



Tracey Lee
Chief Executive

Plymouth City Council
Civic Centre
Plymouth PL1 2AA

Please ask for Amelia Boulter,
Democratic Support
T 01752 304570
E amelia.boulter@plymouth.gov.uk
www.plymouth.gov.uk/democracy

4 June 2013

AUDIT COMMITTEE

Thursday 13 June 2013
10 am
Council House (Next to Civic Centre), Plymouth

Members:

Councillor Wheeler, Chair
Councillor Dr. Mahony, Vice Chair
Councillors Murphy, Stark and Stevens.

Independent Members:

Mrs R Badger, Mr R Clarke and Mr I Stewart.

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

Tracey Lee
Chief Executive

AUDIT COMMITTEE

AGENDA

PART I – PUBLIC MEETING

1. TO NOTE CHAIR AND VICE CHAIR

The committee will be asked to note chair and vice chair appointed at the Annual General Meeting on 17 May 2013.

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 14 March 2013.

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. INTERNAL AUDIT ANNUAL REPORT 2012/13

(Pages 9 - 32)

The council's internal auditor will submit a report.

7. UPDATED WHISTLEBLOWING POLICY

(Pages 33 - 40)

The council's internal auditor will submit a report.

8. FUTURE OF PUBLIC AUDIT

(Pages 41 - 42)

The council's internal auditor will submit a report.

9. ANNUAL GOVERNANCE STATEMENT

(Pages 43 - 68)

The Director for Corporate Services will submit a report.

10. OPERATIONAL RISK MANAGEMENT - UPDATE REPORT **(Pages 69 - 74)**

The Director for Corporate Services will submit a report.

- 11. RISK AND OPPORTUNITY MANAGEMENT ANNUAL REPORT** (Pages 75 - 82)
- The Director for Corporate Services will submit a report.
- 12. INFORMATION ASSET ANNUAL REPORT** (Pages 83 - 88)
- The Director for Corporate Services will submit a report.
- 13. STATEMENT OF ACCOUNTS 2012/13** (Pages 89 - 98)
- The Director for Corporate Services will submit a report.
- 14. ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITIES FOR 2012/13** (Pages 99 - 124)
- The Director for Corporate Services will submit a report.
- 15. AUDIT PLAN INCLUDING INTERIM RESULTS** (Pages 125 - 148)
- The Council's external auditor, Grant Thornton, will submit a report.
- 16. EXTERNAL AUDIT PLAN PROGRESS REPORT** (Pages 149 - 162)
- The Council's external auditor, Grant Thornton, will submit a report.
- 17. AUDIT COMMITTEE WORKPLAN 2013/14** (Pages 163 - 166)
- The Committee will note its workplan for the forthcoming year.
- 18. 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 I 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 Panel 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.

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Audit Committee**Thursday 14 March 2013****PRESENT:**

Councillor Wheeler, in the Chair.
Councillor Dr. Mahony, Vice Chair.
Councillors Murphy and Stark.

Co-opted Representatives: Mr R Clarke.

Apologies for absence: Councillor Stevens and Mrs R Badger and Mr I Stewart.

Also in attendance: Rob Hutchins and Brenda Davis – Devon Audit Partnership, Geraldine Daly – Grant Thornton, Mike Hocking – Head of Corporate Risk and Insurance, Julie Hosking – Risk and Insurance Officer, Mark Grimley – Assistant Director for HR and OD, Anthony Payne – Director for Place, Nicola Moyle – Head of Arts and Heritage; Phil Heseltine – Head of Transport Strategy, Malcolm Coe – Assistant Director for Finance, Efficiencies, Technology and Assets, David Northey – Lead Officer and Amelia Boulter – Democratic Support Officer.

The meeting started at 2.15 pm and finished at 4.30 pm (fire alarm delayed start of meeting).

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.

52. DECLARATIONS OF INTEREST

There were no declarations of interest.

53. MINUTES

Agreed that the minutes of the meeting held on 13 December 2012 were approved as a correct record.

54. CHAIR'S URGENT BUSINESS

There were no items of chair's urgent business.

55. APPOINTMENT OF INDEPENDENT MEMBERS

Agreed the appointment of Ros Badger and Ian Stewart as Independent Members on the Audit Committee for four years.

56. **STRATEGIC RISK REGISTER MONITORING REPORT**

The Head of Corporate Risk and Insurance provided the Committee with an update. The Committee were informed of the following risks –

- a. Deterioration of City's Highways Network was a new red risk. It was reported that a long term solution was required and at the last Full Council it was announced that £2m would be allocated to repair the highways, a report is due to be prepared for Cabinet setting out the options for a longer term strategy;
- b. Localism Act was a new amber risk. To mitigate this risk the vacant post of Contract and Corporate Governance Lawyer was being filled to look at the legal implications of the Localism Act;
- c. Planning Obligations was now a deleted risk. The Community Infrastructure Levy Charging Schedule was working and as a result this risk has now reduced;
- d. Civic Centre had been a long standing risk and the Council was currently in dialogue with 2 potential developers;
- e. officers were now identifying opportunities as well as reporting on risks in line with the revised Risk and Opportunity Management Strategy.

In response to questions raised, it was reported that -

- f. the roads in Plymouth were deteriorating and many road schemes were taking place such as road safety improvements and utilities improvements;
- g. there were clear options of redress against building contractors where potholes /defects were caused by egress/exit of heavy vehicles from sites. It was reported that the Council's highway contractor is responsible for taking any action against contractors with regard to highways.

Agreed that the Audit Committee note and endorse the current position with regard to the Strategic Risk and Opportunity Register.

57. **INTERNAL AUDIT PLAN 2013-14**

Devon Audit Partnership provided the Committee with an update on the Internal Audit Plan 2013 – 14. The Committee were informed that the report had taken into account previous audit work. It was also reported that -

- a. support was being provided on the new HR Payroll System;
- b. they were continuing to monitor the Waste PFI Project and provided assistance on the material recycling facility and minibus fleet;
- c. they were reviewing the process of Pre Paid Card system in Adult Social Care and from the 1 April 2013, the co-location of public health and contracting arrangements in place;

- d. counter fraud investigations were a high priority and would assist the council in the protection from fraud;
- e. they would continue to work with other partners and had established a good working relationship with Grant Thornton.

In response to questions raised, it was reported that -

- f. compared to 1,738 days of detailed risk assessment last year, it was anticipated that 1,686 days would be required for 2013 – 14. This meant a 3 per cent reduction or 52 days less than last year. They would continue to provide a cost effective service whilst ensuring delivery was not reduced;
- g. the benefits of the partnership with Devon and Torbay allowed flexibility and enabled them to deliver on the audit work and to identify risks.

Agreed that the Internal Audit Plan 2013-14 is noted.

58. **FOLLOW UP OF AUDIT WORK**

Devon Audit Partnership provided the Committee with an update on the Follow Up of Audit work. It was reported that -

- a. managers were making good progress in responding to issues;
- b. in some instances target dates for completion had not yet be reached. This was down to changes in priorities and processes which meant that not all recommendations had been completed.

In response to questions raised, it was reported that -

- c. they were looking at whether housing benefit had been overpaid and if there were any issues to investigate;
- d. the exact timescales on when universal credit would commence were fluid. The changes with welfare reform had been taken on board and staff were embracing the changes and contacting those affected on a daily basis;
- e. a series of overpayments had been detected due to failure to check the work of a new agency worker; this is referred to in minute 63.

Agreed that the Follow Up of Audit Work report is noted.

59. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS UPDATE**

Devon Audit Partnership provided the Committee with an update on Public Sector and Internal Audit Standards. The Committee were informed that since May 2011, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Institute of Internal Auditors (IIA) had worked together to produce a common standard which comes in force in April 2013.

The standard was about how internal audit would be undertaken within an organisation and the service provided. The standard also makes reference to a board which typically would include independent members and report to an Audit Committee. They were still waiting for the CIFPA guidance and would need to adhere to the new standards.

Agreed that the Committee note the update on Public Sector and Internal Audit Standards.

60. **INTERNAL AUDIT CHARTER**

Devon Audit Partnership provided the Committee with an update on the Internal Audit Charter. In response to questions raised, it was reported that where reference was made in reporting lines and relationships that the Director of Finance should instead be the Head of Finance.

Agreed that –

1. the Committee note the Internal Audit Charter.
2. changes to be made in the reporting lines and relationships from Director of Finance to the Head of Finance.

61. **2013/14 BUDGET (REVENUE AND CAPITAL) ALLOCATED TO CORPORATE PRIORITIES**

The Head of Finance provided the Committee with the full budget update report that went to Cabinet for approval on 12 February 2013.

Agreed that -

1. the Committee note the Treasury management section of the 2013/14 Budget (Revenue and Capital) Allocated to Corporate Priorities as approved at the Audit Sub-committee on 23 January 2013.
2. an Audit Sub-committee to be arranged for January 2014 to agree the Treasury Management Report prior to approval at Cabinet.

62. **TREASURY MANAGEMENT PRACTICES**

The Head of Finance provided the Committee with an update on Treasury Management Practices. The Committee were informed that -

- a. they were continuing to use the Co-operative Back for the day to day facilities and for business continuity;
- b. they were following CIFPA guidance;
- c. the detailed register of loans was maintained in the Logotech Treasury Management System database and a spread sheet was also used for parallel running;
- d. King & Shaxson were added to the list of contacts for investment brokers;

- e. the Treasury Management Board met every Monday and the Portfolio Holder for Finance and Shadow Portfolio Holder attended the first meeting of every month to review the strategic direction of the Board.

Agreed that the Committee approve the Treasury Management Practices, Principles and Schedules for 2013-14 as set out in the report.

63. **CERTIFICATION WORK REPORT 2012/13**

Grant Thornton provided the Committee with an update. The Committee were informed as the council's auditors they were required to certify claims submitted by the council. It was reported that –

- a. 3 claims were certified and submitted on time;
- b. the accuracy around housing benefit grant claims were investigated and it was found that an agency member of staff had made errors when processing housing benefit claims. There was a process in place to ensure checks were undertaken on new employees but was not adhered to and recommend that the levels of checks performed on new staff should be made.

In response to questions raised, it was reported that -

- c. they were required to audit 20 claims for each of the 4 benefit types processed. An error was found and related to one agency worker, an additional 20 claims were tested and concluded that the agency worker had made multiple errors when processing claims for council tax and rent allowances cases;
- d. audit fees were significantly less than they were 2 years ago and the relationship between the council and Grant Thornton had been constructive.

Agreed that the Committee note the Certification Work Report 2012/13.

64. **AUDIT PLAN 2012/13**

Grant Thornton provided the Committee with an update on the Audit Plan 2012/13. The plan was approved by the Committee last June. It was also reported that the financial statements were well on track and emerging issues highlighted to assist the Chair and the Committee to challenge and make officers aware of the particular issues.

Agreed that the Committee note the Audit Plan 2012/13.

65. **ROLLING WORK PROGRAMME**

The Committee noted the rolling work programme.

66. **AX PAYROLL PROJECT UPDATE**

The Assistant Director for HR and Organisational Development provided the Committee with an update on the AX Payroll Project. The Committee were informed that the lease with SAP was coming to an end and a decision had to be made on whether to continue the use of the existing platform. They also took into consideration the cost of an upgrade and how it would fit into the current ICT system. The cost would be higher if they continued with SAP.

In response to questions raised, it was reported that -

- a. the rollout of the AX payroll project would commence in June 2013 following a minimum of three-months parallel running. An arrangement had been made with HMRC for PAYE in real time (RTI);
- b. internal audit were involved initially on the contract to tender and sat on the project board. IT auditors were also working alongside the project team;
- c. there is a data centre in the Civic Centre and a second at Windsor House. There was also a back-up tape and have a contingency plan in place. Data resilience and business contingency was a known risk. No back up for SAP but would have back-up for the new system.

Agreed that the Committee note the AX Payroll update.

67. **OPERATIONAL RISK UPDATES**

The Director for Place and the Head of Arts and Heritage provided the Committee with an update on the Plymouth and West Devon Records Office. The Committee were informed that –

- a. there were 7 potential sites identified for the storage of records and further work would take place on the preferred option. Communications with the National Archive office were good and they were happy with the progress made;
- b. they were continuing to work closely with National Archives and met with them before Christmas. At that meeting they discussed the option appraisal in detail and timescales on the basis of working towards a 29 November 2013 deadline. A further meeting with National Archives would take place in June to check progress.

In response to questions raised, it was reported that –

- c. National Archives wanted all records to be relocated to a new site by June of this year. At the meeting with National Archives in December, option appraisals and timescales were discussed. A further meeting would take place in June to check progress to meet the November timescale. National Archives would prefer the records to stay in Plymouth;
- d. if the records were stored in Plymouth it would be a plus for the city and form significantly towards Plymouth's bid to become the City of Culture.

Agreed that the Committee noted the update on the Plymouth and West Devon Records Office.

68. **EXEMPT BUSINESS**

Agreed that under Section 100(A)(4) of the Local Government Act, 1972, the press and public are 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 I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

69. **AX PAYROLL PROJECT UPDATE**

The Assistant Director for HR and Organisational Development provided the Committee with an update on the AX Payroll Project.

(See minute above 66).

70. **OPERATIONAL RISK UPDATES**

The Director for Place and the Head of Arts and Heritage provided the Committee with an update on the Plymouth and West Devon Records Office and Community Infrastructure Levy.

(See minute 67 above).

The Director for Place and the Head of Transport Strategy provided the Committee with an update on the Community Infrastructure Levy.

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CITY OF PLYMOUTH

Subject: Internal Audit
Committee: Audit Committee
Date: 13 June 2013
Cabinet Member: Councillor Lowry
CMT Member: Director for Corporate Services
Author: Robert Hutchins, Head of Devon Audit Partnership
Contact: Tel: (01752 (30) 6710
e-mail: robert.hutchins@devonaudit.gov.uk
Ref: AUD/RH
Key Decision: No
Part: I

Executive Summary:

This report summarises the work undertaken by Devon Audit Partnership during 2012/13, reviews the performance and effectiveness of the Internal Audit service, and provides an audit opinion on the adequacy of internal control. 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) Regulation 2011.

Corporate Plan 2012-2015:

The work of the Internal Audit team 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. In addition, the delivery of the Internal Audit plan assists all directorates in meeting their Corporate Improvement Priorities and achieving the shared priorities for the City and the Council.

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

None.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversion and Community Cohesion:

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 2013.

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 Regulations 2003, 2006 and 2011.

Background papers:

Internal Audit Annual Plan 2012/13

Sign off:

Fin	AB 1206	Leg		HR	MG 1206	Corp Prop		IT		Strat Proc	
Originating SMT Member: Robert Hutchins, Head of Devon Audit Partnership											

Draft Audit Report

Internal Audit
Annual Report

Plymouth City Council

2012-13

Restricted



Auditing for achievement

INTERNAL AUDIT ANNUAL REPORT 2012/13

1 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 2013/14 has already been presented and approved by the Audit Committee in March 2013. The following report and appendices set out the background to audit service provision; reviews work undertaken in 2012/13, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 1.3 The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

2 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 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.

2.2 *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 Regulations (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 once 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 This report compares the work carried out with the work that was planned; presents a summary of the audit 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. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements; and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

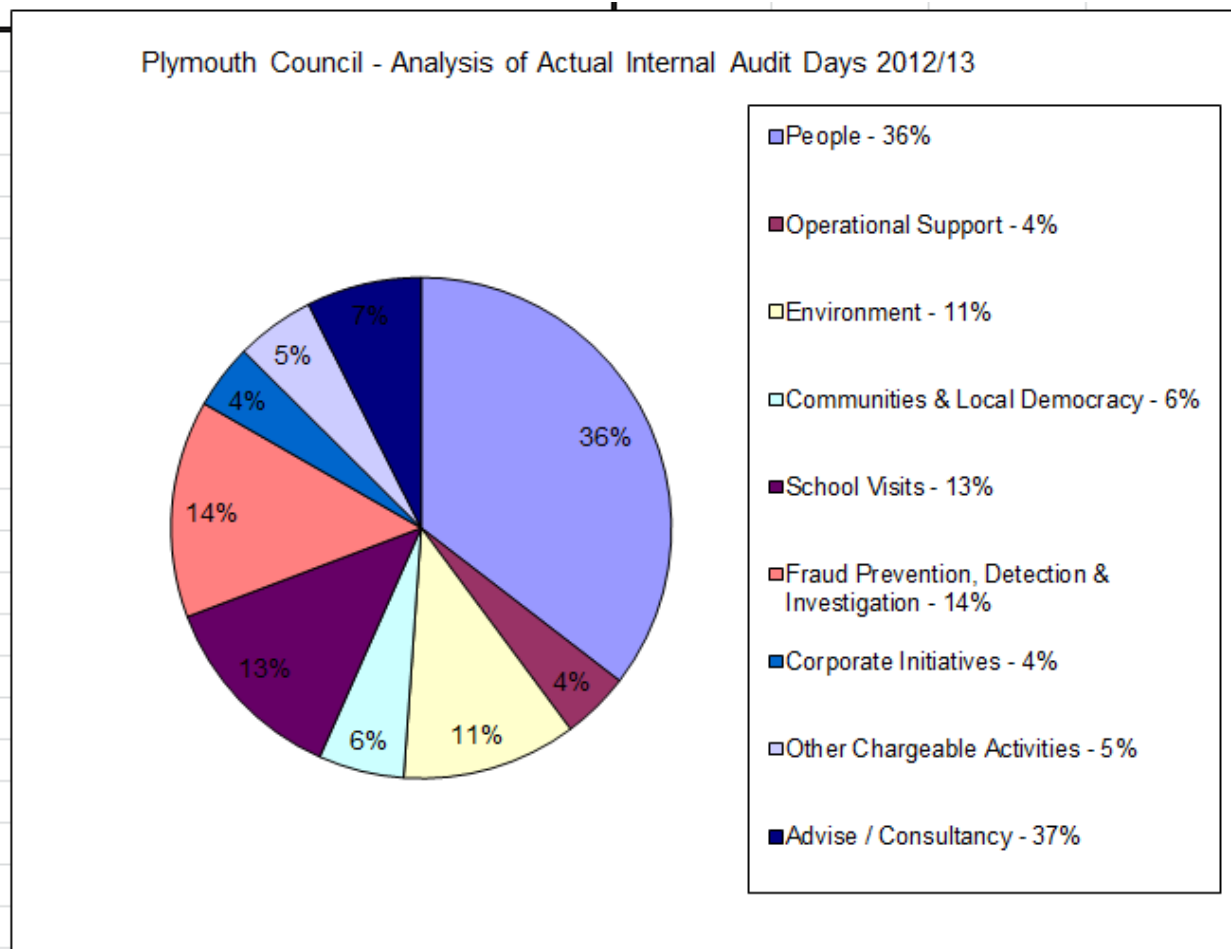
- 3.2. The Chief Internal Auditor is required to provide the Council with an assurance on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the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

- all audits completed during 2012/13, including those audits carried forward from 2011/12;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

4 INTERNAL AUDIT COVERAGE and RESULTS 2012/13

4.1 Delivery Against Plan

4.1.1 The pie chart below shows the proportion of direct days provided in the year ended 31 March 2013, by type of audit.



4.1.2 Appendix 1 shows the actual days of audit delivery in 2012/13 against the audit plan. It will be noticed that there was a small shortfall in the total number of audit days provided during the year; we provided 1699 days against a plan of 1829 days. When we prepare our plans we make an educated assessment of the number of days that an audit is likely to take. When the fieldwork is actually completed there is inevitably a variance from the planned days. In addition we provide an allowance for work on areas such as fraud and corruption; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review. In such instances we expect that a more senior officer will be able to complete the review in less time than a junior and also the need for managerial review of working papers will be less.

4.1.3 Appendix 2 to this report provides a summary of the audits undertaken during 2012/13, along with our assurance opinion. Where a “high” or “good” standard of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of “improvement required” has been provided then issues were identified during the audit process that required attention. We have

provided a summary of some of the key issues reported that are being addressed by management. It should be pointed out that we are content that management are appropriately addressing these issues.

4.2 Corporate Services

- 4.2.1 In our opinion, and based upon our audit work completed so far this year and in previous years, we consider that adequate controls are in place to mitigate operational risks in this Directorate.
- 4.2.2 Overall, good progress was made against the plan agreed with management for the 2012/13 financial year. Progress has included completion of work carried forward from 2011/12, undertaking follow up audits on areas where significant findings were made in the previous year, and in completing assignments in accordance with timescales agreed with management. A table showing the status of planned audits and their associated reported executive summaries is contained at Appendix 2.
- 4.2.3 DAP 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 implementations projects.
- 4.2.4 Project work has included continued involvement with the South West Devon Waste Partnership Waste PFI project in particular advising on governance and risk issues.
- 4.2.5 Other project worked involved the implementation of new systems or services including the new HR / Payroll systems. DAP assist in identifying any key project risks and issues, and monitors the way these have been managed and controlled as well as ensuring that good project governance is established and maintained.

4.3 People Directorate

- 4.3.1 In our opinion, and based upon our audit work completed during this year and in previous years, we consider that adequate controls are in place to control operations in the People Directorate.
- 4.3.2 Where reports have been finalised management have agreed with findings and recommendations made and where appropriate, we shall undertake follow up work to ensure that risks continue to be suitably controlled
- 4.3.3 Overall, good progress has been made against the audit plan for the People Directorate agreed with management for the 2012/13 financial year. The work for the year included completion of work carried forward from 2011/12, undertaking follow up audits on areas where significant findings were made in the previous year, and completing assignments in accordance with timescales agreed with management. A table showing the status of planned audits and their associated reported executive summaries is contained at Appendix 2.
- 4.3.4 The Commissioning & Contracting audits in respect of both Children and Adults sampled a selection of contracts. Officers involved with these contracts had a good understanding and knowledge of their areas of work along with good working relationships with other members of the Team and with the Strategic Procurement Team. Where officers were unsure on how they should proceed they were comfortable in seeking advice from either the Commissioning Manager or from Strategic Procurement to ensure they were following corporate procedures.

- 4.3.5 ASC commissioning plans clearly demonstrate how commitments in local strategic plans have been used to inform the services that will meet the needs of local people; the introduction of the Market Position Statement (MPS) has also supported this. The development of a Joint Health and Wellbeing Strategy will further develop this by enabling the direct translation of joint commitments into joint commissioning plans. Commissioning plans were found to have been based upon sound evidence and reflect national policy, guidance, local strategic plans, research and best practice.
- 4.3.6 The School Census audit found that the City Council is reliant on all schools, (maintained and academy) to collect, verify and input accurate data into their pupil databases. The process for the collection of school data has greatly improved over the years with the introduction of COLLECT. However, from discussions with officers, it is apparent that the school data submitted as part of the School Census may not always be accurate when compared to data held on other corporate systems such as Capita One and the social services database, CareFirst. The Children's Integrated Disability Service (CHIDS) may maintain a number of paper based files on a child depending on input from the various teams within CHIDS in addition to the electronic filing system. Paper filing structures do not necessarily mirror those on the electronic system.
- 4.3.7 During 2012/13, Internal Audit have carried out, or assisted in, a number of irregularity investigations within the People Directorate. Investigations included work on the alleged submission of false claims for mileage and additional hours by a social worker, alleged misuse of the internet, the inappropriate use of the Council's IT network to store a large number of personal photos contrary to Council policies, as well as an allegation from a member of the public regarding the inappropriate obtaining of personal data by an officer. Work has also been undertaken following receipt of a detailed letter by the Council Leader in the area of adult social care.
- 4.3.8 Internal Audit have continued to provide resource to a complex on-going investigation within a Plymouth school, supporting the police in the run up to a court case which has now been rescheduled for late 2013. Audit received allegations regarding poor security of IT systems at the same school and, following examination of the processes and procedures, a number of recommendations were made to strengthen the controls.
- 4.3.9 In addition to audits undertaken as per the plan, advice and guidance has been provided to managers and staff at all levels within the Directorate.

4.4 Place Directorate

- 4.4.1 In our opinion, and based upon our audit work completed during this year and in previous years, we consider that adequate controls are in place to control operations within the Place Directorate.
- 4.4.2 Where weaknesses have been identified, management have agreed these findings and have either agreed the recommendations or accepted the associated risks. Where appropriate, we shall undertake follow up work to ensure that risks continue to be suitably controlled.
- 4.4.3 Overall, good progress has been made against the plan agreed for the Place Directorate for the 2012/13 financial year. The work for the year has included completion of work carried forward from 2011/12, undertaking follow up audits on areas where significant findings were made in the previous year, and in completing assignments in accordance with timescales agreed with management. A table showing the status of planned audits and their associated reported executive summaries is contained at Appendix A.

- 4.4.4 DAP reviewed the evidence compiled by officers to support the City Council's annual CRC Energy Efficiency Scheme submission, as required by the Environment Agency. We were able to provide assurance that the Council has fulfilled its obligations with regard to its annual submission prior to the submission deadline of 31st July 2012.
- 4.4.5 DAP has continued to support the South West Devon Waste Partnership Waste PFI project which has achieved successful financial close on the contract. DAP continue to attend the Project Executive Board, monitoring governance and risks. In addition, Audit has had involvement in establishing the process for monitoring and reporting the contractor's compliance with planning conditions and constraints during its site activities. Audit has also been involved in discussions around the adoption of a formal Financial Allocation Mechanism that will outline the financial arrangements for the allocation of costs as part of the Joint Working Agreement.
- 4.4.6 During 2012/13, Internal Audit have carried out, or assisted in a number of irregularity investigations within the Place Directorate. Allegations included the alleged acceptance of gifts from a supplier; a breach of the Council's internet policy by signing up to receive emails from non-work related websites; and two reports of thefts, one involving the misappropriation of monies from parking machines which resulted in the arrest of a member of the public by police. In addition, DAP received allegations concerning two officers in relation to their work as canvassers for the Electoral Roll exercise and provided assistance in the subsequent investigation which resulted in one officer being dismissed and the other given a final written warning. We also assisted an investigating officer by providing information and support in a case involving a member of staff's alleged conflict of interest.
- 4.4.8 We also provided management with advice and support on courses of action or improvements to controls in addition to specific investigations that have been carried out.

