, other than this is the forecast budget gap.

The phasing of the target over the three year period from 1 April 2011 has varied over time. The original PID, prepared in April 2010, states the total expected savings were £465,000, which is significantly below the target amount and had no time frame allocated. The target was subsequently set out more clearly in the Corporate Support Services delivery plan, which we have been advised during the course of our review has been further updated following conclusion of the most recent financial planning process. Summary savings target by year are set out in table 3 below. It has been confirmed that the target is cumulative, so that the aggregate savings to be realised by the end of the three year period total £4 million.

Table 3: Savings targets in the Corporate Support Services delivery plans

Plan date	2011-12	2012-13	2013-14
November 2010	£0.75 million	£2.0 million	£4.0 million
March 2011	£1.2 million	£1.5 million	£4.0 million

The Council has continued to refine the target for each year throughout the budget setting process. However, it appears that this continues to represent the budget gap in each year, rather than the value of savings which have been identified as achievable in each individual year. The target for 2011-12 was revised from £0.75 million upward to £1.2 million in March 2011. As a result the related plans in various documents will need to be updated.

The Council reported in the March 2011 Corporate Support Board report how the £4 million target is allocated across the six work streams. However this was presented before the allocation of the target by years was revised in the Corporate Support Service delivery plan in March 2011. An appropriate allocation is critical for effective ownership of benefits, their monitoring, and for clear accountability for their realisation.

Recommendation 9

The total P2P savings target, and allocation by year, should represent the value of savings the Council could achieve, rather than being a budget gap. The allocation across the six project work streams should be updated to reflect the revised allocation by year.

P2P project reporting

Progress reports are presented to the Corporate Support Project Delivery Board on monthly basis, this Board oversees progress against the Corporate Support Services and Customer Services delivery plan. The reports include a comparison of the savings achieved to date against target as well as actions taken since the last report and a list of risks and issues relating to the project.

The report presented to the March Board, written in February 2011, stated the following within the body of the report:

- invoice preparation had achieved savings of £28,500; and
- corporate support buyers had achieved savings at the end of February 2011 of £65,000, the example given being equipment purchased at the same price as in 2007 despite having an annual RPI of 3%.

Appendix D to the report, which sets out planned savings over the project, shows that a total of £37,000 of savings are forecast to be delivered by the end of 2010-11 from invoice preparation. These will contribute to the overall savings target and forecast the February position up to the end of the year.

Savings achieved to date are reported in appendix C to the report, which includes two graphs which show:

- total buyer efficiencies for 2011-12, with a target for the year of £750,000; and
- corporate support/chief executive buyer efficiencies for 2011-12, with a target for the year of £170,000.

Both graphs show savings to date which contribute to the overall target of £4 million. The reporting is set out to capture separately capital and revenue savings.

Our understanding is that the P2P savings are revenue only, and cashable savings do not include an RPI increase, because the Council considers this to be a non-cashable saving. The monitoring information presented in the Corporate Support Services board reports does not appear to be consistent with the basis for target setting. The project should set targets and monitor performance against them on a consistent basis, to avoid the risk of incorrectly reporting that a target has been achieved when it has not.

Recommendation 10

P2P reporting to the Corporate Support Services board should clearly reflect only revenue savings, and cashable and non-cashable savings should be separately monitored.

3.3 Effectiveness of benefits realisation strategy

A benefits management/realisation strategy provides a project with a framework for realising benefits. It defines:

- how benefits (and dis-benefits) will be quantified and measured;
- how interdependencies between benefits will be identified and tracked;
- how Benefits Realisation will be authorised; and
- the processes for measuring the cost-to-date and expected cost of achieving benefits.

A benefits profile is used to define each benefit (and dis-benefit) and track its realisation, each benefit requires a complete definition (benefit profile). It also provides the opportunity to scrutinise them, for example:

- Are the measures realistic?
- Are the dependencies with other benefits and projects identified?
- Are appropriate responsibilities for realisation identified and agreed?
- Is the benefit accruing as expected?
- Are the business changes being made to enable the benefit?

We understand that the Council does not have overarching benefits realisation strategy for the Balancing the Budget programme, nor benefit profiles for the P2P project. Further, there are no detailed assumptions underpinning the level and timing of the planned savings, nor how they accrue across different services, or areas of procurement activity. The absence of any benefits realisation strategy, benefits profiles and related assumptions means that there is a high degree of risk that the Council will not be able to effectively monitor benefits and will not be in a position to determine when benefits have been realised.

