

Internal Audit

Audit Progress Report 2018-19

Mid Devon District Council
Audit Committee

March 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

Contents	Page
Introduction	1
Opinion Statement	2
Executive Summary Audit Results	2
Value Added	3
Audit Coverage & Progress Against Plan	3
Fraud and irregularity	3
Appendices	
1 – Summary of Audit Results	4
2 – Performance Indicators	7

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. Those systems reviewed continue to be maintained to a good standard.

The Findings of particular interest already noted in the last report include:

- systems user access controls are not fully reviewed/ amended on staff changes – we are currently reviewing the controls around this.
- risk management information lacks mitigation in many cases.

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 remain the opportunity to improve risk management information and particularly mitigating controls within the risk register. We are near completion of our risk management review and will report in the near future on this.

Reviews in other areas including:

- Grounds maintenance service management;
- Building control partnerships;

Both provide assurance of a sound internal control framework that is generally operating as required and are good examples of where service delivery improvements are working.

Other Work

- Business Continuity Workshop
- Presentation of a risk management workshop
- Counter Fraud Services
- Verification of Council Tax and Housing Benefit parameter tables.

The risk management workshop was to support the Council lift the quality of its risk register to better demonstrate the risk mitigation in place.

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:-

"There were needs from several "areas" that had to be considered"

"we were already reviewing banking procedures, so comments were of help."

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

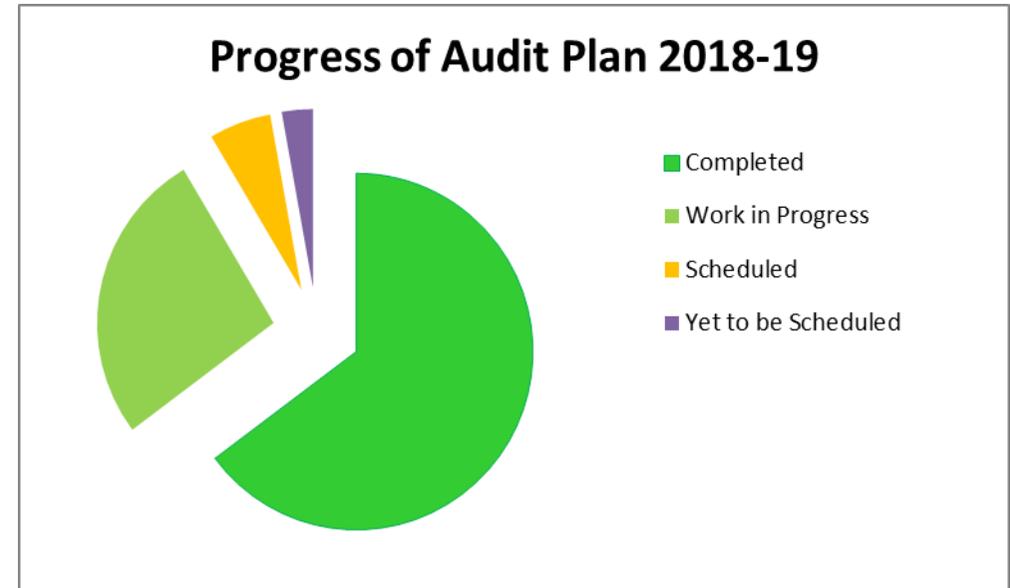
We trust that officers have found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

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 change management and treasury management 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 have been built into 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 analysing NFI data to support the Authority on its review to improve single persons discount for council tax and will look to include the new year data into this review