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 The Whistleblowing Policy aims to encourage staff to raise any legitimate concerns they may have in relation to the Council's activities. This policy, which supports the Council's Anti Fraud and Corruption Policy, makes it clear that concerns can be raised without fear of reprisals.
- 4.5.3 A limited number of Whistleblowers came forward during the year; we have worked with management to ensure that these concerns have been appropriately investigated and results communicated back to the whistleblower.
- 4.5.4 Throughout 2012/13, a significant amount of audit resource has been provided to a complex on-going investigation into alleged major financial irregularities within a Plymouth school (see also 4.7.8 below). The case was passed to the police and auditors have continued to assist them during their subsequent investigations. The case has received a large amount of media coverage and is currently going through the court process.
- 4.5.5 Data matching investigation work associated with the 2012/13 National Fraud Initiative (NFI) exercise commenced in January 2013. 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.

4.6 Consultancy / Advice

- 4.6.1 Internal Audit was consulted by all sections of the Authority on many and varied topics including, for example, document retention, tenders, financial procedures and good practice 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.

4.7 Schools

- 4.7.1 The audit plan to schools has been completed in full; the plan included reviews of 22 primary schools, 3 secondary schools and 3 special schools, all schools and federations were visited by 31 March 2013.
- 4.7.2 The requirements to meet the challenges through change to the Schools Financial Value Standards (SFVS) are significant. We are focusing our efforts to achieve the targets and support schools to the fullest of our ability.
- 4.7.3 Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. However, there are risks exposed in key areas which reduce overall assurance. The key themes arising from our audits are the:
- understanding of financial management by governors as evidenced by the requirements of the Standard
 - demonstrable financing of plans for raising standards and attainment; and,
 - inventories and asset management.
- 4.7.4 Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.
- 4.7.5 Schools Financial Value Standard (SFVS) - As at 31 March 2013, there were 76 maintained schools within Plymouth City Council and all school submitted their self-assessment to the Partnership on behalf of the Local Authority by this date.
- 4.7.6 Based on this information, the Partnership has completed the Chief Finance Officer Assurance Statement 2012-13 on behalf of the LA. The Statement shows that 76 out of the 76 schools submitted a self-assessment by 31 March 2013 and confirms that a system of audit is in place giving adequate assurance over the standard of financial management and the regularity and propriety of spending in the maintained schools.
- 4.7.7 Other related audits and advice - In the first half of the year, a review was undertaken of the governance and related arrangements of the Plymouth Association of Primary Headteachers (PAPH) and the establishment of a Co-operative Interest Company (CIC). This review highlighted issues in relation to the legal arrangements, the employment of staff and the relationship with the City Council.
- 4.7.8 Irregularities - Work has continued on providing support to the Devon and Cornwall Constabulary as part of their investigation at St Boniface's Catholic College. The court case was scheduled to take place in April 2013 but due to circumstances this has now been delayed to at least December 2013. In addition, further work was undertaken at St Boniface's to review the security of their ICT systems. This work has been carried out in

conjunction with ScoMis with additional support being provided by the Council's ICT Services.

5. INTERNAL AUDIT PERFORMANCE

5.1.1 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 (LPI)	2012/13	2012/13
	Target	Actual
Percentage of Audit plan Commenced (Inc. Schools)	95%	98.5%
Percentage of Audit plan Completed (Inc. Schools)	90%	94.1%
Actual Audit Days as percentage of planned (Inc. Schools)	90%	93%
Percentage of fundamental / material systems reviewed annually	100%	100%
Percentage of chargeable time	65%	66.1%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	94.5%
Draft Reports produced within target number of days (currently 15 days)	90%	75%
Final reports produced within target number of days (currently 10 days)	90%	83%
Average level of sickness absence (DAP as a whole)	2%	2.9%
Percentage of staff turnover (DAP as a whole)	5%	8.5% (3 people)
Out-turn within budget	Yes	Yes

5.1.2 Overall, performance against the indicators has been very good. We are aware that some of our draft and final reports were not issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We have identified areas where performance has been poor, and are working with our staff to ensure improvement is achieved.

5.1.3 It is very pleasing to see that customer satisfaction remains very high, which is much to the credit of the audit staff involved. The customer feedback is drawn from 50 customer survey forms that have been returned by our customer during the year.

5.1.4 During 2012/13 we completed a restructure exercise with the aim of reducing our costs by 10% in 2012/13 and a further 10% in 2013/14. We reduced our management team by three and restructured our operations to ensure that we can continue to deliver the high standard of work expected by our customers.

6. OVERALL INTERNAL AUDIT OPINION

6.1.1 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.

6.1.2 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.

6.1.3 Directors have been provided with details of Internal Audit's opinion on each audit review carried out in 2012/13 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 2012/13.

6.1.4 Overall, and based on work performed during 2012/13, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

Robert Hutchins

Head of Devon Audit Partnership

Progress against the Plan - 2012/13

<u>Area</u>	<u>Planned Days</u>	<u>%</u>	<u>Actual Days</u>	<u>%</u>
Corporate Services	570	31%	600	35%
Cross Cutting	80	4%	74	4%
People	335	18%	191	11%
Place	115	6%	94	6%
Fraud Prevention & Investigation	246	13%	238	14%
Corporate Governance	88	5%	71	4%
Grant Claims/ Account Certification	10	1%	6	0%
Other Chargeable activities	108	6%	86	5%
Advice/Consultancy	88	5%	126	7%
Carry forward	0	0%	0	0%
External clients - Schools	189	10%	213	13%
TOTAL	1829		1,699	

Summary of Audit work completed and Audit Opinions

Corporate Services (excluding ICT)				
Audit Area	Year	Status	Assurance Opinion	Executive Summary / Auditor Comments
Loans & Investments	2011/12	Final	Good Standard	
Capital Accounting (Asset Register)	2011/12	Final	Good Standard	
Cash Collection 11/12	2011/12	Final	Good Standard	
Main Accounting System 11/12	2011/12	Final	Good Standard	
NNDR	2011/12	Final	Good Standard	
Creditors	2011/12	Final	Good Standard	
Council Tax system	2011/12	Final	Improvements Required	See comments in six month report.
Housing Benefits	2011/12	Final	Improvements Required	See comments in six month report.
ICT Service Desk - System Admin	2011/12	Final	Improvements Required	See comments in six month report.
Debtors System	2011/12	Final	Good Standard	
Revenues & Benefits Systems Parameters	2012/13	Final	Good Standard	
Main Accounting System	2012/13	Final	Good Standard	

Payroll	2012/13	Final	High Standard	
Housing Benefits	2012/13	Draft	Improvements Required	<p>Although the audit opinion remains as 'improvements required', it is pleasing to note that the direction of travel is positive, and overall, an effective service is being provided to City residents. This is particularly commendable as it has been achieved during a time of increasing caseload, the average caseload has risen from 30,633 in 2011/12 to 31,011 in 2012/13, and implementing significant change brought about through National Welfare Reforms.</p> <p>Processing times for new claims have reduced significantly this year from 28.23 in 2011/12 to 21.00 in 2012/13 (target 15 days), and although this has been at the expense of processing times for changes in claimants' details, which show a clear deterioration from 17.33 in 2011/12 to 26.08 in 2012/13. It should be recognised that actual performance for March 2013 indicates that target were achieved with processing times for new claims at 12.71 days and changes at 4.29.</p>
KFS Access Controls	2012/13	In Progress		<p>Field work complete and initial findings set out below</p> <p>User access to key financial systems is not granted without line management approval and samples tested have shown that the access levels provided to the users was in accordance with requests made.</p> <p>However, some procedural improvements would strengthen the system and ensure not only the integrity of user access but that the service provided by the Service Desk is both timely and accurate.</p>
Creditors	2012/13	Final	Good Standard	
'Carefirst' Creditors	2012/13	Draft	Improvements Required	<p>The Transaction Centre has faced difficulty resolving issues with incomplete and inaccurate data coming from Carefirst; this has resulted in payments being delayed and in some cases incorrect payments being made.</p> <p>Management are aware of the issues and are taking action to resolve.</p>
Council Tax System	2012/13	Draft	Good Standard	
Debtors System	2012/13	Final	Good Standard	
Loans & Investments	2012/13	Draft	High Standard	

Capital Accounting (Asset Register)	2012/13	Draft	Good Standard	
NNDR	2012/13	In Progress		Field work nearing completion, no significant issues identified to date.
Income Collection	2012/13	In Progress		Field work now complete and initial findings indicate that there continues to be a good level of control within the processes in operation.
CRB 10/11 Follow-Up	2011/12	Final	Good standard	
Capital Programme	2011/12	Final	Good Standard	
Payroll System Procurement and Transfer from SAP	2012/13	On-Going		Support and advice to this project started with assistance during the accelerated procurement of consultancy and implementation services for the project and DAP was able to give assurance that the process was conducted in line with policy and procedures. DAP continues its involvement during the implementation phase of the project ensuring the solution incorporates sufficient business and ICT controls, as well as monitoring project governance and the management of risks.
Revenues & Benefits - Policy Changes	2012/13	On-going		At the request of management, DAP provided support and advice to the Revenues & Benefits Service project team responsible for the development of the localised council tax support scheme and the setting up of the Emergency and Welfare Scheme, both of which came into effect in April 2013.
Risk Management	2012/13	Final	Embedded & Integrated	See comments in six month report.
Schools Loan Scheme	2012/13	Final	Good Standard	.
Schools Financial Value Standard	2012/13	On-Going		Outturn for 2011-12 DSG CFO Statement. Review of school submissions for 2012/13.
New Procurement Policies & Strategies inc Management and Monitoring of Contracts	2012/13	On-Going		On-going advice and support as appropriate.
P2P Project	2012/13	On-Going		Recent involvement in the P2P Project Board to provide real-time advice and support on

project implementation and the review of processes.

Corporate Services - ICT				
Service Level Management	2011/12	Final	Improvements Required	See comments in six month report.
Access Management	2011/12	Final	N/A	<p>A briefing note has been issued identifying the key issues that will impact on PCC's access management in the near future.</p> <p>The new AX platform being implemented as part of the new Transformational Change HR/Payroll system project, provides the opportunity to capture all logical and physical access requirements as part of a "role based" approach.</p>
Capacity and Availability	2011/12	Final	Improvements Required	See comments in six month report.
New Data Centre (inc storage & backup)	2012/13	On-going		DAP have continued to be involved in the project tasked with introducing the new data centre at Windsor House, attending Project Board meetings and providing advice to the project as required.
CRM Dynamics AX2012	2012/13	On-going		DAP have kept an on-going watching brief and have provided advice and support. This has included an Auditor deployed as part of testing resource for AX iTrent interface and the new process for BACS processing.
Information Security	2012/13	On-going		DAP continue to attend and support the Management Information Security Forum (MISF) which also reports to the Information Lead Officers Group (ILOG) established in 2011/12, in which Internal Audit has a role. DAP has also provided support and advice to officers on individual cases.

CareFirst 6	2012/13	Final	Good Standard	
ICT Service Strategy	2012/13	Final	Improvements Required	See comments in six month report.
Academy (HB Self Serv Portal)	2012/13	Complete	N/A	Internal Audit have performed a watching brief over the past eighteen months and intervened prior to the original go-live date in April 2012, in order to mitigate a range of risks. A successful release into live operation has now been achieved.
Material Systems IT Issues	2012/13	Final	Good Standard	
Release & Deployment	2012/13	Deferred		Following preliminary meetings it became apparent that a formal audit did not represent good value for money as any recommendations made in respect of the ITIL v3 framework would not be implemented in the near future due to existing work pressures and priorities. The audit days were allocated to audit of ICT Financial Management.
Corporate Telephony System	2012/13	Not started		Delays in the completion of the Corporate Accommodation Strategy have had a negative impact on the ability for ICT to de-commission legacy telephony systems. This has resulted in additional revenue costs. The completion of CAS related ICT projects has now been identified as a priority.
ICT Financial Management	2012/13	In Progress		Field work on this review is now complete and a draft report is due to be issued imminently. PCC's ICT Service has drastically reduced its costs over recent years which provides greater value for money and potentially permits it to be more commercially viable at a time when ICT services become increasingly open to competition from the private sector. Capital spend is well governed, but both the ICT Service and its customers would benefit from improvements in managing both capital costs and associated the associated year on year revenue impact.
ICT Compliance Board & Follow-up of previous audits	2012/13	On-going	N/A	Regular meetings are held with ICT managers to discuss progress with agreed action plans that resulted from recommendations made in audit reports.

Cross Cutting				
Payment to Consultants & Advisors	2011/12	Final	Improvements Required	See comments in six month report.
Carbon Management	2012/13	Complete	N/A	DAP have been able to certify that the Council has fulfilled its obligations with regard the submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme.
Accommodation Strategy	2012/13	On-going		DAP has continued its watching brief of the Accommodation Strategy project, to provide support and assurance on project governance and the management of risks facing the project.
Corporate Information Management	2012/13	In Progress		DAP continue to attend and support the Information Lead Officers Group (ILOG) set up in 2011/12. In addition, an assessment of the quality of the arrangements the Council has put in place to ensure compliance with the Data Protection Act 1998, is currently being concluded. Similar assessments are being conducted by DAP at Devon County and Torbay Councils in response to recent fines being imposed by the Information Commissioner following breaches of information.
Business Continuity	2012/13	Final	Improvements Required	DAP continue to attend the Authority's Business Continuity Strategy Group to provide advice and support. A review of a selection of Business Continuity Plans has been carried out and the findings, together with a number of recommendations have been fed back to the Strategy Group.
Use of Purchasing Cards	2012/13	In Progress		Spot checking of a sample of purchasing cards nearing completion.
Payment to Consultants & Advisors 11/12 Follow-Up	2012/13	Final	Good Standard	

People Directorate				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Commissioning & Contracting (Children)	2011/12	Final	Good Standard	
Commissioning & Contracting (Adults)	2011/12	Final	High Standard	
Non Residential Services Billing (NSIBS)	2011/12	Final	Good Standard	
CareFirst Fostering	2011/12	Final	Improvements Required	See comments in six month report.
Data Quality Children's EMS Follow / Up	2011/12	Final	N/A	Progress has been made since the original audit review with the continued migration of version 3 to version 4 and the implementation of B2B. This has all been done with limited resources by staff working on temporary contracts. However, there are still key issues outstanding which, although started, do not have an action plan or target date for implementation. Without an action plan in place it is likely that these partially implemented processes will be abandoned in favour of other priorities.
Safeguarding Adults Follow / Up	2011/12	Final	Good Standard	
PAPH / Community Interest Company / Co-ordinator Arrangements	2012/13	Final	N/A	The Assistant Director commissioned Legal and HR to carry out further work in these specialised areas. This review can be considered as part of the due diligence that the LA needs to be carrying out. Our briefing note has highlighted issues that need to be considered as Education moves forward.
School Census	2012/13	Final	High Standard	
Life Centre, Leisure Management, Pavilions Projects	2012/13	On-going	N/A	DAP continued to support and advise the various project teams as well as the Culture, Sport and Leisure Programme Board throughout 2012-13. Audit has provided assurance on project governance, the management of risks facing each project as well as the compliance with procurement practices and procedures, particularly where Competitive Dialogue has been utilised.
School Construction Projects	2012/13	On-going	N/A	DAP provided support and advice on a number of construction projects including Tor Bridge High, High View and Boringdon Primary.
Basic Needs Programme	2012/13	On-going	N/A	DAP have been able to support the Basic Needs Programme, offering advice and assurance on process and procedures involving procurement, risk and governance.

Academies Delivery Project	2012/13	On-going	N/A	DAP were invited onto the Project Board overseeing the delivery of £21m investment at two of the city's Academy schools, as well as the University Technical College (UTC) Project. DAP have been providing assurance over project governance, risk management and compliance with procurement practices and procedures.
Children's Disability Service (Integrated)	2012/13	Final	Good Standard	
Troubled Families Programme	2012/13	On-going	January Claim Verified	As part of the verification audit of the January claim walkthrough testing was carried out on five families to ensure that their identification as a troubled family complied with the DCLG identification criteria. All data was agreed back to supporting system data reports held by the Troubled Families co-ordinator. Each family had been identified correctly in accordance with the specified criteria
Client Finance Services 11/12 Follow Up	2012/13	Final	N/A	Of the 4 recommendations made in the report, one has been cleared but 3 are dependent on the new ways of working in ASC following restructure. Follow up only - implementation of all recommendations is part of the ASC restructuring.
Care First - Fostering 11/12 Follow Up	2012/13	Final	Good Standard	
Transfer of Public Health	2012/13	In Progress		Draft report due shortly.
Health & Wellbeing Board	2012/13	In Progress		Draft report due shortly.
Fostering & Adoption Panel Processes / EDRMS	2012/13	In Progress		Completion expected early 13/14.
CareFirst - Children Independent Placements	2012/13	In Progress		Completion expected early 13/14.
Special Education Needs	2012/13	In Progress		Draft report issued May 2013.
CareFirst - Residential Care Payments	2012/13	In Progress		Completion expected early 13/14.
Localities Co-ordination	2012/13	Not Started		Project did not start. Audit resources used for other People reviews.
Commissioning &	2012/13	Delayed		DAP have been requested to delay this work until the first quarter of the 2013/14

Contracting (Adults) 11/12 Follow Up				financial year.
Commissioning & Contracting (Children) 11/12 Follow Up	2012/13	Delayed		DAP have been requested to delay this work until the first quarter of the 2013/14 financial year.

Place				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Smart Ticketing LSP	2012/13	Not Started		Audit input not required – no longer a requirement by DfT for sign-off by the Chief Internal Auditor.
Waste Management - SWDWP - (Waste PFI)	2012/13	On-Going		DAP continues to support the South West Devon Waste Partnership Waste PFI project, advising on governance and risk issues.
Sale of Civic Centre	2012/13	On-going		DAP has been providing advice, support and assurance to the team tasked with the sale of the Civic Centre. Subsequently, Audit was present at the opening and evaluation of PQQ, ISS and CfT submissions and competitive dialogue sessions with prospective bidders.
History Centre	2012/13	On-going		DAP has begun to provide support and advice to the Project set up to oversee the development of a History Centre for the City. Audit have been present at Board meetings as the vision and solution options, including the suitable procurement route, are being developed and assessed.
Plymouth Market 11/12 Follow-Up	2012/13	Draft	Good Standard	
Blue Badges	2012/13	Final	Good Standard	
Public Protection Services	2012/13	Draft	Good Standard	
Commercial Leases	2012/13	Final	Good Standard	
Planning Applications	2012/13	Final	High Standard	

and Appeals 11/12 Follow-Up				
Section 106 11/12 Follow-Up	2012/13	In Progress	Good Standard	
Mt Edgcumbe Accounts 11/12	2012/13	Final	Good Standard	
New Growth Point Grant 2011/12	2012/13	Complete		Grant certification.

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Subject: Updated Whistleblowing Policy
Committee: Audit Committee
Date: 13 June 2013
Cabinet Member: Councillor Lowry
CMT Member: Director for Corporate Services
Author: Robert Hutchins, Head of Devon Audit Partnership
Contact: Tel: (01752 (30) 6710
e-mail: robert.hutchins@devonaudit.gov.uk
Ref: AUD/RH
Key Decision: No
Part: I

Purpose of the report:

An updated Whistleblowing Policy was approved by Audit Committee in July 2010 and that policy has now been subject to a further refresh. Whilst it has not been necessary to make any material changes to the current policy, the opportunity has been taken to update the monitoring arrangements in para 8.2 to help ensure that all instances of whistleblowing are recorded and monitored.

The Whistleblowing Policy applies to all employees and contractors working for the Council, including temporary, casual or seasonal workers, and trainees. It also covers agency workers and suppliers and those providing services under a contract with the Council in their own premises.

Whilst there is no legal requirement to set up or promote a Whistleblowing policy, it demonstrates good governance and a more open culture within the organisation.

Corporate Plan 2012-2015:

The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework. The Whistleblowing Policy promotes good governance and can play an important role in deterring and detecting malpractice and in building public trust which contributes to the delivery of the Council's core objectives.

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

None

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

None

Recommendations & Reasons for recommended action:

It is recommended that:-

1. The revised Whistleblowing Policy be approved.

Alternative options considered and reasons for recommended action:

None. The Authority needs to maintain and promote the Whistleblowing Policy to comply with best practice and to ensure a high level of awareness of, and confidence in, the Council's whistleblowing arrangements.

Background papers:

Public Interest Disclosure Act 1998
PCC Whistleblowing Policy

Sign off:

Fin		Leg		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Robert Hutchins, Head of Devon Audit Partnership											

WHISTLEBLOWING POLICY

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WHISTLEBLOWING POLICY

1. POLICY STATEMENT

This policy has been devised in accordance with the provisions of the Public Interest Disclosure Act 1998 and supports the Council's Anti Fraud and Corruption Policy.

Plymouth City Council is committed to the highest possible standards of openness, probity and accountability in all of its activities. It also expects a high standard of conduct and integrity from employees.

Any employee who has a serious concern about any aspect of the Council's work or the actions of its employees should voice their concerns through established internal channels, without fear of harassment or victimisation.

The Council aims to encourage all its employees to feel confident in raising serious concerns and provide appropriate avenues for dealing with them. It aims to ensure that employees are protected from possible reprisals or disadvantage where they have raised a concern or disclosed information in good faith.

2. AIMS AND SCOPE OF THE POLICY

2.1 This Policy aims to:

- encourage employees to feel confident in raising concerns and to question and act upon their concerns;
- provide avenues for employees to raise these concerns and receive feedback on any action taken;
- allow employees to take the matter further if they are dissatisfied with the Council's response; and
- reassure them that they will be protected from reprisals or victimisation for whistleblowing in good faith in accordance with this procedure.

2.2 This policy applies to all employees and those contractors working for the Council. Employees include staff working for the Council on a temporary basis, casual or seasonal workers and trainees. It also covers agency workers and suppliers and those providing services under a contract with the Council in their own premises.

2.3 There are existing procedures in place to allow staff to lodge a grievance relating to their own employment within the Council's [Grievance Policy and Procedure](#).

2.4 This policy is intended to cover reasonably serious concerns that fall outside the scope of other procedures. That concern may be about the following:

- A criminal offence that has been, is being, or is likely to be committed;
- Fraud and Corruption;
- Unauthorised use of Public Funds;

- A failure to comply with a legal obligation;
- A health and safety risk relating to any individual;
- A miscarriage of justice;
- A damage to the environment;
- Actions that are contrary to the Council's Standing Orders, Financial Regulations or any other approved policies;
- Actions or behaviour that falls below established standards of practice;
- Abuse and welfare of clients and/or staff;
- Harassment or victimisation of either staff or clients;
- Any actions or concerns regarding practice that could result in a financial loss to the Authority;
- The deliberate concealment of information relating to any of the above matters;
- Other unethical conduct.

(This list is not exhaustive)

3. SAFEGUARDS

3.1 Harassment or Victimisation

The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for, or suspected of, the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect staff when they raise a concern in good faith. This does not mean that if a member of staff is already the subject of disciplinary or redundancy procedures, those procedures will be halted as a result of their 'Whistleblowing'.

3.2 Confidentiality

The Council will do its utmost to protect an individual's identity when they raise a concern and do not want their name to be disclosed. It must be realised and appreciated, however, that the investigation process itself may well reveal the source of the information, and, depending on the outcome, a formal statement by the individual may be required as part of the evidence.

3.3 Anonymous Allegations

This policy is designed to encourage staff to put their names to allegations. Concerns expressed anonymously are much less powerful, but they will be considered at the discretion of the Council. In exercising this discretion, the factors to be taken into account would include:

- The seriousness of the issue raised;
- The credibility of the concern; and
- The likelihood of confirming the allegation from attributable sources.

3.4 Untrue Allegations

If an employee makes an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against them. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered and implemented.

4. RAISING A CONCERN

4.1 Employees are encouraged to report any concerns to one of the following persons. They are listed in order of preference. However, if the employee believes that any of these persons are implicated in the concern they are raising they should feel free to report to the next most preferred person:

1. Line Manager;
2. Head of Service;
3. Director;
4. Chief Executive.

4.2 Employees who are unsure about reporting or do not feel at ease raising the concern through the above route are encouraged to seek advice from one of the following:

- The Chief Auditor on 306710;
- The Head of Legal Services on 306116;
- The Assistant Director for HR & Organisational Development on 308581.

4.3 Employees may also invite their Trade Union or professional association to raise the concern on their behalf.

4.4 Concerns are better raised in writing. The background and history of the concern, giving names, dates and places where possible, should be set out and the reason why the individual is concerned about the situation. Those who do not feel able to put their concerns in writing may raise the matter verbally with the appropriate officer.

4.5 Although staff are not expected to prove the truth of their concern, they will need to demonstrate to the person contacted that there are sufficient grounds for concern.

5. HOW THE COUNCIL WILL RESPOND

5.1 Within ten working days of a concern being received, the Council will contact the employee

- Acknowledging that the concern has been received;
- Indicating how it proposes to deal with the matter;
- Telling the employee whether any initial enquiries have been made;
- Telling the employee whether further investigations will take place, and if not, why not.

5.2 The action taken by the Council will depend on the nature of the concern.

The matters raised may:

- Be investigated internally;
- Be referred to the Police;
- Be referred to the External Auditors;
- Form the subject of an independent inquiry by the Ombudsman.

5.3 In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or

allegations which fall within the scope of other, existing, procedures (e.g. child protection or discrimination issues) will normally be referred for consideration under those procedures.

5.4 Some concerns may be resolved without the need for investigation. Where a formal investigation is required, it is likely to take the form of an investigation by a manager or Internal Audit. In certain cases, the matters raised may be referred to the Police or the Council's external auditors for investigation or an independent inquiry could be set up

5.5 The amount of contact between the managers considering the issues raised and the complainant will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided.

5.6 When any meeting is arranged, staff have the right, if they so wish, to be accompanied by a Union or professional association representative or a friend who is not involved in the area of work to which the concern relates.