We understand a benefits realisation plan, in line with the revised savings targets, is being prepared and will be presented to the Corporate Support Services delivery board in April 2011.

Non-cashable benefits

During the course of our fieldwork a number of non-cashable benefits were mentioned, such as improved management information, increased compliance with regulations and the consistent procurement of the most appropriate goods or service across the Council. The P2P Strategy (page 7) set out the benefits of the project as follows:

- increased control over spend
- increased value for money, quality and delivery
- removal of unethical purchasing practices
- management of procurement risks, limiting organisational liability and improving supply security
- controlled, managed and qualified supplier base
- more accurate and timely invoice processing
- e-invoicing, intelligent scanning and automatic invoice authorisation
- improved budgetary management and controls
- improved contracting opportunities and strategies
- compliance with Glover report recommendations regarding dealing with SMEs
- realisable savings in procurement costs, staff efficiencies in purchase and invoicing processes
- reduction in the annual costs associated with corporate credit and lodge cards.

It further stated that “achievement of the above benefits would be measured through Key Performance Indicators for each P2P strand” i.e. work stream. However, we have not been able to identify how these benefits have been profiled or how they are being measured.

Performance management

To maximise the opportunity to deliver the project in the timescale set, it needs to be effectively performance managed. This involves defining how success will be measured and what the required level of performance should be, once the project has been delivered. We would expect to see clear baseline performance information e.g. unit costs, KPIs, customer satisfaction, and planned performance targets, for monitoring after the improvement has been completed.

In addition to the financial targets reflected earlier in this section of our report, the P2P Process Strategy states at section 7.2 that targets and indicators will be set to monitor the achievement of benefits. In this document eight indicators are listed:

- reduction in P2P process cost
- increase of CIP qualified personnel authorised to carry out non-catalogue procurement
- reduction in non-standard and service item orders
- reduction in orders placed (through consolidation)
- reduction in off contract spend
- 100% purchasing suppliers approved
- 96% of invoices meeting or exceeding prompt payment targets; and
- accurate procure to pay management information

However, only two have definable targets (100% of purchasing suppliers to be approved and 96% of invoices to meet or exceed prompt payment targets). To date, a full set of key performance indicators have not been defined and related targets have not been set.

The project board report for March 2011 made reference to progress in realising non-financial benefits. The example given in the report was the number of invoices processed without a purchase order has reduced to 2%. This was not an indicator which was included in the P2P Strategy and no target was specified in the P2P project board report. Therefore it is not clear whether the Council has achieved the desired outcome, or should take further corrective action to improve performance.

Recommendation 11

The Council should urgently develop benefits profiles for all planned benefits (financial and non-financial) from the P2P project, including how each benefit is to be measured, and the timescales for realising each benefit, to ensure effective monitoring and benefits realisation.

4 Other considerations

4.1 Introduction

This section covers specific findings from our stakeholder interviews with services in relation to the buyer rollout work stream, where the findings do not fit directly under the previous sections of our report.

4.2 Buyer rollout

The Council previously had over 360 authorised buyers of goods and services across the Council and these are now being rationalised to just eight buyers within the SPU. The role of these new central buyers is to purchase goods or services specified by the Council's departments and services where the cost is below £75,000. Buyers are currently being recruited to be in post and trained in their new role by 1 April 2011.

Specification of goods and services

The specification of goods and services required is critical to the buyer being able to purchase effectively. A buyer will only be able to specify to a supplier to the extent that those details have been received from a service.

Concerns were raised by a number of officers in services we interviewed in relation to the role of the buyers, particularly regarding their knowledge of the Council's services. We understand buyers will be aligned to services and so will be able to develop knowledge over time of their specific services. The Council recognises there will be a learning curve for buyers to develop knowledge of their services.

Recommendation 12

The SPU needs to clearly communicate to stakeholders the role of services in specifying goods and services that buyers will procure for them.

