

Internal Audit

Audit Progress Report 2017-18

Mid Devon District Council
Audit Committee

January 2018

Robert Hutchins
Head of Audit Partnership

Auditing for achievement

Introduction

The Audit Committee, under its Terms of Reference contained in Mid Devon District 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 2017/18 was presented and approved by the Audit Committee in March 2017. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2017/18, 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 progress 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 and satisfy themselves from this assurance that the internal control framework continues to be maintained.

Robert Hutchins
Head of Devon Audit Partnership

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Opinion Statement

Overall, based on work performed during 2017/18 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.

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 and Senior Management 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 at year end.

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.
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.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Executive Summary of Audit Results

Core Audits are well underway covering the Council's key financial controls or the level of income is material in the context of the Council's annual accounts.

The Findings of particular interest include:

- reconciliation of control accounts and for completeness of processing and accuracy or error have received comment in areas in the last progress report and here in few reports income, payroll and alarm care.
- IR35 'off payroll' working legislation has not been tested in detail and though new engagements are covered existing engagements have not all identified and or tested against HMRC requirements.

No material issues have been identified to date.

Systems Audits the majority this work is complete with the remaining scheduled in the last quarter. Opinions for the current period are included in appendix 2 to this report.

Findings of particular interest include business continuity and assurance on fault closure in the alarm call service. No material non-availability of service has been detected yet the robustness of controls around this are not good which reduces assurance given.

Reviews in other areas including:

- electoral registration and
- insurance,

provide assurance of an sound internal control framework that is generally operating as required.

Other Work – we have started the audit planning process for next year with a review of both the annual and 4 year cycle. We are liaising with the Group Manager Performance, Risk & Data Security on planning requirements and in particular with focus to the Councils risk register and performance indicators.

Tender documents have been verified as usual covering:

- Colliers Bridge;
- Apprenticeship Training and Assessment Provider.

Value Added

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

Feedback has led us to change the clearance process of audit findings with the introduction of a debrief at the close of audit. This will bring the feedback to an earlier stage and smooth the clearance process of the draft report.

Recent audit feedback surveys have stated:-

"excellent, efficient and professional staff"

"Audit confirmed we were on the right track and backed up concerns we had reported."

We trust that officers have found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Audit Coverage and Performance Against Plan

Performance against plan is generally as expected. Changes have been agreed with management;

- Grounds Maintenance replaced with PCI to be scheduled.
- Support for investigations.

Resources have been targeted to support the changes in a continually evolving organisation.

The pie charts right shows the progress of audit against plan. The work completed is primarily systems work where the majority of the core work is scheduled for the second half of the year and has recently commenced.

Our planned audit of Housing Options – Homelessness has been deferred until the spring at the client request to fit better with proposed changes with legislation.

Appendix 1 to this report provides a summary of the audits undertaken during 2017/18, along with our assurance opinion. Where a "high standard" 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.

Key performance indicators on progress against audit recommendations reveals that the council is making progress though there remain several recommendations outstanding from prior year audits. See appendix 2.

Fraud Prevention and Detection

We have completed three reviews:

- leisure centre income security and financial operations;
- vehicle accident complaint.

Reports and action were taken through Finance and Human Resources as appropriate.

Appendix 1 – Summary of audit reports and findings for 2017/18




Risk Assessment Key

Spar – 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.

TRANSFORMATION AND CHANGE

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
Core Audit – Key Financial Systems						
Payroll Risk / ANA: ANA – High Spar 4x1=4very low/green	Good Standard Status: Final	<p>The systems and controls generally mitigate the risks identified with few weaknesses identified. The Payroll Manager has worked hard to ensure controls are robust within a small team. Completeness of control account reconciliations on a regular rolling basis would improve assurance.</p> <p>The new IR35 ‘off payroll working’ legislation has been implemented where new contracts are tested through procurement. However, retrospective testing of existing arrangements has not been completed and we feel there may be contracts in place that have not been tested for HMRC compliance.</p>	4	7	1	
Income and Cash Collection Risk / ANA: ANA – High Spar 4x2=8 low/orange	Good Standard Status: Final	<p>Overall, the Income and Cash Collection system operates effectively. The procedures for cashier processes are clear and recognised though some are in need of update. There are improvement opportunities in security arrangements some of which the Council has already recognised and is implementing and others identified in our review.</p>	0	3	2	
Creditors Risk / ANA: ANA – High Spar 3x1=3very low/green	Good Standard Status: Final	<p>Overall, the creditors system operates very efficiently with a very high percentage of invoices paid within terms. A sound framework of internal control is operating. The finance service has identified the need for improvements in processing the non-order invoices, and this was confirmed through our testing. Finance are working with the ICT section to develop a new process which should ensure the validation and authorisation process for these invoices.</p> <p>Reimbursement for some work related travel and subsistence claims are incorrectly being processed as petty cash claims; although receipts and authorisation are being obtained, these types of reimbursements increase the risk of duplicate payments and non compliance with HMRC tax requirements.</p>	1	0	3	