5.7 The Council will take steps to minimise any difficulties which staff may experience as a result of raising a concern. For instance, if staff are required to give evidence in criminal or disciplinary proceedings, the Council will advise them about the procedure.

5.8 The Council accepts that staff need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, members of staff will receive information about the outcomes of any investigations.

5.9 If an employee is not assured that the matter has been properly addressed, they should contact the Chief Auditor, or consider an alternative method of taking forward a complaint as per paragraph 6.1.

6. ALTERNATIVE METHODS OF TAKING FORWARD A COMPLAINT

6.1 This policy is intended to provide staff with an avenue to raise concerns within the Council. If an individual feels it is right to take the matter outside this process, the following are possible contact points:

- The local Council member (if you live in the area of the Council);
- The External Auditor;
- Relevant professional bodies or regulatory organisations;
- Individuals' solicitors;
- A relevant charity or voluntary organisation; such as Public Concern at Work, who can be contacted on 0207 404 8009 or helpline@pcaw.co.uk
- The Police.

6.2 If an employee does take the matter outside the Council, they need to ensure that they do not disclose confidential information or that disclosure would be privileged. This should be checked with one of the designated contact points, Internal Audit, Legal Services, Human Resources or if preferred, an outside organisation such as the Ombudsman.

7. THE RESPONSIBLE OFFICER

7.1 The Chief Auditor has overall responsibility for the maintenance and operation of this policy.

7.2 The Chief Auditor will maintain a record of concerns raised and the outcomes (in an anonymous format) and will report as necessary to the Audit Committee.

8. REVIEW AND MONITORING

8.1 This policy is to be reviewed and monitored every 2 years. The next review date is June 2015

8.2 The Chief Auditor will monitor this policy. In this regard managers, councillors and trade union representatives must inform Internal Audit immediately should concerns falling under the scope of this policy be raised with them.

9. RELATED POLICIES AND DOCUMENTS

- Anti Fraud and Corruption Policy
- Anti-Bullying and Harassment Policy
- Code of Conduct for Employees
- Complaints Policy and form
- Employee Handbook 2013
- Public Interest Disclosure Act 1998
- Whistleblowing guide



Audit Update Note

Future of Public Audit

Plymouth City Council

Auditing for achievement

INTERNAL AUDIT UPDATE NOTE

The formal abolition of the Audit Commission took a further step on the 13th May with the announcement in the Queen's Speech of the Local Audit and Accountability Bill.

Ministers claim the Bill could save the public purse up to £1.2bn and increase the accountability of councils.

The main provisions in the draft Local Audit Bill are:

- The repeal of legislation setting up the Audit Commission (the Audit Commission Act 1998) and provision to transfer assets, liabilities and continuing functions to other bodies.
- A requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel.
- The creation of a new regulatory framework for local public audit, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local public audit services.
- The transfer of responsibility for setting the high level Code of Audit Practice to the National Audit Office.
- Powers for the National Audit Office to undertake studies of thematic value for money issues relating to local government, and to access information needed to do so.

The draft local audit bill also includes consultation on who will operate the NFI in the future. The draft Bill transfers the Commission's current data-matching powers to the Secretary of State, who in practice will delegate them to the new operational owner of the National Fraud Initiative which will transfer to a new organisation. The National Fraud Authority, the Department for Work and Pensions and the Cabinet Office (ERG) have expressed an interest in taking on operational ownership of the National Fraud Initiative

PLYMOUTH CITY COUNCIL

Subject:	Annual Governance Statement 2012/13
Committee:	Audit Committee
Date:	13 June 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	Mike Hocking, Head of Corporate Risk and Insurance
Contact details	Tel: 01752 304967 email: mike.hocking@plymouth.gov.uk
Ref:	CRM/MJH
Key Decision:	No
Part:	I

Purpose of the report:

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.

The 2011/12 Code of Practice on Local Authority Accounting also now requires that, within the AGS, there should be a statement on whether the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

This report outlines the process followed in order to produce the AGS for 2012/13 and recommends approval of the Statement prior to signature by the Leader, the Chief Executive and the Director for Corporate Services.

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

The proposed Statement for 2012/13 is attached to the report.

Corporate Plan 2012-2015:

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:

May 2013

Including finance, human, IT and land

None arising specifically from this report.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

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

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No.

Recommendations and Reasons for recommended action:

The Audit Committee is recommended to:

- a) Note the processes adopted for the production of the 2012/13 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 Services.

Alternative options considered and rejected:

Not Applicable.

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

Sign off:

Fin	Djn13 14.06	Leg	LT1 7641 0306 13	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes.													

1.0 Introduction

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 2012/13 for publication with the Annual Statement of Accounts.

2.0 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 2012/13 Code of Practice on Local Authority Accounting also requires that, within the AGS, there should be a statement on whether the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- 2.4** 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.
- 2.5** 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.
- 2.6** The proposed Annual Governance Statement for 2012/13 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
- Senior Policy, Performance and Partnerships Adviser
- 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 Services 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, 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)
- Other 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, Head 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:

- Risk identified in Strategic and Operational Risk Registers
- Issues arising from Internal Audit Reviews completed in 2012/13
- 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 31 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 31 March 2013.

7.3 It is recommended that this endorsement forms part of the Annual Governance Statement for 2012/13.

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 guide entitled 'Establishing and maintaining effective partnerships' 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 identified significant governance issues together with details of actions being taken to address them.

PLYMOUTH CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2012/2013

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, which requires all relevant bodies to prepare an annual governance statement

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 services and value for money.

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 on-going 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 31 March 2013 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 be one of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone. The vision is driven by the Council and partners and provides the context in which services and investments can be delivered in a more responsive, better co-ordinated and sustainable way.

The Plymouth Report 2010 provided the evidence base for establishing four shared priorities for delivering the vision for Plymouth:

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

Progress against these priorities was reviewed in the Plymouth (Interim) Report 2012 which provided an up-date on the 2010 report. Its purpose being to confirm where our key focus needs to be if the city is to effectively deliver against these four priorities. The Council and partners are in the process of building on the city's vision, the Local Development Framework's Core Strategy and the requirements in the Localism Bill to develop an overarching Plymouth Plan 2011-31 into which other strategies and plans will feed.

We are currently re-designing our partnership structures to ensure we exert our collective leadership capacity and plan to take our partnerships even further as we work across the peninsula to set out our goals as a region.

The Corporate Plan 2012–2015 was approved by Council in February 2012 and sets out the Council's strategic direction. It was updated in February 2013 to reflect the Council's commitment to being a 'Brilliant Co-operative Council'. The Corporate Plan sets out the key components of a Co-operative Council. These include devolving power to communities, supporting greater engagement, influence over service design and delivery, and the transfer of ownership of assets and services.

The Annual Audit and Inspection letter (October 2012) by our external auditor Grant Thornton found that the Council had sound arrangements in place to manage its financial risks and opportunities. However recommended that the Council improve the information provided to Cabinet linking performance against targets, medium term financial planning and monitoring and

the achievement of strategic priorities so that the progress made against the corporate plan is more transparent in the future.

The Council is currently reviewing its corporate planning arrangements to address the need for longer term financial and business planning in an uncertain economic climate, to establish revised organisational values and priorities and to ensure that a robust framework is in place to ensure that the Council's performance will be monitored at a time of significant organisational change.

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. It also sets out how each service is implementing the Co-operative Council principles laid out in the Corporate Plan.

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 Services with a Head of Finance reporting to the Assistant Director for Finance, Efficiencies, Technology and Assets. There are two Strategic Finance Managers one based in each major location.

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

Regular, timetabled meetings are held between the Director for Corporate Services, the Assistant Director for Finance, and the Head of Finance; there are also regular scheduled meetings of the senior finance managers who sit on the management teams of departments and who provide financial management advice and guidance.

A key element of **budgetary control** is the **budget monitoring process**. For 2012/13, 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 finance monitoring reports to the Corporate Management Team and Cabinet members. These are then shared on a monthly basis with the next available Overview & Scrutiny Management Board (OSMB). Formal quarterly joint Finance and Performance reports go to the Corporate Management Team, Cabinet meetings and to the OSMB. This will continue for 2013/14.

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

Compliance with CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council is aware of the CIPFA statement “Delivering Good Governance in Local Government” and the “Role of the Chief Financial Officer”. In response to both statements, the Council is satisfied that the governance arrangements in place satisfy all of the requirements. Robust mechanisms are in place to capture the risks and to ensure sign off and understanding by individual directors and the collective Corporate Management Team, together with the Cabinet.

Tamar Bridge and Torpoint Ferry Joint Committee

The City Council is jointly responsible (with Cornwall Council) for the operation of the Tamar Bridge and Torpoint Ferry (TBTF) Joint Committee.

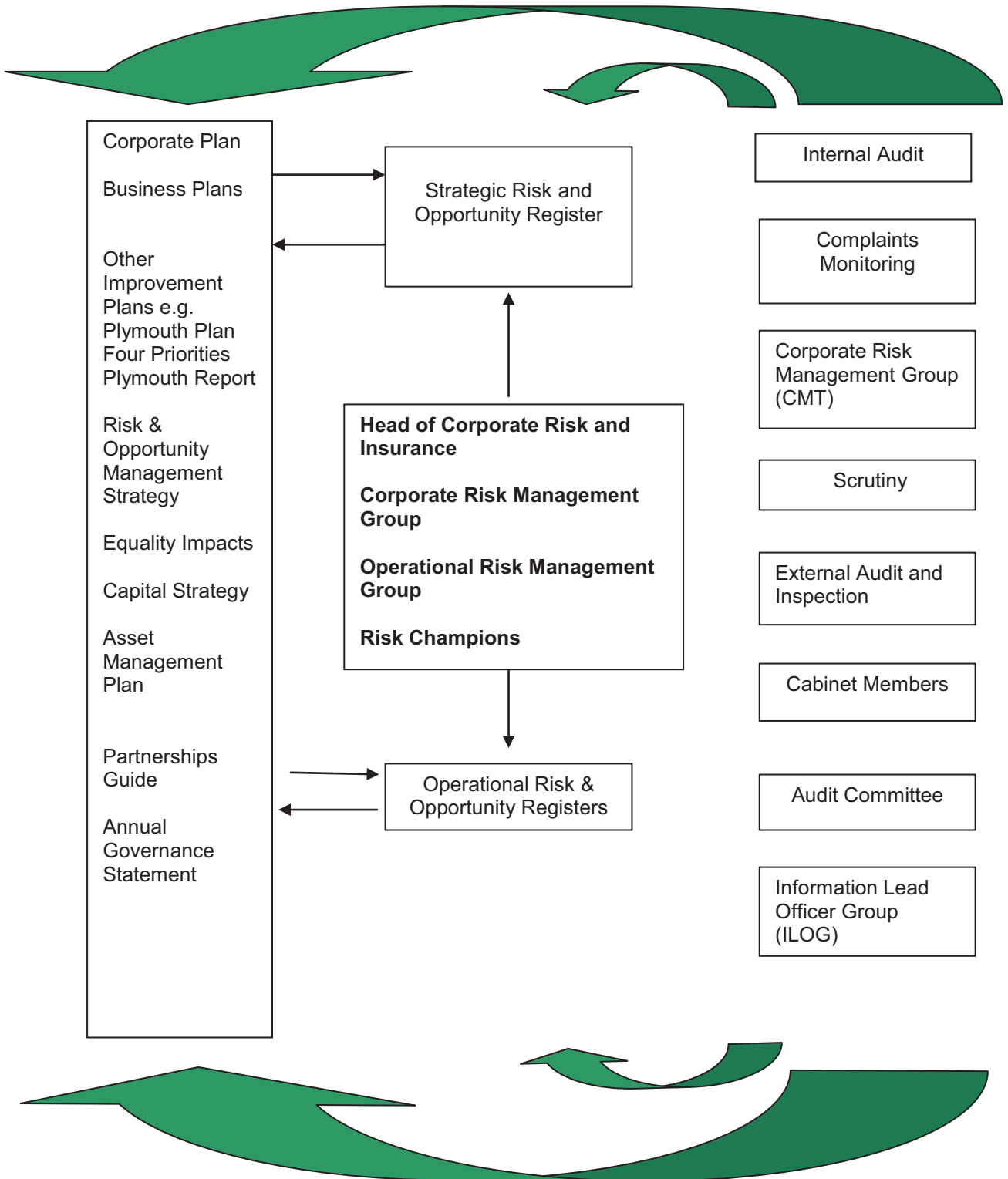
From the 2011/12 Statement of Accounts it has been agreed with external auditors that the Council’s 50% share of this entity will now form part of our total accounts. This recognises that the Council has a 50% ownership of the enterprise, which brings with it a 50% share of any future liabilities.

However, from a Governance point of view, the TBTF Joint Committee produces and monitors its own Governance arrangements, including the preparation of a separately published Annual Governance Statement covering the operations of the joint committee.

The Management of Risk and Opportunity

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 and Opportunity 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 include details of any opportunities that may arise from the successful management of each risk and therefore 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 and Opportunity Management Strategy and Policy Statement have been developed and risk and opportunity registers are monitored alongside the corporate performance management system, 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 and Opportunity 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 and Opportunity Register if it is a cross-cutting risk or if it is considered to threaten the strategic objectives of the Council.

Operational Risk and Opportunity Registers are now being fully integrated with Service objectives in line with 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 'Establishing and maintaining effective partnerships guide'. Our Risk and Opportunity Management Strategy provides the strategic framework for the delivery of risk and opportunity management within the Council and in the partnerships in which we engage. The strategy defines risk and opportunity management as the "culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation in achieving its objectives". The Council has also developed formal protocols on the sharing of information.

Complaints Monitoring

The Council also addresses the management of risk through its internal complaints procedures. The complaints process is now managed and tracked on the Dynamics Customer Relations Management (CRM) system which requires the officer dealing with the complaint to complete a "lessons learned" field, and enables regular reporting of numbers of complaints and handling performance to senior management."

The Role of Audit

Internal Audit

Internal Audit complies with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and 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 business transformation 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.

The Internal Audit services have been provided by Devon Audit Partnership (DAP). This is a shared services arrangement between Plymouth City Council, Devon County Council and Torbay Council and is constituted under section 20 of the Local Government Act 2000.

Public Sector Internal Audit Standards

Collaboration between the Institute, CIPFA and the Relevant Internal Audit Standard Setters has resulted in the first unified set of public sector internal audit standards (PSIAS) for the UK. The PSIAS, which come into force on 1 April 2013, have been developed to create consistent standards for the practice of internal audit across the public sector and establish the basis for its

quality assurance. An independent review of Devon Audit Partnership in 2012/13 found the internal audit service to be compliant against these new standards.

External Audit

Grant Thornton LLP continued to provide external audit services during 2011/12. 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.

A bill to complete the abolition of the Audit Commission was announced in the Queen's speech in May 2013 and if passed by Parliament, the Local Audit and Accountability Bill will replace the Audit Commission Act.

Audit Committee

The Council's Audit Committee comprises five Councillors and three Independent Members supported by the Head of Finance, and the Head of Corporate Risk and Insurance.

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 undertake core functions as identified in CIPFA's Audit Committee: Practical Guidance for Local Authorities, as listed below:

- Approve, support and monitor the implementation and on-going 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
- Review external audit report and annual audit letters, together with management response and make recommendations to the Cabinet
- Respond to any other concerns of the external auditors
- Agree the Internal Audit Plan
- Monitor the progress and performance of Internal Audit
- Consider significant findings of Internal Audit reviews and investigations together with management responses and monitor implementation of agreed recommendations
- 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

In April 2013 the Council agreed proposals to undertake a restructure of the Overview and Scrutiny Management Board and its panels to improve effectiveness. The proposals modernise the Overview and Scrutiny Function and bring them in line with the council's priorities and recent legislative changes. The Council has modernised its processes to ensure that Overview and Scrutiny focuses on the issues most important to the Council's improvement.

Revised Overview and Scrutiny arrangements provide a process for challenge of decision making and development of policy. It is also one of the ways the Council monitors performance and demonstrates to communities that it is spending their money effectively on the services and issues important to the city.

The revised structure is of a Co-operative Scrutiny Board and four Scrutiny Panels. The Board consists of four Chairs and four Vice Chairs and two non-chair members. Each of the four panels consists of 12 members including a chair and vice chair. The panels are:

- Your Plymouth
- Caring Plymouth
- Working Plymouth
- Ambitious Plymouth

The Caring Plymouth panel will also have special responsibility for statutory functions in relation to health matters and joint health obligations.

The four panels will be chaired by a member from the majority political group with the vice chair from the opposition political group. One of the opposition vice chairs will take the role of Chair of the Co-operative Scrutiny Board reflecting best practice and further enabling the separation of Scrutiny leadership from that of the Executive.

The Co-operative Scrutiny Board may set up Co-operative Review Groups. The purpose of these groups will be to undertake scrutiny work as required by the Board and will be time and remit specific. These groups will be made up of members who have expressed an interest in the particular issue.

Review of Effectiveness

Plymouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

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 Plan/Capital Strategy

The Council's Medium Term Financial Strategy (MTFS) was last updated and approved by Cabinet in June 2012. With the outturn result for 2012/13 now agreed by the Corporate Management Team, it will be formally signed off at the May 2013 Cabinet meeting. Incorporating data from this result, such as one-off versus on-going pressures and savings, a revised MTFP covering the period 2014/15 to 2018/19 is also being prepared for Council to sign off at the July 2013 meeting.

The last Comprehensive Spending Review (CSR) was published in October 2010 and has resulted in a real terms reduction of around 35% in central government funding for Plymouth City Council over the four year period. We now have confirmed funding for the 2013/14 financial year and are working to a balanced net revenue budget of £212.5m. For the remainder of the MTFP period we are still working on our best available information, including national and local government briefings and working closely with our Unitary Treasurers colleagues and close neighbours Devon and Torbay. We have also engaged with outside consultants LG Futures, and are currently using their intelligence to interpret likely funding models.

Having set the 2013/14 revenue budget, Finance are now working in conjunction with colleagues across the council plus Portfolio Holders to reshape and realign the budget with the priorities set out in the Corporate Plan.

We have represented the budget for 2013/14 into four budget blocks, to use as the template for the MTFP modeling. As a major change, we are now presenting the full gross budget, including specific grant funding for all areas. The four budget blocks are;

1. Income – government grant, fees & charges, core funding
2. External expenditure – supplies and services, third party payments
3. Assets & Premises – all property associated costs, depreciation
4. Management & Support – employee costs

The revised Medium Term Financial Plan (MTFP), will cover the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period against reduced funding. It will also identify the Transformation strands being undertaken plus other significant work streams, and set out the anticipated savings these plans will generate.

The Transformation strands are:

- Customer Transformation
- ICT Shared Services / Technology
- Procurement
- Adult Social Care (ASC)
- Accommodation

There remain a number of significant financial pressures that the council will face in the medium to long term including:

National context

- The uncertainty around future funding levels for 2014/15 and beyond;
- Welfare Reform including changes to Council Tax Benefits and National Non Domestic Rates (NNDR) collection

Local context

- The reliance on full delivery against our budget saving plans of £17.8m in 2013/14 to balance our resources to our expenditure.
- Utility costs are escalating at a far greater pace than inflation with price rises in the region of 15% quoted
- significant shortfall in the funding of the council's pension fund; known budget volatilities such as Adult Social Care, Children, Waste

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 again been set for 2013/14 however there is a risk that the revision to the NNDR allocation plus the revised Council Tax billing could 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. Council has recently approved a capital investment of £4.5m and business plans are being developed which will ensure this investment is allocated to projects which will allow the further transformation of the way we work, whilst providing efficiency savings and improved delivery of services to our customers.

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. A revised Capital Governance is being drawn up by the Director for Place which will see more emphasis on the strategic direction and early involvement from the Portfolio Holders.

Civic Centre Listing issues

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 soft market exercise of the Council's freehold interest in the Civic Centre, Council House and the Civic Centre car park. Expressions of interest from developers were received and a number of development options were 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.

A formal procurement process to identify a suitable purchaser who will refurbish the Civic Centre (excluding the Council House) was commenced in September 2012 and has now reached the final proposals and offer stage from two developers. Consideration of the final submissions will take place in August 2013 and the considerations will be reported to a future Cabinet meeting for decision.

It is presently anticipated that the necessary contracts for the re-development of the Civic Centre will be completed by the end of 2013, and the planning, design and refurbishment works will take no more than a further 3 years to complete.

The Council House will remain in Council use and occupation. The Council will continue to maintain this building.

If there is no selection of a preferred bidder the Council will need to consider alternative options which could include the implementation of refurbishment works to the Civic Centre and the Council House itself.

Waste PFI/Future Landfill Allowance Trading Scheme Liabilities

The project to secure a long term waste treatment solution for the Council continues to programme for an anticipated operational commencement in late 2014 and the majority of risk of delay to operational commencement is with the contractor.

Planning approval for the development was formally granted by Plymouth City Council Local Planning Authority in Feb 2012. An Environmental Permit to operate the facility has been issued by the Environment Agency.

The project implementation phase continues to be steered and monitored by a formally appointed Partnership Joint Committee of Councillors and a Partnership Project Executive consisting of senior officers from each of the three Councils. The project and Partnership arrangement is monitored by the Devon Audit Partnership.

A project risk register is frequently refreshed by the project delivery team to recognise the project delivery risks and this is regularly reviewed by the Partnership Project Executive. Waste disposal is being maintained through existing landfill contracts - which have significant budget implications.

The Council's LATS liabilities will cease after 2012/13 with the 2011 announcement that this legislation is being cancelled. As PCC's biodegradable waste tonnage being disposed of in landfill

continued to reduce in 2012/13, the Council's consequential liability has also been reduced. The Council will need to purchase LATS allowances for 2012/13 to cover an expected shortfall although this purchase will be made during 2013 and as prices for LATS credits has dropped this risk is now manageable in terms of cost implications.

Information Governance

Information is the raw material used by the Council to plan for and deliver all its services and reducing the risk that describes the availability and quality of information for staff, decision makers and citizen use, as well as the protection of sensitive information, is a continuing process. There is a risk of potential financial and reputational effects on the Council arising from the intervention of a regulator if information management is not successfully implemented across all council activities.

In 2012 the Council received a financial penalty of £60,000 for a specific breach of the Data Protection Act that occurred in November 2011 arising from the inappropriate release of sensitive personal information.

In response, in February 2012 the Council vested responsibility for the strategic management and delivery of consistent governance principles and processes around information management in a corporate Information Lead Officers Group (ILOG) that reports to a nominated Senior Information Risk Officer - the Director for Corporate Services.

The ILOG comprises Information Lead Officers for each directorate who provide the means for achieving a co-ordinated information governance framework that will develop an increasing return on information holdings and improvements to service delivery.

In 2012/13 an information risk audit was completed and an action plan developed to address key issues, including staff training and awareness raising, communications, team briefings and newsletters.

Impact of Health and Social Care Reforms

The introduction of a statutory Health and Wellbeing Board is a key aspect of the Health and Social Care Act 2012. The Board will introduce democratic legitimacy to health services, support children, young people and adult services' joint commissioning through a Joint Health and Wellbeing Strategy and support the integration of public health services into local authorities.

An information group has led on the development of the Health and Wellbeing Board which will hold its first business meeting as a statutory committee in June 2013. The Health and Wellbeing Board will be subject to scrutiny from the City Council's Caring Scrutiny Panel.

The purpose of the Board is to promote the health and wellbeing of all citizens in the city of Plymouth. The Board has three principles of working co-operatively which are to:-

- Work together with all city partners and with those we serve to take joint ownership of the sustainability agenda
- Ensure systems and processes will be developed and used to make the best use of limited resources, every time
- Ensure partners move resources – both fiscal and human to the prevention and health and wellbeing agenda

The Board will identify and develop a shared understanding of the needs and priorities of local communities in Plymouth through the development of the Plymouth Joint Strategic Needs Assessment (JSNA). Specifically, the Board will ensure that:-

- A Joint Health and Wellbeing Strategy for Plymouth is prepared and published to ensure that the needs identified in the JSNA are delivered in a planned, co-ordinated and measurable way.
- The Plymouth JSNA is based on the best evidence and data available so that it is fit for purpose and reflects the need of local people, users and stakeholders
- The JSNA drives the development of the Joint Plymouth Health and Wellbeing Strategy and influences other key plans and strategies across the city
- Plymouth City Council, NEW Devon Clinical Commissioning Groups and NHS Commissioning Board Area Teams demonstrate how the JSNA has driven commissioning decisions.

The key areas of focus of the Board will be to:

- Develop an agreed set of strategic priorities to focus both collective effort and resources across the city
- Seek assurance that commissioners plans are in place to deliver the Board's strategic priorities and outcomes
- Review the commissioning plans for healthcare, social care and public health to ensure that they have due regard to the Joint Plymouth Health and Wellbeing Strategy and take appropriate action if they do not
- Ensure that appropriate structures and arrangements are in place to ensure the effective engagement and influence of local people and stakeholders
- Represent Plymouth in relation to health and wellbeing issues across the sub regional and at national level
- Work closely with Plymouth Healthwatch ensuring that appropriate engagement and involvement with existing patient and service user involvement groups takes place
- Retain a strategic overview of the work of commissioners in the city
- Support joint commissioning of NHS, social care and public health services and identify those service areas in Plymouth where additional improvements in joint commissioning could achieve the Board's priority outcomes
- Recommend the development of aligned or pooled budgets and encourage partners to share or integrate services where this would lead to efficiencies and improved service delivery

The Health and Wellbeing Board will promote and encourage joint or integrated commissioning through the Joint Commissioning Partnership which spans across a range of health and wellbeing services. This group is made up of representative commissioners from Plymouth City Council, Public Health, NHS Plymouth, Probation and the Police. The Joint Commissioning Partnership will deliver the strategic objectives and priorities of the Health and Wellbeing Board by making recommendations to their respective organisations for commissioning in support of Health and Wellbeing Board strategic priorities.

The expected benefits of this overall approach are as follows:

- Bringing together commissioning for the Local Authority in one place.