A reasonable number of services we interviewed consider the goods or services they procure to be specialist, or non-standard. They positively reflect that, where appropriate, the SPU has adopted an effective 'work around' solution for them. The buyer rollout lead has confirmed that 90% of services areas should fit directly into the P2P process, with only 10% having alternative arrangements which are agreed between the Strategic Procurement Manager and relevant service leads. There appears to be scope for greater understanding of what a specialist good or service is, rather than a misconception that a specialist item has a detailed specification.

The SPU needs to communicate with services to ensure they are clear that the arrangements for procuring specialist goods or services and those with a detailed specification are not a

circumvention of controls. It is instead a key part of the procurement process which ensures services receive the good or services they require.

Recommendation 13

The Council should consider defining what is meant by specialist goods or services to ensure clarity for those involved in their procurement. Where specifications are for specialist items or those with a detailed specification, services should be informed that, where appropriate, the buyer will refer a supplier to the service to agree the specification.

Buyers

During the course of our interviews with stakeholders from services, interviewees suggested ideas to support buyers developing a robust understanding of the services to which they are aligned. These included:

- involving buyers in team meetings, in a similar way that finance as a central support service is involved; and
- asking buyers to 'walk the shop floor', so that they can physically see what goods and services are used, and understand the implication of using the wrong good or service, or it being delayed.

We understand that buyers will consult officers in services about their requirements as part of the effective implementation of the buyer rollout work stream.

Whole life costing

The Council is seeking to reduce the total cost of goods and services. When specifying goods and services, we have been advised that individuals in services consider cost and quality. There is a perception that buyers will focus only on price and will procure the cheapest option.

Our fieldwork has identified that services feel that the new, central buyers will not determine the whole life cost (WLC) of goods or services. For example, the cost of equipment does not include the after care service, or how that service is delivered, including the hire of alternative equipment if the asset is not available for a period of time. Knowing the total cost enables a fully informed procurement decision to be made.

A number of officers in services consider that they procure goods and services with a lower long term cost which are not necessarily the cheapest available purchase price i.e. take WLC into account. There is a perception that this will be prevented in the future, or that services will only be able to continue procuring from existing suppliers where they negotiate this on a case-by-case basis with the SPU. We have not seen clear evidence that services currently document the WLC of revenue goods and services purchased.

The lowest cost to the Council is the lowest WLC, not the cheapest purchase price. The WLC of goods and services should to be determined, in order that this is used to inform the procurement decision. This may, or may not, support the perception that the cheapest good or service is not the lowest cost in the long term.

Recommendation 14

The whole life cost of goods and services should be determined and used to inform procurement decisions.

Further feedback

We have provided the Council with further detailed feedback from the stakeholder interviews we undertook, as part of the reporting process. We considered this detailed feedback to be items which did not require reporting to Audit Committee. It will support the Council in development of its P2P communication plan and effective engagement across the Council to deliver the P2P objectives.

Appendix A: Action plan

Our recommendations are summarised in the following action plan.

No.	Recommendation	Priority	Management response	Responsible office and target date
1	<p>P2P PID</p> <p>The P2P PID should be updated to reflect the revised project governance arrangements structure.</p>	Medium	<p>Agreed</p> <p>P2P PID will be updated to reflect the overlap between P2P and Category Management.</p>	<p>Paul Chapman</p> <p>1 July 2011</p>
2	<p>Project manager and work stream leads</p> <p>The Council should ensure that the roles of P2P project manager and work stream leads should not be assigned to the same individual.</p>	High	<p>Agreed</p> <p>Work stream leads and Project Manager roles have been allocated to separate individuals.</p>	<p>Paul Chapman</p> <p>1 July 2011</p>
3	<p>Structure and governance</p> <p>The project structure and governance arrangements need to be re-defined in light of current circumstances, including a Memorandum of Roles and Responsibilities of all key stakeholders involved in the project.</p>	High	<p>Agreed</p> <p>See attached. New project structure/governance will be implemented wef 1 Jul 11 to reflect the overlap between P2P and Category Management.</p>	<p>Paul Chapman</p> <p>1 July 2011</p>

