Phil Norrey
Chief Executive

To: The Chairman and Members of the Audit Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

(See below)

Your ref :
Our ref :

Date : 22 June 2017
Please ask for : Wendy Simpson, 01392 384383

Email: wendy.simpson@devon.gov.uk

AUDIT COMMITTEE

Friday, 30th June, 2017

A meeting of the Audit Committee is to be held on the above date at 2.15 pm in the Committee Suite - County Hall to consider the following matters.

P NORREY
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes

Minutes of the meeting held on 28 March 2017 (previously circulated).

3 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as a matter of urgency.

4 Annual Governance Statement 2016/17 (Pages 1 - 26)

Report of the Leadership Group (CS/17/17), attached.

5 Annual Internal Audit Report 2016-17 (Pages 27 - 58)

Report of the County Treasurer (CT/17/63), attached.

6 External Audit Update (Pages 59 - 74)

Report of Grant Thornton (CT/167/64), attached.

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

Nil

Members are reminded that Part II Reports contain confidential information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s).
Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Democratic Services Officer at the conclusion of the meeting for disposal.

Membership

Councillors J Mathews (Chairman), I Hall, J Berry, J Brazil, E Brennan, R Peart and A Saywell

Declaration of Interests

Members are reminded that they must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

Access to Information

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Wendy Simpson on 01392 384383.
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The nearest mainline railway stations are Exeter Central (5 minutes from the High Street) and St David's and St Thomas's both of which have regular bus services to the High Street. Bus Service H (which runs from St David's Station to the High Street) continues and stops in Wonford Road (at the top of Matford Lane shown on the map) a 2/3 minute walk from County Hall, en route to the RD&E Hospital (approximately a 10 minutes walk from County Hall, through Gras Lawn on Barrack Road).

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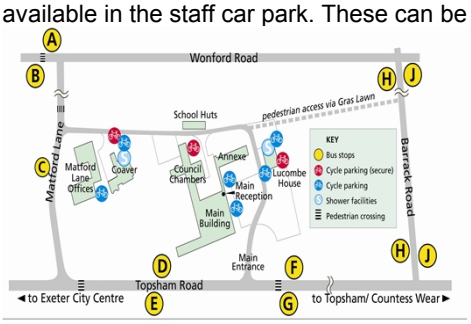

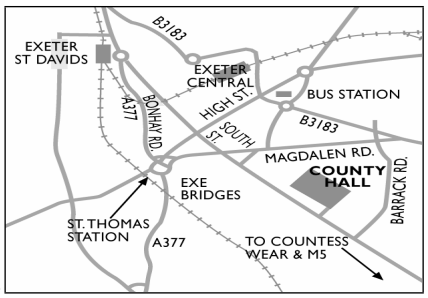

NB A J **Denotes bus stops**

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First Aid

Contact Main Reception (extension 2504) for a trained first aider.

CS/17/17
Audit Committee
30 June 2017

GOOD GOVERNANCE IN LOCAL GOVERNMENT

Report of the Leadership Group

Recommendation*:* that the draft Governance Statement be approved;

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The Council is required, annually, to prepare and publish a Governance Statement in accordance with CIPFA/SOLACE guidance and comply the Accounts and Audit (England) Regulations 2015, as amended, reviewing its system of internal controls in line with best practice. The Council is required to publish the statement alongside the Annual Statement of Accounts.

This will be the tenth year for which the Council is required to produce a Governance Statement. Revised guidance issued during 2016 (based on the International Framework: *Good Governance in the Public Sector (CIPFA/IFAC, 2014))* interpreted for a local government context incorporates revised core principles and sub-principles of good governance which form the basis of the accompanying, detailed schedule adapted from the International Framework.

It is a matter ultimately for individual Councils how to set out its commitment to the principles of good governance included in its Governance Framework and structures and to demonstrate how it operates effectively in practice. In line with advice from the External Auditor the Annual Governance Statement should be considered and signed-off by this Committee in parallel with the Council's Statement of Accounts.

As before and in recommending the adoption of the attached Annual Governance Statement the Leadership Group, Chief Officers and Heads of Service confirm that the organisational, financial, compliance and operational key controls referred to therein and the accompanying schedule continue to be appropriate and that statements of internal control which support the content of this Statement have operated, effectively, during the year in question.

This Report and the accompanying Statement have no specific equality, sustainability, public health or legal implications that are not already covered by or subsumed within the detailed policies or actions referred to therein.

[**Electoral Divisions**: All]

Local Government Act 1972: List of Background Papers

Contact for Enquiries: D Looker
Tel No: 01392 382232 Room: G31

Background Paper	**Date**	**File Reference**
Nil		
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DEVON COUNTY COUNCIL Annual Governance Statement 2016/17

Purpose of Annual Governance Statement

To achieve good governance, a Council must not only take account of the legislative and constitutional arrangements that underpin them but should use all means at its disposal to explain to the community, service users, tax payers and other stakeholders how its governance arrangements work and how the controls it has in place manage risks of failure in delivering its outcomes.

An Annual Governance Statement should therefore provide a meaningful communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style, in line with CIPFA guidance.

The County Council's Annual Governance Statement:

- acknowledges responsibility for ensuring there is a sound system of governance incorporating systems of internal control;

- recognises and assesses the effectiveness of key elements of the governance framework, including joint arrangements where appropriate and the roles of the Council, its Cabinet, Audit and other Committees as appropriate;

- provides an opinion on the level of assurances that the Council's governance arrangements can provide;

- recognises and reflects upon any appropriate action(s) identified or required in earlier Statements, and

- commits to monitoring any action(s) require as part of this Statement.

Scope of Responsibility

Devon County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs so as to facilitate the effective exercise of its functions and manage risk.

The County 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 (2016). A copy of these codes can be obtained from the County Treasurer. This Statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015.

Purpose of the Governance Framework

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

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks not being realised - and the impact should they be realised - and to manage them efficiently, effectively and economically.

Satisfactory controls to support statements made in this Annual Governance Statement are essential and in endorsing it the Council's officers confirm that input to systems and processing of transactions is complete for the financial year ended 31 March 2017 and that there were no material or significant delays or backlogs of either input or processes that would result in financial or other records being incomplete.

The Council's financial management arrangements also conform with the CIPFA/SOLACE guidance on the role of the Chief Financial Officer in Local Government (2010), enabling the County Treasurer to operate in line with the 5 principles set out in the 'Application Note Delivering Good Governance in Local Government: A Framework' to operate effectively and perform her core duties demonstrating commitment to good practice in governance and financial management.

The Governance Framework – The Council's Constitution

The Constitution is fundamental to the working of the County Council and transcends the core principles and sub principles of corporate governance in the CIPFA/SOLACE Framework which form the basis of the attached schedule. Many of the structures and processes referred to here are readily available either through the Constitution or in the Council's website.

The Constitution is the Council's Code of Corporate Governance. Framed in accordance with statute and Government guidance, it has evolved in the light of experience and subsequent legislation. It sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is the guarantor of the continuing openness, accountability and integrity of the Council's decision-making processes and sets a series of exacting standards against which the Council's actions can be judged and, if necessary, challenged.

The Constitution is at the heart of the Council's business:

- it allocates power and responsibility within the Council and between it and partner organisations;
- it delegates authority for specific issues to act to the Leader, Committees, Cabinet Members and officers;
- it enables the people of Devon to access information and ask questions or make representations or submit petitions at certain meetings;
- it sets down the procedures by which the people of Devon may give their views on the key decisions which the Council's Cabinet is to take;
- it regulates and identifies standards for the behaviour of individuals and groups through codes of conduct (including interested, conflicts of interest and whistleblowing), protocols and standing orders.

The Constitution comprises 16 Articles setting out the basic rules governing all aspects of the working of the Council (Part 2) and is then divided up into:

- the elements which define the Council's internal organisation, standing orders, financial regulations, schemes of delegation and terms of reference, procedures covering Cabinet

and Scrutiny, Risk Management and Codes of Business and Personal Conduct – for Members and Officers (Parts 3–9);

- working practices which supplement these formal rules (Part 10);
- documents which focus on the Council's external operation through service delivery, community engagement and partnership working (Part 11).

In formulating its Constitution in 2002, the Council adhered closely throughout to the framework presented in Government's *Modular Constitutions for English Local Authorities*, enabling it to produce a document which was logical, integrated and accessible to members, officers, citizens and others interested in the way a local authority makes decisions and governs itself and its area. Then and subsequently, wherever legislation permitted local choice, the Council has framed its Constitution to take advantage of the most open and inclusive of the available options.

The Constitution is designed to meet all the necessary statutory requirements for instruments of governance and to include matters traditionally covered by local authority standing orders, financial regulations, schemes of delegation and terms of reference. It also contains the elements necessary to describe the Council's executive arrangements in a single, coherent document which can be used as a comprehensive point of reference by individuals and organisations inside and outside the Council. All the familiar elements can be found in the Constitution and the Council has sought to use the model format to create a genuinely accessible and meaningful instrument of governance.

The Council is committed to involving the community in setting its priorities, enabling citizens to raise matters with and convey their concerns to the Council and to considering the needs of all groups in the community and promoting democratic understanding and participation. The Council's Constitution provides that framework and is underpinned by relevant policies and practices through the Council's website (e.g. consultations, feedback, and public participation).

Review of Effectiveness

The County Council's Constitution has been in force since 2002 and is regularly reviewed (by the Council's Procedures and Standards Committees, as appropriate) and, as concluded later, will necessarily need to be reviewed and be re-adopted by the new Council following the next quadrennial elections due to take place in May 2017. The Constitution is published on the County Council's website at and is also available for inspection at the Council's offices.

There were no significant changes either from the annual revision of the Pay Policy Statement and Chief Officer Employment Procedure Rules (required to be undertaken annually in line with the Localism Act 2011) or from the aforementioned Committee's reviews during the year in question.

The Procedures Committee and the Council did however agree revisions to financial regulations and consequential changes to the Council's Constitution in respect of money laundering provisions and the acquisition of new and additional IT Hardware, required as a consequence of legislative change and emerging best practice.

The County Council must, at least annually, review the effectiveness of its governance framework including systems of internal control. This review of effectiveness is informed by the work of managers within the authority who have a 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.

Details of processes applied in maintaining and reviewing the effectiveness of the governance framework are summarised below.

The Council

The Council currently comprises 62 (reducing to 60 at 2017 quadrennial elections) members, meeting together as the full Council for specific purposes, to decide the Council's overall policies and set the budget each year. Meetings of the Council and its committees are normally open to the public. The Council appoints the Leader and Deputy Leader, Scrutiny Committees, the Standards Committee and all other committees. The Council receives the minutes of committees, and has power to vary or refer back decisions which are outside established policy. From time to time it also debates issues of particular relevance or topicality for the County.

The roles and responsibilities of the Council, as well as its Cabinet and non-Cabinet Members are set out more fully in Articles 6 and 7 of the Constitution and in Part 3 (Responsibility for Functions). These have been regularly reviewed and revised since the County Council elections in 2013 and are themselves balanced by the Codes of Personal Conduct set out at Part 6 of the Constitution.

The Cabinet

The Cabinet is the part of the Council responsible for most day-to-day decisions. It is made up of a Leader and no more than nine other members (Cabinet Members), appointed by the Leader from amongst the membership of the Council. When major decisions are to be discussed or made, these are published in the Cabinet's Forward Plan in so far as they can be foreseen. These major decisions will be taken with Council officers present at meetings of the Cabinet which will be open to the public except where personal or confidential information is discussed in line with the Council's Access to Information Rules (Part 4 of the Constitution). The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this matter must be referred to the full Council to decide.

The Scrutiny Function

Scrutiny Committees support the work of the Cabinet and the Council as a whole. They look at the effectiveness of the Council's own policies and inquire into matters of local concern. These investigations lead to reports and recommendations which advise the Cabinet and the Council on its policies, budget and service provision. Scrutiny Committees also monitor the Cabinet's decisions. They may "call-in" a decision which has been made by the Cabinet or an Officer but not implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Cabinet/Officer reconsiders it. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy or service delivery.

The Health & Wellbeing Scrutiny Committee also monitors the function and activity of the Devon Health & Wellbeing Board and its statutory responsibilities for the Joint Health & Wellbeing Strategy, the Joint Strategic Needs Assessment and the Pharmaceutical Needs Assessment.

Scrutiny Committees aim to operate in a non-partisan way which it is believed has served both the electorate and the Council well in line with the Constitution and the Council's protocol governing relationships between the Cabinet and Scrutiny Committees. Members of the Council may place items on the agenda of any Scrutiny Committee, a right which has always effectively existed in the Constitution since it was first adopted in 2002, reflecting the requirements of the Local Government & Public Involvement in Health Act and its definition of *'any Local Government matter'.*

It is widely acknowledged that, in order to be effective, call-ins must be used only in exceptional circumstances, sparingly and appropriately. In the year in question there were only 2 instances - *Changes to Post 16 Education Transport Policy* and the *Closure of Compass House Crèche* both called-in through the People's Scrutiny Committee - while these

may not have resulted in any significant changes to decisions they reinforce the independence and value of scrutiny in applying an 'external' view on decisions.

A number of scrutiny task group reports endorsed by the Cabinet have been warmly welcomed by Devon MPs as a means of making further representations to Government including issues in the last year relating to social care, school funding and agriculture.

In the move towards a commissioning authority, scrutiny continues to exercise influence through asking questions about delivery mechanisms, quality, monitoring, safety and responsiveness as an appreciative inquiry where problems are analysed and understood as a precursor to improvement and change rather than punitive action. To strengthen scrutiny engagement in commissioning processes and commissioned services it was agreed that each Scrutiny Committee would receive details of significant commissioning activity within their remit on a biannual basis to inform their work programme.

The Cabinet and Leadership Team remain appreciative of the work undertaken by the Scrutiny Committees and acknowledge that it has made a major contribution to the work of the Council, especially in areas where detailed objective research and analysis needed to be done. A summary of the work of Scrutiny Committees during the year is presented to the County Council yearly in an Annual Scrutiny Report.

Organisational Performance

The impact of the Government's reform of the public realm and local government finances continues to influence the Council's current and future performance.

In July 2016 the County Council endorsed the Leaders approach to devolution and agreed to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area.

In July 2016 approval was also given to the introduction of a revised, streamlined, senior management organisational structure to better reflect the Council's approach to organisational change over the coming years, to respond to challenges facing it and position the Council to focus on its future strategic commissioning responsibilities as well as to be accountable for the delivery of the 'One Plan' process. It incorporated a fundamental appraisal of what the Council did and how it worked, operating within a systems-based approach, allowing for a clear focus on the Council's main service accountabilities – *Adults Services, Children's Services* and *Highways* – with 'place shaping' and universal population services in a new *Communities, Public Health, Environment and Prosperity* portfolio. It will require the senior leadership of the organisation to work in a more collaborative and flexible way with the Council's structural arrangements better aligned to this approach.