- Focusing on an outcomes framework designed to encourage organisations to think wider than their own service areas in developing and commissioning services and to provide a structure and mechanism to integrate shared areas of responsibility.
- Driving forward the transformation of the joint services agenda by influencing strategic planning / resource allocation of the NHS and vice versa, and by improving communication between frontline teams.
- Integration of public health functions will create closer alignment with current LA services that have an impact on public health including economic development, environmental health, transport, schools, leisure services, and housing.
- Local authority commissioning of Local Healthwatch and an independent advocacy service will allow locally designed services to address specific inequalities within the city.
- Health and Wellbeing Board, through the Health and Wellbeing Strategy and integrated commissioning structure will provide the mechanisms to target collective resources at priority areas including health inequalities.
- Inter-operability between IT systems (Western Locality Clinical Commissioning Group, NHS, PCC).
- Opportunity to develop joint workforce development plans.

In addition, we have a well-developed transformation programme in place that is modernising adult social care.

Health Inequalities

Reducing inequalities particularly in health and between communities is a long term priority for the City Council to support the delivery of the vision for Plymouth.

Overall life expectancy is improving in Plymouth; the city average is now 79.8 years. However, the gap between the most and least well off has now grown from 12 to 14.7 years.

The root cause of health inequalities in Plymouth is its social inequalities; our efforts to tackle the causes of inequality such as income, housing, education, employment and opportunities and to break the cycle of inequity and inequality has never been more important than during this time of economic recession and austerity.

In order to address this, the council has established a Health & Well-being Board that will give further focus on health inequalities that will identify need through the Joint Strategic Needs Assessment. The Health & Well-being Board has also produced a Health and Well-being Strategy that is currently out for public consultation that will support the delivery of a number of plans that will be implemented to address inequalities.

The council has also set challenging targets and measures that have now been incorporated into the Plymouth City Council Corporate Plan to close this gap. The council is now the lead for health improvement for Plymouth and has established the Office of Director of Public Health to work across all teams and departments to address the wider determinants of health having been allocated a ring fenced budget from the Department of Health.

Public Health Transfer to Local Authorities

On the 1st April 2013 the formal transfer of key public health responsibilities from Primary Care Trusts to Plymouth City Council was implemented with an expectation that the new arrangements

would contribute significantly to addressing long term health and well-being for the City and to reduce the gap in health inequalities between communities.

A transition risk register was formally set up in 2012 jointly between the Plymouth Public Health Team NHS Plymouth and Plymouth City Council Risk Management Team reporting directly to the Plymouth Public Health Joint Transition Group to ensure all potential risks could be mitigated.

A number of common areas emerged that identified potential risks for Plymouth City Council that required a number of action plans to be developed, these included, finance, IT, patient safety and loss of workforce capacity. Financial risks were addressed by the Council's Finance team by implementing a robust due diligence process with NHS Plymouth and by ensuring budgets were set to existing and expected commitments. IT risk was mitigated by developing plans with the IT team whilst running in parallel with the Windsor House Co location programme.

Regarding patient safety a clinical governance memorandum of understanding was set up between the council and the NHS Commissioning Board Local Area Team to put in place monitoring arrangements with the new appointed Medical Director.

However as a result of the transition workforce capacity was significantly reduced mainly due to the loss of qualified public health consultants and supporting managers that were appointed to a number of other public health agencies and neighbouring local authorities. To mitigate against this risk ODPH is developing a robust workforce plan to identify skill shortages to enable a recruitment process to be initiated, at present, an acting-up arrangement for the role of Director for Public Health is in place pending an option appraisal.

Impact of Police and Crime Reforms

The implementation of the Police Reform and Social Responsibility Act 2011 is now starting to take effect. The Police & Crime Commissioner for our Force area, Mr Tony Hogg, (which replaced Police Authorities) was elected in November 2012 for a four year term. The Commissioner has responsibility for policing policy but also holds significant community safety budgets previously allocated to the Council (and other Councils across the Force). A great deal of collaborative work was carried out in the run up to the election of the Police and Crime Commissioner by Community Safety Partnerships across the force area to prepare information that marketed the benefit of working with Community Safety Partnerships along with the preparation of the very first Peninsula Partnership Strategic Assessment for the force area. This has been recognised by the Home Office and the Commissioner as good practice, and this has proven hugely influential as the Commissioner has used the Peninsula Strategic Assessment as a basis for informing his Police and Crime Plan. Work will continue in the coming years to refresh and rewrite Peninsula Partnership Strategic Assessments annually.

For 2013/14, the Commissioner has committed funding to Community Safety Partnerships, Drug and Alcohol Action Teams, Youth Offending Service, Positive Futures, and Domestic Abuse on the principles of 'least disruption' and 'maintaining continuity' and applied a small cut in the region of 7% across all allocations.

However, it will be essential now to evidence value for money and effectiveness of how the allocations are commissioned at a local level, in order to continue to effectively influence the Commissioner's future policy, priorities and next round of budget allocation crucial to continued delivery of our community safety priorities for Plymouth. Plymouth, as the largest urban location in the Force area, also has some of the most significant crime challenges and nearly a quarter of the crime. One of the Labour Administration's priorities was to seek regular talks with the Police

and Crime Commissioner – this has now been achieved, and the Leader of the Council has now developed a strong and positive relationship with the Commissioner.

Plymouth City Council led the work to develop a Police & Crime Panel for our area, in liaison and negotiation with other councils. This was challenging because of issues regarding proportionality and the composition of the Panel within restrictive legislation, leading to different opinions amongst councils. However agreement was finally reached by the Panel at its Shadow meeting held in July 2012, and the Panel Composition approved by the Home Secretary in September 2012. The Panel is meeting regularly and is currently working effectively. Home Office funding is continuing for 2013/14 and Plymouth is continuing to Host the Panel until at least March 2014, but will be reviewing its position on this in January 2014 in light of any funding announcements.

It is hoped that this, and continued work, together with direct discussions between Plymouth the Commissioner, will maximise opportunities to continue to exert influence over the Commissioner's future work and commissioning decisions.

Impact of Welfare Reforms

The government's reform of welfare presents significant risk, placing additional pressures on customers including the most vulnerable, and requiring significant process changes

The reforms mean Plymouth has greater challenges in meeting citywide priorities due to the socio-economic impact of welfare reforms on customers, partners and internally, particularly reducing inequalities e.g. child poverty, health and worklessness. There will be increased levels of deprivation and related demands on service budgets e.g. homelessness and information/advice. There will also be increased levels of debt owed by customers to PCC if they cannot afford to pay, e.g. Council Tax, and there may be inadequate resources to run local welfare schemes.

As part of our response to these changes a cross-directorate officer working group has been meeting since November 2011. The Council has developed and consulted on a local Council Tax Support scheme to address the difficult challenge of an estimated £2.6m shortfall in funding. This has been done in partnership with our neighbour authorities. We have been working hard to minimise the impact on our most vulnerable residents where we can. Pensioners receiving support through the current Council Tax Benefit scheme will be protected along with those receiving the single person Council Tax discount and the current support for War Widows and Veterans. We have reduced Council Tax Support for all working age residents by 25 per cent rather than 30 per cent as recommended by the Government.

The Emergency and Welfare Fund will support people in extreme financial difficulty. It is based on the following principles. It will:-

- be limited to Plymouth residents only;
- deliver goods and services from wherever is most appropriate;
- spend the same amount of funding that the council are handed from government;
- broadly mirror the current Social Fund eligibility (e.g. those on low income and without access to other forms of income);
- provide crisis and welfare responses;
- minimise the spend on administration of the scheme so the council gets as much of the government funding as possible to people in need;
- provide goods, services and cash;
- apply limits to the number of awards an individual can access

Although the council has established the Fund based on lower overheads than recommended by the government (thus maximising funding for the front line service, cuts to funding available mean there is a risk it will not fully meet need. Implementation is being monitored and the Fund will be formally reviewed after 6 months of delivery.

A range of advice is being provided to customers impacted by the changes e.g. through first stop, housing officers and the commissioned Advice Plymouth service. A senior citizens benefits take-up campaign was undertaken last autumn and further campaigns are planned. The Plan for Jobs was approved by cabinet in January and the council is developing further responses to worklessness including joint work with JCP secondee, expected to arrive by the end of May.

The council has passed a formal resolution regarding its concerns over the bedroom tax and is lobbying the government on this issue.

The Welfare Reform officers group continues to meet to oversee the council's response and is developing an updated action plan to guide this work.

Deterioration of Highways Network

The condition of the highway network is a significant concern across the city. This is an issue that is highlighted across all areas of the country and has been exacerbated by cold and wet winters over the past 4 years. It is a national issue and the poor state of the city's roads reflects that. The condition and the perception of the road network across the city is poor and customer satisfaction points to a position where many believe the network to be in an unacceptable condition and this will deteriorate further if no action is taken to deal with it.

At the February 2013 Full Council meeting, a further £20M of capital investment over a 10 year period for highway maintenance was approved.

Utilising the Governments new Highway Toolkit, a number of investment and treatment scenarios have been modelled for the carriageway (footways will require further assessment) – there is no one size fits all situation. Selecting the correct treatment for a failed road is essential in providing best value for money and avoiding polarisation of the network into very good and very poor condition.

This work indicates that this additional investment will halt the decline in the highways network and reduce escalating revenue and insurance costs and deteriorating customer satisfaction and the reputation of the authority.

Funding arrangements have been approved and funds are available. The major risks are:

- 1) Deteriorating weather conditions cause exceptional damage to the highway, therefore the predicted improvements do not all happen;
- 2) The programme is not focussed so that improvements are not easy to identify;
- 3) Insufficient resources are made available and the programme falls behind schedule.

To mitigate these risks standard risk management and monitoring will be carried out at all phases of the programme.

Sherford Development

The Sherford development of 5,500 homes and associated infrastructure is a key component of the City Council's growth agenda as reflected in the Corporate Plan. It forms part of the wider growth plans for the eastern corridor. Most of Sherford is located outside the administrative boundary of the city, with only 320 homes located within Plymouth, although there are significant cross-border transport and greenspace impacts. With the May 2013 Coalition government announcement for £32 million of funding to "kick start" building it is expected that planning permission, with its associated £110 million Section 106 agreement, is likely to be issued in the Autumn of 2013. Development is then expected to start in 2013/2014 following the discharge of pre-commencement conditions.

A requirement of the recently announced government funding is the creation of appropriate governance arrangements, possibly involving some form of programme board comprising the Homes and Communities Agency, South Hams District Council, Devon County Council and Plymouth City Council. The detailed arrangements for this have yet to be established. This arrangement will have implications for how the City Council discharges its duty to co-operate obligations. It also raises co-ordination and governance issues and what relationships may emerge in relation to initiatives such as the City Deal and the strategic plans of the Local Enterprise Partnership.

In a related announcement, a dedicated Sherford Implementation Team has also attracted government funding. The line management of this team needs to be established with South Hams District Council and Devon County Council.

Strategic leadership discussions with surrounding authorities are being held by the Chief Executive, the Director for Place and the Assistant Director for Planning on these matters in order to establish appropriate governance arrangements.

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 improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr Tudor Evans
Leader of the Council
Dated

Tracey Lee
Chief Executive
Dated

Adam Broome
Director for Corporate Services
Dated

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PLYMOUTH CITY COUNCIL

Subject: Operational Risk Management Update Report
Committee: Audit Committee
Date: 13 June 2013
Cabinet Member: Councillor Lowry
CMT Member: Director for Corporate Services
Author: Mike Hocking, Head of Corporate Risk and Insurance
Contact: Tel: 01752 304967
mike.hocking@plymouth.gov.uk
Ref: CRM/MJH
Key Decision: No
Part: I

Executive Summary:

To support the delivery of the City's vision and to enable the provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of Corporate Governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.

The management of risk principles and processes equally apply at operational level, supporting improved performance, integration with business planning, projects, change programmes and partnerships.

This report now outlines the continuing progress being made across Services in delivering Operational Risk and Opportunity Registers in line with the Council's shared vision and priorities.

The total number of operational risks now reported has decreased from 163 to 159, comprising 3 high (red) risks, 82 medium (amber) risks and 74 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 2012-2015:

Operational Risk and Opportunity Registers are 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 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 and opportunity registers could have financial or resource implications.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

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

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to:

- Note and endorse the current position with regard to operational risk and opportunity 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 and Opportunity Management Strategy and Policy Statement
 Operational Risk Registers and associated working papers
 Business Plan guidance and template 2012-2015
 Previous reports on risk management to Audit Committee

Sign off:

Fin	DJNI 213.0 21	Leg	1624 7/DV S	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Tim Howes, Asst Director, Democracy and Governance											
Have you consulted the Cabinet Member(s) named on the report? Yes											

1. Introduction

- 1.1** To support the delivery of the City's vision and to enable the provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of Corporate Governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.
- 1.2** The management of risk principles and processes equally apply at operational level, supporting improved performance, integration with business planning, projects, change programmes and partnerships.
- 1.3** This report now outlines the continuing progress being made across Services in delivering Operational Risk and Opportunity Registers in line with the Council's shared vision and corporate priorities.
- 1.4** The total number of operational risks now being reported has decreased from 163 to 159, comprising 3 high (red) risks 82 medium (amber) risks and 74 low (green) risks.
- 1.5** The report includes commentary on the high risk areas identified together with details of control actions/mitigation.

2. Background

- 2.1** Ten years ago Plymouth City Council implemented its first risk management strategy. This has been continuously reviewed each year and updated to ensure it remains fit for purpose.
- 2.2** To comply with the Risk and Opportunity Management Strategy each Directorate must implement a robust process of managing risks to corporate, service, project and partnership objectives for which they have responsibility.
- 2.3** To support the promotion and co-ordination of risk management each Directorate/Service has a dedicated Risk Champion. Risk Champions represent their Directorate/Service at the Operational Risk Management Group which is chaired by the Head of Corporate Risk and Insurance.
- 2.4** 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 and Opportunity Registers monitored routinely alongside the delivery of Business Plan objectives.

3. Operational Risk and Opportunity Registers and Analysis of Risks Identified

- 3.1** The corporate risk management process to enable service level Operational Risk and Opportunity Registers to be brought in line with business planning guidance linked to the Corporate Plan is now embedded across the Council.
- 3.2** In drawing up their Business Plans, Assistant Directors and Head of Service are identifying risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis, 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 and Opportunity Registers or are reporting work in progress in line with development of their Business Plans.
- 3.5** The table below shows the total number of risks now identified in operational risk and opportunity registers across the Council and shows the comparison with the last monitoring period:

Risk Category	No. of Risks – Dec 12	No. of Risks – Jun 13	Deleted Risks Jun 13	New Risks Jun 13
Red (High)	4	3	0	1
Amber (Medium)	81	82	4	9
Green (Low)	78	74	12	2
Total	163	159	16	12

4. Red Risks

- 4.1** Two of the “red” risks identified in Dec 2012 remain whilst two have been reduced to amber. One new risk has been added, as indicated below:-

EXISTING RED RISK Dept: Finance, Efficiencies, Technology & Assets (Finance)	Medium Term Financial Strategy issues
Comments/Mitigation: This risk is also monitored via the Strategic Risk and Opportunity Register. The Medium Term Financial Plan supersedes the Medium Term Financial Strategy for 13/14 for the next 5 years and includes Pension Auto Enrolment and 3 year revaluation impact. The budget was presented to senior officers and members in a different format, itemising all income and gross spend. There is now greater transparency and challenge.	
EXISTING RED RISK Dept: People (Homes & Communities)	Increasing homelessness as a direct result of the Local Housing Allowance (LHA) & Welfare Reform changes
Comments/Mitigation: Service demand still currently increasing and the use of temporary accommodation is still high. New controls implemented are - Increased access to Welfare benefits and income maximisation advice through Housing Options/Advice Plymouth. Continued work with partners to work and support families affected by the bedroom tax. Launch of pre-court eviction panel. Continued expansion of Easylet scheme to increase access to affordable Private Rented Accommodation.	
NEW RED RISK Dept: Place (Transport & Highways)	Deterioration of the condition of the City's Highway Network (carriageway and footway)
Comments/Mitigation: This risk is also monitored via the Strategic Risk and Opportunity Register. The condition of the Highway network is a significant concern across the city as well as being a national issue. At Feb 2013 Full Council meeting a further £20m of capital investment over a 10 year period for highway maintenance was approved.	

FORMER RED RISK (Now Amber) Dept: Place (Planning & Regeneration)	Loss of public records due to failure to meet PD5454 Standards
Comments/Mitigation: The Record Office has been condemned by the National Archive as not suitable for the storage of valuable documents. A preferred option has been identified and consultants are being brought on board to develop design plans ready for submission to the Heritage Lottery Fund for the end of November 13. Concurrently we are looking at the business planning and service delivery models. The National Archives have agreed an extension to the Place of Deposit status for PWDRO based on progress but will continue to monitor closely.	
FORMER RED RISK (Now Amber) Dept: Place (Transport & Highways)	The proposed Community Infrastructure Levy (CIL) to be introduced in 2013 cannot be used to repay loans.
Comments/Mitigation: To forward fund the delivery of the East End Transport Scheme, the Council entered into a Regional Infrastructure Fund (RIF) funding agreement in 2010 for £6.8m, borrowing against future transport tariff receipts. So far £139k of tariff has been collected to repay the loan and will continue to be collected until 2016, when the repayment mechanism may be reviewed. Legal opinion to be sought as to whether the original RIF agreement still applies following Government decision to remove the means by which it would be repaid and whether the use of S106 agreements which make no reference to repayment of a RIF loan but to sufficiently to ring fence these s106 contributions to delivery of future Strategic Transport infrastructure. Identify opportunities for new S106 contributions and capital funding from 2016 onwards.	

5. Risk and Opportunity Register Information

- 5.1 Operational Risk and Opportunity Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case
- 5.2 Risk templates have been revised to include opportunities that may be realised following successful management of risk.
- 5.3 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 Risk and Opportunity Management Strategy.
- 5.4 More detailed information on individual Services' risk and opportunity registers can be obtained from the Head of Corporate Risk & Insurance, departmental risk champions or Heads of Service.

6. Information Governance

- 6.1 A separate Annual Report will be presented to today's Committee outlining the work that has been undertaken by the Information Lead Officers Group (ILOG) during the last twelve months to improve information governance across all directorates.

7. Conclusion

- 7.1 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.
- 7.2 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 with regular reporting on a risk rated basis to the Corporate Management Team.

- 7.3** 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 to reducing the Council's overall budget deficit and to meeting the challenges of the current financial climate.
- 7.4** 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.
- 7.5** 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.
- 7.6** The new Risk and Opportunity Management Strategy will provide staff with a process for identifying threats or risks that includes becoming more outcome focussed to be able to manage the upside of risk.
- 7.7** 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.
- 7.8** The next report will be presented to Audit Committee in December 2013.

PLYMOUTH CITY COUNCIL

Subject:	Risk and Opportunity Management – Annual Report
Committee:	Audit Committee
Date:	13 June 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	Mike Hocking, Head of Corporate Risk and Insurance
Contact details	Tel: 01752 304967 email: mike.hocking@plymouth.gov.uk
Ref:	CRM/MJH
Key Decision:	No
Part:	I

Purpose of the report:

This report summarises the work carried out during 2012/13 to develop the Council's approach to risk and opportunity management and covers:

- Corporate and Operational Risk Management Groups
 - Risk & Opportunity Management Strategy
 - Risk and Opportunity Registers
 - Annual Governance Statement
 - Information Lead Officer Group (ILOG)
 - ALARM/Cipfa Benchmarking Club 2013
 - Focus for 2013/2014
-

Corporate Plan 2012-2015:

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. Child Poverty, Community Safety, Health and Safety and Risk Management:

- The Risk and Opportunity Management Strategy specifically supports the council's overall governance arrangements
-

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

The Audit Committee is recommended to note the Annual Report.

Alternative options considered and rejected:

Not applicable.

Published work / information:

[ALARM Opportunity Risk Management Guide](#)
[Previous reports on risk management to Audit Committee](#)

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off:

Fin	DGN	Leg	DS	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1.0 Introduction

1.1 This report summarises the work carried out during 2012/13 to further develop the Council's approach to risk and opportunity management.

1.2 The review covers:

- Corporate and Operational Risk Management Groups
- Risk & Opportunity Management Strategy
- Risk and Opportunity Registers
- Annual Governance Statement
- Information Lead Officers Group (ILOG)
- ALARM/Cipfa Benchmarking Club 2013
- Focus for 2013/2014

2.0 Corporate and Operational Risk Management Groups

2.1 Members will be aware that the risk and opportunity 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 and opportunity register and the overall risk and opportunity 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 and opportunity 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 risk and opportunity register has now been through 20 revisions since it was first drawn up ten 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 and 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 and opportunity risk registers to promote and develop a consistent approach to risk and opportunity 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 2012/13 is attached for information at Appendix A.

3.0 Risk and Opportunity Management Strategy

3.1 A report was presented to this Committee on [13 December 2012](#) advising Members of changes to the corporate risk management strategy following its annual review which resulted in a recommendation that the strategy be renamed the *Risk and Opportunity Management Strategy*.

3.2 The revised Risk and Opportunity Management Strategy provides a comprehensive framework and process designed to support Members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The strategy outlines the objectives and benefits of managing risk and exploiting opportunities, describes the responsibilities for risk management and provides an overview of the process that we will implement to manage risk successfully.

3.3 The Council records the significant risks identified as potential threats to the delivery of its objectives within risk and opportunity registers and incorporate mitigation controls within action plans to include details of any opportunity that may arise from the successful management of each risk.

4.0 Risk and Opportunity Registers

4.1 Both strategic and operational risk and opportunity 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.

4.2 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 and opportunity registers and provide commentary on the effectiveness of the risk management processes in place.

5.0 Annual Governance Statement

5.1 The system of internal control in the Council is based on an on-going 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 31 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 and Opportunity Register in particular largely informing the content of the AGS.

6.0 Information Lead Officer Group (ILOG)

6.1 A separate Annual Report will be presented to today's Committee outlining the work that has been undertaken by the Information Lead Officers Group (ILOG) during the last twelve months to improve information governance across all directorates.

7.0 Alarm/CIPFA Risk Management Benchmarking Club 2013

7.1 The Council joined this year's national risk management benchmarking club to compare our performance against Alarm's National Performance Model for Risk Management.

7.2 The Council took part in last year's exercise the results of which were reported to this Committee on [27 September 2012](#).

7.3 As with last year, 55 local authorities have signed up again this year and are required to complete a survey questionnaire 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.

7.4 Our results continue to show our performance level as "driving" the business which is the top score on both the "Enablers" and "Outcomes" sections of the questionnaire.

7.5 The completed questionnaire has been submitted and we await the overall survey results and comparison data in July following which a report will be brought to September's Audit Committee.

8.0 Focus for 2013/14

8.1 Information Governance - Through the work of ILOG, continue to develop and promote the consistent application of information governance principles across the Council.

8.2 Performance Reporting – Work with colleagues in the Performance and Audit Teams to develop and improve the way in which the Council's performance issues are identified and resolved.

8.3 Continue to monitor project risks in areas such as the HR Transformation Project, DELT (ICT shared services) and the Public Health Transition.

8.4 Risk and Opportunity Strategy - Further develop and promote approach to risk management based on the identification and exploitation of opportunities.

9.0 Conclusion

9.1 There is 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 supported by a mandatory assessment of risk management performance as part of the Competency Framework annual appraisal process.

9.2 The Council has well-developed and proven risk management processes in place which have been integrated into business planning, budget and project management.

- 9.3** The 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 and opportunity management to the overall governance framework.

RISK MANAGEMENT BIDS APPROVED 2012/13**1. Corporate Property – Security doors at Martinsgate (12/01)**

Installation of robust steel and aluminium doors to overcome continuous replacement of timber doors due to pupil vandalism.

£7,500.00

2. Plymouth & West Devon Record Office – Improvements to ventilation in staff office in line with building regulations and British standards (12/02)

To improve ventilation in ground floor staff office and enable appropriate level of circulating air.

£2,422.50

3. Installation of a fire alarm system and smoke detection equipment in the Orangery kitchen, Mount Edgcumbe Country Park (12/03)

Requirement following a site visit by the Council's insurance assessor.

£2,631.00

4. Corporate Property - Replacement windows at Martinsgate (12/04)

The installation of replacement windows to overcome fragile glazing following breakage incidents.

£7,500.00

5. Corporate Services – Secure room at Raglan Court (Homeless Assessment Unit) for provision of support work and interviews (12/05)

To create a safe environment to comprehensively risk assess prospective clients.

£7,500.00

6. Corporate Services – Information Governance Leaflet (12/06)

Printing and distribution of staff payslip insert "How to Manage your data".

£436.00

7. Human Resources & Organisational Development - Funding for case management advisor to handle the top 100 sickness absence cases - (12/07)

Proposal to put in place a case management plan, set objectives for managers and employees and liaise with occupational health services to complete the case files and resolve the absence.

£15,000.00*

8. Policy, Performance & Partnerships – Resource to develop automation of performance management information within the Carefirst database – (12/08)

The current manual input of information for CIN Census and SSDA903 return (data extract and validation) takes 4 months. The proposed automation will reduce the amount of manual work required to approximately 3 weeks.

£7,500.00

Cont./...

9. Corporate Services – Anti Vandal light fittings to replace damaged lights within Mayflower West Car Park - (12/10)

Car park has been subjected to vandalism and lights in stairwell are frequently broken making the stairs hazardous.

£1,767.00

Total £52,256.50

*(*Full funding of bid approved by Director for Corporate Services to address long standing sickness issues by the end of the financial year)*

PLYMOUTH CITY COUNCIL

Subject:	Information Asset – Annual Report
Committee:	Audit Committee
Date:	13 June 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	Mike Hocking, Head of Corporate Risk and Insurance
Contact details	Tel: 01752 304967 email: mike.hocking@plymouth.gov.uk
Ref:	CRM/MJH
Key Decision:	No
Part:	I

Purpose of the report:

This report provides a summary of the work that has been undertaken by the Information Lead Officers Group (ILOG) to improve information governance principles across all Directorates in order to improve the Council's information asset.

In 2010/11 Devon Audit Practice conducted a review of information management arrangements and reported a finding of "fundamental weakness" which was reported to this Committee on [27 June 2011](#).

