

Internal Audit

# Annual Audit Report 2017-18

Mid Devon District Council  
Audit Committee

May 2018

Robert Hutchins  
Head of Audit Partnership



Auditing for achievement

## Introduction

The Audit Committee, under its Terms of Reference contained in the 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 to date 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 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 5) and satisfy themselves from this assurance for signing the Annual Governance Statement.

**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 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 provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 4.*

The Authority's internal audit plan for the year includes specific assurance, risk, governance and value added reviews which, with prior years audit work, provide a framework and background within which we assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the details of Internal Audit's opinion on each audit review carried out in 2017/18 to date. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2017/18.

In carrying out systems and other reviews, 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 rests with management, these are reviewed during subsequent audits or as part of a specific follow-up.

We have included a new Summary Assurance Opinions chart on page 3 which provides a "Themed" overview of the audit coverage. We have then RAG rated the audit areas covered to identify what our assurance is relative to the proposed plan at the beginning of the year.

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 process at strategic and operational level remains in place although it is recognised that review is required to improve the focus of risks to key business objectives and improve mitigation. There remains work to be done to integrate and embed this at operational level.

### Governance Arrangements

Governance arrangements have been considered in the areas of projects and procurement and Contract, and found to be effective, but with opportunities to improve consistency or alignment to business need The Councils engagement with the Information Security Group continues to provide governance in relation to management of information.

### Performance Management

Performance is subject to monitoring at management and Committee levels through PDG and Scrutiny. This is supported by the SPAR performance monitoring system though it is recognised that this requires improvement to further embed monitoring into day to day operations.

<b>Full Assurance</b>	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.	<b>Limited Assurance</b>	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.
<b>Significant Assurance</b>	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.	<b>No Assurance</b>	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.

# Summary Assurance Opinion

Service Area Overview of Audit Coverage							
Finance & Resources		Corporate Affairs	Operations	Planning & Economy	Opportunity	Value Added	
Summary of key audit reviews	Fixed Assets	Customer Care Complaints  Electoral Registration  Electronic Payments - PCI and online systems  Travel & subsistence	Housing Health & Safety	Development Control – S106	Market Operations  Housing Options  Safeguarding	Tender opening  Fraud Prevention & Investigation National Fraud Initiative  Audit Follow-up  Consultancy  Housing Repairs Stocktake	
	Insurance		Environmental Health	Planning Enforcement			
	Income collection		Care Services				
			Leisure Centre - LMLC				
		Trade Waste Income					
		District Offices					
Core Assurance	Key Financial Systems -		Main Accounting system, Financial Systems Admin	Council Tax & NNDR, Housing Benefits	Debtors, Housing Rents	Creditors, Payroll	Treasury Management, Bank rec.
	Governance & Business Processes -		Contract Management	Risk Management	Budgeting system	Human Resource Systems	Procurement
	ICT -		Equipment Inventory	Systems Admin			

Note: Assurance opinions are 'RAG' rated to support the overall assurance opinion for the year. The ratings are relevant at the time of the audit review and assurance may have improved since that time. Performance against recommendations is shown in appendix 2. Areas shaded blue denote opportunity or value added work.

## 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.

A selection of audit feedback surveys received have stated:-

*"very well organised throughout", "a painless experience", "excellent, efficient & professional staff"*

*"helpful in supporting Finance's messages to management.", "a positive experience"*

*"identified issues of business continuity that needed assurance on"*

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

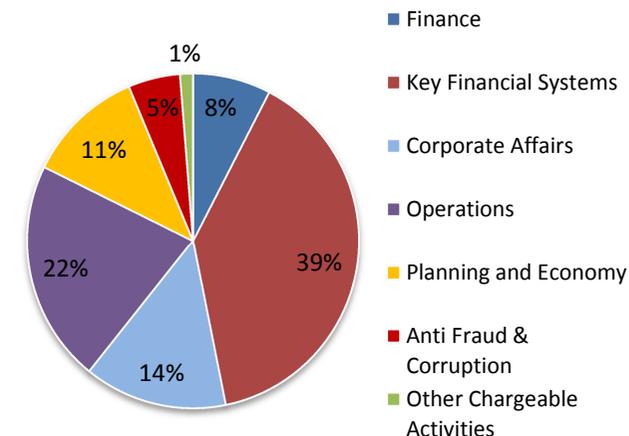
We have completed 100% of the revised plan for the year. The pie charts right shows the breakdown of audit days planned by service area / type of audit support provided. The balance of work has varied slightly during the year as can be seen from comparison with the second chart, and variations have been with full agreement of the client. Appendix 6 shows the performance indicators for audit delivery. Some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review; we have notably done this with ICT.