TRANSFORMATION AND CHANGE

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
Systems Audits – Risk Based						
Electoral Services Spar 5x2=10 low/orange	High Standard Status: Final	Overall, systems for Electoral Registration and Elections provides a sound control framework and were found to be operating well in practice.	0	0	0	
Care Services – Alarm Call Risk / ANA: ANA –Medium Spar:	Good Standard Status: Final	The process, procedures and operationally the service is effective and operating well. Controls to ensure that all calls are dealt with promptly and income is fully collected need improvement. No material error was found though the weakness in these controls reduces this assurance. Security of paper records requires improvement to meet data protection requirements.	5	3	0	
ICT Inventory Risk / ANA: ANA – Low Spar:	Good Standard Status: Final	We found a good level of overall control to be in place, with effective arrangements covering the maintenance of inventories and the keeping of records of action taken / outcomes. Controls were particularly effective in the areas of acquisition and disposal of assets and for ensuring that the requirements of the Council's insurance cover are met. However, we identified a number of weaknesses around the processes for ensuring that all equipment issued to staff is returned when they leave the Council and around the controls for encrypted USB drives and we make recommendations to address these points.	2	7	0	
Insurance Risk / ANA: ANA – Low Spar 3x2=6 low/orange	Good Standard Status: Final	Insurance has a good control environment provided by the processes and practices in place and the overview of quarterly monitoring to address possible consistent/repetitive incidents. There is a higher caseload of claims this year and with the impending change in insurance provider there needs to be more time spent on pro-active work to try and resolve outstanding claims to a satisfactory level and to avoid complications with the change in supplier.	1	2	1	

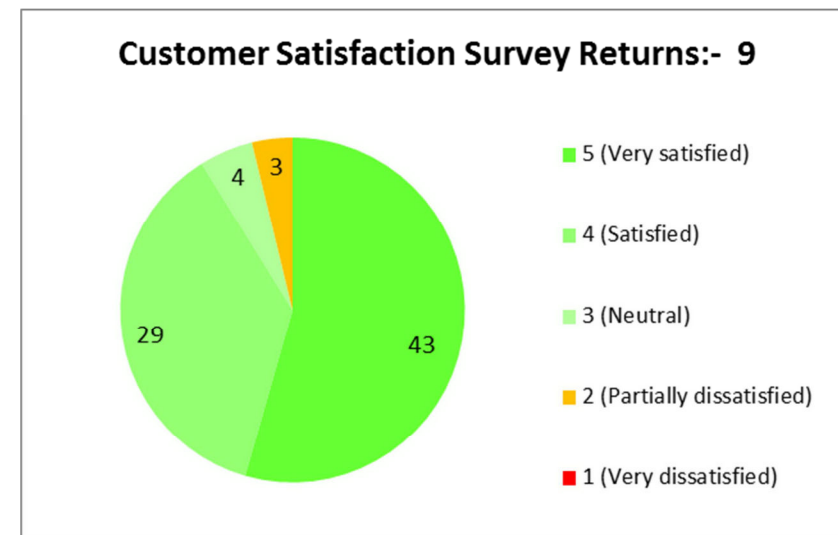
The following audits are either in progress or to be started imminently.
Main accounts, Council Tax and NNDR, housing benefits and trade waste

Appendix 2 – Performance Indicators

Incomplete Audits	Year	Recommendations												Direction of Travel R,A,G
		High			Medium			Low			Total			
		C	N	O	C	N	O	C	N	O	C	N	O	
Car Park Income	2016				3		2				3	0	2	R
Council Tax/NNDR	2016				5		3				5	0	3	R
Creditors	2016					1	1				0	1	1	R
Housing Rents	2016				2		1				2	0	1	R
ICT Core	2016	1			6			2		1	9	0	1	R
Income & Cash Collection	2016				4	0	1				4	0	1	A
Trade Waste	2015				8	2					8	2	0	G
Treasury	2016							1		1	1	0	1	G
Appraisals & Training	2015	1			13		1	2			16	0	1	A
Cemeteries & Bereavement	2016				5		1				5	0	1	A
District Offices	2017						8	1			1	0	8	R
Electronic Payments/ Online Forms	2017			1		3					0	3	1	R
Emergency Planning	2015				3		1			1	3	0	2	R
Environmental Health	2017					13	2			1	0	14	2	G
Housing H&S Management	2017	2			6	1	2				8	1	2	G
Insurance	2015						1				0	0	1	R
Legal Services	2015				2	1	1				2	1	1	R
Leisure CVSC	2015				5		1				5	0	1	A
Leisure EVLC	2016				6		1				6	0	1	A
Licensing	2016	1			5		1				6	0	1	R
Planning - Enforcement	2017					1	5				0	1	5	R
Procurement - Contract register	2017				7						7	0	0	G
Recruitment & Selection & JE	2015				6	1		5			11	1	0	G
Safeguarding	2017			1		3	1				0	3	2	A
Sickness & Other Time Off	2016				6	1	1				6	1	1	A
Standby	2016				2		1				2	0	1	R
Travel & Subsistence	2017			2			2			1	0	0	5	A
Vehicles & Fuel	2015	5			4	2	1				9	2	1	R
Customer Care & Complaints	2017					6				1	0	7	0	G
		10	0	4	98	35	39	11	2	4	119	37	47	

CORE	C =	Completed	59%	Not progressing	R
SYSTEM	N=	Not yet due	18%	Progressing some	A
	O=	Overdue	23%	Overdue	
				On Target	G

Customer Satisfaction



The results are good with 96% positive feedback to survey questions.

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Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon & Torridge 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.