Consequently the County Council's Leadership Group has worked alongside colleagues from across the Council developing a new **Leadership Charter** that sets out a collective ambition, ethos and approach to leadership for everyone at the County Council. The Charter aims to inspire staff and members to work together more effectively and make a real difference to help people live their lives well.

In September 2016 the County Council commissioned a Corporate Peer Challenge from the LGA. As part of an on-going improvement programme, designed to complement and add value to Devon's performance. The Peer Challenge Team met with a wide range of staff, members and partners and focused on the following issues:

- understanding of the local place and priority setting
- leadership of place
- financial planning and viability
- organisational leadership and governance
- capacity to deliver

The Team was positive about their experience of the County Council, and that the Council has been a resilient, stable and reliable presence through a difficult period. Among the key findings, the feedback report recognised that 'the authority has addressed the financial challenge effectively in recent years, while 'the lifting of the Children's Services Improvement Notice represents a major achievement on the part of the Council'. The reports notes the financial challenges that remain moving forward with the 'shift from a service-based budget approach to a corporate and 'whole system' and there to be a savings plan with a longer-term horizon than at present.

The Council also agreed the following significant actions, specific policy changes or revised strategic objectives during 2016/17 which will impact on future performance:

(a) changes to funding formula for the transfer of funds from the Dedicated Schools Grant from Individual Schools Budgets to the High Needs budget;

(b) that following the end of the current five-year contract with Virgin Care for Integrated Children's Services on 31 March 2018 approval be given to a 12-month interim contract (with partners) to Virgin Care for Public Health Nursing Services. That the County Council also continues to commission (jointly with the Clinical Commissioning Groups) Virgin Care to provide Children and Adolescent Mental Health Services and community health and care services for children with additional needs jointly funded through a pooled budget for the period of one year 2018/19;

(c) the establishment of a-not-for-profit charitable company to manage the future provision of a Devon youth service (DYS Space Ltd) and a community owned social enterprise (a registered charity) to manage the delivery of the Council's Library Service (Libraries Unlimited);

(d) the Devon Minerals Plan 2011 – 2031 and associated Policies Map was endorsed and adopted formally;

(e) the implementation of the 2017/18 Programme and Flood Risk Management Action Plan;

(f) establishment of the Brunel Pooling Partnership;

(g) arrangements with partner Councils for the preparation and approval of a Heart of the South West (HoSW) Partnership's "Prospectus for Productivity" in support of the aspirations for a devolution deal previously approved by the Council (Minute 157/10 December 2016)) and, in principle, to the creation of a Joint Committee for the HoSW to start work, in June/July 2017, (subject to ratification at the next Annual Meeting of the Council and following County Council elections);

(h) Treasury Management Strategy 2017/18;

(i) Pollinators' Action Plan 2016-2021;

(j) extension to Devon and Somerset Trading Standards Service to include Torbay.

The Standards Committee

The Standards Committee continued to exercise its role in monitoring complaints and standards. The number of complaints received against Councillors remains small. There were no cases locally where a councillor was found to have been in breach of the Council's Code of Conduct.

Efficient, effective and ethical governance protects the public interest and the Council itself. Members and Officers are supported by a wide range of polices and Codes of Practice enunciated in the Council's Constitution and also by a wide range of training opportunities tailored to meet their needs. The Council's Governance Framework is reviewed annually and

any issues for the future governance of the Council are highlighted and addressed at that time.

Co-opted Members of the Committee continue to attend other meetings of the Council, Cabinet and others Committees, selected at random, to monitor and observe compliance with the Council's Governance Framework and behaviours, reporting back to the Standards Committee. There were no reports of any specific actions or behaviours that might be felt to have resulted in a potential breach of the Code or warranted further action.

The work of the Standards Committee during 2016/17 is set out more fully in its Annual Report but there were no significant issues arising form members conduct, the Council's feedback and complaints press or the Local Government Ombudsman's Annual Letter which warranted any action.

The Audit Committee / Devon Audit Partnership

The Council's Audit Committee monitors the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources including the work of the Council's Internal Audit team and the External Auditor and the application of the Council's Risk Management policy.

The Audit Committee continues to review separately, and on a regular basis, progress with and implementation of any recommendations made in Audit Reports into specific areas of activity to ensure they have been adhered to and appropriate management action taken. It also reviews the Council's Risk Management Strategy and Registers on a regular basis.

The Annual Audit Letter (for the year ended 31 March 2016) from the Council's external auditors, confirmed that the accounts had been produced to a good standard with an excellent level of support provided by the Council's Finance Team.

The Devon Audit Partnership was established by the Council in conjunction with Plymouth City and Torbay Councils in 2009 to provide shared internal audit services (as a means of improving services through joint working and maximising efficiencies and economies of scale). The Devon Audit Partnership currently undertakes audit work for a number of District Councils, Devon and Somerset Fire and Rescue Service, Devon and Cornwall Police, the University of Plymouth and many other public authorities and plans to continue expanding on their work with external partners. The Partnership and democratic arrangements are functioning well and will continue to be reviewed.

The Investment and Pension Fund Committee

Accounting arrangements require separate accounts to be prepared for the County Council and the Devon Pension Fund. Recognising the need for clear governance arrangements for managing these accounts the Council's Investment & Pension Fund Committee undertakes the role of reviewing and approving the Pension Fund Annual Report, which incorporates the Statement of Accounts. The Devon County Council Audit Committee undertakes the role to review and approve the accounts of the Devon Pension Fund to ensure appropriate accounting policies were introduced in the same way as it is responsible for monitoring and approving the Council's main accounts.

Devon Pension Board

The Pension Board, whish was established in 2015/16, is required to ensure that the Devon Pension Fund is managed and administered effectively and efficiently and ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Devon Pension Board (comprising employer and fund representatives with an independent member) has met four times. The operation of the Board will be kept under review.

A summary of the Board's activities and deliberations over the period in question had been included in the Devon Pension Fund's Annual Report and Accounts 2015/16 (and the action taken by the Fund/Fund Manager as a consequence) in scrutinising and satisfying itself with the operation and management of the Fund during that period. The Board's observations had resulted in a number of changes to operational matters in respect of the Pension Fund Risk Register.

Engagement and Participation

The County Council has always prided itself on the work it does, over and above statutory consultations, to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council. Examples of this are the Council's Communications Strategy, the Devon Voice (Residents Panel), Parent Carers Voice, and the Tough Choices events held by the Leader of the Council across the County as part of a wider exercise by the County Council to consult and involve local people in determining the Council's budgets and priorities.

The Have your say consultation pages allow views to be gathered on service specific proposals and provide opportunity for local people to shape their local services.

Public Participation

Those who live and work in Devon have a number of direct opportunities to participate in the Council's decision-making process which are explained in more detail in the Access to Information Procedure Rules in Part 4 of the Council's Constitution and in addition to being available to attend meetings and lobby Councillors in the normal way may also ask questions at meetings of the County Council or the Cabinet and make representations at the County Council and a number of other Committees of the Council.

The #WeAreDevon Community Survey 2016 was conducted during June and July 2016 to ask about people's general perceptions on various aspects of life of in Devon including the health and resilience of local communities. The survey was designed to complement and build on other community consultation such as Tough Choices and the Community Insight Survey (last conducted in late 2015). The feedback provided valuable insight into the issues affecting people and communities and will help to influence and inform decisions about local services as well as future priorities.

Governance Issues

The Local Government Boundary Commission for England published its final recommendations in January 2016 for the County Council's electoral arrangements for 2017 onwards. The Commission's final proposals confirmed the suggested reduction in the size of the Council of two councillors (from 62 to 60) with one fewer division in each of South Hams and Teignbridge, comprising 56 single-member divisions and 2 two-member divisions. The proposed new arrangements were approved by Parliament in the early part of 2016, providing for the new electoral arrangements to come into force at the County Council elections in 2017. This will undoubtedly have an impact on the Council's governance arrangements moving forward.

One of the biggest issues addressed by the Council in 2016/17 was the setting of the Revenue Budget, Medium Term Financial Strategy 2017/2018 - 2020/2021 and the Capital Programme for 2017/2018 - 2021/2022 given the turmoil around health & social care funding and continued cuts to local government funding.

The Health & Wellbeing Scrutiny Committee Fair Funding in the NHS Task Group report which reviewed the mechanics of the funding settlement for Clinical Commissioning Groups in Devon provided by Government was warmly received by the Chairman of the House of Commons Heath Select Committee as a thought provoking and timely piece of work.

The impact of the unprecedented turmoil in the financial markets over the previous years justifies the continuing focus on treasury management practices. The County Council's treasury management practices are soundly based on the principle that when balancing risk and return the security and liquidity of an investment is given a higher priority than the yield.

The Council also regularly reviews and updates its Investment Strategy and its Treasury Management Policy and Practices to ensure that they reflect best practice guidance as issued by CIPFA. The Treasury Management Stewardship Annual Report for 2015/16 had not identified any issues to highlight. No long term borrowing was undertaken during 2016/17 and it was not envisaged that any new long term borrowing will be required over the next three year period but this will be reviewed annually. The report confirmed that investment income targets had been achieved and all lending had been carried out in accordance with the Council's Treasury Management Strategy.

The agreement to the process for the production of the Heart of the South West Productivity Plan and the establishment, in principle, of a Joint Committee with HoSW partners. The HoSW Joint Committee would provide a formal strategic partnership to complement and maximise the ability of local sub-regional arrangements to deliver its aspirations, allowing partners agree and deliver the Productivity Plan as well as engage effectively with the Government, other deal areas and other LEPs on a range of policy agendas, working together as a precursor to the establishment of a Combined Authority and working alongside and influencing the LEP on strategic investment decisions affecting the HoSW area as well as securing improvements to LEP governance and accountability.

Conclusion

With the next quadrennial elections due to take place in the early part of the next financial year it is axiomatic that the new Council will need to review and adopt the Constitution early in the life of that new Council and review the democratic structure if only to reflect changes made in this year to the organisational structure of the Council acknowledging the as yet unknown but inevitable impact of the outcome of the election on the future organisation and direction of the Council. It would also be necessary to judge whether the introduction of new electoral boundaries has gone smoothly.

The draft Budget 2017/18 had, for the first time, been prepared on the basis of the provisional settlement figures. The Cabinet was assured that the Budget was an effective and balanced budget based on the best information available at the time, which could be commended to the Council.

New powers were introduced in 2016/17 that allow authorities with Adult Social Care responsibilities to increase Council Tax by 2% each year between 2016/17 and 2019/20 in addition to the 2% increase permitted before a referendum is required. The Government announced a change to this power enabling Social Care Authorities to increase Council Tax by 3% in each of 2017/18 and 2018/19 in addition to the 2% referendum limit. However, the increase over the three year period of 2017/18 to 2019/20 must not exceed the original power of 6% over this term. There was also subsequent additional funding provided by Government in this respect over the next three years as part of the Spring Budget 2017. However, adult social care remains a national issue that requires a national solution.

In addition Devon's settlement still reflected historic low levels of funding with inadequate funding levels in a number of areas and as between urban and rural areas; the Government having not significantly responded to representations by the LGA and Shire Counties on the need for fairer funding in a number of service areas. The impact of the next Government's spending plan on future financial settlements will also be a key issue for the Cabinet and the Council to address in 2017/18 and beyond.

The Medium Term Financial Strategy (MTFS) for 2017/18 - 2020/21 was agreed by Cabinet in February 2017 The MTFS has been prepared with the best information available but the uncertainties around Brexit, the Needs review, 100% Business Rates Retention and the Improved Better Care Fund make it impossible to plan with any certainty. The Government's

four year funding 'guarantee' is helpful but is only one piece of the jigsaw. The MTFS contains as much information as available at this time but may need updating if more information becomes available from Government that has a significant impact on the Authority.

The Council's Leadership Team (Chief Officers and Heads of Service) has confirmed that the organisational, financial, compliance and operational key controls referred to in the Annual Governance Statement and the accompanying schedule continue to be appropriate and that statements of internal control supported the content of this Statement; having operated, effectively, during the financial year. Sundry issues identified in the AGS will be relevant and actioned as appropriate over the coming year. All necessary monitoring and/or implementation of key issues identified in the previous AGS have or are continuing to be addressed.

The Council is satisfied that the governance arrangements can and do provide a high level of assurance, that the arrangements continue to be regarded as fit for purpose and that its governance structures reflecting the core and sub-principles of the Statement.

The Council formally places on record and expresses its appreciation to all staff and partners for their continuing commitment to the delivery of high quality services for the people of Devon throughout this period. The spirit and ethos of good governance cannot be achieved by rules and procedures alone. It is vital that shared values that are integrated into the culture of an organisation and are reflected in behaviour and policy, as a hallmark of good governance.

Certification

In light of the aforementioned and the reviews of the effectiveness of the governance framework undertaken by the Cabinet, the Standards Committee, the Audit Committee, the Investment & Pension Fund Committee and by Scrutiny Committees and the plans, as summarised above, to address weaknesses and ensure continuous improvement of systems is in place.

We will over the coming year continue 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.

Signed……..

Chairman of the Audit Committee, on behalf of Devon County Council

Signed……..

