

Internal Audit

Audit Progress Report 2018-19

Mid Devon District Council
Audit Committee

January 2019

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 2018/19 was presented and approved by the Audit Committee in March 2018. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2018/19, 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 2018/19 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 we progressing work covering the Council's key financial controls or where the level of income and expenditure is material in the context of the Council's annual accounts. The coverage is on track to be completed by year end.

The Findings of particular interest include:

- there remains no major concerns on controls from the reviews completed though as has been previously reported systems user access controls are not fully reviewed/ amended on staff changes.

No material issues have been identified to date.

Risk Based Audits have formed the majority of the work to date. Opinions for the current period are included in appendix 2 to this report.

Findings of particular interest remains the opportunity to improve management level control particularly in performance monitoring which continues to received increased focus from Leadership and received comment in recent audit reviews including that of council tax here.

Additionally, we have commented upon succession planning in areas of procurement, council tax and leisure where staff changes have increased business continuity risks.

Reviews in other areas including:

- construction design and management;
- creditor payments;

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

Other Work

- Assurance Mapping (see appendices 3)
- Counter Fraud Services
- Job Evaluation Panel – monitoring and evaluation.

We are currently considering risk management arrangements and how this links to the assurance mapping for the Authority. We have included some further examples here for consideration by the Audit Committee on how this looks.

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:-

"in-depth look at a support service handling of permits"

"t has helped us to identify areas that we should focus on more or improve our procedures around."

"reviewed areas we had concerns with"

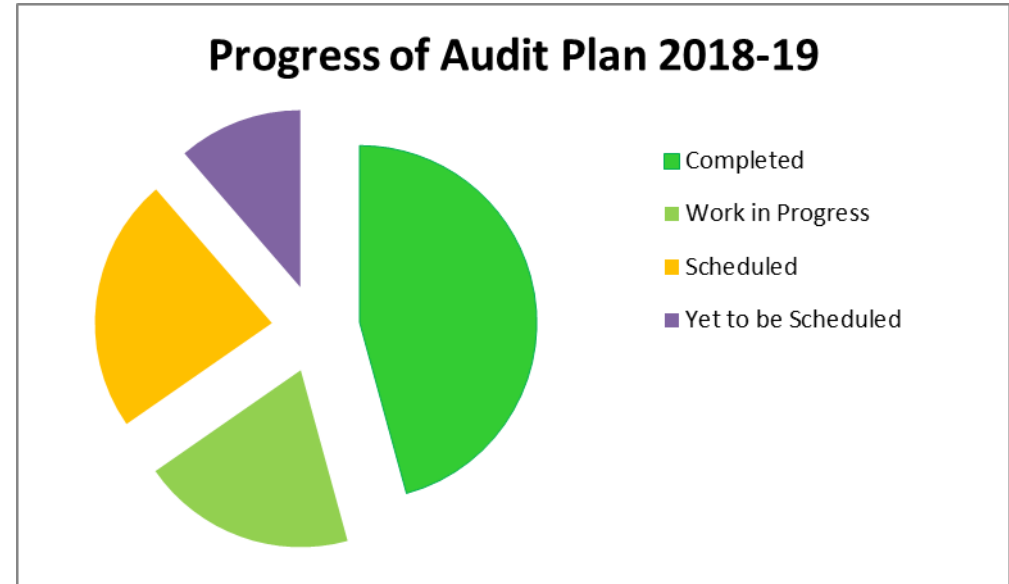
We trust that officers have found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Audit Coverage and Performance Against Plan

Performance against plan is generally as expected with the larger proportion of the work to be completed in the second half of the year as previously reported. We are utilising wider partnership staff where other skills are required for audit reviews e.g. ICT Cyber Security, VAT and partner governance arrangements. As agreed at the previous Audit Committees it is expected that DAP will complete the amended plan within the budget. The audits to be deferred to the next years audit plan are being taken into account in the current process of building next years audit plan.

The pie charts right shows the progress of audit against plan. The work completed in this period is primarily risk based work with some core key financial systems completed.