Appendix 1 to this report provides the final progress summary of the audits undertaken during the year, along with our assurance opinion. Where a "high" or "good" standard of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of "improvement required" has been provided then issues were identified during the audit process that required attention. We have provided summaries 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.

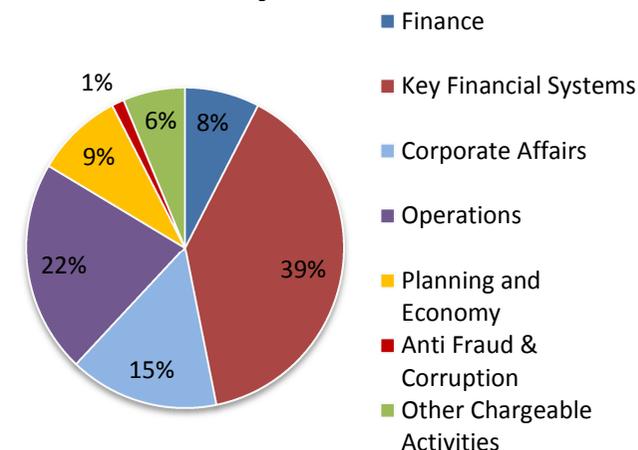
## Fraud Prevention and Detection

Overall the risk of fraud at the Council is considered low. All our internal audit assignments include an aspect of considering the potential for fraud and how the council prevents such fraud occurring. In particular, work on the key financial systems (payroll, creditors, debtors, treasury management etc) considered the suitability and robustness of the control framework to prevent, detect and address fraud. Counter-fraud arrangements are a priority for the Council and assist in the protection of public funds and accountability. The national data matching exercise (National Fraud Initiative - NFI) is supported by the Council every two years. The two small investigations that we completed were adequately addressed by Human resources and Management.

### Audit Plan 2017-18



### Audit Delivery 2017-18



## 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.

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
<b>Core Audit – Key Financial Systems</b>						
<b>Housing Benefits System</b> Risk / ANA: ANA – High	Good Standard Status: Draft	Processes were found to be operating effectively with the team utilising a lean workflow system; processes are generally operating as expected and as required by the organisation. The overall debt of overpayments has reduced since last year. There are improvement opportunities in business continuity testing and security arrangements for the agency worker leavers process part of which has been recognised and is already being implemented.	1	4	0	
<b>Housing Rents</b> Risk / ANA: ANA – High Spar 3x2=6 Low/amber	Good Standard Status: Final	The controls which operate to ensure the accuracy and verification process for the calculation of Housing Rents, as well as the procedures for rent collection and ensuring completeness of income are robust and operate to a high standard. There remain two areas of risk that require mitigation : <ul style="list-style-type: none"> <li>the arrears process is currently being reviewed by the Housing Department to improve delays in recovery of outstanding debt.</li> <li>management of system user access records.</li> </ul>	0	4	0	
<b>ICT – Core Systems</b> Risk / ANA: ANA – Medium	Good Standard Status: Final	We reviewed the Council's compliance and organisational controls and found them to be generally sound in terms of policies, inventories, licencing and compliance with PSN requirements. Some policies are overdue review to ensure appropriateness of need. The Council's physical and environmental controls are working well with complete and up to date network documentation and appropriate environmental controls in the data centres. Changes to the network are well controlled and incidents responded to appropriately. However, we have highlighted: <ul style="list-style-type: none"> <li>a concern relating to the physical security of the primary data centre.</li> <li>periodic checks are not carried out to confirm the ability to restore key business.</li> </ul>	2	10	0	