Chief Executive, on behalf of Devon County Council

30 June 2017

CORE PRINCIPLES AND SUB-PRINCIPLES OF GOOD GOVERNANCE		
Core Principles *[Acting in the public interest requires a commitment to and effective arrangements for….]*	**Sub Principles** *[Behaviours and actions that demonstrate good governance in practice are …]*	**The County Council's Governance Framework/Internal Control Systems**
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.	**Behaving with integrity** Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organization. Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles). Leading by example and using the above standard operating principles or values as a framework for decision making and other actions. Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively. **Demonstrating strong commitment to ethical values** Seeking to establish, monitor and maintain the organisation's ethical standards and performance. Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation. Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values. Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation. **Respecting the rule of law** Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations. Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with	The Constitution which is used as a basis for Corporate and service planning and Local area or performance agreements. It sets out how the Council operates, how decisions are made and procedures followed to ensure that these are efficient, transparent & accountable to local people. It contains Articles which set out the basic rules governing all aspects of the working of the Council (Part 2), elements which define the Council's internal organisation, standing orders, financial regulations, schemes of delegation and terms of reference, procedures covering executive and scrutiny, risk management and codes of conduct (Parts 3–9) and documents which focus on the Council's external operation through service delivery, community engagement and partnership working (Part 11). The latter includes, for example, the Council's Strategic Plan which sets out the Council's priorities, its detailed policies and plans. The Constitution sets out the principles of decision making, the decisions that may be taken by the Council, the Cabinet, or the Health & Wellbeing Board and the terms of reference of the Council's Committees and delegations to Members and Officers. Article 12 (Part 2 of the Constitution) and the Budget and Policy Framework Rules provide that the Monitoring Officer and Chief Financial Officers have a duty to ensure lawfulness and fairness of decision making. The Constitution and Policies available on its website contain: ▪ a Good Practice Guide on outlining Best Practice. ▪ Whistle blowing ▪ Codes of Personal Conduct applicable to Members and Officers. ▪ Details of arrangements for Local determination of complaints in line with revised standards arrangements and in consultation with the Independent Person appointed under the Localism Act 2011. ▪ Complaints procedures (Officers) ▪ Anti-fraud and anti–corruption policy ▪ Devon Joint Declaration for Equality

	legislative and regulatory requirements. Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders. Dealing with breaches of legal and regulatory provisions effectively. Ensuring corruption and misuse are dealt with effectively.	▪ Zero Tolerance to Hate Campaign Members are registered as Data Controllers under Data Protection Act. Members Code of Conduct set out at Part 6 of the Constitution together with other relevant Personal Codes of Conduct gives clear guidance. As part of Induction process for the Council the Monitoring Officer provides training on the Council's Constitution, the Ethical Framework and the Code of Conduct including and Members Interests; with refresher training provided on a regular basis thereafter. All County Councillors are reminded annually to review/refresh their General Declaration.
B. Ensuring openness and comprehensive stakeholder engagement Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.	**Openness** Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness. Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided. Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear. Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action. **Engaging comprehensively with institutional stakeholders** *[NB institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable].* Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably. Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes	The Constitution set out the Council's rules and procedures for decision-making and the policy and budget frameworks, including the Cabinet and Scrutiny Procedure rules, access to information and public participation rules. Standing orders, codes of conduct and financial regulations well established and publicised throughout the Council. Access to Information and Public Participation rules contained in the Constitution (Part 4). All meetings of the Council, the Cabinet and Committees are normally held in public in accordance with the Council's Access to Information Procedures Rules and Agenda, Minutes & Reports of all Council, Cabinet & Committee meetings are publicly available in line with legislation. Article 12 (Part 2 of the Constitution) and the Budget and Policy Framework Rules provide that the Monitoring Officer and Chief Financial Officers have a duty to ensure lawfulness and fairness of decision making. Minutes are sufficiently detailed to give reasons for decisions where these do not follow written recommendations. The Summary and Explanation to the Constitution summarises the rights of members of the public as amplified throughout this statement. The Constitution has been regularly revised to take account of the provisions of the Local Government and Pubic Health Involvement Act 2007 in relation to *Strong Leader* and right of Member to put items on a scrutiny agenda. Amendments consequent of the provisions of the Local Democracy, Economic Development & Construction Act 2009 being brought into force will necessarily be made as

	achieved more effectively. Ensuring that partnerships are based on trust, a shared commitment to change, culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.	required. Similarly the impact of the Localism Act and Health is reflected in the Council's governance arrangements. All Committee Reports are considered in the absence of the press and public (i.e. Part II Reports) in consultation with the County Solicitor as Monitoring Officer, as appropriate. Part 9 of the Constitution identifies joint arrangements entered into with other local authorities and their scope. Part 11 of the Constitution focuses and identifies those external operations conducted through service delivery, community engagement and partnership working and including, for example, the Council's Strategic Plan which sets out the Council's priorities, its detailed policies and plans. This delivered though, inter alia, • Annual Financial Statements • Annual Business Plans • Annual Governance Statements • Partnership protocol • Governance code • Compact for Devon • Devon Strategic Partnership • Annual Public Health Reports • Annual Scrutiny Reports • Annual Standards Committee Reports The Annual Budget booklet outlines financial plans. Outturn report outlines financial performance relative to targets. The Statement of Accounts outlines financial performance in code format. Bi-monthly budget monitoring reports to Cabinet.
	Engaging with individual citizens and service users effectively Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes. Ensuring that communication methods are effective and that members and officers	Corporate Engagement Strategy aimed at securing two-way communications and bringing the Council closer to the people of Devon. Consultations. The Have your say webpages - helping to shape services across Devon. Community Insight Survey DCC promotes/engages actively with

	are clear about their roles with regard to community engagement. Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs. Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account. Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity. Taking account of the impact of decisions on future generations of tax payers and service users. Effective engagement requires good communication, trust and respect. Further that there is clarity about whom the County Council is engaging with and to what ends. Ensuring that views are listened to, thought about and acted upon. Communicating what the Council is going to do as a result – as part of a 'You Said, We Did' way of working. To give local people and communities more influence and control over local services and to help develop a culture that supports equal opportunities for everyone to have their say and to be engaged.	community through: • Elections • Democracy week • Devon Voice (Residents Panel) • Devon UK Youth Parliament Team • DCC Senior Council • Meet the Leader 'Tough Choices' Roadshows • Budget Consultations with Business Community, representatives of young people and older people, the voluntary sector and Trades Unions • DCC Feedback policy available at all DCC premises and • Webcasting meetings of the Council, Cabinet and major committees. Articles and Part 3 of the Constitution clearly outline roles and responsibilities of Members and Officers. Meetings of the Council, the Cabinet and Committee are held in public in accordance with the Council's Access to Information Procedures Rules and Agenda. Minutes and Reports of all Council, Cabinet, Committee meetings, Health & Wellbeing Board and Cabinet Member decisions are publicly available in line with legislation. All Report to Cabinet & Committee are required to demonstrate equality, legal, financial, environmental, risk management and public health considerations. Corporate Communications and Consultations Strategies. The Council's Strategic Plan is developed in conjunction with partners and interested bodies and in light of evidence and of public and stakeholder consultation and approved by the Council or its Cabinet, as are other DCC policy documents and plans. Priorities in Strategic Plan costed and included in the Medium Term Financial Strategy [MTFS]. MTFS and budget linked to Strategic Plan & policies. JSNA, Health and Wellbeing Strategy and Pharmaceutical Needs Assessment approved by Health and Wellbeing Board Parts 5, 9 and 11 of Constitution refer to partnership working. Part 5 of the Constitution (Financial Regulations) lays down principles for financial management for partnership arrangements, joint ventures and

		pooled budgets. Part 9 of the Constitution identifies those joint arrangements with other Devon local authorities [See also below]. Detailed post entry Induction process designed for all Members after quadrennial elections. Ongoing training provided for Members over the life of the Council. Specific training provided where necessary or compulsory (e.g. Audit, Development Control, Devon Pension Board). DCC Member Development Strategy being developed alongside Members Personal Development Plans to identify areas where Members need training (e.g. ICT, Chairing Skills). DCC has twice secured Charter Plus accreditation through the Charter for Member Development developed by the IDeA and the Regional Employers Organisation in line with the Council's Member Development Policy. Regular monitoring reports to Council's Procedures Committee.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	**Defining outcomes** Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions. Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer. Delivering defined outcomes on a sustainable basis within the resources that will be available. Identifying and managing risks to the achievement of outcomes. Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available. **Sustainable economic, social and environmental benefits** Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints. Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs. Ensuring fair access to services.	The Council's Strategic Plan is developed in conjunction with partners and interested bodies and in light of public consultation and approved by the Council or its Cabinet, as are other DCC policy documents and plans. These are reviewed regularly. *Backing Devon,* the Strategic Plan for 2011/15, was first agreed in 2011. A refreshed Strategic Plan 2014-2017 was adopted by the Council in May 2014. Those aims and objectives are reflected in the Council's Corporate Plans and MTFS. The Councils Code of Business Conduct (Part 5 of the Constitution) also sets out financial protocols to be adopted for partnership arrangements, joint ventures and/or pooled budgets. The Performance Strategy for 2011-15 'Driving Innovation and Improvement' describes how performance is managed across the County Council. Performance reporting to Scrutiny – operational and management of risks: Committees receive Organisational Health Dashboard and Exception reports on overall progress against the Strategic Plan. Medium term financial plan forecasts service pressures in future years, linked to Strategic Plan. The Council must demonstrate it has exercised its Public Sector Equality Duty to highlight any significant implications for the Council's commitment to equality and either confirm that – and how - the policy/scheme will promote equality of opportunity/good community relations and that it will be monitored regularly and/or highlight any action to be taken to reduce any inequality/adverse impact that cannot be justified. To that end a full Impact Assessment or other form of options/project management appraisal that achieves the same objective must be completed for new or refreshed policies, strategies or projects, indicating what impact it has on equality issues etc (in the official jargon 'on the protected characteristics of the Equality Act 2010). *'Where relevant to the decision, the Equality Act 2010 Public Sector Equality Duty requires decision makers to give due regard to the need to:*

		• *eliminate discrimination, harassment, victimisation and any other prohibited conduct;* • *advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and* • *foster good relations between people by tackling prejudice and promoting understanding.* *Taking account of age, disability, race/ethnicity (includes Gypsies and Travellers), gender and gender identity, religion and belief, sexual orientation, pregnant women/ new and breastfeeding mothers, marriage/civil partnership status in coming to a decision, a decision maker may also consider other relevant factors such as caring responsibilities, rural isolation or socio-economic disadvantage'.*

D. Determining the interventions necessary to optimise the achievement of the intended outcomes Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.	**Determining interventions** Ensuring decision makers receive objective and rigorous analysis of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts **Planning interventions** Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets. Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered. Considering and monitoring risks facing each partner when working collaboratively, including shared risks. Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances. Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured. Ensuring capacity exists to generate the information required to review service quality regularly. Preparing budgets in accordance with objectives, strategies and the medium term financial plan. Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.	The County Council's Corporate Communications Strategy aims to provide a framework to ensure that the Council's work is supported by dynamic and two-way communications and brings the Council closer to the people of Devon (e.g. feedback, consultations, public participation). Article 12 (Part 2 of the Constitution) and the Budget and Policy Framework Rules provide that the Monitoring Officer and Chief Financial Officers have a duty to ensure lawfulness and fairness of decision making. A revised, streamlined, senior management organisational structure to better reflect the Council's approach to organisational change over the coming years, to respond to challenges facing it and position the Council to focus on its future strategic commissioning responsibilities as well as to be accountable for the delivery of the 'One Plan' process. The Engaging Devon Strategy brings together engagement activities across the Council to oversee, plan, and improve quality. Alongside a programme of engagement activity carried out by, for, or with the Council. In response to increased commissioning activity within the County Council, each Scrutiny Committee appointed a 'Commissioning Liaison Member'. The role of this Member is to work closely with the relevant Cabinet Members and Heads of Service, developing a fuller understanding of commissioning processes, and provide a link between Cabinet and Scrutiny on commissioning and commissioned services. Scrutiny Committees receive a list of all upcoming commissioning activity relevant to their Committee, and have the opportunity to put forward any of these pieces of commissioning activity to be looked at in more detail at their next Scrutiny Committee meeting and/or through a Task Group investigation. Council contracts with external providers, with a value of more than £100,000 will include a clause requiring the provider to attend the Council's Scrutiny Committees and Cabinet at the reasonable request of the Council. In addition, the Council has also written to its most significant current service providers inviting a representative to attend

	Optimising achievement of intended outcomes. Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints. Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term. Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage. Ensuring the achievement of 'social value' through service planning and commissioning.	future meetings of Scrutiny Committees at the request of Scrutiny Members, and to respond to questions on service delivery or performance.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.	**Developing the entity's capacity** Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently Recognising the benefits of partnerships and collaborative working where added value can be achieved Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources **Developing the capability of the entity's leadership and other individuals** Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body Ensuring the leader and the Chief Executive have clearly defined and distinctive leadership roles within a structure whereby the Chief Executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available	Part 3 of Constitution (endorsed by Procedures Committee), outlines the Council's approve scheme of delegation – to Members and Officers as amended – reflecting statutory provisions, periodically including changes consequent upon County Council assumption of Public Health responsibilities and transfer of NHS staff. Articles and Part 8 of the Constitution set out the roles and accountabilities of Officers and Members. Members Job Profiles are set out at Part 6 of the Constitution and were reviewed for incorporation in development of Members Personal Development Plans following the 2013 elections and the new cohort of Members The County Council's HR Policies. Detailed Job Descriptions exist for all staff at all levels and for Members (Parts 6 of Constitution). While no formal protocol exists, in terms of the relationship between the Chief Executive and Leader the process effectively starts with appointment process. The Chief Executive's appraisal is undertaken by Group Leaders. Senior Management Structure and Leadership Team Charter revised in 2016. Articles and Part 8 of the Constitution set out the roles and accountabilities of Officers – specifically of statutory officers - and Members. Part 6 of Constitution contains Member/Officer Protocol, and other codes of personal conduct supplemented by Working Practices (Part 10 of Constitution)(as endorsed by Procedures Committee. The Council has appointed an Appointments and Remuneration Committee to make recommendations to the Council on pay and remuneration of Chief Officers to ensure decisions on pay and rewards are taken in an accountable and transparent manner, and to review annually the Council's Pay Policy Statement as required by the Localism Act 2012l. Ongoing training provided for Members over life of Council and where required specific

	and encouraged Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis Ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external Ensuring that there are structures in place to encourage public participation Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections Holding staff to account through regular performance reviews which take account of training or development needs Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	training provided to enable Members to serve on Committees (e.g. Audit, Development Management, Devon Pension Board). DCC Member Development Strategy being developed with Member Development Group alongside Members Personal Development Plans to identify areas where Members need training). DCC has twice secured Charter Plus accreditation through the Charter for Member Development developed by the IDeA and the Regional Employers Organisation in line with the Council's Member Development Policy. Regular monitoring reports to Council's Procedures Committee External Assessment and Peer Group Reviews Annual appraisals process for officers to identify training and development needs
F. Managing risks and performance through robust internal control and strong public financial management Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts,	**Managing risk** Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making. Implementing robust and integrated risk management arrangements and ensuring that they are working effectively. Ensuring that responsibilities for managing individual risks are clearly allocated. **Managing performance** Monitoring service delivery effectively including planning, specification, execution and independent post implementation review. Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook. Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible. Providing members and senior management with regular reports on	Scrutiny Committees receive regular performance monitoring reports in addition to their more general role to review implementation of the Council's policies and consider scope for change/new policy. Whistleblowing policy outlined in Part 5 of the Constitution – Code of Business Conduct. Policy Statement on Proper Conduct of Business Introduction contained in Part 5 of the Constitution (Code of Business Practice). VfM and performance is reflected on the Council's Performance Plans and reviewed in particular through: • Organisation Performance Plan. • National Indicators Set. • External Inspection & Assessment (e.g. CPA). • Annual Budget Consultations. Community Roadshows undertaken by the Leader of the Council since 2009, as part of a wider exercise by the County Council to consult and involve local people in helping to decide future priorities. Scrutiny function. Benchmark data reviewed where available by

promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.	service delivery plans and on progress towards outcome achievement. Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements). **Robust internal control** Aligning the risk management strategy and policies on internal control with achieving objectives. Evaluating and monitoring risk management and internal control on a regular basis. Ensuring effective counter fraud and anti-corruption arrangements are in place. Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor. Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment that its recommendations are listened to and acted upon. **Managing data** Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data. Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies. Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring. **Strong public financial management** Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance. Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.	VFM Project Board, Directorate Management Teams and Unit Managers Financial systems, Internal and external audit and external inspection and assessment. Regular review of Performance Indicators by Leadership Team and Scrutiny Committees. Article 7 (Part 2 of the Constitution and the Scrutiny Procedure Rule (Part 4 of the Constitution) sets out the principles and practices of the scrutiny process, supplemented by a protocol for relationships and communications between the Cabinet and Scrutiny Committees and the Council's Working Practices (Part 10 of the Constitution). Annual Scrutiny Report submitted to County Council. The Council has an Investment & Pension Fund Committee delegated with responsibility to approve accounts of Devon Pension Fund. The Council has a Devon Pension Board which assists the Administering Authority/Scheme Manager in: (a) securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;. (b) securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; (c) such other matters as the LGPS regulations may specify. An Audit Committee comprises members independent of the Cabinet and Scrutiny Committees. It is constituted in line with COPRA recommendations and training provided to members on relevant issues e.g. Risk. AGS, Code of Practice, Statement of Accounts.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	**Implementing good practice in transparency** Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate. Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand. **Implementing good practices in reporting** Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way. Ensuring members and senior management own the results reported. Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the Annual Governance Statement). Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate. Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations. **Assurance and effective accountability** Ensuring that recommendations for corrective action made by external audit are acted upon. Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon. Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations. Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the Annual Governance Statement. Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public	The Constitution set out the Council's rules and procedures for decision-making and the policy and budget frameworks, including the Cabinet and Scrutiny procedure rules, access to information and public participation rules . Following every quadrennial election, an induction process allows for the Monitoring Officer to provide training on the Council's Constitution and Ethical Framework. The Council has achieved Level III of the Equality Standard for Local Government and has signed up to the Devon Joint Declaration for Equality. The Council's Fair Trade status has been renewed for the 3rd time. The County Council has achieved compliance with the International Standard on Information security (ISO27001) which defines a management system that provides robust policies and procedures that will help give assurances to the public and our partners that the information it holds will be kept secure. The outcomes of the two Ethical Governance surveys undertaken by Members and Senior Officers have been published by the Council's Standards Committee. Staff Surveys have included appropriate questions to determine the views and opinions. Customer Feedback Policy and Complaints / Feedback pages. All services are responsible for investigating and responding to complaints at Stage 1 and 2 of the complaints procedure. The responsibility for Stage 2 investigations is now with Business Strategy and Support – Customer Relations Manager. There is no longer a Stage 3 process. The Council has a exemplary record of inviting Peer Group Reviews of services and governance arrangements on a regular basis. The Standards Committee's independent, co-opted, members attend meetings of the Council, the Cabinet and other committees on an ad-hoc basis to observe and monitor compliance with the Council's ethical governance framework, in line with the agreed protocol. DCC Annual Risk Assessment approved by the Audit Committee. Audit Committee receives regular reports on application of Council's Risk Management Plan.

	accountability is recognised and met.	Reports to Cabinet and Committees recognise need to consider risk management issues and take appropriate action. Para C of Financial Regulations outlines requirements of Risk Management and Control of Resources. Principles for partnership working enshrined in Constitution (Part 11). In addition to the provisions of the Councils Code of Business Conduct & Financial Regulation (Part 5 of the Constitution) a number of clearly defined agreements/protocols exist such as: • Devon Children, Young People and Families Plan. • Devon Children, Young People and Families Alliance governance arrangements. • A Warm Response: Our Climate Change Challenge. • Voluntary Sector Compacts. • Protocol of Joint Appointments. • Devon Audit Partnership. Partnership working is integral to the Council's operations, both service specific and more general partnerships. Work is continuing to ensure effective governance, engagement and political leadership in such partnerships including accountability of staff who support these partnerships. For each partnership there will be a protocol which gives : ▪ A clear statement of the partnership principles and objectives. ▪ Clarity of each partner's role within the partnership. ▪ Definition of roles of partnership board members. ▪ Line management responsibilities for staff who support the partnership. The Compact for Devon is a practical agreement for improving relationships and working practices between organisations in the statutory sector and the voluntary & community sectors, drawn up by the *Devon Hub*, comprising representatives of both sectors. A statement of funding sources for joint projects and clear accountability for proper financial administration. External Funding Standards webpages set out the requirements for preparation of funding bids.

CT/17/63
Audit Committee
30th June 2017

ANNUAL INTERNAL AUDIT REPORT 2016/17
Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendations:

i. That members note the internal audit opinion that the Council's systems contain a satisfactory level of internal control.

ii. That members note the satisfactory performance and achievements of Devon Audit Partnership during 2016/17.

iii. That the Council's continuing commitment to the maintenance and enhancement of an antifraud culture is endorsed.

1. The key objective of Internal Audit is to provide assurance to Members, Executive Directors and the County Treasurer (as the Council's "section 151 responsible officer") on the adequacy and security of those systems on which the County Council relies for its internal control, both financial and management.

2. One of the key elements of the County Council's governance arrangements is the Annual Governance Statement (AGS), signed by the Chief Executive and Leader of the Council. This is included in the Council's Annual Statement of Accounts. The assurance opinions derived from the work of Internal Audit are among the significant items that inform the AGS.

3. The summary report available separately describes the performance of Devon Audit Partnership against the internal audit plans for 2016/17 that were approved by the Audit Committee in March 2016. That work, and the continuing contribution of Devon Audit Partnership to both risk management and anti-fraud arrangements within the Council, leads to an opinion that the Council has an effective framework of control which provides significant assurance regarding the effective, efficient and economic achievement of its objectives. The Committee can take assurance from these findings.

Mary Davis

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

Contact for Enquiries: Robert Hutchins
Tel No: (01392) 382437 Larkbeare House

Background Paper	Date	File Ref
Nil		

There are no equality issues associated with this report

devon audit partnership

Internal Audit

Annual Audit Report 2016/17

Devon County Council
Audit Committee

June 2017

CUSTOMER SERVICE EXCELLENCE CSE

Auditing for achievement

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Devon Audit Partnership	Confidentiality and Disclosure Clause
The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards. The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk .	This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies. This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

Introduction

The Audit Committee, under its Terms of Reference contained in Devon County 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.

The Accounts and Audit (Amendment) (England) Regulations 2015 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.

The Internal Audit plan for 2016/17 was presented and approved by the Audit Committee in March 2016. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2016/17, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report provides that opinion.

Expectations of the Audit Committee from this annual report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework (see Appendix 1) and satisfy themselves from this assurance for signing the Annual Governance Statement.

Robert Hutchins
Head of Devon Audit Partnership

Opinion Statement

Overall, based on work performed during 2016/17 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This opinion statement will support Members in their consideration for signing the Annual Governance Statement see Appendix 1.

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified. Implementation of action plans is the responsibility of management yet may be reviewed during subsequent audits or as part of a specific follow-up process.

Directors have been provided with details of Internal Audit's opinion on each audit review 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 accompany the published 2016/17 Statement of Accounts.

Work has been affected by notable planned changes early in the year for People and a number of Place audits were postponed. This has reduced planned assurance work, however we consider, based on this and previous years' work that the framework of control remains in operation. Further explanation is provided in the sections on Basis for Opinion, see Appendix 2.

This statement of opinion is underpinned by:

Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. debtors, creditors, payroll & Main Accounting) or generally in the reviews undertaken in respect of directorate systems. The Council's overall internal control framework operated effectively during the year. Where internal audit work has highlighted instances of none or part compliance, none are understood to have had a material impact on the Authority's affairs.

Risk Management

Risk management is utilised widely across the Council and monitored by officers & through to members.

Key risks are recorded in Risk Registers, allowing a co-ordinated & consistent approach to minimise exposure and to ensure objectives are met. Key changes are escalated through the Corporate Risk Management Group. Further development is planned to embed risk management.

Governance Arrangements

Scrutiny Committees have sought audit assurance and are developing links with audit plans and progress reviews alongside their planned business.

Governance arrangements are considered in audit of key areas including contracting and commissioning of services to ensure that the County Council's interests are protected.

Performance Management

The strategy is key to the successful delivery of services and is established for 'business as usual' and transformation programmes. Reporting is made regularly to management, leadership and the Council should ensure effective management. This is of particular importance as the Council commissions and contracts new services.

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

Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can.

We believe internal audit activity has added value to the organisation and its stakeholders by:

- providing objective and relevant assurance;
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Senior Management has found our engagement, support as a “trusted advisor” effective and constructive in these significantly changing times.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported in the following areas:

Corporate Services

- Ongoing involvement in HR / Payroll system development projects ensuring that control issues are highlighted and resolved before implementation;
- Ongoing ad hoc advice provided to HR / Payroll relating to internal process controls, outside of system development projects;
- Cyber security and assurance upon IT processes supporting the Council’s key financial systems;
- Reviewing the tender evaluation processes for significant contracts within Place and People;
- Undertaking a benchmarking exercise and research into the provision of blue badge services by other local authorities, in particular how the appeals process is managed and if mobility assessments were conducted “in-house” or by a 3rd party;
- Supporting the Corporate Risk Management Group (CRMG) in developing, benchmarking and embedding the Council’s risk management approach.

People

- Reviewing the tender evaluation process for a significant contract within People reviewing documents and models sent out to bidders;
- Providing advice and support to the project responsible for the re-running of the DILIS procurement exercise.

Place

- Providing support, challenge and advice to the Corporate Risk Management Group on an ongoing basis and on the development of the new risk database;
- Providing challenge, advice and best practice guidance on the schedule of rates, the evaluation model and general procurement and contract controls associated with the tender process for a new Highways Maintenance contract due to commence in April 2017;
- Continued audit presence on the Highways TMC Cost Monitoring Board to provide real time support and challenge as the Partnership strives to improve the efficiency of works under the Highways Contract and achieve savings through the target costing mechanism.

Schools

We have supported the School Information ‘Dashboard’ process by providing the internal audit view of the financial management of individual schools based on the most recent audit visit. The provision of internal audit’s performance data provides a greater focus on schools causing concern in the wider control environment. This information is to be used in assessing overall status for schools through FIPS, vulnerable budget reviews and school improvement. The result of our input has been:-

- termly meetings with the VAT team, Revenue and Babcock LDP highlighting issues on VAT and the use of online cash collection systems by schools;
- completion of a follow-up programme of reviews for 2016/17.

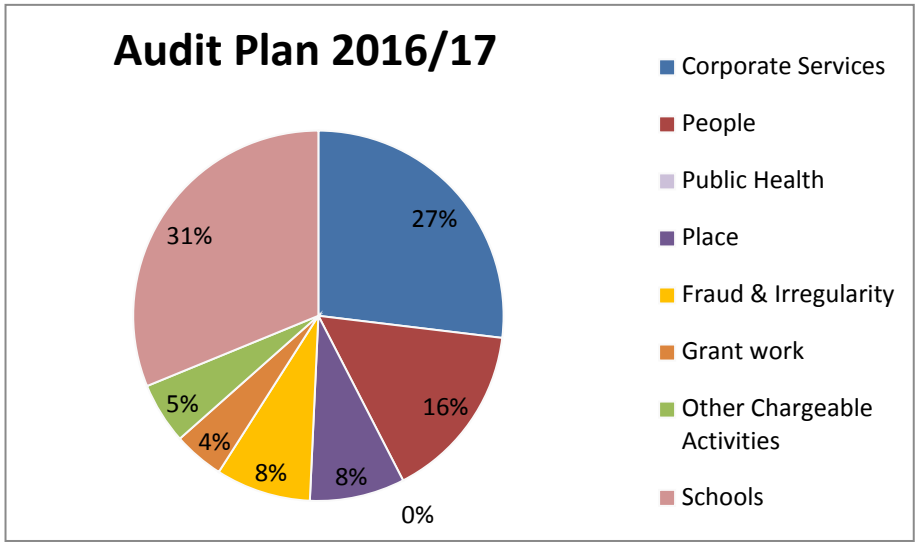
The culmination of this work has lifted the performance of these schools.

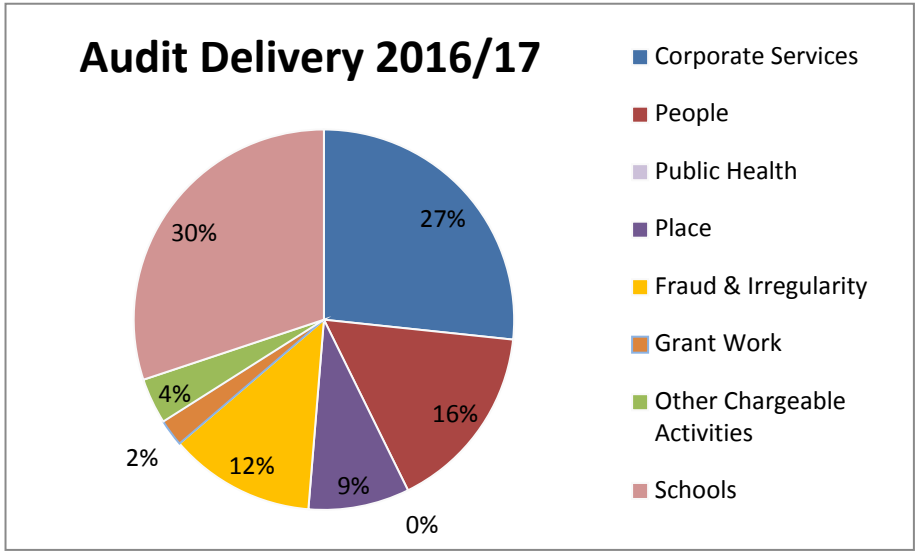
Audit Coverage and performance against plan

The pie charts right shows the breakdown of audit days planned by service area / type of audit support provided. The balance of work has varied during the year as can be seen from comparison with the second chart. Variations have been with full agreement of the client, key amongst these are People and Irregularity which are related and offset each other.

Appendix 4 to this report provides a summary of the audits undertaken during 2016/17, 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 “improvements 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.

Appendix 5 shows the performance indicators for audit delivery in 2016/17 against the revised audit plan. It will be noticed that there was a small variation in the total number of audit days provided during the year. 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.





Summary audit results

Corporate Services

In our opinion, and based upon our audit work completed during 2016/17, 'trusted partner' and direct advice provided for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.
Based on audits completed and on indications from previous and on-going work, we are able to report that material systems controls have either been maintained, or improvements are being made to address previously identified weaknesses. Whilst a number of weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action to address them. Audit resources will continue to support ICT in the establishment and development of the new ICT Commissioning Model and in meeting the financial and technological challenges that lie ahead.
No significant concerns have been identified from our work, including that on grants, and management have responded positively to any recommendations for improvement.