No.	Recommendation	Priority	Management response	Responsible office and target date
4	<p>Project risk register</p> <p>The P2P project risk register should be enhanced by:</p> <ul style="list-style-type: none"> • ensuring it complies with the Council's risk management strategy, distinguishing between controls in place and required actions, with timescales and responsible officers assigned; • documenting the residual risk score for each risk, where residual risks remain high, decisions should be made as to whether, and how, to address these risks; • more clearly identify risks and controls, rather than process, in place to mitigate them; and • identifying the type of risk. 	Medium	<p>Agreed</p> <p>Risk register will be updated and enhanced as described when reviewed as part of the Category Management and P2P project combination.</p>	<p>Nicola Allen/Kim Worthington 31 July 2011</p>
5	<p>P2P issues list</p> <p>The P2P issues list should be developed to meet the requirements of an issues log.</p>	High	<p>Agreed</p> <p>Issues list is being reviewed to ensure it meets the requirements of an issues log.</p>	<p>Nicola Allen/Kim Worthington 1 July 2011</p>
6	<p>Project budgeting</p> <p>The full cost of projects should be budgeted prior to a project commencing.</p>	Medium	<p>Agreed</p> <p>Full costs for P2P were extremely difficult to ascertain as the project has been implemented solely through use of current internal resource. Consequent marginal cost to the Council is therefore nil.</p>	<p>Paul Chapman/Nicola Allen 1 July 2011</p>

No.	Recommendation	Priority	Management response	Responsible office and target date
7	<p>Project management procedure compliance</p> <p>The Council's project management procedures should be followed, or an alternative methodology justified and formally approved by the project board.</p>	Low	<p>Agreed</p> <p>Currently, the Council only has project management procedures to be applied to Capital projects. Nonetheless, the principles remain the same so the principles behind Capital project management are being applied to P2P and Category Management as appropriate.</p>	<p>Paul Chapman</p> <p>1 July 2011</p>
8	<p>Communications plan</p> <p>A project communication plan should be produced and implemented to manage relationships with internal and external stakeholders.</p>	High	<p>Agreed</p> <p>Proposal is for P2P and Category Management to have a joint Comms Plan wef 1 July 2011.</p>	<p>Paul Chapman</p> <p>1 July 2011</p>
9	<p>Savings target</p> <p>The total P2P savings target, and allocation by year, should represent the value of savings the Council could achieve, rather than being a budget gap. The allocation across the six project work streams should be updated to reflect the revised allocation by year.</p>	Medium	<p>Not agreed</p> <p>Total P2P savings targets represent just part of the overall procurement savings targets when combined with Category Management. The output report from Phase A of the Category Management project will identify efficiencies and financial savings from procurement overall. Intention is to combine both P2P and Category Management wef 1 July 2011, so combined targets will apply.</p>	<p>Malcolm Coe/Paul Chapman</p> <p>1 July 2011</p>
10	<p>P2P reporting</p> <p>P2P reporting to the Corporate Support Services board should clearly reflect only revenue savings, and cashable and non-cashable savings should be separately monitored.</p>	Medium	<p>Agreed</p> <p>Both non-cashable efficiencies made and cashable revenue savings are being reported to the Corporate Support Programme Board as directed by Director Corporate Support</p>	<p>Malcolm Coe/Paul Chapman</p> <p>1 July 2011</p>

No.	Recommendation	Priority	Management response	Responsible office and target date
11	<p>Benefits realisation strategy</p> <p>The Council should urgently develop benefits profiles for all planned benefits (financial and non-financial) from the P2P project, including how each benefit is to be measured, and the timescales for realising each benefit, to ensure effective monitoring and benefits realisation.</p>	High	<p>Agreed</p> <p>The Council does not currently have a benefit realisation policy other than focusing on the financial benefits to be realised. This is a development that is recognised as needed and will feature as a training and implementation element of the future VFM programme.</p>	<p>Malcolm Coe/Paul Chapman 1 July 2011</p>
12	<p>Specifying goods and services</p> <p>The SPU needs to clearly communicate to stakeholders the role of services in specifying goods and services that buyers will procure for them.</p>	Low	<p>Agreed</p> <p>This is being undertaken through the Communications Plan for the Category Management Project</p>	<p>Paul Chapman/Jane Keeley 1 July 2011</p>
13	<p>Specialist goods and services</p> <p>The Council should consider defining what is meant by specialist goods or services to ensure clarity for those involved in their procurement. Where specifications are for specialist items or those with a detailed specification, services should be informed that, where appropriate, the buyer will refer a supplier to the service to agree the specification.</p>	Low	<p>Agreed</p> <p>This will be reiterated through the Category Management Project.</p>	<p>Jane Keeley/Nicola Allen 1 July 2011</p>
14	<p>Whole life costing of goods and services</p> <p>The whole life cost of goods and services should be determined and used to inform procurement decisions.</p>	Medium	<p>Agreed</p> <p>The Financial Management Team have been actively engaged in the Category management project and will be responsible for the calculating and reporting of whole life costings used to inform procurement decisions.</p>	<p>David Northey/Paul Chapman 1 July 2011</p>