Audit Report						
Risk Area / Audit Entity	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
<b>Systems Audits – Risk Based</b>						
<b>Payment Card Industry - PCI</b>  Client request	High standard  Status: Final	The Council has a third party provider (Capita) who deal with the processing of payment card information, therefore much of the risk associated with the payment card security is transferred, and the Council has been certified as compliant.  Management control over staff recognition of PCI policy requires closer monitoring.	0	2	1	
<b>Housing Options – Homelessness</b>  Spar 5x4=20 High/Red	Opportunity  Status: Final	Change in legislation with effect from 1 <sup>st</sup> April 2018 has required a new computer software system and will require significant change in working practices. The late announcement by government of requirements has delayed action. We have advised on risk and control in the development of change plan and identification of key risks and operational processes including data handling, partners and performance. Significant further work will be required to implement the new systems next year and further audit support will be provided to mitigate new risks.	N/a			
<b>Housing Repairs Stores Stocktake</b>  Risk / ANA: ANA – Low Client request	High Standard  Status: Final	Procedures are effective for ensuring a reliable stock take is undertaken. Variances from stock overall are lower than previously showing improvement. The net adjustment to stock records is minimal and a review is being completed of variances for improvement purposes.	0	1	0	
<b>Development Control</b> Risk / ANA: ANA – High Spar	<b>Improvements Required</b>  Status: Final	There are known control weaknesses within the process, the main weakness identified is the inability of the legacy systems to provide a full overview of the ‘trigger points’ for all of the s106 agreements, and therefore the lack of prompt reliable management information for profiling and managing contributions due and received from developers.  A project to address this is ongoing through use of specialised software, although populating the system is time consuming as many of the s106 agreements are complex. The current position is being reviewed by senior management and additional temporary staff engaged to clear the backlog.	2	3	0	

## Appendix 2 – Recommendation Performance Indicators

Incomplete Audits	Year	Recommendations									Direction of Travel R,A,G	Comments			
		High			Medium			Low					Total		
		C	N	O	C	N	O	C	N	O	C	N	O		
Creditors	2017	1			1	1		1			3	0	1	↑G	
Income & Cash Collection	2017					1	2	1	1		1	2	2	↔A	
Main Accounting System	2017				1	1	2			1	1	1	3	↑G	
Council Tax & NNDR	2017	3			2			1			6	0	0	↑G	
Trade Waste	2017				4			2			6	0	0	↔A	
Payroll	2017	1		2	3	2	2				4	2	4	↔A	
Treasury	2017	2			1	1					3	1	0	↑G	
Appraisals & Training	2015	1			13		1	2			16	0	1	↔A	Setting of performance indicators
Care Services - Alarm Call	2017	2	2		3						5	2	0	↑G	
Customer Care & Complaints	2017				1	2	3		1		1	3	3	↔A	
District Officers	2017				8			1			9	0	0	↑G	
Electronic Payments/ Online Forms	2017	1				2	1				1	2	1	↔A	
Emergency Planning	2015				3		1	1			4	0	1	↑G	Business Continuity Plan - Agenda for June GM
Environmental Health	2017				8	2	5		1		8	3	5	↔A	
Housing H&S Management	2017	2			8		1				10	0	1	↑G	Performance indicator needs to be set up and scored
ICT Inventory	2017	2			2		2				4	0	2	↑G	
Insurance	2017	1			1	2			1		2	3	0	↑G	
Legal Services	2015				2	1	1				2	1	1	↔A	Date extended, digital archiving system required
Leisure LMLC	2017				5		1				5	0	1	↑G	
Planning - Enforcement	2017				4		3				4	0	3	↔A	
Safeguarding	2017	1					4				1	0	4	↔R	Safeguarding training to be re-launched week beginning 14 May
Sickness & Other Time Off	2016				6		2				6	0	2	↔A	Policy update required
Standby	2016				2		1				2	0	1	↔R	Will be taken into account during a review of the whole Standby service, due by the end of 2018.
Travel & Subsistence	2017	1	1		2			1			4	1	0	↑G	
Vehicles & Fuel	2015	5			6		1				11	0	1	↔A	Transport policy (fleet management)
		23	3	2	86	14	34	10	4	1	119	21	37		