People

In our opinion, and based upon our audit work completed we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

Audit has been significantly involved in the review of a tender evaluation process where the award of a significant contract was previously challenged both by an unsuccessful bidder along with counter challenge by the successful bidder. The process is now complete; DAP staff have attended evaluator training events and attended all bid evaluation sessions to ensure consistency and fairness along with attendance at required software presentations and evaluations.

Poor safeguarding practice is a potential significant risk within this service area and Audit has again been asked to investigate a safeguarding scenario involving a large residential care home. Work undertaken has been lengthy, complex and involved. Following an initial visit to the residential care home the provider's business bank account was reviewed in an attempt to reconcile residents funds held through seeking to identify and verify all sources of income for each client over a twelve month period. Internal control procedures and timely transfer of client funds was found to be significantly poor.

The review of Residential Care Bandings found delays in undertaking annual assessments leading to bandings being uplifted and backdated without further recourse to Panel. Non-compliance with the Scheme of Delegation was also found.

Any concerns identified through our work leading to recommendations for improvement are responded to positively by management.

Place

In our opinion, and based upon our audit work completed during 2016/17, and direct advice provided as 'Trusted Advisor' for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

We are pleased to be able to report an assurance opinion of either good or high standard in the majority of reports completed during the year. The audit review of On Street Parking - Benefits Realisation found recovery of Penalty Charge Notices (PCNs) above the national average and a reduction in the number of spoiled PCNs suggesting generation of good quality PCNs.

Within a number of the audit reviews undertaken we have highlighted the need for either a strategy, protocol, or an enhancement to such. The need for a formal risk management strategy is a thread that is found within a number of the reviews undertaken.

Watching briefs included attendance at the Corporate Risk Management Group and the Highways Virtual Joint Venture (VJV) Term Maintenance Contract meetings.
No significant concerns have been identified from our work and management have responded positively to our recommendations for improvement.

Schools

Our overall opinion is one of Good Standard. In general, 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 matters arising from the audits are the:

- specific areas related to the Schools Financial Value Standard (SFVS) including governance, business continuity and benchmarking;
- purchasing and procurement including reconciliation of the imprest account;
- financial controls around income collection and banking and the inventory records.

Although no schools were given an opinion of 'improvements required', specific areas were given this opinion and recommendations have been made to reduce risks and in other areas and are made to strengthen what are reliable procedures.

The plan was flexed to accommodate the changing landscape of the County's maintained schools auditing 43 primary schools, 17 federations, 5 secondary schools and 4 special schools. In addition other work was commissioned by the Financial Intervention Panel for Schools for 5 follow ups.

As at year end (31st March 2017) 14 schools / federations had not submitted their SFVS self-assessment.

Summary:- Schools and the SFVS:-

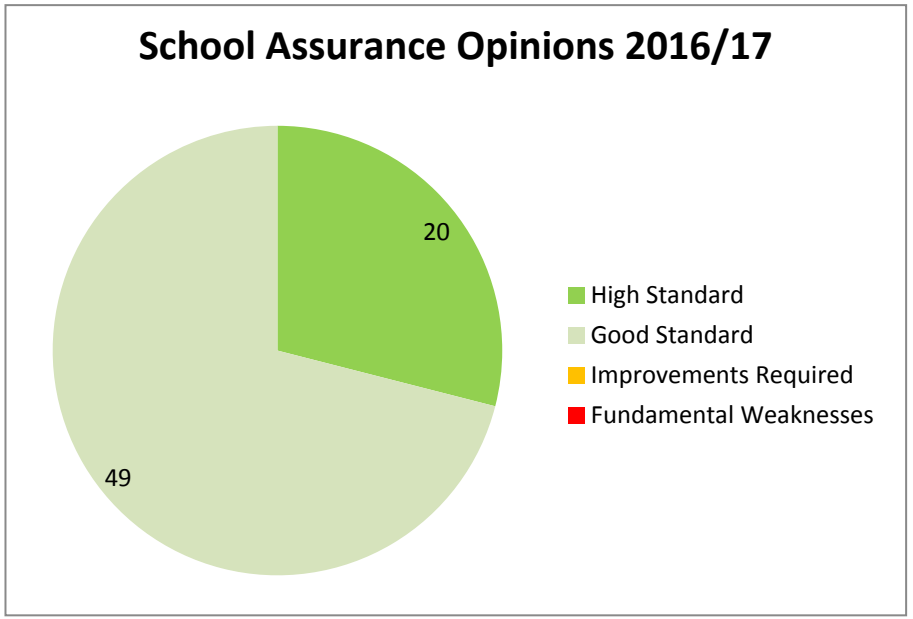
137 met the expectations of the Standard;

50 met the expectations of the Standard 'In Part';

2 not met expectations of the Standard;

2 not submitted (exempted).

Submission of the annual signed SFVS self-assessment should be an embedded governing body procedure.



Fraud Prevention and Detection

Fraud Prevention and detection and the National Fraud Initiative
Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability.

Our focus in 2016/17 has been to support the latest NFI exercise (2016/17). Devon Audit Partnership co-ordinated the extraction of data from a variety of Council systems at the end of September 2016 and then uploaded these datasets to the NFI web application where they were subsequently matched against other local authority and government agency datasets. Output in the form of data matching reports were received back in January 2017 and DAP have since been co-ordinating and leading the review of the data matching reports and updating the NFI website with the results.

Proactive anti-fraud work has been undertaken during 2016/17. Fraud bulletins have been produced and published on DAP's website. Accounts payable data has been reviewed in order to identify duplicate payments. This work remains ongoing. A number of potential duplicate payments have been referred to the Payments team for confirmation and so far this has resulted in the recovery of approximately £3,500 of duplicate payments. This work will hopefully mean that NFI work will be easier as many of the matches will have already been reviewed and resolved.
Examination of Member expense claims found areas that required addressing and these are being taken forward by Democratic Services & Scrutiny who will also further support Members through the provision of training in this area.

Irregularities - During 2016/17, Internal Audit has carried out or assisted in 19 investigations at Devon County Council. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
Theft	3
Theft from service user	2
Theft of IT equipment	1
Employee Conduct	1
Poor Procedures	3
Financial Irregularities	1
Irregularity Advice	6
IT Misuse	2

Examples of work undertaken include:-
Assisting in an employee conduct investigation regarding an employee incurring hire car charges for private use of a hired vehicle. The employee concerned has since left the authority. An invoice for £1,600 has been raised to reclaim expenditure inappropriately incurred. We facilitated discussion with management and the car hire company to improve processes and systems to prevent any future occurrences of this nature.

Raised through the DCC Whistleblowing Policy were allegations regarding education budgets and use of funds. Our review found no evidence suggesting deliberate wrongdoing or misleading action taken by DCC officers. Issues raised by the whistleblower suggested better understanding of spend was required however management have already identified such issues and, we understand, action is under way to address these concerns.

Customer Value

Conformance with Public Sector Internal Audit Standards (PSIAS)

Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing,* the *Code of Ethics* and the *Standards.* Our internal audit charter was approved by senior management and the Audit Committee in March 2017. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

Quality Assessment - through external assessment December 2016 'DAP is considered to be operating in conformance with the standards'. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme.

Improvement Programme - DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and a status report was reported to the Management Board in October 2016.

Performance Indicators

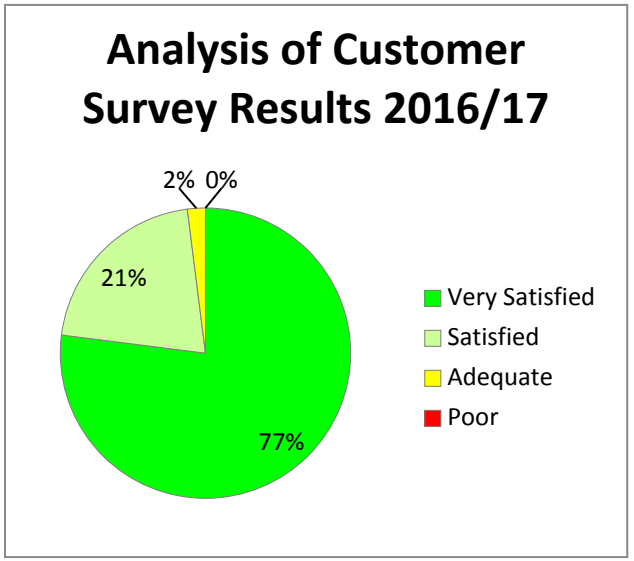
Overall, performance against the indicators has been very good with improvements made on the previous year (see Appendix 5). We are aware that some of our draft and final reports were not issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We continue to review where performance in this area can be improved.

Customer Service Excellence

DAP has been successful in re-accreditation by G4S Assessment Services of the CSE standard during the year.

During the period we issued client survey forms with our final reports. The results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services, see Appendix 6. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

We have had some very complimentary feedback some of the specific examples include:-
'The opportunity to "think aloud" about the set-up of the operation and to reflect on the balance of project vs service governance was particularly helpful. The auditor's broad experience encompassing knowledge of district council housing operations was relevant and added value to the process'.
'Thank you so much again for your time; we're all very pleased with the outcomes and the recommendations are all both practical and achievable, mostly in the short to medium term. It was also very useful to undergo the risk register process with you and that gave us quite a bit to think about which should allow us to work much smarter and safer'.



Appendix 1 - Annual Governance Framework Assurance

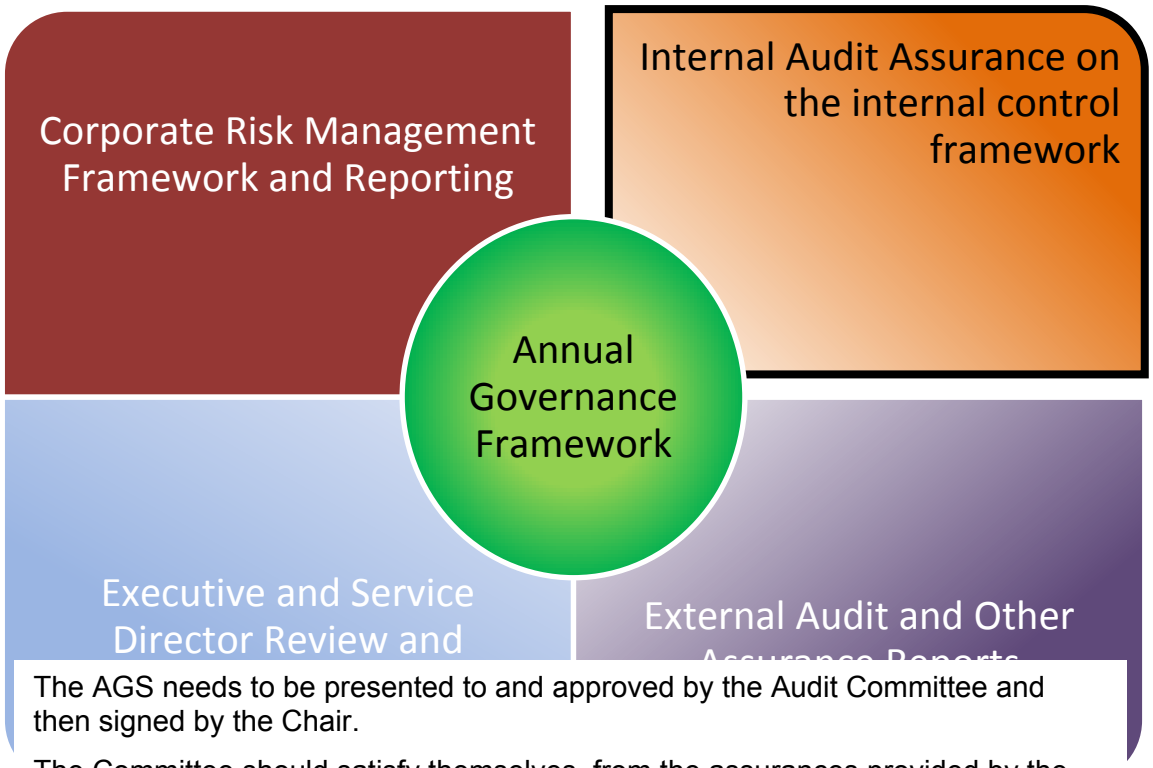
The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

The Annual Governance Statement provides assurance that:-

- the Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

- be prepared by senior management and signed by the Chief Executive and Chair of the Audit Committee;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that has been followed to ensure that the governance arrangements remain effective. This will include comment upon:-
  - the Authority;
  - Audit Committee;
  - Risk Management;
  - Internal Audit;
  - Other reviews / assurance;
- Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance.



The AGS needs to be presented to and approved by the Audit Committee and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Corporate Risk Management Group, Executive and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.

Appendix 2 - Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an opinion 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, formed from risk-based reviews and sample testing, of the framework of governance, risk management and control.

This report compares the work carried out with the work that was planned through risk assessment; 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 statement on the effectiveness of the system of internal control in meeting the Council's objectives:
- a comparison of internal audit activity during the year with that planned;
- a summary of the results of audit activity and;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements.

The extent to which our work has been affected by changes to audit plans has not been as notable this year as in the previous financial year. Although certain changes have been made from the plans originally agreed this has been due to changes in operational business needs and investigation work.

Work has been deferred to future years audit plans in consultation with the client and taking into account the related risk.

The scope of our audit work this year has not been too adversely affected as a consequence of investigatory works required to be undertaken and does not reduce the level of assurance that we are able to offer.

In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2016/17, including those audits carried forward from 2015/16;
- 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.

Appendix 3 - Audit Authority

Service Provision

The Internal Audit (IA) Service for Devon County 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.

Regulatory Role

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

- **Section 5 of the Accounts and Audit Regulations (England) Regulations 2015** which states that "…….a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance….."
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

Professional Guidelines

We work to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards (PSIAS).

DAP through external assessment demonstrates that it meets the PSIAS.

Our Internal Audit Manual provides the method of work and Internal Audit works to and with the 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.

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.

Appendix 4 - Summary of audit reports and findings for 2016/17

Risk Assessment Key
LARR - Local Authority Risk Register score Impact x Likelihood = Total & Level
ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
Client Request - additional audit at request of Client Senior Management; no risk assessment information available.

Direction of Travel Assurance Key
Green - action plan agreed with client for delivery over an appropriate timescale;
Amber - agreement of action plan delayed or we are aware progress is hindered;
Red - action plan not agreed or we are aware progress on key risks is not being made.
* Report recently issued, assurance progress is of managers feedback at debrief meeting.