A specific breach of the Data Protection Act (DPA) occurred in November 2011 and a fine of £60,000 imposed by the Information Commissioner's Office (ICO).

As a result of the above Corporate Management Team approved the formation of an Information Lead Officer's Group (ILOG) which was established in February 2012 in order to implement an action plan to enable the information asset to meet the council's service delivery goals and ensure on-going legislative compliance.

The Chief Executive also nominated a Senior Information Risk Owner (SIRO) who is accountable for the council's overall Information Governance arrangements, in line with all other government authorities. Currently the Director for Corporate Services is the nominated SIRO.

Corporate Plan 2012-2015:

Information Governance is included in risk registers that include links to the Corporate Plan objectives – monitoring of control action for risks therefore contributes to the delivery of the Council's core objectives.

**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. Child Poverty, Community Safety, Health and Safety and Risk Management:

Risk Management – Information Governance is included as a risk in all directorate risk registers

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No, as Information Governance applies to any data or information irrespective of its subject.

Recommendations and Reasons for recommended action:

The Audit Committee is recommended to:
Note and endorse the current position with regard to the action plan of the Information Lead Officers Group.

Alternative options considered and rejected:

Effective Information Governance processes are essential in helping to ensure compliance with legislative requirements such as the Data Protection Act and fulfilling the Council’s duty of care to its customers. For this reason alternative options are not applicable.

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

Sign off:

Fin	DGN	Leg	DS	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1.0 Introduction

- 1.1 This report provides a summary of the work that has been undertaken by the Information Lead Officers Group (ILOG) to improve information governance principles across all directorates in order to protect the council's information asset.
- 1.2 In 2010/11 Devon Audit Practice conducted a review of Information Management arrangements and reported a finding of "fundamental weakness" which was reported to this Committee on [27 June 2011](#).
- 1.3 A specific breach of the Data Protection Act (DPA) occurred in November 2011 and a financial penalty of £60,000 imposed by the Information Commissioner's Office (ICO).
- 1.4 As a result of the above Corporate Management Team approved the formation of an Information Lead Officers Group (ILOG) which was established in February 2012 in order to implement an action plan to enable the information asset to meet the council's service delivery goals and ensure on-going legislative compliance.
- 1.5 The Chief Executive also nominated a Senior Information Risk Owner (SIRO) who is accountable for the council's overall information governance arrangements in line with all other Government organisations. Currently the Director for Corporate Services is the nominated SIRO.

2.0 The Council's response

- 2.1 The inaugural meeting of ILOG took place on 22 March 2012 and the terms of reference of the group are listed in more detail in paragraph 3.0 of this report.
- 2.2 An initial list of priority issues was drawn up and incorporated into an action plan which was RAG rated based on the perceived importance of each issue.
- 2.3 A communication action plan was also drawn up and the first of a series of staff communications was circulated in March 2012 in order to begin raising awareness.
- 2.4 An Information Governance risk audit was carried out via the Operational Risk Management Group. This audit was based on 8 Information Governance principles:
 - Management Accountability
 - Policy and Processes
 - Privacy
 - Integrity
 - Authentication
 - Availability
 - Information Exchange
 - Staff Development & Training
- 2.5 The results of the audit helped ILOG to gauge the current position within each of the Directorates in order to prioritise actions and also provided a gap analysis.

3.0 ILOG Terms of Reference

- 3.1 The ILOG comprises of Information Lead Officers (ILO) for each directorate who provide the means for achieving a co-ordinated information governance framework that will develop an increasing return on information holdings and improvements to service delivery.
- 3.2 The Information Lead Officers will be responsible for reporting directly to their management teams in order to secure buy-in and commitment to initiatives instigated by the ILOG.
- 3.3 Performance will be monitored through an annual report to Audit Committee on the status of the information asset.
- 3.4 ILOs will direct work streams within the overall governance of the information asset.
- 3.5 The ILOG work plan will include promoting improvements in:
- Identifying and classifying holdings of data and information
 - Trustworthiness and reliability of data
 - Storage of electronic holdings, paper documents and physical artefacts
 - Privacy requirements
 - Information exchange and sharing
 - Information availability
 - Reducing duplication of data
 - Determining the council's approach to the information asset and providing analysis of its efficient and effective use.
 - Staff and customer awareness and compliance with responsibilities
- 3.6 The group will continue to oversee action plans arising from the Information Governance risk audit completed by the Operational Risk Management Group.
- 3.7 Activities will be implemented through Information Asset Owners (IAO) – those staff responsible for information holdings, or individual systems or applications within a service area and specialist working groups such as the Management of Information Security Form, Freedom of Information Representatives and the Operational Risk Management Group.
- 3.8 The group is also supported by the Caldicott Guardians (the AD's for social care as the responsible managers for peoples social and health data), the Corporate Information Manager, Information Security Manager and City Archivist.
- 3.9 The group meets bi-monthly.

4.0 Actions

- 4.1 Actions arising out of the group during the past 12 months include:

- Team briefings (Feb 12/Aug 12/Feb 13)
- Team Plymouth communication (Mar 12)
- Information Governance Induction booklets on staffroom (Feb 13)
- Payslip insert to staff “Your personal guide to keeping data safe” (Dec 12)
- Stop, think signage placed near printers and photocopiers
- Staffroom articles (Apr 12/May 12/Jan 13/Mar 13)
- Information Governance risk audit
- Promotion of incident reporting so that lessons can be learnt
- Each Directorate DMT has been briefed on issues by the Head of Corporate Risk and Insurance together with the Corporate Information Manager
- Office walk-throughs initiated across Directorates

5.0 Future actions over the next 12 months

5.1 Some of the forthcoming actions for ILOG are listed below:

- Freedom of Information compliance to continue to be improved
- Information Asset Owners to be identified and trained within each service area
- Carry out a further Information Governance risk audit via the Operational Risk Management Group
- Roll out Information Governance training package to all staff
- Extend office walk-throughs in all buildings
- Quantify and resolve the use of document stores by the Council
- Develop an Information Governance communication strategy

5.2 Devon Audit Practice is undertaking a County-wide review of Data Protection Act compliance which will identify areas of good practice for the Council to follow and share.

6.0 Summary and conclusion

6.1 Good Information Governance provides people with confidence that their personal information is being handled properly, protects the vulnerable, enables the delivery of services and ensures that transparency requirements are met

6.2 There are practical difficulties in trying to achieve this objective against a background of re-organisation and financial constraint and it will take a considerable culture shift within the organisation to ensure all processes and staff take appropriate care when handling data and look after the interests of the people of Plymouth.

6.3 Over the next 12 months ILOG will continue to focus on educating staff about the potential pitfalls and how each of us can reduce the risk of not meeting statutory requirements.

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PLYMOUTH CITY COUNCIL

Subject:	Statement of Accounts 2012/13
Committee:	Audit Committee
Date:	13 June 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	Claire Fisher (Group Accountant, Corporate Accountancy – Technical)
Contact details	Tel: 01752 305418 email: Claire.fisher@plymouth.gov.uk
Ref:	ACCT/CF
Key Decision:	No
Part:	I

Purpose of the report:

A report on the Council's revenue and capital outturn for the financial year was reported to Cabinet on the 21 May 2013. This report sets out the timetable and key issues in relation to the production of the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication, and reports on progress towards the requirement to prepare the pre-audited accounts by the 30 June.

The Accounts and Audit Regulations require that the accounts are available for public inspection for four weeks and this year the period of inspection commences on the 1 July. The audit is due to commence on the same day.

The report also details progress towards completion of the action plan agreed to implement the recommendations made by the auditor following the audit of the 2011/12 Statement of Accounts.

Corporate Plan 2012-2015:

The Council's expenditure forms the basis on which the Corporate Plan can be delivered.

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

The 2012/13 final accounts will have implications on the Medium Term Financial Plan. The level of Working Balance and reserves will affect the level of funding available in future years and variations in service expenditure will also need to be reviewed to assess the effects on future years.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

N/A

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

1. Audit Committee note the report and the proposed 'authorised for issue' date (21 June 2013) for the draft Statement of Accounts.
-

Alternative options considered and rejected:

None – It is a statutory requirement to produce and approve the Statement of Accounts.

Published work / information:

Outturn Report to Cabinet 21 May 2013

<http://www.plymouth.gov.uk/modgov?modgovlink=http%3A%2F%2Fwww.plymouth.gov.uk%2FmgIntenet%2FieListDocuments.aspx%3FCId%3D254%26amp%3BMID%3D5360>

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	
The 2012/13 Code of Practice on Local Authority Accounting (the Code)	I									
Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP)	I									
Draft (Pre-Audit) Statement of Accounts 2012/13	I									

Sign off:

Fin	DJN13 14.05	Leg	LT 17640 310513	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member – Malcolm Coe													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

Statement of Accounts 2012/13

1. Introduction

- 1.1 The financial outturn for both the Council's revenue and capital activities for 2012/13 was reported to Cabinet on the 21 May 2013. This report sets out the timetable and key issues in relation to the production of the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication.
- 1.2 The Accounts have to be produced in line with the relevant CIPFA Codes of Practice and with regard to relevant items of statute. Details of the changes in relation to the 2012/13 Codes and relevant legislation which need to be considered for the accounts are outlined in section 3.
- 1.3 The Accounts and Audit Regulations require that the draft Statement of Accounts is signed by the Council's Director for Corporate Services, as the Council's Section 151 Officer, by 30 June each year. Progress towards the production of the pre-audit accounts is outlined in section 2 of this report. The pre-audited accounts will be published on the Council's website by the end of June.
- 1.4 Formal audit of the accounts for 2012/13 commences on 1 July 2013 and this date also marks the start of the four week period in which the Council has to make the accounts available for public inspection. The audited Accounts will be presented to the next committee alongside the auditor's report. An analysis of the financial position and key messages within the accounts will be reported to committee in the accompanying report as it is not possible to do so at this stage whilst the draft accounts are still being finalised.
- 1.5 The Code requires that the Council sets and discloses an 'authorised for issue' date, which reflects a cut-off date in terms of the post balance sheet period within which events have to be considered in relation to their impact on the 2012/13 accounts. It is proposed that the relevant date for the draft Statement of Accounts be set as 21 June 2013.
- 1.6 Each year the Audit Committee receives the auditor's (ISA260) report on the accounts audit, which, where appropriate, will include an action plan containing issues for the Council to address for the following year's accounts. Progress against auditor recommendations resulting from the 2011/12 Statement of Accounts audit is detailed in Section 6.
- 1.7 The Annual Governance Statement (AGS) is being presented separately to this Audit Committee for approval. In 2011/12 the decision was taken that the AGS would no longer form part of the published Statement of Accounts document but would stand-alone to reflect that its scope is wider than just the financial transactions of the authority. However, it will be published alongside the Statement of Accounts on the Council's website as is required by the Code.

2. Key Dates for 2012/13 and progress to date

- 2.1 Although there has been no change to the statutory timetable relating to the production and publication of the final accounts, internal deadlines and targets have been set which reflect earlier timescales for both the reporting of departmental financial results against budgets and the production of the draft Statement of Accounts. For example, the Outturn Report to Cabinet on the 21 May represented a three week improvement against the previous year.

- 2.2 The financial challenges that the authority is facing make it imperative that both Officers and Members are provided with accurate and up-to-date financial information in a timely manner in order to facilitate informed decision-making. The timetable for monthly budget monitoring reporting has been shortened over the past year in order to allow finances to be controlled and achievement of budget delivery plans to be closely monitored. This will continue to be an issue moving forward and plans are in hand to further develop financial monitoring and reporting processes via the 2013/14 Finance Business Plan.
- 2.3 Similarly, as well as the issues outlined above, there are other drivers which give rise to the decision to reduce the overall timetable for the production of the draft Statement of Accounts document. Firstly, there is a need to continuously review and improve financial management processes; a shorter timescale will both challenge current working practices and promote efficiencies. In addition, timelier completion of year-end activities will free up resources for other work at an earlier stage of the year. Other advantages which arise include cost effectiveness, staff benefits (such as improved morale via a sense of achievement and opportunities to develop the technical expertise within the service) and an enhanced profile for the Finance Service.
- 2.4 However, there is a risk that a faster timescale will compromise the quality of the draft statements. The Finance team are working to minimise the likelihood of this having a detrimental impact on the accounts by ensuring that progress is closely managed, staff involved are appropriately trained and there is close liaison with the external auditor throughout the year.
- 2.5 The year-end timetable for both internal and external reporting (via the Statement of Accounts) of the 2012/13 financial results has been set as follows:-

Milestone	Key Date
Directorate Outturn position for Capital and Revenue Accounts finalised	15 April
Provisional Outturn report to CMT	23 April
Outturn Report to Cabinet	21 May
Draft Statement of Accounts prepared	07 June
Statutory deadline for Section 151 Officer to 'sign off' of draft Statement of Accounts	30 June
Final Accounts Audit Commences	01 July
Period of Public Inspection	01 July - 26 July
Auditor's ISA260 report received and audited Statement of Accounts approved by Audit Committee	19 September

- 2.6 As the agenda for this committee was published, the Finance team were finalising the draft Statement of Accounts for review by Senior Management. It is anticipated that the majority of the work on the accounts will be completed by the 7 June deadline, but Officers will provide a verbal update on progress at the meeting. The achievement of this deadline will partly be reliant on receiving finalised accounts in relation to the Tamar Bridge and Torpoint Ferry Joint Committee from Cornwall Council.

2.7 The Finance team will continue to strive to further improve the above timescales, with the ultimate aim of delivering the draft Statement of Accounts by the end of May. This is reflected by a project within the Finance Business Plan which will involve further work on challenging current working practices and timelines, refining quality assurance techniques and widening both project management and technical expertise throughout the service.

2.8 Authorised for Issue date

The Code requires that events occurring after the balance sheet date, i.e. 31 March 2013, are considered in terms of their relevance to the Council's financial position for 2012/13. There is an obligation to ensure that any such events are properly reflected in the Statement of Accounts up to the date that the statement is 'authorised for issue'. The authorised for issue date marks the point beyond which there can be no reasonable expectation that events could have been taken into consideration in the preparation of the Statement of Accounts. The Council has to disclose this date within the accounts and it is proposed that post balance sheet events up to and including the 21 June 2013 be considered for the draft accounts submitted for audit.

3. **The 2012/13 Codes of Practice and relevant legislation**

3.1 There are two main Codes of Practice relevant to the production of the Statement of Accounts which CIPFA publish on an annual basis:-

- The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code)
- The Service Reporting Code of Practice for Local Authorities (SeRCOP)

3.2 There were no significant changes to the Codes for 2012/13, which is a departure from the previous three years where significant changes such as the introduction of IFRS were implemented. Further details on the minor changes to the Codes will be included in the report to committee in September, when the accounts are formally presented for approval, where their impact will be more easily demonstrated.

3.3 In terms of new legislation relevant to the production of the 2012/13 accounts, again, there have been no Acts or Regulations issued that have a significant impact. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013 provide new and extended provisions in relation to the funding of, and accounting for, Equal Pay Awards. It is not anticipated, at the current time, that the Council will need to utilise these provisions and the 2012/13 accounts will reflect this position.

4. **Other issues affecting the Accounts for 2012/13**

4.1 Judgement re the requirement to produce Group Accounts

4.1.1 2011/12 represented the first year for over 10 years that the Council has not produced Group Accounts within its Statement of Accounts. This was due to the reclassification of the Tamar Bridge and Torpoint Ferry Joint Committee (TBTFJC), whereby the Council's share of the committee's accounts are now consolidated into the single entity accounts. The judgement was made that, without the TBTFJC accounts, the total balance sheet value of the remaining related group entities falls below the level that would make the inclusion of Group Accounts a valuable addition to the financial statements.

4.1.2 The assessment of the related group entities has now been updated to reflect the position for 2012/13. This shows that the materiality effect of the other entities either individually or

collectively on the asset / liability balances stands considerably below 5% of the single entity accounts. It is therefore Officers' opinion that there is still no requirement to produce Group Accounts.

5. Post Balance Sheet Events (PBSE)

- 5.1 Although the Statement of Accounts shows the financial outturn position for 2012/13 and Balance Sheet position as at 31 March 2013, the Council is required to take into account items occurring after 31 March 2013 if they would have a material impact on the accounts.
- 5.2 PBSEs identified to date, which will be included in the draft Statement of Accounts are as follows:-
- 5.2.1 Business Rate Retention Scheme - Appeals outstanding at 31 March 2013
The Business Rates Retention Scheme came into effect on 1 April 2013. It represents a fundamental change to local government's core funding and will mean that a proportion of the locally generated business rates will be kept by the Authority rather than all being paid across to the Government's central pool for redistribution nationally as happens with the current system.
- 5.2.2 A significant impact of the new scheme is that the Council will take on the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years.
- 5.2.3 As the Authority will only be liable for appeal refunds from 1 April 2013, then the first provision to be made within the Authority's accounts will occur in 2013/14, despite the fact that these amounts relate to income received in 2012/13 and earlier years. Therefore this liability is reported within the 2012/13 accounts as a non-adjusting post balance sheet event as the Authority is not required to account for this liability within its 2012/13 accounts.
- 5.2.4 Public Health Transfer
From 1 April 2013, the authority will assume responsibility for Public Health activities within the city as part of the Government's reform of the National Health Service. This will entail securing services to prevent disease, prolong life and promote health. The Authority will be provided with a ring-fenced public health grant by the Government to discharge the new public health responsibilities being transferred to them from the city's Primary Care Trust. The financial impact of this transfer is to increase the Council's gross expenditure and income for 2013/14 by £11.160m.
- 5.3 As the draft accounts were still being finalised at the time of publishing this report, the above list may not reflect the final PBSE position when the accounts are published towards the end of June.
- ## **6. Progress against the 2011/12 ISA260 Report Action Plan**
- 6.1 The External Auditor's annual Governance Report (ISA260 Report), includes the findings on the annual accounts audit and an action plan to address key audit issues. Appendix A sets out the auditor's recommendations following the 2011/12 accounts audit and reports on the progress made to date regarding the related action plan.

6.2 Two of the issues on the action plan remain unresolved as follows:-

6.2.1 Impairment of Icelandic Banks investments

This relates to the Council's decision to diverge from CIPFA's guidance regarding the accounting treatment of the Icelandic Bank investments. The Council has maintained a consistent approach over the last few years of being prudent, and only reducing the impairment as repayments are actually received. This methodology will again be applied to the 2012/13 draft Statement of Accounts and, therefore, is likely to be raised again by the auditor and feature in this year's ISA260 report.

6.2.2 Governance Arrangements for the Tamar Bridge and Torpoint Ferry Joint Operation

The auditor recommended that both Cornwall Council and Plymouth City Council draft a memorandum of understanding that formalises the respective roles and responsibilities in relation to assets, liabilities, income and expenditure and that this document should be formally adopted by Cabinet members at both Councils. This issue is being progressed by Officers at both councils in liaison with the auditor, however, neither authority has yet to present proposals to their Cabinets.

6.3 Officers will continue to advance the above issues, where appropriate, and ensure the external auditor is updated on a regular basis re progress.

7. Conclusions

7.1 The 2012/13 financial results for the authority have been established and reported significantly earlier than when compared to previous years.

7.2 Work is in-hand to produce the draft Statement of Account well in advance of the statutory deadline and this also represents a year on year reduction in timescales taken to undertake this year-end work. The Finance team has committed to making further improvements going forward by including a project to review working practices and expertise in this area within the 2013/14 Finance Business Plan.

7.3 2012/13 represents a 'light' year in relation to changes in the accounting codes of practice and legislation relevant to account production. Further details on this and the relevant changes requiring consideration for 2013/14 will be included in the September Statement of Accounts report to committee.

7.4 The annual audit and period of public inspection regarding the accounts both commence on 1 July; the audited Statement of Accounts will be submitted to Audit Committee for approval in September.

7.5 Officers are working to ensure that the auditor action plan resulting from the 2011/12 final accounts audit is addressed where applicable.

Progress against the 2011/12 ISA260 Auditor's Report Action Plan

APPENDIX A

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility	Progress to date
1	<p>Property Plant and Equipment</p> <p>We recommend that finance management review the accounting entries for the Property, Plant and Equipment balances within the main financial statements and disclosure notes prior to submission for audit in 2012/13.</p>	High	<p>Agreed.</p> <p>This year end has been particularly challenging with both the full implementation of the Tech Forge system (fixed asset database) being finalised together with changes to the Code of Practice relating to Heritage Assets; and the subsequent restatements linked to this. In addition further work has been undertaken in relation to ISA260 recommendations from 2010/11 relating to reconciliation of the Finance Module of Tech Forge and review of Community Assets. Both of these issues have meant corrections to Fixed Asset categorisation. Officers have worked closely with the external auditor to ensure that assurance can be placed on the integrity of the fixed asset database. Officers will be working with the software supplier to improve the robustness and accuracy of the reporting functions within the Tech Forge system, specifically in relation to asset category transfers. This was exceptionally time-consuming to analyse the data manually in the absence of bespoke reports. The latest upgrade of the software deals with some of the issues identified and will be installed shortly. The remaining issues will be progressed over the coming months.</p>	<p>June 2013 (for 2012/13 Draft Statement of Accounts)</p> <p>Group Accountant (Corporate Technical)</p>	<p>This issue has been progressed during 2012/13. There have been two upgrades of the software which have dealt with the majority of reporting problems identified. There are minor issues that are still to be resolved, although this will not have a detrimental impact on neither the timescale nor the accuracy of the figures required for the Statement of Accounts disclosure notes or accounting entries.</p>
2	<p>Council Tax write off</p> <p>The Council should write out the Council Tax debt in 2012/13 once it has been established how much further funds have been received in relation to the £4.7m</p>	High	<p>Agreed.</p> <p>Officers will continue work required in relation to writing out pre-2000 Council Tax debtors during the current financial year. As this debt is fully provided for there will be no net impact on the either the Collection Fund or the Council's overall financial position. The write off of these debts will be completed and managed within the framework of our current financial regulations, and the associated bad debt provision reduced as appropriate</p>	<p>31 March 2013</p> <p>Strategic Finance Manager</p>	<p>The Council has written out the historic Council Tax debt during 2012/13. As the debt had been fully provided for in previous years there was no net impact on the either the Collection Fund or the Council's overall financial position.</p>

Progress against the 2011/12 ISA260 Auditor's Report Action Plan

APPENDIX A

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility	Progress to date
3	<p>Payroll Reconciliation to the General Ledger</p> <p>We recommend that the Council perform formal reconciliations between the payroll system and the general ledger on a monthly basis.</p>	High	<p>Agreed.</p> <p>The current Payroll system does not post 'control' entries into the General Ledger and this has been the case since it was implemented in 2006. Assurance on the integrity of the data is gained via monthly reconciliation of the interface between the Payroll system and the General Ledger but it is acknowledged that this could be further strengthened by direct reconciliation between the two systems.</p> <p>The authority is currently in the process of implementing a new Payroll system and, as part of this Officers, will ensure that mechanisms are in place to enable regular reconciliation of the Payroll system and the General Ledger. Initial discussions on this have already taken place with the Payroll System Implementation Project Team.</p>	<p>Per schedule for Payroll system Implementation, currently November 2012</p> <p>Strategic Finance Manager</p>	<p>A new reconciliation process was introduced during 2012/13 and monthly reconciliations between Payroll System reports and the General Ledger have been undertaken for the whole year. This work has been discussed and reviewed by both internal and external audit.</p> <p>This process will continue into 2013/14, but will apply to the new Payroll system, iTrent, which went live in April 2013. The Payroll System Implementation team are continuing work on various aspects of the new system and Corporate Accountants are working with the team to ensure that reconciliation processes can be streamlined wherever possible.</p>
4	<p>Impairment of Icelandic Banks investments</p> <p>We recommend that the Council consider compliance with LAAP guidance on the accounting for the impairment of Icelandic Banks investments</p>	Medium	<p>For 2011/12, the Council has used a prudent approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery. The LAAP guidance assumes collection rates of 86%, 100% and 100% for the recoveries for Heritable, Landsbanki and Glitnir respectively. There continues to be uncertainty, however, over whether these levels of recovery will be achieved and therefore impairments have been made in line with actual receipts rather than those anticipated. Officers will continue to monitor the recovery during 2012/13 and make appropriate judgements in terms of the accounting entries accordingly.</p>	<p>31 March 2013</p> <p>Director for Corporate Services</p>	<p>The Director for Corporate Services has reconsidered this issue as part of the year-end review of strategic financial issues. The decision is to remain with the approach that has been applied over the last few years of being prudent, and only reducing the impairment for repayments that have been received in 2012/13. This differs from the accounting treatment recommended by LAAP and therefore is likely to be raised again by the auditor and feature in this year's ISA260 report.</p>

Progress against the 2011/12 ISA260 Auditor's Report Action Plan

APPENDIX A

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility	Progress to date
5	<p>Governance Arrangements for the Tamar Bridge and Torpoint Ferry Joint Operation</p> <p>Following the adoption of the accounts into the single entity statements in 2011/12, we recommend that both Cornwall County Council and Plymouth City Council draft a memorandum of understanding that formalises the respective roles and responsibilities in relation to assets, liabilities, income and expenditure. This document should be formally adopted by Cabinet members at both Councils.</p>	High	<p>Agreed. Officers from the Council will progress this with the respective Officers from Cornwall Council. A review of all TBTFJC governance arrangements between the two Councils is already in progress, and these issues will be addressed through this forum.</p>	<p>31 March 2013</p> <p>Head of Finance</p>	<p>Officers from Cornwall Council are leading on this piece of work which is currently still in progress. A meeting was recently held between the two councils and the external auditor where the key governance issues were discussed and proposals agreed. We now await the draft governance documents from the Cornwall Council.</p>
6	<p>East End Office space – revaluation</p> <p>The Council will need to ensure that the East End office space is revalued in 2012/13.</p>	Medium	<p>Agreed - this has already been included as part of the 2012/13 revaluation programme.</p>	<p>March 2013</p> <p>Strategic Finance Manager</p>	<p>Asset was examined during 2012/13 as part of the rolling programme for revaluation of assets. It was determined that the office space was not a PCC asset and therefore it has now been removed from the asset register.</p>

CITY OF PLYMOUTH

Subject:	Annual Report on Treasury Management Activities for 2012/13
Committee:	Audit Committee
Date:	13 June 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	Andrew Liddicott (Senior Accountant)
Contact:	Tel: (01752) (30)7873 e-mail: andrew.liddicott@plymouth.gov.uk
Ref:	Acct/AL
Key Decision	No
Part:	I

Purpose of the report:

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 2012/13 including the final position on the statutory Prudential Indicators.