Appendix B: List of interviewees

The following people were involved in the consultation stage of this review, and we would like to take this opportunity to thank them for their time and contribution:

Name	Position
Malcolm Coe	Corporate Support - Assistant Director of Finance, Assets and Efficiencies
Paul Chapman	Corporate Support - Head of Value for Money and Efficiency
Peter Honeywell	Chief Executives Office - Transformational Change Programme Manager
Nick Flay	Corporate Support - Finance - Group Accountant
Craig McCardel	Adult Social Care - Commissioning Manager / Supporting People Manager
Clive Piper	Development and Regeneration - Cleaning and Facilities Manager
Lee Dyer	Development and Regeneration - Cleaning and Facilities Team Support Clerk
Kim Worthington	Corporate Support - Strategic Procurement - Product Portfolio Manager
Nick Jones	Development and Regeneration - Head of Street Scene, Waste and Recycling and Park Services
Nick Maker	Development and Regeneration - Operations Manager and Deputy Parks Manager
Stuart Palmer	Development and Regeneration - Assistant Director for Strategic Housing
Carol Rowe	Development and Regeneration - Housing Business Support Manager
Clare Oatway	Children and Young People - Head of Services, Performance and Quality



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AUDIT COMMITTEE

27 June 2011



PLYMOUTH
CITY COUNCIL

Diversion of Children from Care - Efficiency Theme

We are currently developing a strong project plan for making efficiencies through diverting more children from care. It is built around four work streams: improving shared safeguarding intelligence; early intervention and child protection; intensive adolescent support services and placements, where we have a good recent track record in making efficiencies. A project team is in place with key work leads and risks have been assessed in accordance with the council's corporate approach, in what is a challenging working environment.

In terms of alternative efficiency options, as a statutory service our room for manoeuvre is not as elastic as some areas, with the non statutory activity tending to be around preventative work - which is of course extremely important for reducing the likelihood of children becoming at risk. We are, however, reasonably confident that we can make the required efficiencies over the next three years.

Mairead MacNeil
Assistant Director, Children's Social Care
Services for Children and Young People

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Audit Committee Work Plan 2011/12

		2011							2012		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Internal Audit Annual Report	Cllr Bowyer / DfCS (Sue Watts)	27									
Statement of Accounts 2010/11	Cllr Bowyer / DfCS (Sandra Wilson)	27									
Operational Risk Management - Update Report	Cllr Bowyer / DfCS (Mike Hocking)	27						16			
Risk Management Annual Report	Cllr Bowyer / DfCS (Mike Hocking)	27									
Annual Governance Statement	Cllr Bowyer / DfCS (Mike Hocking)	27									
Strategic Risk Register Monitoring Report	Cllr Bowyer / DfCS (Mike Hocking)				16						16

Audit Committee Work Plan 2011/12

		2011							2012		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Six Month Internal Audit Progress Report	Cllr Bowyer / DfCS (Sue Watts)							16			
Internal Audit Annual Plan	Cllr Bowyer / DfCS (Sue Watts)										16
Interim Report and Update to Financial Audit Plan 2010/2011	External Auditor Grant Thornton	27									
Review of Procure to Pay Project	External Auditor Grant Thornton	27									
Annual Report to Those Charged with Governance (ISA260 Report) 2010/2011	External Auditor Grant Thornton				16						
Financial Resilience Review	External Auditor Grant Thornton				16						

Audit Committee Work Plan 2011/12

		2011							2012		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Project Management Review	External Auditor Grant Thornton				16						
Annual Audit Letter 2010/2011	External Auditor Grant Thornton							16			
Certification Work Report 2010/2011	External Auditor Grant Thornton							16			
Audit Plan 2011/2012	External Auditor Grant Thornton										16
Audit Fee Letter 2012/2013	External Auditor Grant Thornton										16

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