CORPORATE SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Corporate Services - Finance			
Bank Reconciliation Risk / ANA: ANA - Low	Good Standard Status: Draft	Reconciliations for the Council's four main bank accounts have been effectively undertaken throughout the year, and independently authorised; though we note that authorisations have not been as prompt as procedures require.	G
Creditors Risk / ANA: ANA - Medium	Good Standard Status: Draft	As was the case last year, with the exception of low value payments relating to general claims and one time creditors, we have no significant concerns in relation to the operation of key controls within the creditors system. The introduction of P2P has mitigated a number of previous control weaknesses, for example lack of use of the GRN function in Finest; however the challenge is now to prevent officers bypassing its use and continuing to either raise orders on Finest, raise general claims, or make inappropriate use of the one time creditors function.	G
Debtors / Debt Recovery Risk / ANA: ANA - Medium	Good Standard Status: Draft	Debtor processes are operating effectively within a reasonably sound control environment. A number of minor issues have been identified in relation to management of the system itself, however given the modest user base, related risks are not considered significant.	G
Finest System administration Risk / ANA: ANA - Low	Good Standard Status: Final	Controls within the Finest system are generally designed to prevent unauthorised access, and detect errors, omissions or other inappropriate amendments. Some weaknesses do exist particularly in relation to segregation of duty, but the resultant risks have been accepted by management due to the business need and resource constraints. There were some recommendations that have required re-reporting due to agreed action being postponed pending implementation of the Council's P2P (Purchase to Payment) project, and these are now expected to be addressed in the coming months.	G

CORPORATE SERVICES			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
Income Collection Risk / ANA: ANA - Medium	Good Standard Status: Final	As has been the case for a number of years, income collection and allocation processes are operating effectively within a reasonably sound overall control environment. Transactions are uniquely identified within the system and reconciliation processes ensure that income is completely and accurately recorded in Finest. We note that there is a 'Payment Gateway' project underway that will impact Income Collection in due course; and an additional project to migrate intranet information, including that relating to Revenues and Payments, to a new website. Once these projects are complete, it is hoped that a number of the issues identified will be resolved, and this has been referred to within the recommendation updates.	
Main Accounting System Risk / ANA: ANA - Medium	Good Standard Status: Final	The main accounting system is being operated within a reasonably sound overall control environment. There are some areas where consideration and implementation of additional measures would enhance the existing control framework, and recommendations have been made accordingly. These include alignment of procedural guidance, consistency across the directorates in relation to budget virements, independent authorisation of journals under £200k, and more timely clearance of suspense.	
Treasury Management Risk / ANA: ANA - Low	High Standard Status: Final	Testing has found that the control environment for both the Council's funds and the Pension Fund remains sufficiently robust in relation to the inherent risks present and only a small number of minor recommendations have been made. Approved procedures are in place, and our review found that these had been adhered to in terms of both placing an investment, and taking out short term borrowing. Reconciliations between Logotech and the main accounting system for both the Council's funds and the Pension Fund are undertaken monthly and were found to be effective. Performance targets are monitored appropriately and the latest reported information shows no areas of concern.	
Grants x 9 Risk / ANA: n/a	Certified Status: Complete	Grants certified without amendment - Local Transport Capital Block Funding, Additional Highways Maintenance Funding, Local Growth Fund, Careers and Enterprise, Social Care, Skills Funding Agency, Active Devon, and Targeted Family Support Programme. Grant preparedness prior to External Audit - Homes and Community Agency Funding.	N/A

CORPORATE SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Accounting for VAT in Partnerships Risk / ANA: ANA - Medium	Improvements Required Status: Final	Detailed VAT guidance material is in place in respect of partnership working, and this is kept up to date following changes to HMRC guidance. Processes and guidance are also in place in respect of requirements and accounting arrangements for entering into partnership working; however they would benefit from being consolidated, updated and linked to the VAT guidance. We are unable to provide assurance at this time in relation to compliance with DCC partnership working processes due to inconsistent record keeping in respect of formal partnership agreement documentation. As a result, similarly, we are unable to confirm whether VAT has been accurately recorded and accounted for in all cases. Existing monitoring and recording processes would be improved with greater involvement of the VAT team in the early stages of new / renewed partnership arrangements, and in establishing a complete record of all existing partnerships.	
Debt Mapping Risk / ANA: ANA - High	Good Standard Status: Final	A number of areas were identified where debt recovery was found to be outside the control framework operated by the central Revenue and Payments Team. In the largest area, alternative controls are deemed to be adequate. Although there are others where this does not seem to be the case, they are not sufficiently significant or numerous to present a risk of ineffective debt recovery across the Council as a whole; hence the overall opinion of 'Good Standard'. As well as making specific recommendations in relation to the above, we have also recommended that management consider a more in depth mapping exercise of their income streams, as our review has been limited to the information we could obtain during the audit period.	
Tax Compliance Forum Risk / ANA: Client Request	Value Added Status: Ongoing	The Group discusses HMRC 'hot topics' and their implications on the authority and the impact of organisational and systems changes on tax compliance. No significant unmitigated risks have been identified to date.	N/A

The following audits have either been cancelled by the client as they are no longer required, or deferred until 2017/18:-

- Fixed Asset Register (ANA - Low)
- Use of new Budgeting System (ANA - Medium)
- Non Residential Financial Assessments (Charging for Care –– Client Contributions)
- Grants - Local Sustainable Transport Fund allocations - A2E, Rural Growth Network, Dartmoor Granite & Gears, Flood Resilience Community Pathfinder

Corporate Services - Human Resources			
Payroll Risk / ANA: ANA - High	Good Standard Status: Final	New processes have been introduced this year both in relation to reviewing the causes of overpayments and taking appropriate action and to ensure that amendments made to the payroll system are appropriate. The latter process involves quarterly, retrospective checking of the authoriser of a sample of new starter, change and leaver forms; and is a temporary control that we understand will be in operation until the new	

CORPORATE SERVICES			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
		online system of automated authorisation is in place. Although not fully mitigated, this temporary control does limit the risk of inappropriate payments being made, and we are pleased to provide a 'Good Standard' opinion this year as a result. We do, however, note that that previous issues in relation to clearing historic balances on some suspense accounts have still not been fully addressed, and we have made a recommendation accordingly.	
HR - Absence Management & Recording Risk / ANA: ANA - Medium	Improvements Required Status: Final	Absence management policies and procedures were found to be comprehensive and current. Although we did not identify any unnecessary or duplicate processes in the current procedures operated by Payroll, we did identify opportunity for improvement in the control environment and potential efficiency gains through greater automation of the process, which could be achieved from system changes which would require resource commitment outside of HR.	
HR - Maintenance of Work Structure Risk / ANA: Client request	Good Standard Status: Final	Prism work structures were found to be effectively managed and maintained by the HR One Structures team supported by documented internal processes and effective monitoring controls.	
HR - Consultants Follow Up Risk / ANA: Client request	Improvements Required Status: Final	There is a comprehensive policy which guides Managers to consider the value in hiring a Consultant or Interim Manager. However, the Policy is still not being followed in the majority of instances and there is a lack of policing or penalty for non-compliance. In most instances there was a perceived haste to the requirement and a belief that the available expertise is limited and thus an awareness of suitable candidates is often pursued outside of procurement arrangements. This creates an unacceptable risk to the Authority and requires prompt action.	
Management of Agency Workers Risk / ANA: Client request	Good Standard Status: Final	It appears that a management list had been created of agency social workers. Due to the time that has passed it is difficult to determine exactly why the list was created and by whom. However, we can confirm that the list has been destroyed and no further copies have been identified. A HR Advisor is currently reviewing processes for managing issues with social workers to provide improved guidance for managers to follow. From this the aim will be to introduce set practices for dealing with issues as they arise for all social workers including agency staff, and ensuring that where necessary the issue is recorded and the employee made aware of this for future referencing.	

CORPORATE SERVICES			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
HR - Ex employee records - Phase 2 Risk / ANA: Client request	Improvements Required Status: Final	Interviews with Senior Management and staff has revealed that knowledge of the Data Protection Act and its requirements in relation to holding personal data without the subjects knowledge is generally well known and carefully considered, especially in relation to areas where vulnerable children or adults are involved or where we have joint working/outsourcing arrangements. However, the policy has not been updated since 2013 and intranet links to new starters induction checklists no longer work. It is also felt that monitoring of training could be significantly improved to ensure that all new starters complete training and also to ensure that all employees renew their training every two years as per policy.	
Payroll - Re-enrolment Risk / ANA: Medium	Good Standard Status: Final	Re-enrolment was found to be accurately declared. An arising query by the Pensions Regulator regarding the inclusion of a school that was expected to make a separate return resulted in an amendment and re-submission of the corrected data. The method followed was generally effective, however a step in the process resulted in employee pension deductions not be taken for April 2016; this was identified by Payroll and the deductions corrected in May 2016, and the associated payrun procedures updated to prevent recurrence. The process of first re-enrolment was effectively managed by a project team and included appropriate and evidenced user acceptance testing, the production of procedure documents, effective communication of the changes, and maintenance of records to support the implementation of the system and process change. Process and related controls were found to be generally robust and we can confirm that re-enrolment requirements have been met and that affected employee pension contributions were accurately deducted.	

The following audits have either been cancelled by the client as they are no longer required, or deferred until 2017/18:-

- Payroll - Dispensations (Client request)
- Payroll - Online Adjustments (ANA - Medium)
- Teachers' Pensions Return (Client request)

CORPORATE SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Corporate Services - Business Strategy and Support			
Information Governance including PSN Risk / ANA: ANA - High	Added Value Status: Final	On-going support and advice has been provided, including the provision of support for individual business areas in respect of information governance queries. Work has commenced to collaborate more closely with the Information Governance Team in order to support their agendas wherever appropriate and ensure consistency in delivering key messages.	
Blue Badge Appeals & Complaints Process Risk / ANA: Client request	Added Value Status: Final	Audit carried out a benchmarking exercise to ascertain how a number of similar local authorities administered blue badge applications and appeals with particular attention on the provision of Independent Mobility Assessment. A number of observations and considerations were subsequently reported to management.	
Procurement - Review of Selected Tender Evaluation Exercises Risk / ANA: Client request	Added Value Status: Final	DAP has continued its involvement in the letting of a new Highways Maintenance Contract, providing support and challenge to both Devon and Plymouth Councils at the various stages of the procurement. This culminated in the receipt and evaluation of final bids and Audit provided independent assurance in the lead up to bid submission and during the evaluation of these bids. Audit were present at moderation sessions and conducting validation of evaluation scores, pricing models and "relative merits", to ensure that a consistent and fair approach was followed throughout. Audit has had involvement in the preparation of DILIS tender documentation issued to prospective bidders and the subsequent evaluation of submitted tenders. DAP reviewed a number of key documents and spreadsheets used within the procurement process and identified a number of amendments required. Audit was in attendance at evaluator training and present at all bid moderation sessions to ensure consistency and fairness.	
HRMS Project - Procurement & Implementation Risk / ANA: Client request	Added Value Status: Ongoing	We have provided support and challenge as the Council embarked on the procurement and implementation of a replacement HR and Payroll system. This included attendance at Working Group meetings as system requirements were drawn up followed by the drafting and issuing of tender documents. Audit will continue in a Project Assurance role during 2017/18 with particular attention paid to the tender evaluation and subsequent system implementation phases.	N/A

The following audits have either been cancelled by the client as they are no longer required, or deferred until 2017/18:-

- Strategic - Ethics & Culture (ANA - Medium)
- Strategic - Review of Contract Management: Strategy and Process (ANA - High)
- Finance - Financial Performance of Commercial Enterprises (Client request)
- Procurement - Resilience of significant/strategic suppliers to ensure service provision in face of Public Sector cuts (ANA - High)
- Procurement - Governance protocols in relation to contract award procedures and contract lifecycle (ANA - High)

CORPORATE SERVICES			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
Corporate Services - IT Audit			
CareFirst 6 (ACS) Corporate Business ANA - Critical	Improvements Required Status: Final	The identification of formal governance structures to administer, maintain and develop social care business solutions, and key interdependencies, is required to better safeguard both information and financial assets. As the way in which adults and children's social care is delivered it is important that there is clear ownership of the often highly sensitive data assets and the business solutions that hold them. Weaknesses in password quality, Children's Services user training and, CareFirst user groups and profiles, all undermine data security and highlight potential cultural weaknesses with regard to data security awareness. Internal Audit to engage with both social care services in order to attempt to address these issues.	
Service Strategy - Critical Success Factors and Technical Roadmap ANA - High	Added Value Status: Ongoing	The Roadmap is being delivered through ICT as it's been pre-agreed through consultation with Business leadership teams prior to commencing work and this is now considered by the ICT Strategic Commissioning Manager as now being effectively delivered. As the commissioning model embeds, it can be difficult to balance between empowering business areas to have appropriate ownership of projects and ensuring that ICT Commissioning service has appropriate end to end input. Internal Audit will continue to monitor progress during 2017/18 to ensure that the value of the commissioning model is being fully realised and that all risks are being appropriately mitigated. This will include risks such as those represented by silo'd projects and failure to realise the benefits of the ICT Road Map and strategic plans such as the "One Plan".	
Data Security - NPS Follow-up ANA - Client Request	Improvements Required Status: Final	Some remedial actions have been completed. The main area of concern remains the lack of regular penetration testing conducted in respect of the data centre within which the NPS C2 solution is hosted. This and other less significant risks are to be discussed with the DCC Management in order that appropriate mitigating actions are identified or, that it is agreed that the level of risk is acceptable in respect of operational requirements.	
CareFirst 16/17 ANA - High	Improvements Required Status: Ongoing	The identification of formal governance structures to administer, maintain and develop social care business solutions, and key interdependencies, is required to better safeguard both information and financial assets. As the way in which adults and children's social care is delivered it is important that there is clear ownership of the often highly sensitive data assets and the business solutions that hold them. Weaknesses in password quality, Children's Services user training and, CareFirst user groups and profiles, all undermine data security and highlight potential cultural	

CORPORATE SERVICES			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
		weaknesses with regard to data security awareness. Internal Audit have had preliminary meetings regarding the Eclipse Project and are performing a review of project governance before engaging further with the Eclipse project team in order to attempt to foster improvements within the new system. The Corporate Information Governance Team could also play a key role in improving asset ownership within the social care area.	
Service Operation - Processes (Incident & Problem) Risk / ANA: Client request	Good Standard Status: Ongoing	Work was undertaken to explore why and where incidents were occurring and further identify how they could be reduced or problems identified earlier. A manual review of incident data was undertaken within ICT Service Desk, but it is planned that Internal Audit will use the data analytical tool “Idea” to examine incident records as a whole in order to maximise potential to identify potential areas of improvement.	
Cyber Security Risk / ANA: Client request	Good Standard Status: Draft	The Council's controls across the six areas highlighted by the "Cyber Essentials" scheme published by the National Cyber Security Centre (NCSC) are generally sound. The council is a member of the Cyber-Security Information Sharing Partnership (CiSP) operated by NCSC which provides a service that monitors the council's network traffic in real time and reports any issues for investigation. Further mitigation is needed on assurance to be able to restore key business systems and of testing effectiveness of business continuity.	*
IT Material Systems Risk / ANA: Client request	Good Standard Status: Draft	The Council's compliance and organisational controls are generally sound in terms of security policies, licencing and compliance with PSN requirements. Work to consolidate all of its software records into a single resource known as the Definitive Software Inventory is currently on hold pending the rollout of Windows 10 but we understand that it will be resumed when reassigned staff become available following the completion of the rollout project. Operational availability of material systems is sufficiently protected by the resilience built into the Council's computing infrastructure and the pro-active monitoring of traffic travelling over it. Further mitigation is needed on assurance to be able to restore key business systems.	*