In line with the recommendations in the 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 2012-2015:

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. Child Poverty, Community Safety, Health and Safety, Risk Management, Equality, Diversity and Community Cohesion:

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 counterparty list under constant review.

Recommendations & Reasons for recommended action:

1. Audit Committee note the Treasury Management annual report for 2012/13.
2. The report be referred to Full Council as required by the CIPFA Treasury Management Code of Practice (TMP note 6).

Alternative options considered and reasons for recommended action:

None - it is requirement to report to Council on the treasury management activities for the year.

Background papers:

- Treasury Management Strategy report to Audit Committee 27 January 2012
- 2012/13 Budget Papers – presented to Full Council 27 February 2012
- Mid Year Review report to Audit Committee 13 December 2012
- Financial Outturn report for 2012/13 to Cabinet 21 May 2013

Sign off:

Fin	DJN131 4.07	Leg/ Dem& Gov	LT176393 10513	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											
Has the Cabinet Member(s) agreed the content of the report? Yes											

Annual Report on Treasury Management Activities for 2012/13

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 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 2012/13, providing information on progress and outcomes against the approved strategy, and builds on the mid year report presented to Audit Committee on 13th December 2012 and Full Council on 28th January 2013.
- I.4 The responsibility for implementing and monitoring Treasury Management Policies 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 Services, and is overseen by a Treasury Management Board consisting of senior officers within Finance, Efficiencies, Technology and Assets.
- 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 2012/13 were approved by Audit Committee at its meeting of 21st June 2012.
- I.6 The Council works closely with its treasury management advisers Arlingclose who assist the Council in formulating views on interest rates when determining the Treasury Management Strategy, providing 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 CIPFA Treasury Management Code and the Prudential Code;
 - b) presents details of capital financing, borrowing, debt rescheduling and investment transactions for the year 2012/13;
 - 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 2012/13;
 - 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.

2. The Economy and Events in 2012/13

- 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 2012/13:

The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.

In the UK the economy shrank in the first, second and fourth quarters of the calendar year 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of the Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

The resilience of the labour market, with the ILO unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.

The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to

Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs.

The big four banks in the UK – Barclays, RBS, Lloyds and HSBC – and several other global institutions including JP Morgan, Citibank, Rabobank, UBS, Credit Suisse and Deutsche came under investigation in the Libor rigging scandal which led to fines by and settlements with UK and US regulators. Banks' share prices recovered after the initial setback when the news first hit the headlines.

Europe: The Euro region suffered a further period of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were becalmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Q4 2012.

US: The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. The Federal Reserve shifted policy to focus on the jobless rate with a pledge to keep rates low until unemployment falls below 6.5%. The country's extended fiscal and debt ceiling negotiations remained unresolved.

Gilt Yields and Money Market Rates: Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

Money market data and PWLB rate movements in 2012/13 are attached as Appendix I to this report.

3. The Council's Strategy for 2012/13

- 3.1 The Council's Treasury Management Strategy was approved by Full Council on 27th February 2012. As an overriding principle, the strategy proposed that the Council would continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security, with liquidity and yield. The Council would continue to make 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 borrowing strategy was to be based on affordability and subject to credit conditions throughout the year. In adverse credit conditions the strategy was to use internal balances to cover any borrowing requirement, enabling the Authority to minimise borrowing costs and reduce overall treasury risk by reducing the level of external investment balances. In improved credit conditions the Director for Corporate Services would consider externalising borrowing using short-term or long-term loans as part of a balanced maturity profile within the approved Prudential Indicators.

Review of the Council's Performance 2012/13

4. Treasury Portfolio

- 4.1 Table I shows the Council's overall Treasury Portfolio at the end of 2012/13 compared to 2011/12.

Table I

31/3/2012 £m	Average Interest rate %		31/3/2013 £m	Average Interest rate %
61.315	5.4001	External Borrowing Long-term:	61.315	5.4001
130.000	4.4202	PWLB	130.000	4.4202
0.083	1.1668	Market	0.087	1.0007
15.000	0.2900	Bonds	34.800	0.2809
		Temporary Borrowing		
206.398	4.4098	Total PCC Borrowing	226.202	4.0477
31.017	8.7300	Long-term liabilities	30.246	8.7300
2.585	n/a	PFI Schemes	2.189	n/a
9.510	n/a	Finance leases	9.156	n/a
		Tamar Bridge & Torpoint Ferry		
43.110		Total Long term Liabilities	41.591	
249.510		Total External Debt	267.793	
(90.216)	0.8853	Total Investments	(72.374)	0.8889
165.535		Net Borrowing/(Net Investment) Position	195.419	

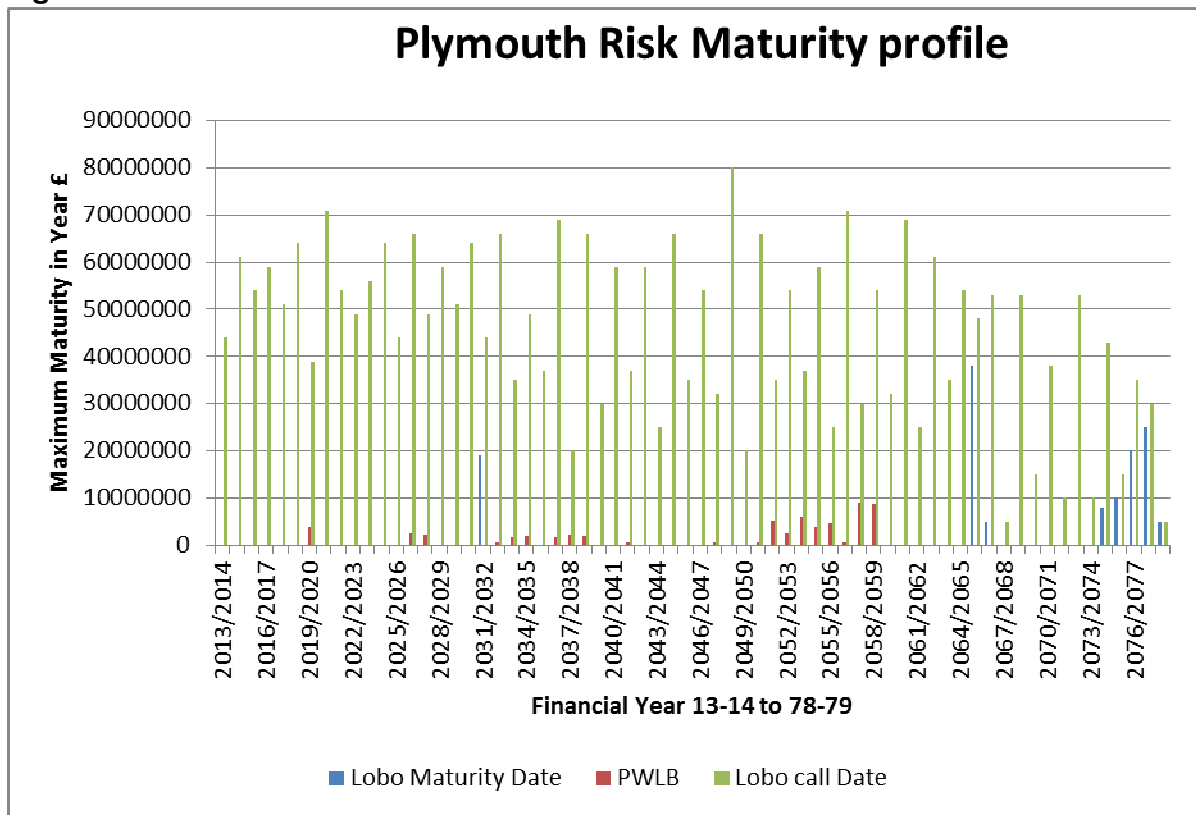
4.2 The total external debt as shown above includes long-term liabilities in respect of PFI schemes or finance leases as these liabilities are seen as a credit arrangement thus increasing the Council’s total debt and must be taken into account within the statutory borrowing limits. The Tamar Bridge & Torpoint Ferry balance relates to 50% of the debt on the Joint Committee balance sheet required to be brought onto the Council’s balance sheet from 2011-12.

The total investments at 31st March 2012 included £21.49m invested on behalf of the Heart of the South West Local Enterprise Partnership (LEP) in respect of the Growing Places Fund. This balance was transferred to Devon County Council who took over the administration of the Fund on 8th August 2012.

5. Borrowing

5.1 Figure I below shows the maturity profile of the long-term debt for the Council as at 31 March 2013.

Figure I



5.2 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 green) to enable officers to risk manage the Council’s cashflows. During the year £64m of LOBO loans entered the period where they could have been called, but options were not exercised by the relevant banks.

5.3 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 – This is the statutory limit which should not be breached. This can only be amended with the approval of Full Council.
- The Operational Boundary – This is based on the same estimate as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

5.4 The borrowing limits for 2012/13, originally approved by Council in February 2012, were as follows:

- Authorised Limits £309m
- Operational Boundary £279m

The revised Prudential Indicators, as approved by Council on 25 February 2013, reduced the limits to fall in line with the Council’s updated capital programme and reduction in the forecast borrowing requirement. The approved updated limits were as follows:

- Authorised Limits £301m
- Operational Boundary £279m

5.5 The Director for Corporate Services confirms that there were no breaches to the authorised limit during the year. The maximum debt outstanding during 2012/13 was £282.988m on 9th November 2012 (including £41.486m for the PFI, finance lease liabilities and the Tamar Bridge loan). This was within the authorised limit but in excess of the operational boundary due to cashflow requirements. There were other occasions throughout the year where debt was above the operational boundary however by 31st March total debt had fallen to £267.688m (including £41.486m for PFI, finance lease liabilities and the Tamar Bridge loan) well within both of the borrowing limits.

5.6 Table 2 shows the movement in the borrowing portfolio during the year.

Table 2 Movement in Borrowing Portfolio

	Balance on 01/04/12 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 31/03/13 £000s	Increase/ (Decrease) in Borrowing
Short-term Borrowing	15,000	(210,390)		230,190	34,800	19,800
Long-term Borrowing	191,398			5	191,403	5
Total Borrowing	206,398	(210,390)	0	230,195	226,203	19.805

5.7 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31st March 2013 was estimated at £276.552m (including PFI, finance leases and Tamar Bridge & Torpoint Ferry debt).

5.8 New borrowing in year

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

At the start of the year the Council had £15m of short-term loans. These are generally taken for periods of one to three months and repaid and replenished with new loans, subject to availability and favourable rates, during the year. At the end of the year the Council had £34.8m of short-term loans.

The average period of new loans taken in the year was for 42.85 days at an average interest rate of 0.2742%. This is below the bank base rate. Short-term loans are generally taken from other local authorities.

5.9 Debt Repayment

There were no loan repayments made in 2012/13. The increase in overall debt is a result of externalising some borrowing to move closer to the Council's overall borrowing requirement as credit conditions improved in the second half of the year.

5.10 Debt Rescheduling

There has been no debt rescheduling in the period due to falling interest rates making the repayment of any PWLB loans more expensive. 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.

5.11 Overall Debt Performance for the year

The average interest rate on the Council's borrowing has decreased over the course of the year from 4.4098% to 4.04778%. This rate reflects the position at the end of each financial year (i.e. 31st March 2012 and 2013). The reduction in rates is due to the increase in low rate short-term loans taken in periods maturing beyond the year end. Loan transactions were taken at various times throughout the year at various rates and, taking all transactions in the year, the overall average borrowing rate for 2012/13 was 4.2079% compared with a rate of 3.9652% for 2011/12. This increase is a result of a much lower average of short-term borrowing taken in 2012/13 compared to 2011-12. The reduced borrowing was due to deteriorating credit conditions during 2012/13 resulting from concerns over Eurozone sovereign debt. During these periods short-term loans were not replaced on maturity and investment balances were reduced.

6. Investments

6.1 Figure 2 below shows the actual split of deposits by country/sector as 31st March 2013. Table 4 provides more detail on the actual deposits by counterparty group.

Figure 2

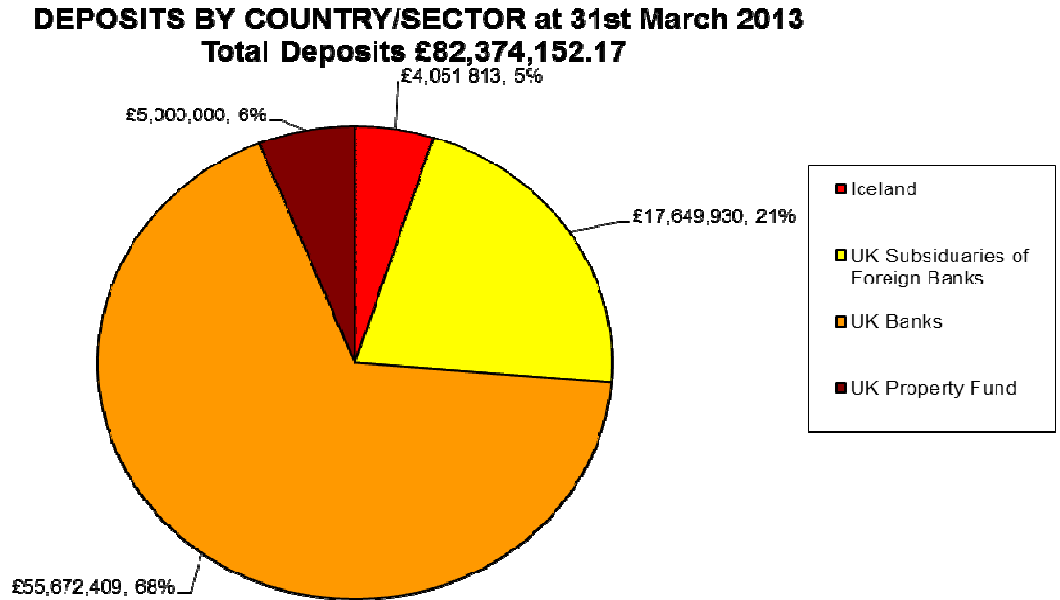


Table 4

Group	Bank/Institution	Total deposits £m
RBS Group	Royal Bank of Scotland	19.022
Lloyds Banking Group	Bank of Scotland	12.650
	Lloyds TSB	5.000
Barclays Banking Group	Barclays	19.000
Banco Santander Group	Santander UK	17.650
Iceland deposits	Landsbanki Island	2.112
	Heritable Bank	0.682
	Glitnir	1.258
Total Deposits @ 31st March 2013		77.374
Pooled Investment	CCLA Lamit Property Fund	5.000
Total Investments @ 31st March 2013		82.374

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

Table 5 Movement in Investment Portfolio

Investments	Balance on 31/3/12 £000	Investments Made £000	Maturities/ £000	Balance on 31/03/13 £000	Avg Rate % / Avg Life to maturity (days)
Short-term Investments (less than 1 year)	78,975	1,493,270	(1,494,871)	77,374	1.28%/ 11 days
Long-term Investments (over 1 year)	5,000	0	(5,000)	0	
Pooled Funds	0	5,000		5,000	Variable
Total Investments	83,975	1,498,270	(1,499,871)	82,374	

- 6.3 The majority of the short-term deposits were held in call or short-term notice accounts. In line with the Council's approved investment strategy for 2012/13 the following longer term deposits were taken in the year:

Amount	Start Date	End Date	Term (days)	Rate %
£5.0m	24/04/12	24/07/12	91	1.40
£5.0m	20/08/12	20/11/12	92	1.35
£5.0m	17/09/12	17/12/12	91	1.35
£5.0m	15/10/12	07/01/13	84	1.35
£5.0m	06/11/12	07/05/13	182	1.60

- 6.4 The above deposits have been taken above target rates and increased the return on investments in 2012/13. The maximum approved term for new deposits in 2012/13 was 1 year.

- 6.5 In line with the Council's approved strategy, to diversify investment away from purely cash deposits, a £5m investment was made in the CCLA Lamit Property Fund on 31st March 2013. This is a pooled investment fund meeting the criteria in SI 2004 No 534 and subsequent amendments. This is an available for sale investment that can be cashed in after 6 months or at any time thereafter. However this is seen as a long-term investment to generate additional income and realise a capital gain for the Council. The performance of this fund will be monitored throughout the year and included in the treasury management mid-year and out-turn reports for 2013/14.

6.6 Managing Investment Risk

- 6.6.1 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.

6.6.2 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 2012/13. Investments made during the year were restricted to:

- Deposits with the Debt Management Office.
- Call Accounts and deposits with UK Banks and Building Societies systemically important to the UK banking system.
- Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.

6.7 Credit Risk

- 6.7.1 Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institutions operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty rating determined for the 2012/13 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's.

6.7.2 In June Moody's downgraded a swathe of banks with global capital market operations, including the UK banks on the Council's lending list. This included Barclays, HSBC, Royal Bank of Scotland/Natwest, Lloyds TSB/Bank of Scotland and Santander UK Plc as well as several non UK banks. However none of the ratings fell below the Council's minimum credit rating threshold.

6.7.3 The Council reacted to changes in credit conditions during the year by changing the maximum maturity limits for deposits with banks and building societies. Between 18th May 2012 and 20th August 2012 £15m was kept on overnight deposit with the Debt Management Office (DMO) and deposits suspended with Santander UK Plc in this period as a reaction to concerns over the Eurozone and global credit conditions.

6.8 Credit Score Analysis

6.8.1 The Council's treasury advisers, 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 7 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.

6.8.2 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
31/03/2012	5.48	A+	5.42	A+
30/06/2012	5.10	A+	5.65	A
30/09/2012	5.99	A	6.06	A
31/12/2012	6.01	A	6.01	A
31/03/2013	6.00	A	6.25	A

Note : These scores exclude any deposits with Icelandic banks.

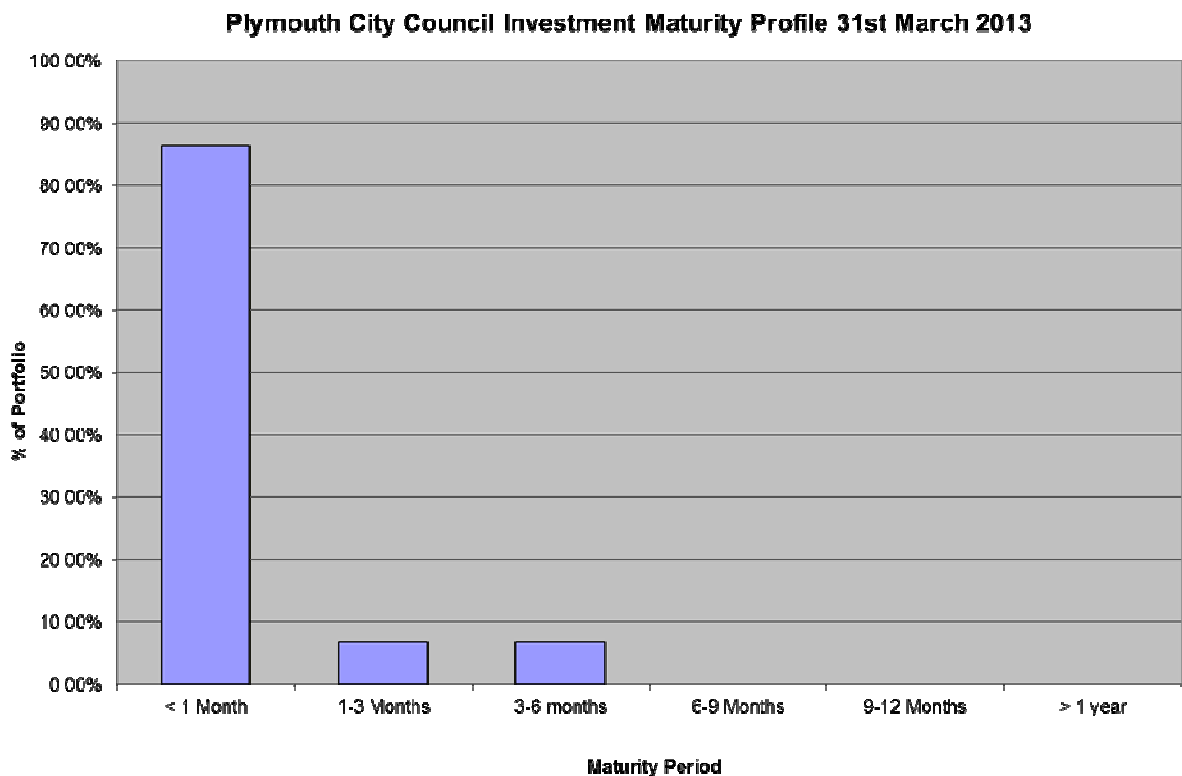
Based on the scoring methodology, the Council's counterparty credit quality has reduced over the course of the year. This is due to the credit rating downgrade of the counterparties used by the Council. All Council deposits in 12-13 have been made with UK banks considered to be systemically important to the UK financial system. Despite the downgrades the credit score has still been maintained below the 7 score set in the Council's Treasury Management Strategy for 2012/13. Council officers are currently in the process of taking alternative investments to reduce the credit score of the Council's investment portfolio.

6.9 Liquidity

6.9.1 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.

6.9.2 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



6.10 Yield- Investment performance for the year

6.10.1 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.

6.10.2 Investments are made short-term to cover cashflow and liquidity requirements and longer-term to maximise and guarantee future income. During 2012/13 the Council invested for a range of periods from overnight to 6 months, dependent on the Council’s cash flows, officers’ interest rate view, the interest rates on offer and the economic climate/credit risk. 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 0.8917% was achieved for new investments in the year against a budget of 0.8%.

Table 7

	Weighted Average Investment	Benchmark Rate %	Actual Return %
Internally Managed:	£99.035m	0.47	0.9456

The table shows that the internal performance exceeded the benchmark for the year, despite the restricted investment counterparty list and the tighter limitations placed on deposits in periods throughout the year.

6.11 Breach of Counterpart Limit with Santander UK Plc

6.11.1 Council officers work within approved counterpart limits. This is set at a maximum of £30m for approved UK banks and building societies, included on the council's lending list, meeting the credit criteria set out in 6.7.1. An error occurred on 14th November when a £0.6m recorded on the Council's cashflow and dealing reconciliations worksheets as being paid to our Barclays call account was paid to Santander. This led to a balance in our Santander call account of £0.6m more than recorded on the cashflow, dealing record and reconciliation sheets. Due to this error, when funds were paid into the Santander call account on certain dates in December and January, the total investment with Santander exceeded £30m. On 20th December the balance reached £30.6m and on 3rd January £30.1m. When discovered following the reconciliation of the Council's Santander account statement on 8th January, the Director of Corporate Services was informed and an immediate withdrawal made to bring the account balance back below £30m.

6.11.2 The Devon Audit Partnership were immediately informed of the breach. The Senior Accountant reviewed working practices and introduced additional controls, improving the check and authorisation process, to ensure all future payments are made to the correct call account and deposits were maintained within approved limits. Audit was requested to review these controls in its annual audit of Treasury Management. They viewed the controls in place to be of a high standard.

6.12 Benchmarking

6.12.1 As outlined above, Arlingclose have 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 graphs compare our investment performance with other unitary authorities. This is based on data provided to 31st March 2013. The results of the benchmarking are discussed at regular strategy meetings with our advisers. The benchmarking has to be taken in the

context of risk appetite and the legacy investments that the Council has in its portfolio.

The graphs used for comparison attached as appendix 2 to this report are:

1. Average rate of investments against average maturity period
2. Average rate of investments against value weighted average credit risk score
3. Average rate of investments against time weighted average credit risk score

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 further dividends totaling 9.36p in the £ in 2012/13, made up of principal of £0.281m and interest of £0.014m, bringing total dividends paid to 31st March 2013 to 77.28%. This left a balance left to recover of £0.716m.

7.3 Glitnir £6m

No further payments were received in 2012/13. With 79.03% recovered to date this leaves £1.335m left to recover.

7.4 Landsbanki £4m

The Council received further dividends totaling 18.06p in the £ in 2012/13, made up of principal of £0.722m and interest of £0.04m, bringing total dividends paid to 31st March 2013 to 47.19%.

7.5 Impairment of Icelandic bank deposits

In the 2009-10 accounts impairment was calculated based on an estimate of future collections. At this point the impairment of the deposits was calculated as £5,903,956.28. To cover this impairment a capital direction was applied for and agreed to the value of £5.7m. This allowed the Council to capitalise this expenditure and spread the charge to revenue over 20 years. The remaining balance of £203,956.28 was met by a transfer from the internal Icelandic Bank reserve. This reserve had been created to cover Icelandic legal costs and losses on recovery of the Icelandic deposits. Following the receipt of dividends in 2011-12 and the early part of 2012/13 the impairment had been recalculated and reduced by £1,284,162.58 in the 2011/12 accounts to bring the impairment in line with the unrecovered deposits. Additional receipts of £297,985.83 were received in 2012/13 and the impairment reduced accordingly. Any additional receipts prior to the publication of the 2012/13 Statement of Accounts will result in an amendment to these accounts and a further reduction in the impairment.

7.6 Further recoveries

The Council continues to pursue recovery of the outstanding monies through the Icelandic courts in partnership with the LGA. The cost of the continuing external legal advice has been met from the Council's internal reserve set up

for Icelandic bank issues. No costs were incurred in 2012/13 but a fee of £9,845.37 was paid in April 2013.

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 2012/13.
- 8.2 The net cost of capital financing to the General Fund in 2012/13 reduced by £0.526m from the 2012/13 budget due to a reduction in MRP of £0.09m, reduced treasury management costs of £1.128m and other cost increases of £0.692m. The MRP is a statutory charge to revenue based on the Council's capital expenditure financed from borrowing. The reduction in treasury management costs is due to the use of low rate short-term borrowing, as an alternative to the use of long-term borrowing or internal balances, to fund capital expenditure and a reduction in debt management costs.