CORE
SYSTEM

**C = Completed**

67%

Not progressing ↔R

**N= Not yet due**

12%

Progressing some  
overdue ↔A

**O= Overdue**

21%

On Target ↑G

\* report just issued

## Appendix 3 - Professional Standards and Customer Service

### 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.

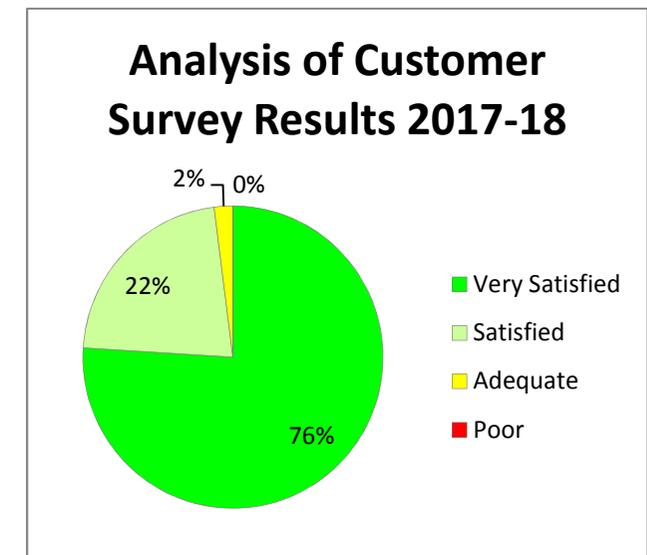
**Improvement Programme** – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and a status report was which is monitored by the Management Board in February 2018 and reported to the Partnership Committee.

### Performance Indicators

Overall, performance against the indicators has been very good with improvements made on the previous year (see Appendix 6). 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

In June 2017, DAP was successful in re-accreditation by G4S Assessment Services of the CSE. We continue to issue client survey forms with our final reports and 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 7. 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.



## Appendix 4 - Audit Authority



## Appendix 5 - 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.***

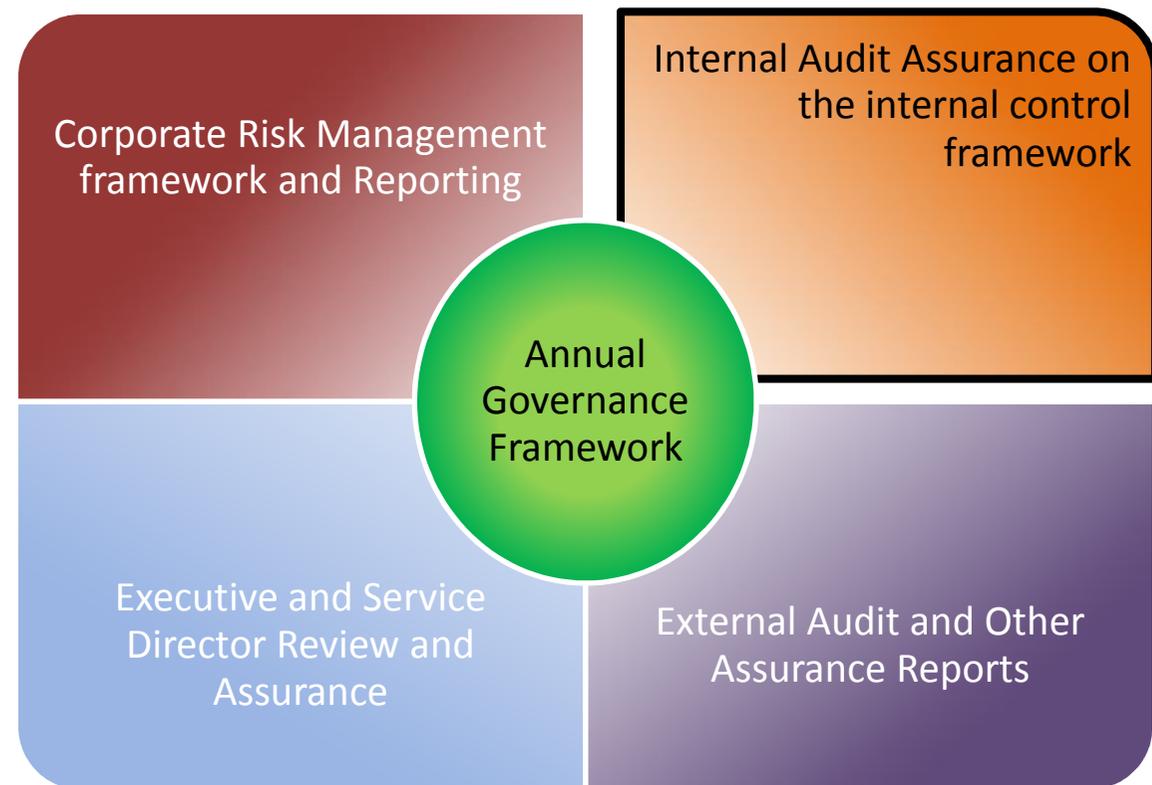
The Annual Governance Statement provides assurance that

- 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 6 – Performance Indicators

There are no national Performance Indicators in existence for Internal Audit, however, the Partnership does monitor the following Local Performance Indicators LPI's:

<b>Local Performance Indicator (LPI)</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>Full Year Target</b>	<b>12mth Month Actual</b>
Percentage of Audit plan Commenced	90%	100%
Percentage of Audit plan Completed	90%	100%
Actual Audit Days as percentage of planned	90%	100%
Percentage of fundamental / material systems reviewed annually	100%	100%
Percentage of chargeable time	65%	68%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	90%
Final reports produced within target number of days (currently 10 days)	90%	97%
Average level of sickness absence (DAP as a whole)	2%	4% *
Percentage of staff turnover (DAP as a whole)	5%	11% **
Out-turn within budget	Yes	Yes

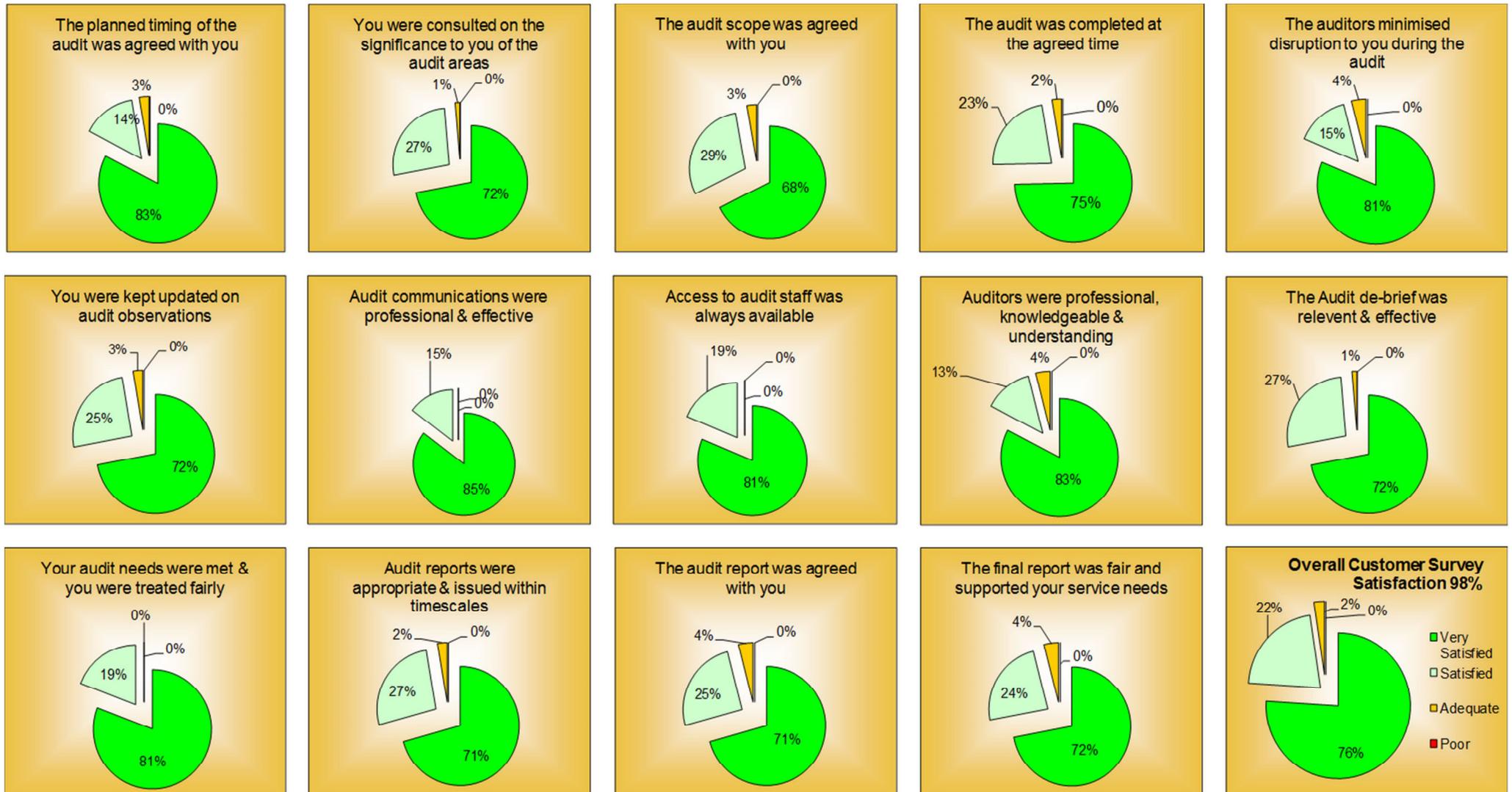
\* Sickness relates to DAP overall

\*\* Staff turnover relates to 1 starters and 2 leavers

Overall, performance against the indicators has been met.