Appendix 1 to this report provides a summary of the audits undertaken since our last progress report in 2018/19, 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 the key issues reported. 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 are analysis NFI data to support the Authority on its review to improve single persons discount for council tax.

Customer Satisfaction – survey returns score 98% satisfaction year to date.



Appendix 1 – Summary of audit reports and findings for 2018/19




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	
Core Audit – Key Financial Systems						
Council Tax, NNDR and Debt Recovery Risk / ANA: ANA – High Spar 3x2=6 Low / Orange	Good Standard Status: Final	The controls relating to the day to day processes for Council Tax and NNDR operate effectively, with customer and ratepayer accounts being updated accurately and in a timely manner. Monitoring of Council Tax arrears is carried out on a regular basis and the process for escalating outstanding debt is well documented and the controls for this process also operate effectively. We noted the following improvement opportunities. <ul style="list-style-type: none"> The application of Small Business Rates Relief would benefit from a review to ensure the Authority maximises income from Non - Domestic Rates. The process for writing off Council Tax and NNDR irrecoverable debt should be better reflected in the Financial Regulations. Reconciliations between the cash receipting system and the Northgate Council Tax/NNDR system need to be brought up to date. Although debt recovery for Sundry Debts is mainly well controlled, there is currently one notable outstanding debt relating to a S106 agreement that may require escalation to Legal Services. 	1	3	3	
Creditors Risk / ANA: ANA – high Spar -	Good Standard Status: Draft	Overall, the controls in place which ensure that the correct supplier is paid the correct amount within payment terms operates to a good standard. Approval and validation controls in relation to pro-forma invoices will be improved through implementation of a new form developed by ICT; before this can go 'live' the budget holder codes and limits need to be reviewed to ensure they are still appropriate. Performance for the percentage of invoices paid within terms are slightly below target but is being monitored.	0	2	1	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
ICT Core – Follow-up Risk / ANA: ANA – Medium	Good Standard Status: Final	We followed-up 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 have improved. However, we have highlighted: <ul style="list-style-type: none"> periodic checks are not carried out to confirm the ability to restore key business have yet to tested though tis test is now imminent. 	0	4	0	
Risk Based Reviews						
Vat – Partial Exemption Risk / ANA: ANA – Med Spar -	Good Standard Status: Final	Our walkthrough review confirms that there is a sound VAT control environment and processes are in place to ensure the Input and Output tax is accurately and promptly recorded in the financial systems. These processes and controls underpin the partial exemption assessment and are noted as being of a High Standard where staff are very experienced and seek guidance where required from a VAT Specialist. There is, however, little retained evidence that monitoring and review of the Council's business flows, new objectives and Partial Exemption Calculation has taken place beyond the VAT Accountant's preparation of the working papers to achieve the calculation exercise. This has been recognised by Finance and plans are already in place to strengthen this key control requirement.	2	2	2	
Housing Maintenance – Construction Design Management Risk / ANA: ANA – Med Spar: - Health and Safety related not specific to CDM	High Standard Status: Final	Controls in place for cashing up and security of cash at CVSC operate effectively although, there is increased risk in income management where supervision of income reconciliation is not effective. There is clear evidence in specific circumstances that mandatory training has been completed although not in all cases. Management control records over mandatory training of staff are ineffective to demonstrate training received and required and reduce assurance that can be given.	0	0	0	

Audit Report						
Risk Area / Audit Entity	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
Cyber Security Risk / ANA: ANA – High Spar -	Good Standard Status: Draft	<p>Our review considered the Authority’s controls against the Governments recommended Cyber Essentials programme and found that much good practice is in place to reduce the risk of serious incident and to be able to recover from an event. Technical controls are generally in place to maintain resilience though there are improvement needs in some areas. Of note is the need to fully test back-up recover arrangements and business continuity should there be a serious incident – this testing is planned for January 2019.</p> <p>The Authority has completed the LGA Cyber security self-assessment and identified several areas where improvement is required. Of particular note are the governance arrangements for cyber security and other areas that cross relate to improvements identified through our audit.</p> <p>No computer network connected to the internet can ever be completely secure and mitigation measures can never fully prevent incidents from occurring, they can only manage and will only ever be as good as the people using them.</p>	7	7	0	 *

The following audits have been completed:

- draft reports are being prepared – Income Collection – Cashless systems

The following audits are in progress Grounds Maintenance – Service Management, Payroll, Main Accounting Systems and Risk Management.