Summary of Capital Financing Costs 2012/13

Table 8

	2012/13 Budget £000	2012/13 Outturn £000	Variance £000
External interest payments	9,660	9,198	(462)
External interest received	(503)	(1,074)	(571)
Interest transferred to other accounts	115	52	(63)
Premiums / Discounts written out to Revenue	(189)	(189)	0
Debt Management Expenses	143	111	(32)
Treasury Management Cost	9,226	8,098	(1,128)
Minimum Revenue Provision	7,897	7,807	(90)
Recharges for unsupported borrowing	(4,295)	(3,886)	409
Recovered from trading Accounts	(3,142)	(2,859)	283
Net Cost to General Fund	9,686	9,160	(526)

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 compliance of borrowing within the Authorised

Limit and Operational Boundary is confirmed in section 5.5 of this report. The Prudential Indicators for 2012/13 were approved by Council on 27th February 2012 and updated on 25th February 2013 as part of the approved Treasury Management strategy for 2013/14. The latest position on the indicators is set out in Appendix 3.

10. External Service Providers

- 10.1 Arlingclose is appointed as the Council's treasury management adviser. 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 £23,000 in 2012/13 for this service.
- 10.2 The Council is also clear that overall responsibility for treasury management remains with the Council.

11. Training

- 11.1 CIPFA's revised Code requires the Director for Corporate Services 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.
- 11.2 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.
- 11.3 The Council commissioned a treasury management awareness and training session from external consultants Griffiths Morley and this was delivered on 22nd January 2010. The Council subsequently provided an updated session for Members on 10th January 2011. Additional training was provided to Council Members by Arlingclose in October 2012. The provision of 1 days training is included in the contract with Arlingclose running to 31st December 2014. Member training will be provided on an annual basis.
- 11.4 The Council continues to keep its training requirement under review.

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
01/04/2012	0.50	0.55	0.55	0.61	1.00	1.33	1.84	1.24	1.30	1.59
30/04/2012	0.50	0.50	0.65	0.60	0.99	1.32	1.84	1.35	1.43	1.68
31/05/2012	0.50	0.48	0.65	0.57	0.97	1.30	1.82	1.20	1.20	1.34
30/06/2012	0.50	0.50	0.50	0.55	0.83	1.13	1.65	0.96	0.99	1.25
31/07/2012	0.50	0.50	0.65	0.45	0.63	0.92	1.43	0.76	0.77	1.02
31/08/2012	0.50	0.50	0.52	0.40	0.57	0.81	1.23	0.75	0.78	1.01
30/09/2012	0.50	0.25	0.52	0.40	0.47	0.66	0.95	0.70	0.76	1.00
31/10/2012	0.50	0.25	0.44	0.40	0.44	0.55	0.82	0.69	0.77	1.05
30/11/2012	0.50	0.25	0.30	0.40	0.44	0.54	0.80	0.73	0.80	1.05
31/12/2012	0.50	0.25	0.43	0.40	0.44	0.54	0.80	0.69	0.76	1.00
31/01/2013	0.50	0.42	0.43	0.40	0.44	0.54	0.80	0.73	0.86	1.17
29/02/2013	0.50	0.41	0.42	0.40	0.44	0.54	0.80	0.59	0.69	1.05
31/03/2013	0.50	0.40	0.40	0.40	0.44	0.51	0.75	0.59	0.68	0.97
Minimum	0.50	0.25	0.30	0.40	0.44	0.51	0.75	0.55	0.65	0.90
Average	0.50	0.39	0.49	0.45	0.62	0.82	1.19	0.84	0.90	1.17
Maximum	0.50	0.55	0.65	0.61	1.00	1.33	1.84	1.38	1.45	1.72
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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
02/04/2012	130/12	1.29	2.07	3.25	4.22	4.43	4.46	4.41
30/04/2012	166/12	1.31	2.09	3.15	4.13	4.38	4.42	4.39
31/05/2012	210/12	1.19	1.76	2.74	3.79	4.13	4.19	4.16
29/06/2012	248/12	1.2	1.84	2.83	3.79	4.11	4.19	4.16
31/07/2012	292/12	1.01	1.57	2.58	3.6	3.97	4.07	4.05
31/08/2012	336/12	1.07	1.62	2.61	3.62	4.05	4.14	4.11
28/09/2012	376/12	1.15	1.67	2.64	3.71	4.12	4.2	4.14
28/10/2012	422/12	1.19	1.82	2.82	3.81	4.17	4.25	4.19
30/11/2012	466/12	1.22	1.81	2.74	3.74	4.1	4.16	4.11
31/12/2012	504/12	1.22	1.89	2.83	3.82	4.18	4.25	4.21
31/01/2013	044/13	1.26	2.06	3.1	4.06	4.37	4.43	4.4
28/02/2013	084/13	1.16	1.91	3.04	4.04	4.36	4.43	4.4
28/03/2013	124/13	1.13	1.75	2.84	3.87	4.18	4.25	4.22
	Low	1.01	1.57	2.58	3.60	3.97	4.07	4.05
	Average	1.18	1.84	2.86	3.86	4.20	4.26	4.23
	High	1.31	2.09	3.25	4.22	4.43	4.46	4.41

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
02/04/2012	130/12	0.18	0.84	2.04	3.08	3.32	3.31	3.24
30/04/2012	166/12	0.20	0.87	1.95	3.00	3.27	3.27	3.22
31/05/2012	210/12	0.07	0.54	1.53	2.64	3.01	3.07	3.04
29/06/2012	248/12	0.07	0.62	1.63	2.64	2.99	3.07	3.04
31/07/2012	292/12	0.02	0.35	1.37	2.44	2.84	2.94	2.92
31/08/2012	336/12	0.02	0.40	1.41	2.47	2.92	3.02	2.99
28/09/2012	376/12	0.03	0.46	1.44	2.55	2.99	3.08	3.02
28/10/2012	422/12	0.07	0.59	1.62	2.66	3.05	3.13	3.07
30/11/2012	466/12	0.10	0.60	1.54	2.59	2.97	3.04	2.98
31/12/2012	504/12	0.10	0.66	1.63	2.67	3.05	3.13	3.09
31/01/2013	044/13	0.14	0.81	1.90	2.91	3.24	3.31	3.27
28/02/2013	084/13	0.04	0.66	1.83	2.89	3.23	3.31	3.27
28/03/2013	124/13	0.02	0.52	1.62	2.72	3.05	3.13	3.10
	Low	0.02	0.30	1.31	2.41	2.81	2.88	2.84
	Average	0.08	0.62	1.67	2.72	3.09	3.16	3.12
	High	0.22	0.92	2.10	3.11	3.42	3.50	3.47

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
02/04/2012	130/12	-	1.56	1.77	2.14	2.77	3.91	4.38
30/04/2012	166/12	-	1.60	1.81	2.15	2.72	3.81	4.31
31/05/2012	210/12	-	1.37	1.52	1.81	2.33	3.41	4.03
29/06/2012	248/12	-	1.41	1.59	1.89	2.42	3.45	4.01
31/07/2012	292/12	-	1.17	1.33	1.63	2.16	3.23	3.85
31/08/2012	336/12	-	1.22	1.38	1.67	2.20	3.25	3.90
28/09/2012	376/12	-	1.29	1.44	1.72	2.23	3.31	3.99
28/10/2012	422/12	-	1.39	1.56	1.88	2.42	3.46	4.05
30/11/2012	466/12	-	1.41	1.58	1.86	2.36	3.37	3.98
31/12/2012	504/12	-	1.45	1.64	1.94	2.45	3.46	4.06
31/01/2013	044/13	-	1.54	1.76	2.12	2.69	3.73	4.27
28/02/2013	084/13	-	1.39	1.60	1.97	2.59	3.70	4.25
28/03/2013	124/13	-	1.31	1.49	1.81	2.38	3.53	4.08
	Low	-	1.14	1.28	1.57	2.10	3.18	3.81
	Average	-	1.40	1.58	1.90	2.45	3.52	4.10
	High	-	1.64	1.85	2.21	2.85	3.94	4.45

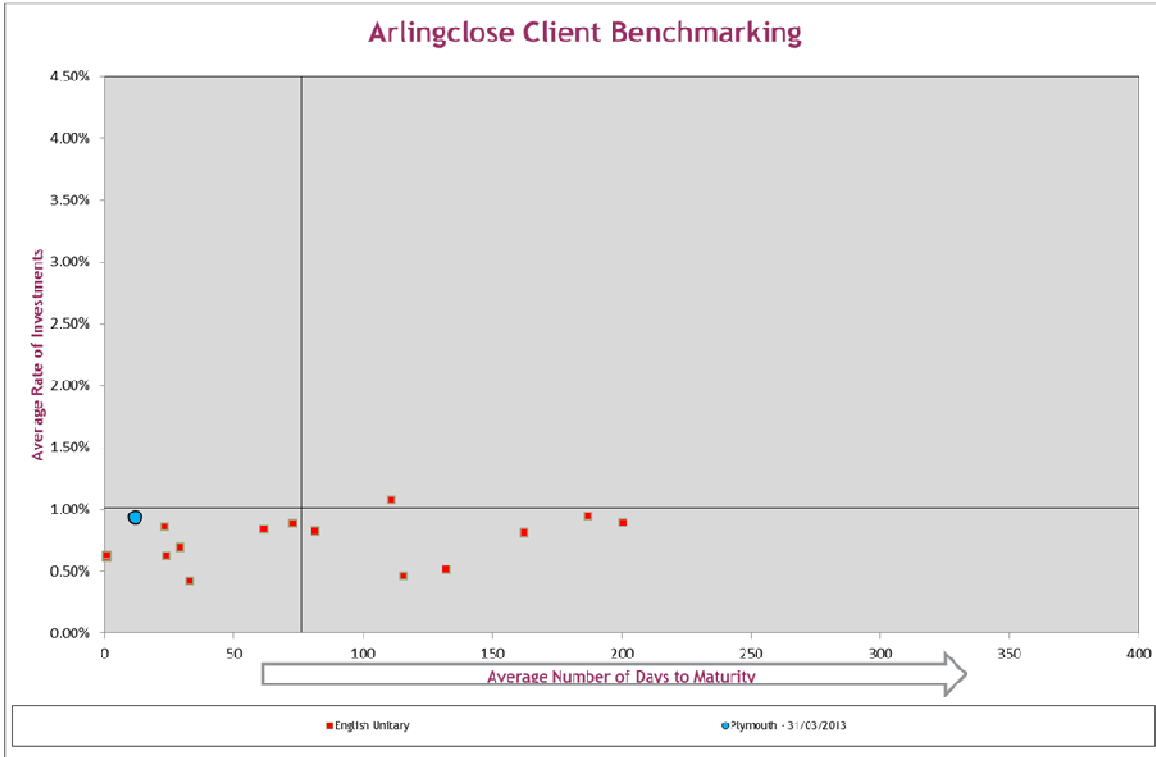
Table 5: PWLB Repayment Rates - Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	-	0.40	0.60	0.96	1.60	2.78	3.26
30/04/2012	166/12	-	0.44	0.64	0.98	1.56	2.67	3.20
31/05/2012	210/12	-	0.21	0.36	0.64	1.16	2.27	2.90
29/06/2012	248/12	-	0.25	0.42	0.72	1.25	2.31	2.88
31/07/2012	292/12	-	0.02	0.17	0.45	0.99	2.09	2.72
31/08/2012	336/12	-	0.07	0.21	0.50	1.03	2.10	2.77
28/09/2012	376/12	-	0.14	0.28	0.55	1.06	2.16	2.86
28/10/2012	422/12	-	0.23	0.39	0.70	1.24	2.32	2.93
30/11/2012	466/12	-	0.26	0.41	0.69	1.19	2.23	2.86
31/12/2012	504/12	-	0.29	0.47	0.77	1.28	2.32	2.93
31/01/2013	044/13	-	0.37	0.58	0.94	1.52	2.59	3.14
28/02/2013	084/13	-	0.22	0.42	0.79	1.41	2.56	3.12
28/03/2013	124/13	-	0.16	0.32	0.63	1.21	2.39	2.95
	Low		0.02	0.12	0.40	0.93	2.04	2.69
	Average		0.24	0.41	0.73	1.28	2.37	2.98
	High		0.48	0.69	1.04	1.68	2.81	3.32

Table 6: PWLB Variable Rates

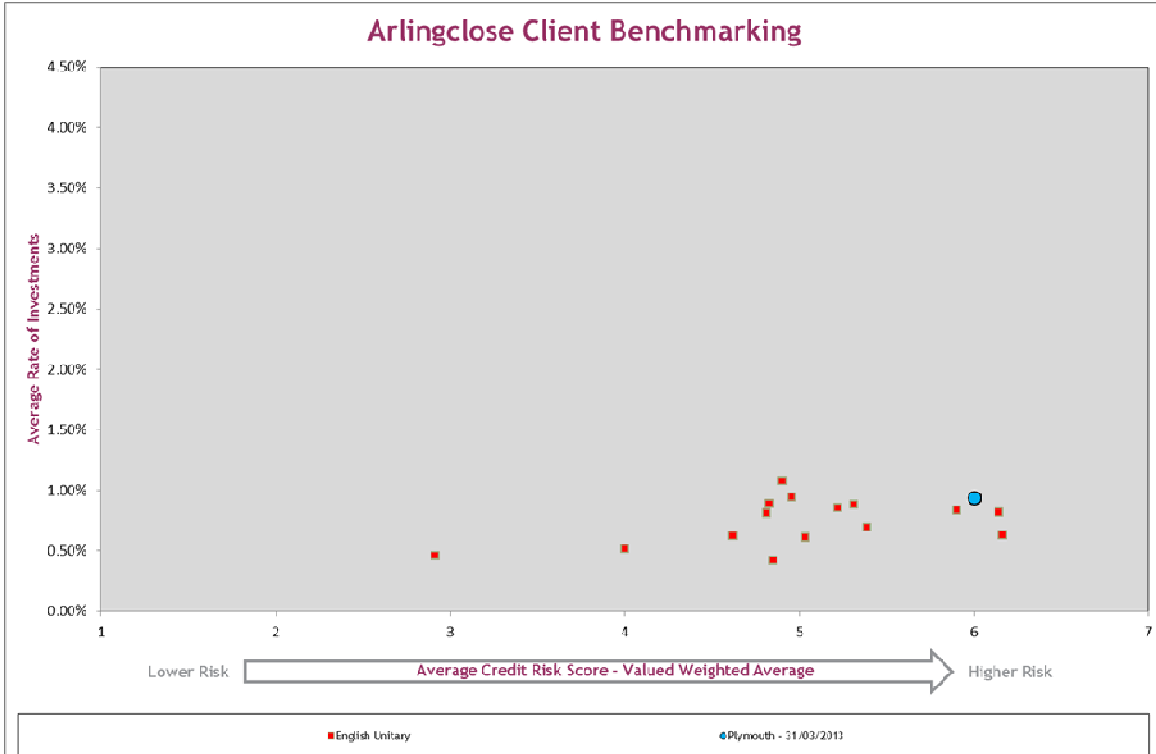
	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR			Post-CSR		
02/04/2012	0.5900	0.6000	0.6200	1.4900	1.5000	1.5200
29/06/2012	0.5800	0.5700	0.5600	1.4800	1.4700	1.4600
28/09/2012	0.5700	0.5600	0.5400	1.4700	1.4600	1.4400
31/12/2012	0.5600	0.5600	0.5600	1.4600	1.4600	1.4600
28/03/2013	0.5700	0.5600	0.5500	1.4700	1.4600	1.4500
Low	0.5400	0.5300	0.4800	1.4400	1.4300	1.3800
Average	0.5700	0.5600	0.5500	1.4700	1.4600	1.4500
High	0.6000	0.6000	0.6200	1.5000	1.5000	1.5200

Graph I Average Number of days to Maturity V Return



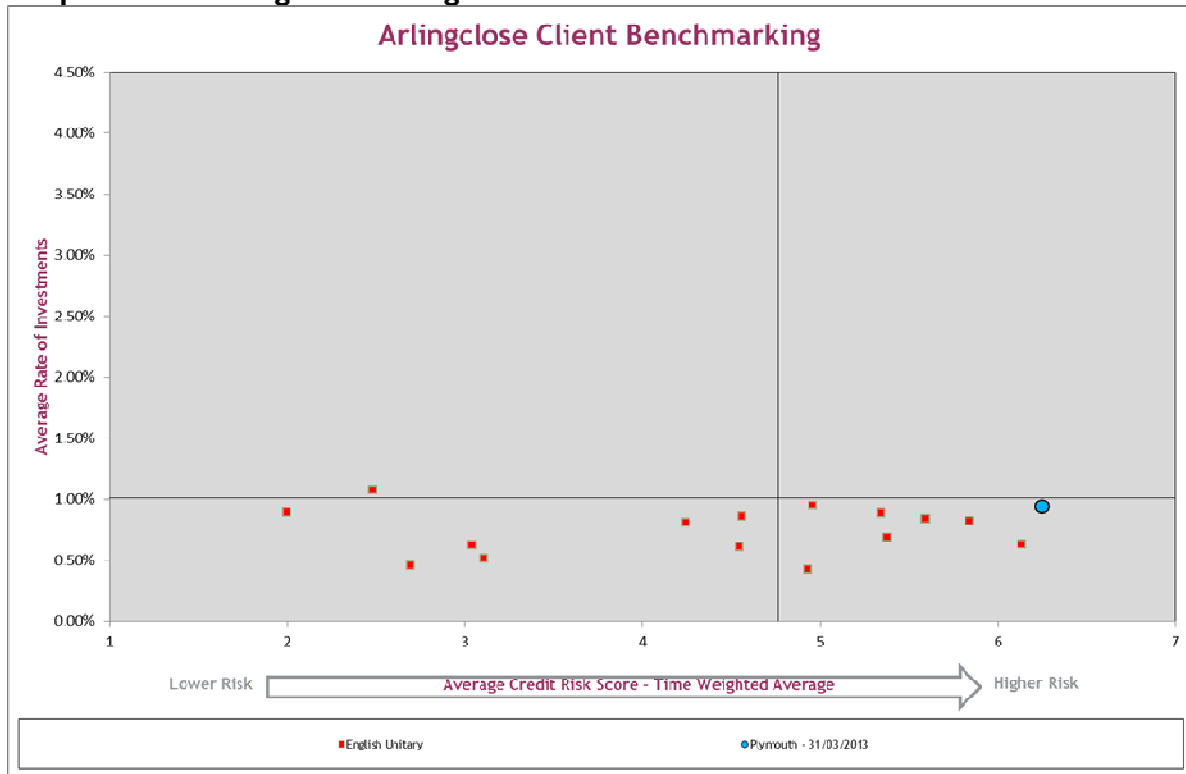
This graph shows the duration of investments against return. It shows the Council's investments have performed well against other unitary authorities. Despite reducing maturity periods of deposits the Council's return on investments as held up as a result higher rates negotiated by the treasury management officer on the Council's call accounts.

Graph 2 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. 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 is converting duration into a higher return than many of their peer group. However with the maturity of some of the higher rate deposit previously held in the Council’s portfolio and the credit rating downgrades for the banks currently used for the Council’s deposits the Council’s score has increased over time. Council officers will look at alternative investment to reduce the credit risk of the Council’s investments.

Graph 3 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 within the Council’s investment portfolio which has been affected by a number of rating downgrades on banks currently used increasing the credit risk score. As previously stated Council officers are investigating alternative investments that will reduce the credit risks.

Prudential Indicator Compliance**(a) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2012/13 %	Maximum during 2012/13 %
Upper Limit for Fixed Rate Exposure	200	122.35
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	27.92
Compliance with Limits:	Yes	Yes

(b) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing in 2012/13		Compliance with Set Limits?
			High %	Low %	
Under 12 months	50	0	49.68	23.03	Yes
12 months and within 24 months	60	0	31.87	7.84	Yes
24 months and within 5 years	40	0	23.51	7.84	Yes
5 years and within 10 years	25	0	1.94	1.94	Yes
10 years and within 20 years	30	0	2.86	2.50	Yes
20 years and within 30 years	30	0	5.73	5.37	Yes
30 years and within 40 years	25	0	4.67	2.33	Yes
40 years and within 50 years	30	0	19.52	17.18	Yes
50 years and above	25	0	0	0	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date)

(c) Actual External Debt

- This indicator is obtained directly from the Authority's balance sheet. It is the closing balance for actual gross borrowing (short and long-term) plus other deferred liabilities.
- The indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2013	£m
Borrowing	226.202
Other Long-term Liabilities	41.591
Total	267.793

(d) 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.

Capital Expenditure	2012/13 Approved £m	2012/13 Revised £m	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m
Total	52.121	53.691	46.504	71.096	34.886

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2012/13 Approved £m	2012/13 Revised Estimate £m	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital receipts	9.955	6.775	3.977	4.514	7.279
Government Grants/Contributions	33.578	36.655	33.145	50.046	14.599
Section 106/Tariff/RIF	0.956	0.801	0.706	0.886	0.750
Revenue Contribution/Funds	1.390	3.188	0.973	3.903	1.049
Total Financing	45.879	47.419	38.801	59.349	23.677
Supported borrowing	0.047	0.107	0.107	0	0
Unsupported borrowing	6.195	6.165	7.596	11.747	11.209
Total Funding	6.242	6.272	7.703	11.747	11.209
Total Financing and Funding	52.121	53.691	46.504	71.096	34.886

The table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than external borrowing.

(e) Ratio of Financing Costs to 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 financing costs.
- The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Estimate %	2012/13 Revised %	2012/13 Actual %	2013/14 Estimate %	2014/15 Estimate %
Total	8.56	7.91	7.64	8.22	9.15

(f) Incremental Impact of Capital Investment Decisions

- This is an indicator of affordability that shows the impact of capital investment decisions on Council levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2012/13 Estimate £	2012/13 Revised £	2012/13 Actual £	2013/14 Estimate £	2014/15 Estimate £
Increase in Band D Council Tax	0.92	0.71	0.55	1.17	10.22

(g) Upper Limit for Total Principal 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 Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2012/13 Revised £m	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m
	20	20	5	30	30

The Council's investment policy for 2012/13 was to keep deposit maturities to a maximum of 12 months. No deposits were made beyond 364 days. As stated in 6.5 of this a £5m has been invested in a Property Fund, seen as a long-term investment, in order to diversify the investment portfolio and achieve additional returns.



The Audit Plan for Plymouth City Council

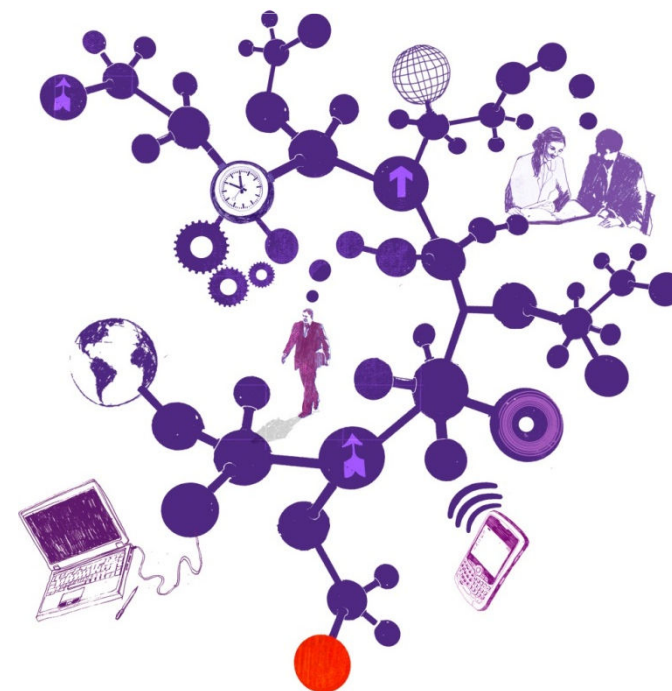
Year ended 31 March 2013

29 May 2013

Barrie Morris
Director
T 0117 305 7708
E Barrie.Morris@uk.gt.com

Geraldine Daly
Senior Manager
T 0117 305 7741
E Geri.N.Daly@uk.gt.co

Emma Dowler
Executive
T 0117 305 7619
E Emma.Dowler@uk.gt.com



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

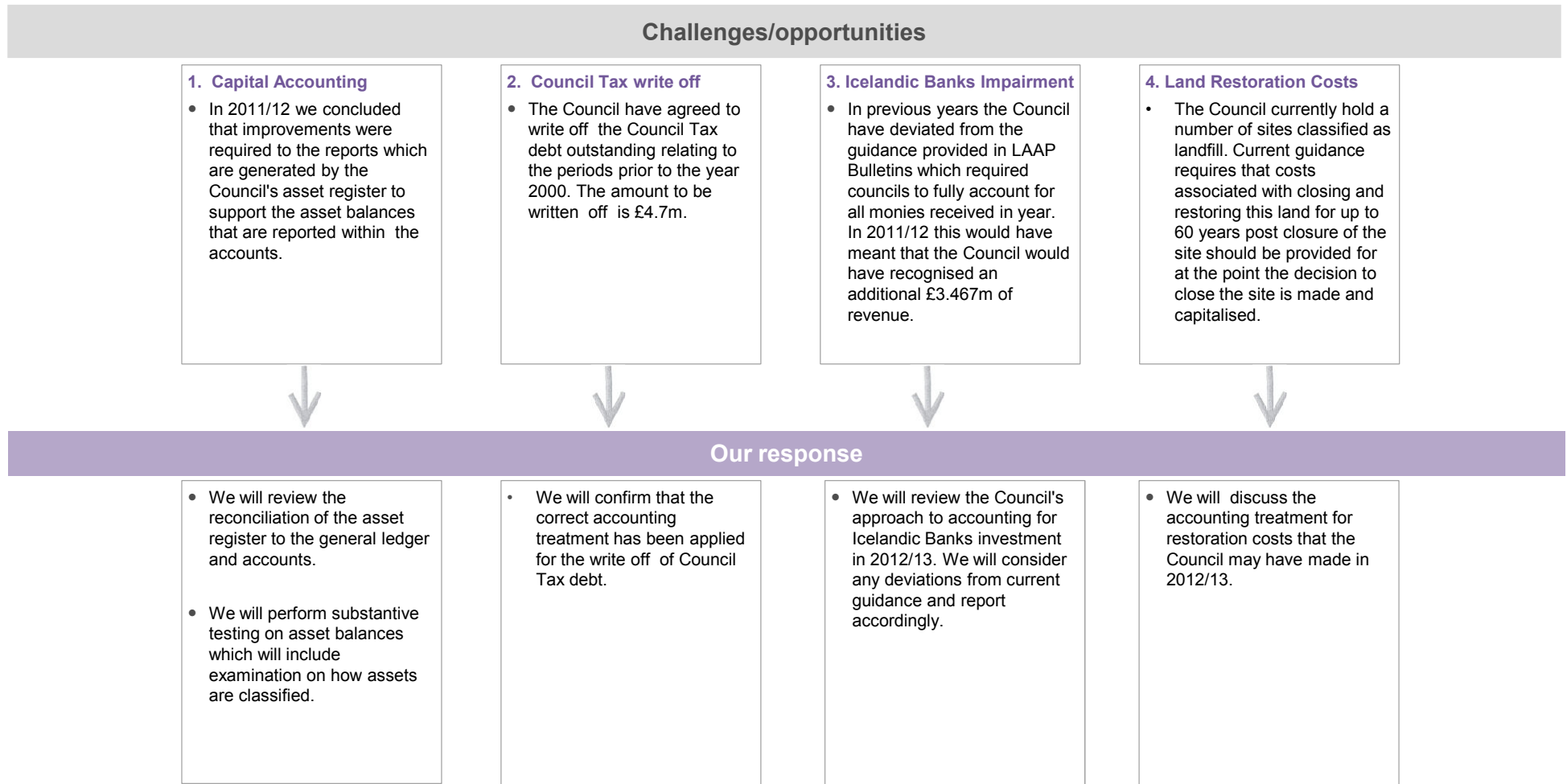
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- 22. Action plan

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our current understanding below. We will continue to review the issues facing the Council throughout our audit and update our audit strategy accordingly.