The following audits have either been cancelled by the client as they are no longer required, or deferred until 2017/18:-

- Service Operation - Processes (Incident & Problem) (ANA - High)
- Service Design - Detailing how to deliver the service (ANA - Critical)
- Incident Management (Client Request)

PEOPLE			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
Residential Care Banding Risk/ANA: ANA - High	Improvements Required Status: Final	Monitoring expenditure levels since the introduction of the new two banded system has shown greater levels of enhanced care have been awarded leading to an increase of £1.5m in expenditure. This is possibly due for several reasons:- • Increased numbers of clients being assessed as enhanced; • In House services being transferred to commissioning on ceasing operations with the closure of DCC residential and nursing homes, resulting in exceptional payments being made; • Non Banded Residential care where payments for out of area placements are set at that Authority's rate which may be higher than DCC's rate; • Assessment delays, resulting in substantial amounts being backdated for many months. This was due to a delay in implementing an uplift to the fees culminating in backdating of fees to April 2014; • The Panel process for reviewing and agreeing expenditure all residential and nursing placements is not operating consistently across all areas due to a lack of formal procedures. It has also been identified that not all residential and nursing placements are going to Panel. Timely assessments are crucial to ensuring that a client's needs are assessed at least once a year. Delays were found in undertaking yearly assessments which have led to bandings being uplifted and backdated without further recourse to Panel. Joint Agency Managers authorise against the Scheme of Delegation which is not reflected in CareFirst. All residential and nursing care placements should go before an area panel for further agreement of the banding and assessment. If additional help is needed the panel could consider awarding a market premium or using a targeted payment for specific areas of need. It was found that the panels had no clear terms of reference and that crucially not all residential and nursing care clients cases were put before the panel. Documentation regarding panel decisions, minutes and approvals were not located in the majority of the sample tested.	
Residential / Nursing Commissioning Arrangements Risk/ANA: ANA - Client request	Improvements Required Status: Draft	Despite the new scheme which consolidated care bandings into two types, standard and enhanced, there remain within Banded Care a number of service agreements (106) in use which relate to old agreements which have not moved over to new packages. The weekly monitoring report completed by Finance focuses on the 2,602 clients with Banded Care, with weekly costs of £1,004,736 and thus does not provide the full picture of agreements and costings. We were unable to locate up to date policies/procedures for the use of Targeted Support, Market Premiums and Exceptional Payments. We understand Market Premiums are not to be used for clients who reside outside of Devon,	

PEOPLE			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
		analysis identified 14 clients residing outside of Devon for whom a market premium is paid.	
Devon Independent Living Integrated Service (DILIS) Risk/ANA: ANA - High, Client request	Value Added Status: Final	DAP reviewed a number of key spreadsheets used within the procurement process for this particular contract and identified a number of amendments required. Discussions were held with both the Project Manager and Procurement and Audit were present at evaluator training and bid evaluation sessions to ensure consistency and fairness.	
DAPH / DASH / SHAD Devon Association of Primary Headteachers Risk/ANA: ANA - Client Request	Good Standard Status: Final	With the ever changing landscape of the membership of the Association between maintained and academy schools, the Executive Committee has started to look at alternative service delivery vehicles for the Association. This could mean that the Association moves away from the financial umbrella of the County Council but this raises significant issues on financial management and procedures. Based on this review of the last four years' accounts, additional expenditure would be incurred by the Core Activities.	
Devon Schools Phase Associations Risk/ANA: ANA - High	Improvements Required Status: Final	There is a lacking of consistency in the areas covered by the Constitutions as the recommendations made in the April 2013 internal audit report have not been implemented. The Terms of Reference suggest that each Association has their own finance policy, based on the document provided to the maintained schools. Apart from DAPH, the other Associations do not have a finance policy but reliance has been placed on the details contained in their respective Constitutions. The Associations all operate the recording of their financial transactions differently. The School Associations are managed through the County Council systems whilst the Governor Association is outside these systems. The four Associations provided financial information on a periodic basis and produce a form of accounts at 31 March each year. The balances being carried forward by DASH and DAG at 31 March 2016 are considered to be excessively high.	
High Cost Child Placements Risk/ANA: ANA - Client Request	Improvements Required Status: Final	Overall, the key elements for a workable and enforceable system are in place, but these have not always been complied with. There will always be "exceptional circumstances" but these should be few in number. Our report makes a number of recommendations aimed at further improving processes, and, in particular, these are around Court Directed placements, ongoing training for staff and capturing approval information on the CareFirst system.	
Mapleton RCH Risk/ANA: ANA - Client Request	Good Standard Status: Final	We identified a small number of areas where definite improvements can be made as current control measures are ineffective at reducing risk to an acceptable level. In particular, improvements are required in the areas of:- • Stock control - including security, record keeping, monitoring and reporting; • Inventory - a complete and up to date inventory should be maintained in accordance with the Authority's procedures.	

PEOPLE			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
Children with Disabilities Risk/ANA: ANA - Medium, Client Request	Good Standard Status: Draft	CWD are monitoring levels of expenditure and are aware there are a number of C/YPs with costs above the nominal maximum levels. Management are aware Key Workers are using the Primary School version of the Resource Allocation Questionnaire to assess children under 7, instead of the Devon Assessment Framework (DAF) tool developed, as they find this provides a better indication of needs. The area manager has acknowledged Panel Procedures need to be updated to reflect current procedures.	
Contract Monitoring LW@H Risk/ANA: ANA - Client Request	Status: Ongoing	Fieldwork commenced.	
Quality Assurance & Improvement Team (QAIT) Risk/ANA: ANA - Client Request	Status: Ongoing	Fieldwork commenced.	
Resource Allocation System (RAS) Risk/ANA: ANA - Client Request	Status: Ongoing	Fieldwork commenced.	
Schools Financial Value Standards (SFVS) Statutory ANA - Low	Good Standard Status: Final	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2016/17 submitted to the Department for Education.	

PLACE			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
Highways Term Maintenance Contract - Payment Mechanism review Risk / ANA: ANA - LARR, Client request	High Standard Status: Final	Based on limited testing undertaken assurance was obtained that the systems and processes reviewed were working correctly. Assurance can be provided that the Traffic Management Unit's costs have been derived from the accounting system and calculated to show the charge being made under this contract.	
Economy and Enterprise Risk Registers Risk / ANA: ANA - Medium	Value Added Status: Final	Facilitation of and discussion at risk workshops.	
MIL & REAL Local Action Group Programmes Risk / ANA: ANA - Client request	Good Standard Status: Final	Presently there is a low level of take up in respect of the REAL (Rural Enterprise and Local Lives) scheme with approximately £1m of budget still available to fund local projects mainly within the Mid Devon area. The Programme Lead and the Executive Board (REAL) have identified this as a concern and plan to publicise the scheme more widely within the near future through a promotional strategy.	
Community Impact Support Scheme Risk / ANA: ANA - Client request	High Standard Status: Final	Conflict of Interest: The Economic Development team do not currently record business interests in line with DCC guidance on declaration of business and pecuniary interests. To ensure high standards of probity and transparency all staff must declare any business/pecuniary interests. Verification of income projections: From testing undertaken it was evident some applicants were reliant on achieving higher levels of income/sales to fund the project(s). However we were unable to find further evidence to support / verify their income / sales figures had been provided to the Panel. We suggest further evidence should be obtained to verify income projections should the scheme continue to operate.	
On Street Parking - Benefits Realisation Risk / ANA: ANA - Client request	Good Standard Status: Final	Review of data held by the Council upon complaints along with assaults made against individual CEOs both show a drop in numbers since the service returned 'in-house'. No formal Parking Strategy has yet been developed which may help in setting longer term goals for the service. Developing a longer term business strategy would also ensure the service has a better understanding of itself and where it is now. Use of formal KPIs would help to provide further assurance to Senior Management and Council members that the service is performing in line with their expectations.	

PLACE			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
TMC Highways - VJV Contract Risk / ANA: ANA - LARR, Client request	Value Added Status: Ongoing	Attendance at the monthly meetings to provide independent and objective advice and input as required to the discussions between management and contractor.	
New Highways Contract - Support for new Contract Risk / ANA: ANA - LARR, Client request	Value Added Status: Final	Provision of support within the procurement process, maintained contact with the relevant officers throughout; advisory role.	
Risk Management Risk / ANA: ANA - LARR, Medium	Improvements Required Status: Draft	Our audit concluded that there has been a lack of leadership on risk management. The current lead officer for risk management has developed reporting arrangements, but does not "lead" on the identification of risk, or in the control of such risks. The Corporate Risk Management Group (CRMG) has seen a number of recent changes in personnel and currently does not possess extensive knowledge or experience of risk management, hence risk registers prepared are often lacking in the way risks are described and reported. Concern has been raised by the CRMG regarding the roles and responsibilities of Member Committees. The Risk Management Policy should recognise a clear distinction between the Risk Management responsibilities for the Audit Committee and that for Scrutiny Committees. In conducting Internal Audit reviews it was evident that some service areas have not been recording risk in either a service or the central risk register. In order to embed Risk Management, the Council should ensure that there are clear systems in place to manage all Strategic and Operational Risk and this includes risks associated in working with 3rd parties. The current Risk Management policy includes a number of different risk categories, including corporate risk. However, best practice guidance suggests that the Council should focus on two main categories of risk (Strategic and Operational). The Council should recognise the distinction between these two categories as both types of risk are likely to be managed differently in terms of ownership, review and reporting.	
Libraries - Effectiveness of Monitoring and Controls	Good Standard	At present Libraries Unlimited (LU) and DCC have not agreed a Risk Management Strategy, though we understand that LU does have internal procedures to manage risk including the use of a risk register. We have suggested to both parties, that a joint risk management strategy could be developed and shared.	

PLACE			
Risk Area / Audit Entity	**Audit Report**		
	Assurance opinion	**Residual Risk / Audit Comment**	**Direction of Travel Assurance**
Risk / ANA: ANA - Medium	Status: Final	LU is required to implement a disaster recovery plan for the library service. This has not been implemented. We have suggested to both parties, that it would be good practice to ensure both Business Continuity and Disaster Recovery Plans are developed in future.	
Syrian Vulnerable Person Scheme Risk / ANA: ANA - Client request	Good Standard Status: Final	There are a number of risks associated with this project and the project team should look to ensure these are managed through a formal risk management strategy. Data Sharing Protocol: The Project Lead has recognised the need for a formal data sharing protocol to be in place. At the time of the audit a formal agreement had been drafted but had not been shared / approved by all of the agencies participating in the project. Communications Strategy: The Project Lead is keen to implement a Communications Strategy as it was evident there are a number of interested parties which have varying power and influence over the project who must be kept informed on operational matters and general progress of the project.	
Attendance at CRMG (Corporate Risk Management Group) Risk / ANA: ANA - Client request	Value Added Status: Ongoing	CRMG continues to embed risk management across the organisation. Internal Audit providing advice and support to the CRMG.	
Trading Standards: BWC Central Hub Risk / ANA: ANA - Client request	Good Standard Status: Final	Under the local scheme, we estimated that approximately 25% of the membership had not been paid in this financial year. Under the national scheme, the Operational team should look to ensure that adequate debt recovery procedures are in place to ensure membership fees are collected timely as this could have an impact in the service being able to deliver the business plan in future years.	
Town and Parish Fund Risk / ANA: Client request	Good Standard Status: Final	The Town and Parish funds were found to be effectively managed by DCC in relation to the support and guidance provided to District Councils, and feedback relating to District Councils' experience of working with DCC in relation to the operation of the scheme was largely positive.	

Appendix 5 - Performance Indicators

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)	*2015/16*	*2015/16*	*2016/17*	*2016/17*
	Target	**Actual**	**Target**	**Actual**
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	97%
Percentage of Audit plan Completed (Inc. Schools)	93%	97%	93%	92%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	101%	95%	107%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%
Percentage of chargeable time	65%	69%	65%	70%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	99%	90%	97%
Draft Reports produced within target number of days (currently 15 days)	90%	87%	90%	89%
Final reports produced within target number of days (currently 10 days)	90%	94%	90%	97%
Average level of sickness absence (DAP as a whole)	2%	2%	2%	3.2%
Percentage of staff turnover (DAP as a whole)	5%	5%	5%	21%
Out-turn within budget	Yes	Yes	Yes	Yes

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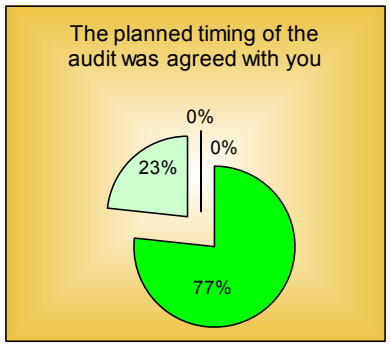
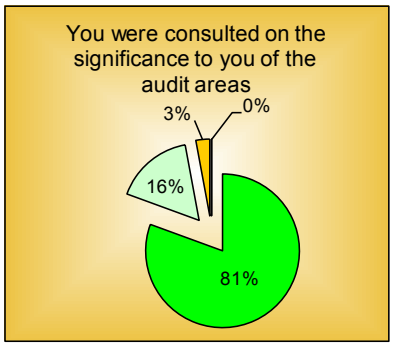
Overall, performance against the indicators has been very good and has maintained improvement on 2015/16 in relation to the issue of draft and final reports to the customer within the agreed timeframes.