No material concerns have been identified with these reviews. Opinions will be provided in the March progress report.

The remaining plan work is scheduled for completion by the year end and incorporated into the annual report.

Appendix 2 – 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		System accountant recently appointed and will progress with the invoice scanning project asap
Housing Benefits	2018				2			1			0	3	0		
Income & Cash Collection	2017					3		1	1		1	0	4		These outstanding recommendations have reduced significance with the reduction in cash handling.
Main Accounting System	2017				3	1		1			4	1	0		
Payroll	2017	2	1		5	2					7	3	0		
Treasury	2017	2			1	1					3	0	1		Delegation of powers need to be formalised
Appraisals & Training	2015	1			13	1	2				16	0	1		Setting of performance indicators
Care Services - Alarm Call	2017	2	1	1	3						5	1	1		Data sharing agreement - in progress for completion Nov 2018
Car Park	2018	1			1			4	1		6	0	1		
Leisure CVLC	2018					1	5								
Development Management S106	2017			2			3				0	0	5		Progress being monitored by LT. S106 Governance arrangements to be approved by Cabinet
Electronic Payments/ Online Forms	2017	1			1	1					2	1	0		
Emergency Planning	2015				3	1	1				4	0	1		Business Continuity Plan - documents available and training provided
Equality Impact Assessment	2018		1		2	1			1		2	1	2		Incorporated some actions into Customer Engagement Strategy. Attending DCC equality forum 6th Nov. Target extended to 31March2019.
Housing H&S Management	2017	2			8	1					10	0	1		Performance indicator are in the process of being set up and scored
ICT Inventory	2017	2			3	1					5	0	1		
Insurance	2017	1			1	2			1		2	3	0		
Legal Services	2015				2	2					2	0	2		Date extended, digital archiving system required
Procurement	2018		1			6					0	7	0		
Recruitment, Selection & Succession Planning	2018	1			1	1					2	1	0		
Refuse and recycling	2018		1		2	1					2	2	0		
Safeguarding	2017	1			3	1					4	1	0		
Sickness & Other Time Off	2016				6	2					6	2	0		Policy update not yet due
Standby	2016				2	1					2	0	1		Will be taken into account during a review of the whole Standby service, due by the end of 2018.
Vehicles & Fuel	2015	5			6	1					11	1	0		Transport policy (fleet management)
		22	5	3	67	21	21	10	2	3	99	27	22		

CORE
SYSTEM

C = Completed 67%
N= Not yet due 18%
O= Overdue 15%

Not progressing
 Progressing some overdue
 On Target
 * report just issued

Assurance Mapping – possible model for Mid Devon

Risk Area	Mitigation Controls								3 rd Line defence	External / Regulatory	
	1st Line defence		2 nd Line defence						Internal Audit	External Audit	Regulatory Bodies
	Internal Control Measures	Management Controls	Financial Controller	Security	Risk Management	Quality	Inspection	Compliance			
Housing Benefits	G	G	G	-	G	-	-	G	G	G	-
Procurement	G	A	A	-	A	G	-	A	A	-	-
Culm Valley Leisure Centre	G	A	G	G	G	-	A	G	G	-	-
Council Tax and NNDR	G	G	G	G	A	G	-	-	G		
Creditors	G	G	G	G	A	-	-	-	G		
VAT – Partial Exemption	G	G	A	-	R	G	G	-	G		
Construction Design and Maintenance	G	G	G	-	A	-	-	G	G		
Cyber Security	G	A	-	G	R	A	G	-	A		
Key - Red - Amber - Green											

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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 .