# Appendix 7 - Customer Service Excellence

## Customer Survey Results April 2017 – March 2018



## Appendix 8 - 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.

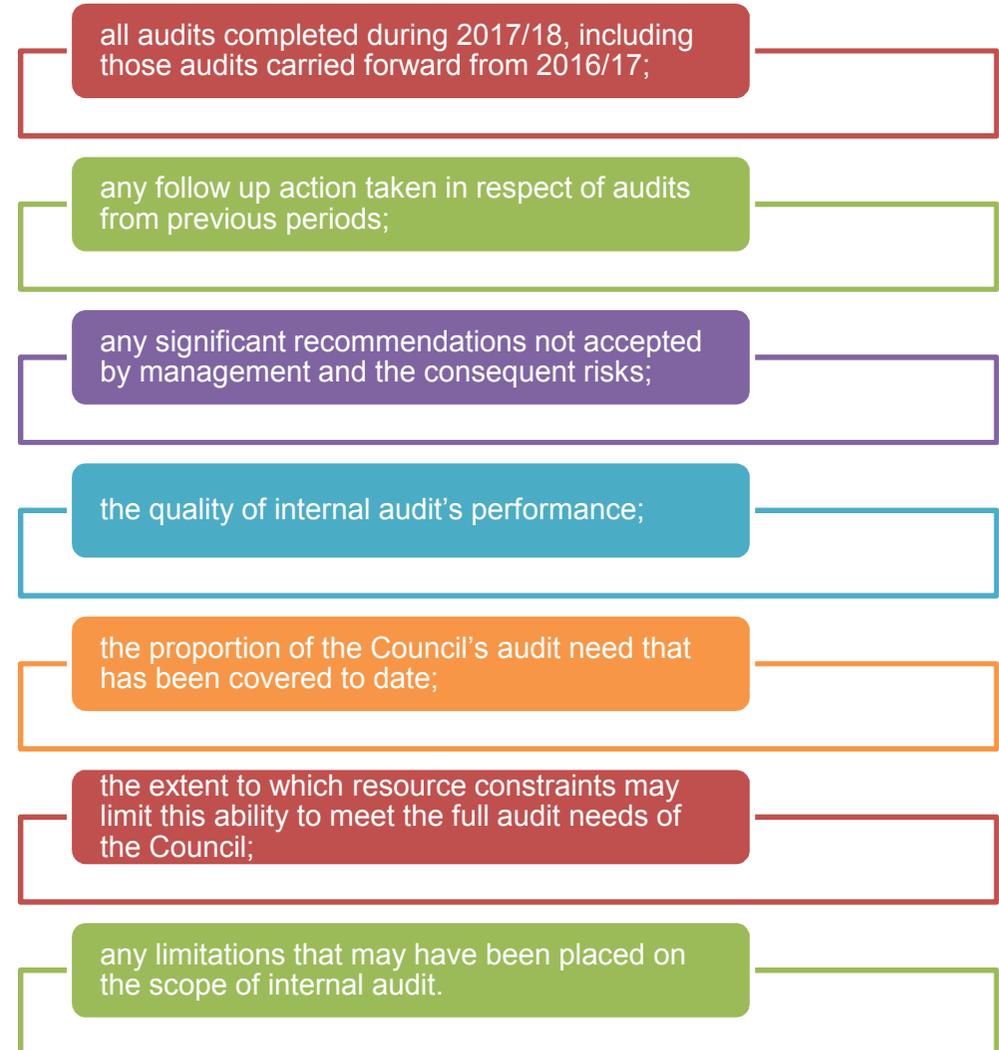
The extent to which our work has been affected by changes to audit plans has not been notable this year and we have been able to accommodate the changes required within planned resources and completed the work.

In previous years, other service priorities have impacted audit delivery in only a small way and this year is no different. This has not affected the level of assurance provided.

The overall audit assurance will have to be considered in light of this position.



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



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<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<p>The Devon Audit Partnership has been formed under a joint committee arrangement. 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.</p> <p>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 <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a> .</p>	<p>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.</p> <p>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.</p>