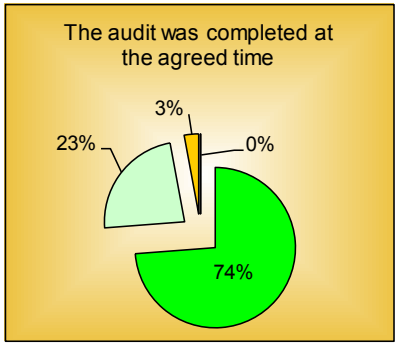
Appendix 6 - Customer Service Excellence

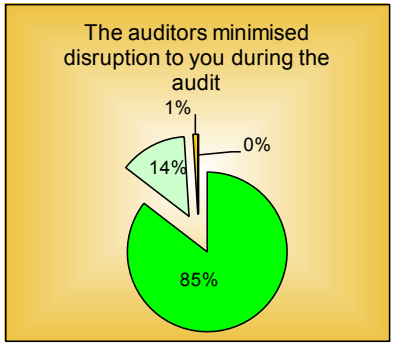
Customer Survey Results April - March 2017

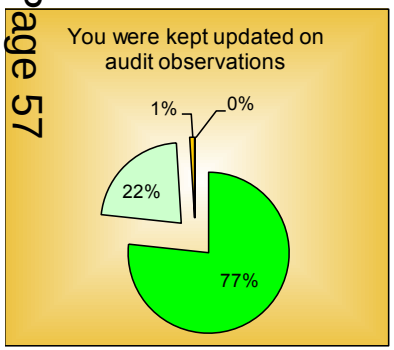
The charts below show a summary of 103 responses received.

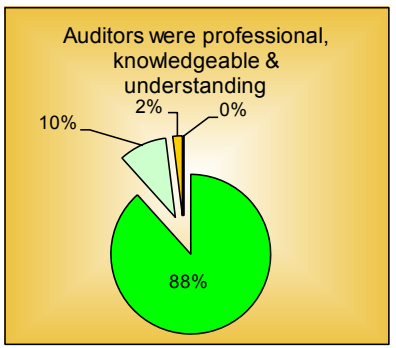


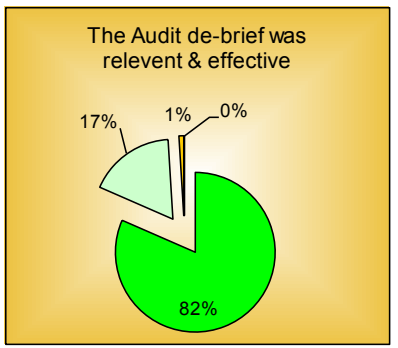


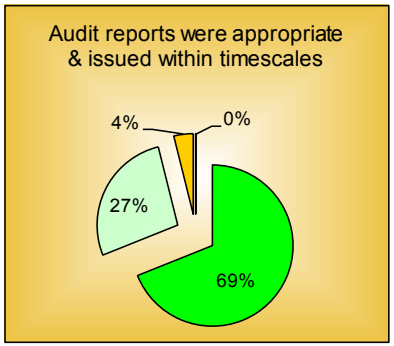


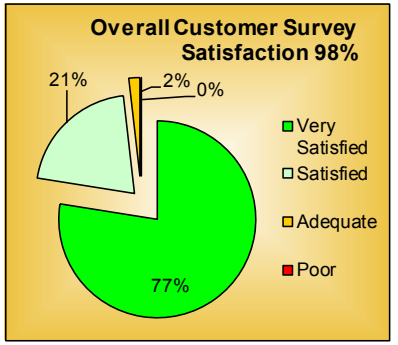












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CT/17/64
Audit Committee
30th June 2017

EXTERNAL AUDIT – AUDIT COMMITTEE DCC PROGRESS REPORT AND UPDATE
Report provided by Grant Thornton via the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the attached report.

1. The attached report, provided by the Council's External Auditors (Grant Thornton) outlines the proposed timetable and stages of the 2016/17 audit. The paper also includes a summary of emerging national issues and developments.

Mary Davis
Electoral Divisions: All
Local Government Act 1972
List of Background Papers

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Background Paper: None

Audit Committee Update
Devon County Council
Progress Report and Update
Year ended 31 March 2017

June 2017

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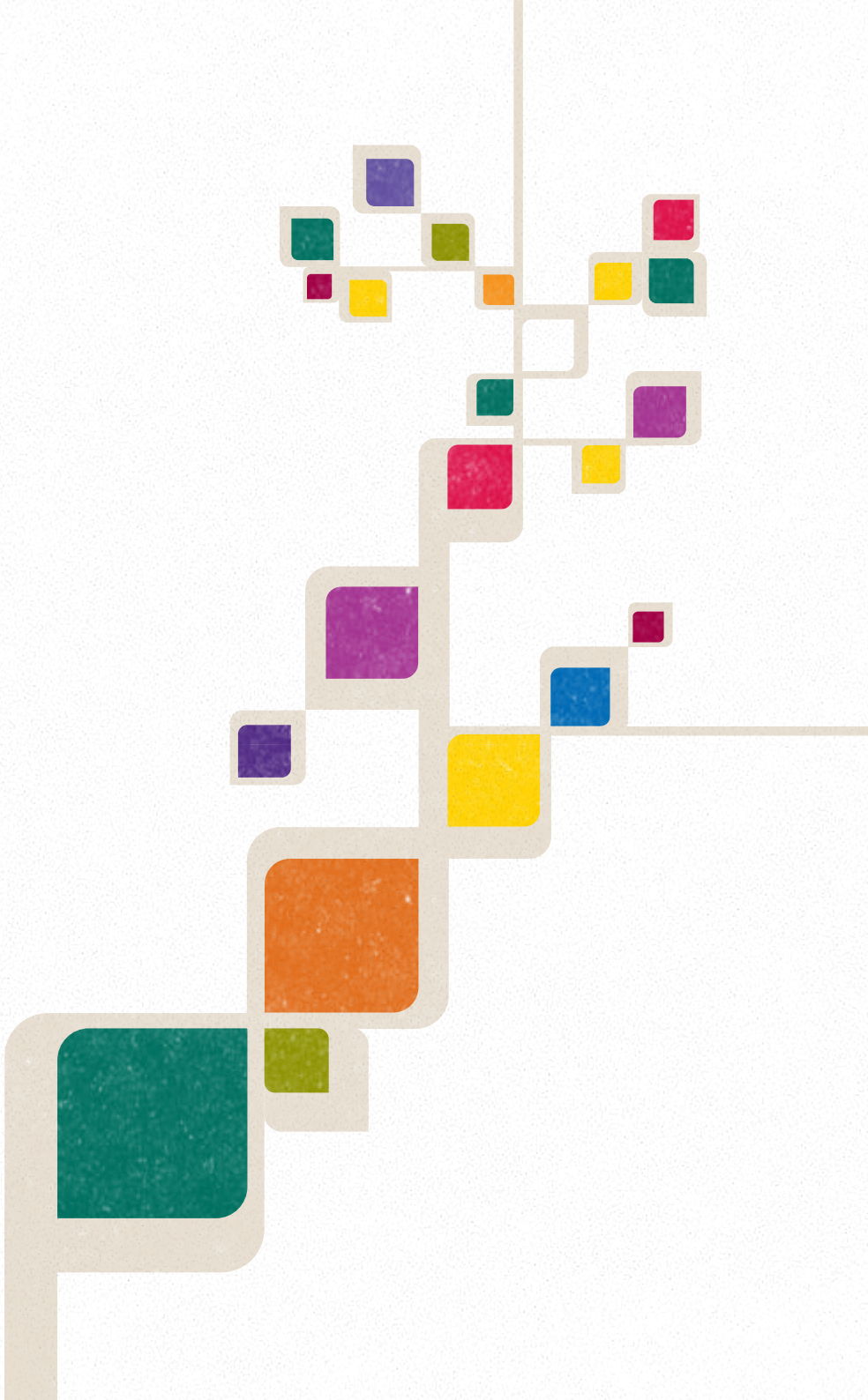
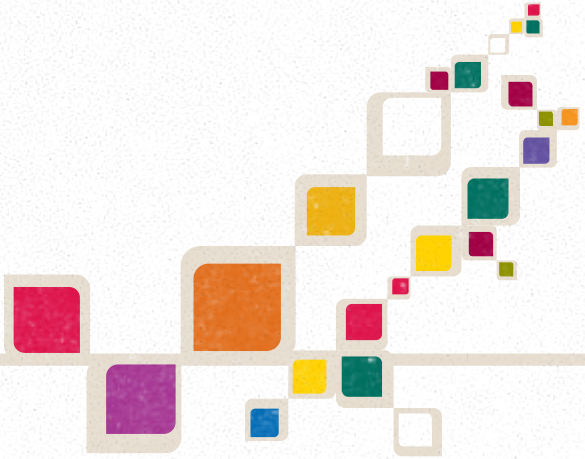


The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible 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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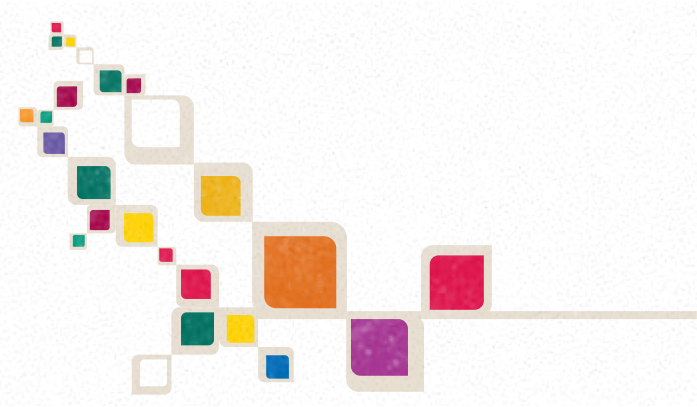
Introduction

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

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 and articles, including:

- Income generation is an increasingly essential part of providing sustainable local services (March 2017); http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/
- CFO Insights – reviewing council's 2015/16 spend (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- Brexit and local government; (April 2017) http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/ and (December 2016) http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

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



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Progress at June 2017

2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	Yes	
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 2016-17 financial statements.	March 2017	Yes	We issued the audit plan which was presented at the last Audit Committee meeting.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	January to March 2017	Yes	We completed our interim work in line with plan and report the results of this work to the Audit Committee at this meeting.

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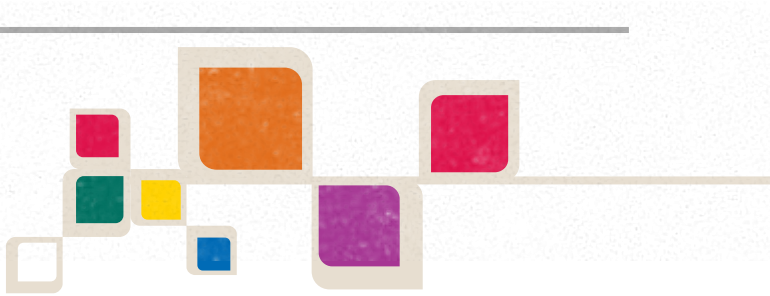
Progress at June 2017



2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	June to August 2017	In progress	Our final accounts audit started on 19th June.
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	March to July 2017	In progress	We will consider the potential significant risks for our VfM conclusion and carry out key document reviews and interviews to inform our conclusion.

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Technical Matters

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements) amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

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Sector issues and developments

National Audit Office

Protecting information across government

"Protecting information while re-designing public services and introducing the technology necessary to support them is an increasingly complex challenge. To achieve this, the Cabinet Office, departments and the wider public sector need a new approach, in which the centre of government provides clear principles and guidance and departments increase their capacity to make informed decisions about the risks involved."

Amyas Morse, head of the National Audit Office, 14 September 2016

https://www.nao.org.uk/report/protecting-information-across-government/

Planning for 100% local retention of business rates

"The Department faces a significant challenge in implementing 100% local retention of business rates by 2019-20. It has benefited from the experience of delivering the 50% local retention scheme and is using this experience effectively. The key question is whether there is enough money in the system to let services be delivered on the right scale and for self-sufficiency to be seen to succeed."

Amyas Morse, head of the National Audit Office, 29 March 2017

https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/

NAO Publications

Challenge question:

- Have you read the NAO reports?

Health and social care integration

"Integrating the health and social care sectors is a significant challenge in normal times, let alone times when both sectors are under such severe pressure. So far, benefits have fallen far short of plans, despite much effort. It will be important to learn from the over-optimism of such plans when implementing the much larger NHS sustainability and transformation plans. The Departments do not yet have the evidence to show that they can deliver their commitment to integrated services by 2020, at the same time as meeting existing pressures on the health and social care systems."

Amyas Morse, head of the National Audit Office, 8 February 2017

https://www.nao.org.uk/report/health-and-social-care-integration

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Grant Thornton

Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation .

Our new research on income generation which includes our CFO Insights tool suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

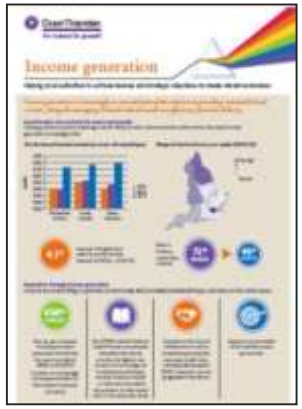
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

Grant Thornton publications

Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report can be found here:

http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/

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A Manifesto for a Vibrant Economy

Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a "one-size-fits all". Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breath, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government's block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality. .

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a Vibrant Economy Index to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people's productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody's ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Challenge question:

- Have you read our manifesto?

http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf

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Publications

Providing key insight and examples of best practice to local government, police, fire and rescue services.

Innovation in public financial management

Our research on international public financial management shows it is evolving, from having a narrow focus on budgeting, towards a wider mandate as a key driver of policy and strategy across all levels of government, public services, state enterprises and public-private partnerships.

Turning up the volume

Our Business Location Index identifies the most desirable and affordable areas for investment in England, by looking at a combination of economic performance, people & skills, environment & infrastructure and cost.

Our aim is to give local authorities and LEPs the tool to better understand and market their strength and assets to increase inward investment and inform their devolution discussions.

Reforging local government

The autumn statement identified how councils will need better financial management and further efficiency to achieve the projected 29% savings. This presents a serious challenge to manage councils that have already become lean.

Our report looks at the financial challenge facing councils, the new governance agenda that will challenge traditional arrangements and expectations, and the way forward for the public sector through devolution, innovation, collaboration and cultural change.

Making devolution work

This report gets under the bonnet of the devolutionary conversations taking place between Whitehall and local government across England. It offers a practical guide to local leaders by outlining the benefits of devolution, the areas of priority to central government and the key questions that must be addressed in order to produce a successful devolution bid.

Growing healthy communities

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live.

Our health and wellbeing index looks at the health determinants and outcomes of an area, highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes. It also identifies the wider economic determinants on an area's circumstances, emphasising the need for local collaboration between public sector bodies.

Spreading their wings

Our first report in a series looking at alternative delivery models in local government looks at local authority trading companies (LATCs).

The need to improve performance against the continuing financial pressure in the public sector has led to an increase in innovative solutions to the challenges, such as alternative delivery models.

Our report provides a guide on building a successful LATC, identifying the areas that must be considered at each stage of the process, as well as offering a number of examples of best practice.

Hardcopies of these reports are available from your audit team

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