Understanding your business

Challenges/opportunities

5. Waste Agreement

- The Council have entered into an arrangement with Torbay and Devon Councils to oversee and administer the build and operation of the Energy from Waste initiative in Plymouth.

6. Tamar Bridge Governance

- In 2011/12 we recommended that both Plymouth and Cornwall Councils consider the need for a memorandum of understanding to enhance the governance arrangements for the TB&TPF joint venture.

7. Mount Edgcumbe

- Both Plymouth and Cornwall Councils will need to account for the Mount Edgcumbe balances within both sets of accounts as single entity reporting.



Our response

- We will consider the overall governance and accounting arrangements in place. We will review the accounting treatment of the financial transactions and discuss with the Council how these should be recorded within each of the participating Council's accounts in accordance with accounting standards.

- We have liaised closely with the two councils who have both agreed that a memorandum of understanding is required. Both Councils are in the process of drafting this.

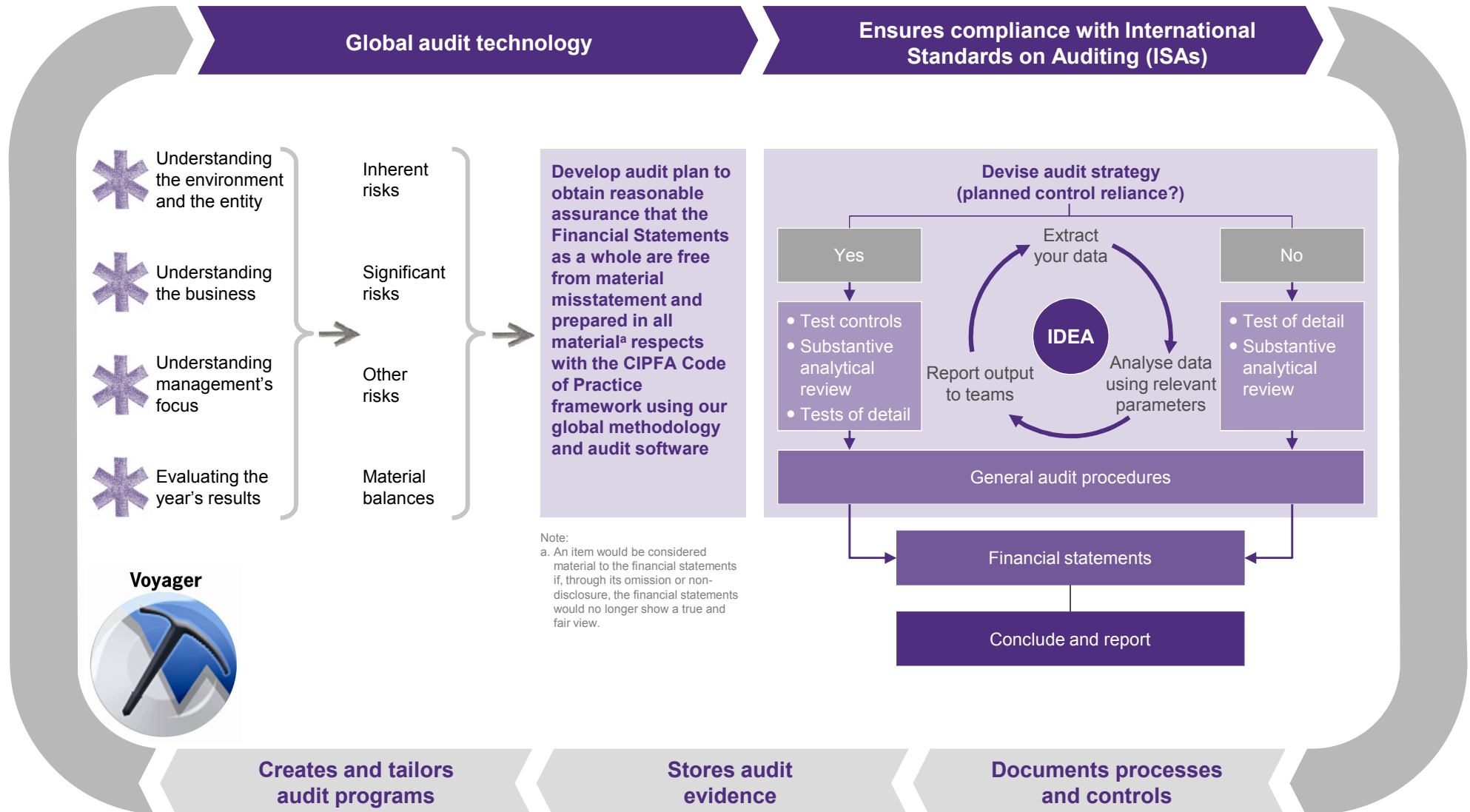
- We will review the accounting treatment for including the Mount Edgcumbe balances within Plymouth City's accounts.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance . We link these to our current knowledge of the Council. These developments will be reviewed throughout our audit.

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice. • Transfer of school assets to Academies. • Recognition of grant conditions and income. 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13. • Welfare reform Act 2012. 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS). • Explanatory foreword. • Head of Internal Audit Opinion. 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS). 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • The Council has a net revenue budget of £203.76m. Budget monitoring information in September 2012 forecast a deficit of £3.5m. The Council have implemented a series of measures to address this. Current predictions indicate a deficit of £1.5m at year end. 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion. • The Council completes grant claims and returns on which audit certification is required.
↓ ↓ ↓ ↓ ↓ ↓					
Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> • The Council complies with the requirements of the CIPFA Code of Practice through our substantive testing. • Schools are accounted for correctly and in line with the current guidance. • Grant income is recognised in line with the correct accounting standard. 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate. 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS. • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge. • We will review the contents of the Head of Internal Audit Opinion and consider the conclusions made in light of our knowledge of the Council's systems. 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management. 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan. • We will undertake a review of Financial Resilience as part of our VFM conclusion- please see the VFM section of this plan. 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements. • We will certify grant claims and returns in accordance with Audit Commission requirements.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		×
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	No	Council Tax	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
PFI revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Understanding of the system. • Walkthrough testing of the system. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies. • Performance of attribute testing on material revenue streams.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Understanding of the methodology for accounting estimates, judgments and decisions made by management. • Testing of journal entries. • Review of unusual significant transactions, through issue of ISA 240 request letters. <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of significant accounting estimates, judgments and decisions made by management. • Further testing of year end journals. • Testing of unusual significant transactions.

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough and controls testing. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough and controls testing. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough and controls testing. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough testing and further testing where appropriate. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.
Housing Rent Revenue Account	Revenue transactions not recorded.	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough testing and further testing where appropriate. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough testing and further testing where appropriate. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Interim review has been undertaken and has incorporated walkthrough testing and further testing where appropriate. 	<ul style="list-style-type: none"> Substantive testing as part of the final accounts audit.

Results of interim audit work

Scope

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

- reviewed the overall effectiveness of the Internal Audit function.
- reviewed Internal Audit's work on the Council's key financial systems – Operating Expenses and Employee Remuneration
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement – Property Plant and Equipment, Operating Expenses, Employee Remuneration and Welfare Expenses.
- controls testing in respect of Operating Expenses and Employee Remuneration.
- a review of information technology (IT) controls.
- a review of in year Journals (month 1 – 10) was undertaken.

	Work performed	Conclusion
Internal audit	<p>In preparation for our final accounts work, we reviewed Internal Audit's work on the financial systems. We received ten reports by 13 April 2013, of which four were still in draft format. Internal Audit had agreed the issues on site and were awaiting formal responses from the client. This is an improvement over 2011-12 where there was a delay in the completion of some work and the issue of draft reports, with the latest being received in July 2012.</p> <p>Internal Audit has reviewed and issued final reports prior to the 13th April 2013 as follows:</p> <ul style="list-style-type: none"> • Revenues and Benefits • Payroll • Main Accounting • Risk Management • ICT Services • Care First. <p>The Following reviews have been reported to the council in draft and are awaiting client response:</p> <ul style="list-style-type: none"> • Loans and Investments • Capital Accounts • Creditor • Debtors. 	<p>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 Internal Audit's work in contributing to an effective internal control environment.</p> <p>Whilst the audit plan did identify the quarters in which the work was planned to be undertaken the audits were not clearly aligned to the risks that had been identified. We recommend that transparency be improved over the risk assessment supporting the programme of work for the annual audit plan.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
<p>Internal audit (continued)</p>	<p>In assessing the effectiveness of Internal Audit work, we reviewed a sample of Internal Audit files against the CIPFA Public Sector Internal Audit Standards sections 5, 7 and 9 to ensure that:</p> <ul style="list-style-type: none"> • work was adequately documented and reviewed • key controls had been identified and evaluated • key controls had been tested • results of testing supported the conclusions made, and • weaknesses had been reported to management. <p>The results provided assurance over the reviews that have been undertaken by Internal Audit. As part of our audit strategy we have undertaken controls testing and have placed reliance on Internal Audit's work.</p> <p>The Internal Audit Progress reports to the Audit Committee were reviewed for Quarters 1, 2 and 3. These reports provide an update on the work that has been completed against the plan for the year. These updates are important to those charged with governance on the status of the work undertaken.</p> <p>As part of the financial resilience work in 2011-12 the Internal Audit Plan for 2012-13 was reviewed and rated amber. This was reported to the Audit Committee in December 2012. In particular, we identified that the Internal Audit Plan could have been improved by:</p> <ul style="list-style-type: none"> • Outlining when the work was planned to be performed; and • Being more explicit on the risk that would be examined. This would provide the Council with more specific assurance over its management arrangements. 	

Results of interim audit work (continued)

	Work performed	Conclusion
Internal audit (continued)	The Internal Audit Plan for (2013-14) has been reviewed to identify whether these improvements have been addressed. We found that whilst the audit plan did identify the quarters in which the work was planned to be undertaken the audits were not clearly aligned to the risks that had been identified. Consequently, whilst some of the improvements have been implemented, improved transparency over the risk assessment supporting the programme of work has yet to be developed to provide the Audit Committee with detailed information that would assist with the overall risk management arrangements of the Council.	
Walkthrough testing	Walkthrough tests were completed in relation to those areas where we consider there to be a risk of material misstatement within the financial statements. These areas are: <ul style="list-style-type: none"> • Property Plant and Equipment (PPE); • Operating Expenses; • Employee Remuneration; and • Welfare Expenditure. 	No significant issues were noted as part of the walkthrough testing undertaken. We also tested the controls in operation within 2 of these systems – Operating expenses and Employee Remuneration. See details below. For the remaining two areas we will undertake substantive testing at year end as part of the final accounts visit.
Review of Controls for Operating Expenses	We undertook detailed testing of the key controls for Operating Expenses.	We concluded, from the work undertaken to date, that key controls are operating effectively. No significant issues were noted. The key controls were observed to be operating in accordance with our expectations.
Review of Controls for Employee Remuneration	We undertook detailed testing of the Key controls for Employee Remuneration..	We concluded, from the work undertaken to date, that key controls are operating effectively. No significant issues were noted. The key controls were observed to be operating in accordance with expectations.
Review of information technology (IT) Controls	A high level review has been undertaken in respect of the general IT control environment, as part of the overall review of the internal controls system. The results of this work are not available at the time of this report and will be reported to those charged with governance at a later time.	No conclusions have been drawn at the time of this report and therefore any issues identified will be reported in our ISA 260 report.

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We reviewed the Council's journal entry policies and procedures as part of determining our journal testing strategy.</p> <p>We identified a weakness which could adversely impact on the Council's control environment or financial statements, relating to the fact that the Council does not have a process in place to authorise journals prior to posting.</p> <p>We also noted that:</p> <ul style="list-style-type: none"> two Senior members of the Council's finance team have the ability to post journals; and access levels in the General Ledger are reviewed annually by the Council's ICT department who would not have the relevant knowledge to assess whether that level of that access is appropriate. <p>Whilst our testing confirmed that no journals had been posted by the senior officers, this still represents a control weakness.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first 10 months of the financial year. The journals we tested were extracted using Computer Assisted Audit Techniques (CAATS). The results of our testing did not identify any issues of concern. Additional work will be undertaken during final accounts on the remaining two months of journal transactions and year end processing.</p> <p>As a result of the weaknesses identified above, additional examination was made on all large journals that were posted by members of the corporate finance team. The results of the examination did not identify any issues of concern.</p>	<p>A weakness has been identified as there is no authorisation process for journals prior to posting. In addition weaknesses over access controls mean that the control environment for journal processing is not as strong as it should be.</p> <p>Recommendations in respect of these issues are shown in the Action Plan appended to this report.</p> <p>Further testing of journals will be undertaken as part of the final accounts audit. This will include examination of the remaining two months of the financial year and year end journal processing.</p> <p>Additional work will be undertaken on other individuals that are able to post journals during the year end procedures, this will include both in year and year end journals that have been processed.</p>

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VFM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources within its tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Perform a detailed review of Financial Resilience including an overview of the Adult Social Care budget,
- Perform an overview of the ICT new contract arrangements,
- Perform an overview of the Enterprise initiative entered into jointly with the Local Enterprise Partnership, and
- Follow up recommendations made in our 2011/12 VFM reports.

Logistics and our team



Date	Activity
Dec- Feb 2013	Planning meetings with Senior officers
March – April 2013	Interim site work
June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
September 2013	Audit findings clearance meeting
September 2013	Audit Committee meeting to report our findings
25 September 2013	Sign financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter

Our team

<p>Barrie Morris Director & Engagement Lead T 0117 305 7708 E Barrie.Morris@uk.gt.com</p>	<p>Geraldine Daly Senior Manager T 0117 305 7741 E Geri.N.Daly@uk.gt.com</p>	<p>David Bray Audit Manager T 0117 305 7889 E David.Bray@uk.gt.com</p>
<p>Emma Dowler Executive T 0117 305 7619 E Emma.Dowler@uk.gt.com</p>	<p>Ginette Beal VFM Manager T 0117 305 7623 E ginette.beal@uk.gt.com</p>	

Fees and independence

Fees

	2012/13	2011/12
Council audit	£181,428	£302,380
Grant certification	Indicative £23,900	£53,319
Total	£205,328	£355,699

Fees for other services

Service	2012/13	2011/12
Plymouth City Airport Due Diligence review and presentation of findings.	£1,500	£16,900

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Internal Audit plans and progress reports should clearly identify the risks that have been assessed.	Medium	The audit plan is put together based on discussions with senior managers and a detailed audit risk prioritisation process which considers a range of factors to determine a relative audit priority. Devon Audit Partnership will liaise with Grant Thornton to consider how the presentation of plans and progress reports can be improved further.	Target date – September 2013 Responsible Officers - Head of DAP / Audit Managers
2	Appropriate arrangements to review and authorise journals within set parameters prior to posting to the General Ledger, should be introduced.	High	There is a Journal Working Practice which sets out the expectations regarding the processing of journals, including the evidence required to substantiate the transaction and the relevant approval required for the various journal types. However, the authorisation process does not extend to approval on the General Ledger system prior to posting. Full review of current working practices for virements and journals is currently on-going, including the option of implementing web-based approval of journals on the system. Revised working practices to be issued when complete.	Target Date – August 2013 Responsible Officer – John Bougeard, Group Accountant

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	A review of access rights should be undertaken by appropriate members of the Corporate Finance team in order to ensure that these are legitimate.	Medium	Agreed. The working practices for this area have been reviewed and will be strengthened following this recommendation. The practice will now be to review all General Ledger Users who have more than 'read only' access on a quarterly basis. Each Senior Accountant will be asked to agree this level of access for users within their management account area. An annual review will be undertaken for all users.	Target Date – June 2013 Responsible Officer – Adrian Sluman, Senior Accountant Reviewing Officer – John Bougeard, Group Accountant
4	Senior finance staff should be provided with 'read only' access and should not have the ability to post journals.	Medium	Agreed. The permissions of the two Strategic Finance Managers, Chris Randall and Simon Arthurs, have been amended so that they now have 'read only' access to the General Ledger. This now reflects the same access level as the Head of Finance, David Northey,	Completed 28/05/2013 Requested by Chris Randall Actioned by Steve Brazier



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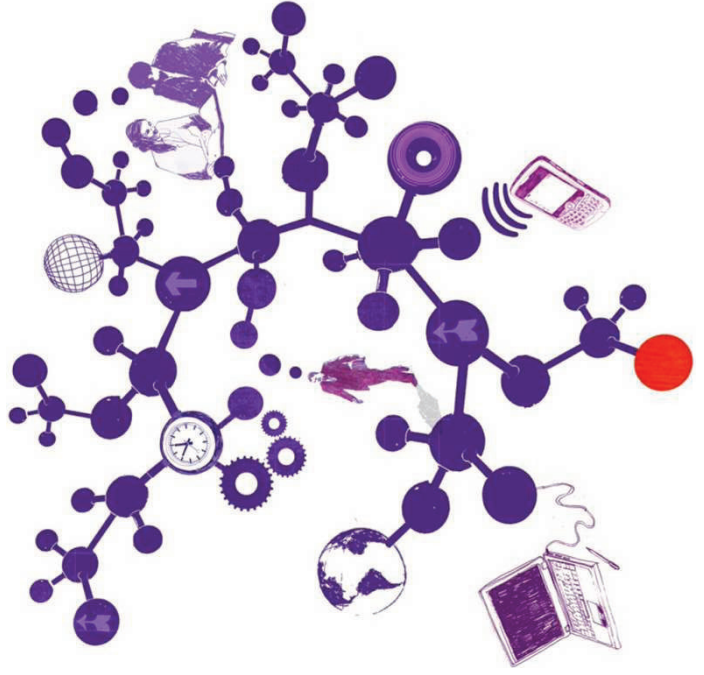
Audit Committee Update for Plymouth City Council

Year ended 31 March 2013
13 June 2013

Engagement lead : Barrie Morris
T +44 (0)1173057708
E barrie.morris@uk.gt.com

Geraldine Daly Senior Manager
T +44 (0)1173057784
E geri.n.daly@uk.gt.com

Emma Dowler - Executive
T +44 (0)1173057619
E emma.dowler@uk.gt.com



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

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Introduction

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

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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

Barrie Morris - Engagement Lead 0117 305 7708 M 07771 976694 barrie.morris@uk.gt.com
Geraldine Daly - Senior Manager 0117 305 7820 M 07500 783992 geri.n.daly@uk.gt.com

Progress at 3 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	To officers – March 2013 – presented at Audit Committee on 13 June 2013.	Yes	To be presented at the Audit Committee and attached as a separate item on the agenda.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • testing of controls • early work on emerging accounting issues • early substantive testing, and • proposed Value for Money conclusion work. 	February – April 2013.	Yes	Results of the interim work are included in the Audit Plan to be presented as a separate item on the agenda.
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the accounts • proposed Value for Money conclusion. 	July – September 2013.	To commence in July 2013.	Work to commence in July 2013.

Progress at 3 June 2013 (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • a detailed review of financial resilience • an overview of management arrangements for Adult Social Care and • a follow up of recommendations made last year. 	<p>March – July 2013.</p>	<p>In progress.</p>	<p>Our initial risk assessment has been completed. This risk assessment will be continually reviewed throughout the course of the audit. All of our work will be used to inform the value for money conclusion for 2012/13.</p>
<p>Other areas of work</p> <p>Grant Certification Work 2012/13.</p>	<p>June – November 2013.</p>	<p>To commence in June 2013.</p>	<p>We will audit those grants that require audit certification in accordance with Audit Commission guidance and department deadlines.</p>

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 96](#). The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- the revised disclosure format for dedicated schools grant
- accounting for carbon reduction commitment (CRC) energy efficiency scheme assets
- accounting for the transfer of public health reform in 2013/14.

The Council should consider:

- Has your Head of Finance reviewed the guidance and assessed the potential impact for your financial statements?

Accounting for Schools in Local Authorities

CIPFA/LASAAC has issued a [technical alert](#) on accounting for schools. There are no changes planned for the 2013/14 Code. The alert refers to the issues that were consulted on for the 2013/14 Code and draws attention to the need for CIPFA/LASAAC to consider the impact of IFRS 10: 'Consolidated Financial Statements' on school accounting which is due to be adopted in the 2014/15 Code.

The technical alert recommends 'local authorities set out clearly in their 2012/13 and 2013/14 financial statements, in the summary of significant accounting policies, their approach to accounting for maintained schools' income, expenditure, assets, liabilities and reserves. These accounting policies need to be consistently applied throughout the complete set of financial statements'.

The Council should consider:

- Do your accounting policies set out clearly your approach to accounting for maintained schools?
- Do your financial statements apply these accounting policies consistently?

Emerging issues and developments (continued)

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

The Council should consider:

- Is your Head of Finance aware of the changes to the 2013/14 Code and has the potential impact been assessed?

Emerging issues and developments (continued)

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

The Council should consider:

- How can you drive more organisational value from internal audit?

Emerging issues and developments (continued)

Grant Thornton

Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- A major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- A large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

The Council should consider:

- Are you happy that your Head of ICT has procedures in place to monitor and manage risks of outsourced IT services?

If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments (continued)

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its [2010/11 WGA report](#) - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for [English Local Government 2010/11](#) - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

The Council should consider: :

- Has your Head of Finance considered these reports and any lessons for the authority?
- Has your Head of Finance produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published '[Fact Sheet: Governance Statements: good practice observations from our audits](#)' providing insight and commentary on the first year of Governance Statement reporting observations on good practice "challenge questions" for those whose role it is to oversee and scrutinise an organisation's Governance Statement.

The Council should consider:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments (continued)

Local government guidance

Public Health Local Authorities: Other changes to secondary legislation in force from 1 April

The Department of Health has published [guidance on changes to secondary legislation](#) from the changes to public health functions affecting local authorities. Some of the changes are:

- local authorities, as commissioners of health services, will now be able to make direct payments under pilot schemes for personal health budgets (National Health Service (Direct Payments) Regulations 2010)
- local authorities must charge overseas visitors for relevant services where no exemption from charge applies (National Health Service (Charges to Overseas Visitors) Regulations 2011)
- Clinical Commissioning Group and the NHS Commissioning Board are to be notified of the death of a child in a children's home (Children's Homes Regulations 2001)
- Clinical Commissioning Group and NHS Commissioning Board are to notified of the death of a child accommodated in a residential family centre (Residential Family Centres Regulations 2002)
- local authorities exercising public health functions are under the same obligation as health service bodies to notify the Care Quality Commission of the death of a service user (the Care Quality Commission (Registration) Regulations 2009)
- the death of a child placed in foster care should be reported now to the Clinical Commissioning Group and NHS Commissioning Board (Fostering Services (England) Regulations 2011)
- a local authority body is to instruct an independent mental capacity advocate in certain circumstances where it proposes to provide, or to secure the provision of, serious medical treatment to a person who lacks capacity to consent to the treatment (Mental Capacity Act 2005 (Independent Mental Capacity Advocates) (General) Regulations)
- regulations specify the sets of depersonalised information that relevant authorities (which include local authorities) have a duty to disclose to each other if held by them (Crime and Disorder (Prescribed Information) Regulations)

The Council should consider:

- Are your officers aware of the secondary legislation changes and have they assessed the impact on the authority?
- What further action does your authority need to take to implement the regulations?

Emerging issues and developments (continued)

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published '[Openness and transparency on personal interests - A guide for councillors](#)'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

The Council should consider:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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Audit Committee Work Plan 2013/14

Item	Cabinet Member / Lead Officer	2013							2014					
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Internal Audit Annual Report (including six month Internal Audit Progress Report - Dec)	Cllrs Lowry and Peter Smith / DfCS	13						12						√
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Operational Risk Management - Update Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	13						12						√
Risk Management Annual Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	13												√
Annual Governance Statement	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	13												√
Annual Report on Treasury Management Activities for 2012/13	Andrew Liddicott	13												

Audit Committee Work Plan 2013/14

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Audit Committee Work Plan 2013/14

		2013							2014					
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