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			Direction of Travel Assurance
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low	
Core Audit – Key Financial Systems				
Income and Cash Collection - Cashless Risk / ANA: ANA – Med Spar 4x2=8 Low / Orange	Good Standard Status: Final	<p>The Council's project to move to cashless income collection from December 1st has been successful in its implementation and was found to be working satisfactorily. Customers can still pay in cash at the kiosk and via the Post Office but it is no-longer taken at the cashiers' desk.</p> <p>There is currently no formal contingency plan for the customer payment kiosk, should the kiosk be unavailable for any reason. There are, however, other payment methods available to customer in the event of the kiosk being out of action (e.g. cash/cheques can be paid in at the Post Office), although it was noted that there was a small number of payments for miscellaneous income that would be problematic.</p> <p>The Council's contract with the kiosk suppliers, KPR for software support, which expired in 2017 and although still operates in full it has not been recently reviewed.</p> <p>Testing of the kiosk transactions through to the cash receipting system (AIM) has been carried out but not all income streams have been tested. No testing has been carried out between AIM and the finance system to ensure that income is being correctly allocated and there have been discrepancies of VAT calculation which are now being tested. ICT Change Management process will receive audit review.</p>	2 6 2	
Creditors Risk / ANA: ANA – high Spar -	Good Standard Status: Final	<p>Overall, the controls in place which ensure that the correct supplier is paid the correct amount within payment terms operate to a good standard.</p> <p>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.</p> <p>Performance for the percentage of invoices paid within terms is slightly below target but is being monitored.</p>	0 5 4	

Audit Report						
Risk Area / Audit Entity	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
Main Accounting System Risk / ANA: ANA – medium Spar –	Good Standard Status: Final	<p>The Finance Team has changed over the last 12 months with two new staff and a change of roles for others. We consider the control framework and separation of duties to be satisfactory and the recent appointment of the systems admin accountant is improving the control environment. There is a good process for monitoring budgets and variances and no material errors or concerns were found.</p> <p>We feel there is opportunity to improve the authorisation control of journals and virements and monitoring of user accounts access levels.</p>	1	4	1	
Payroll Risk / ANA: ANA – high Spar – 4x1=4 Low / green	Good Standard Status: in progress	<p>The audit of the payroll process has been completed and review points are being cleared with officers. No material issues have been found.</p>	-	-	-	n/a
Risk Based Reviews						
ICT Cyber Security Risk / ANA: ANA – High Spar: not identified	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. The Council tested the back-up recovery arrangements in January 2019 & have developed an action plan for improvements.</p> <p>The Authority has completed the LGA Cyber security self-assessment and identified several areas where improvement is required. Of particular note is 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	
Grounds Maintenance Risk / ANA: ANA – Med Spar: - Health and Safety related not specific to service delivery	High Standard Status: Final	<p>The Grounds Maintenance service has moved to a full cost recovery rate (FCR) for grass cutting service. Our review found that the calculations, methodology and assumptions used to calculate the rate were accurate and reasonable. The use of the FCR should reduce the risk of loss of income if external clients decide not to renew their agreements, as this can be offset by reduced costs of agency staff.</p> <p>Although there are a small number of administrative tasks that could be improved</p>	0	3	2	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		<p>relating to the performance management process, overall the controls in place operate to a good standard.</p> <p>The risk relating to loss of key staff is mitigated as job descriptions are generic and there are no specialisms. The use of agency staff also allows for adequate cover.</p> <p>The procedures for sponsorship of roundabouts have recently been reviewed by the Environment and Enforcement Manager, which should improve the administration of this process. There is an opportunity to increase advertising income.</p>				
Partnerships - Building Control Risk / ANA: ANA – High Spar – 4x2=8 ow / Orange	Good Standard Status: Final	<p>The governance arrangements for the partnership are substantially sound and effective with some enhancements recommended: to better use risk management to effectively manage the organisation; to strengthen and develop the committee so that it is more strategic in approach; to recognise the reliance on the Building Control Manager at present for leadership and direction; and to streamline and focus the officer leadership arrangements with regular, scheduled joint management meetings with both partners. There is also an opportunity now to move to a more consultative management style to enable staff to help with developing future strategy and to identify improvements in efficiency and enhance the effectiveness of the team through maximising use of the IT system.</p> <p>Improvements should also be made in recording risks and performance on MDDC's SPAR.net system for Building Control and for partnerships.</p>	2	9	0	 *

The following audits have been completed:

- draft reports are being prepared – 3 Rivers Development Ltd and S106 Management, Main Accounting and Payroll.

The following audits are in progress Risk Management, Ethics and Culture, Housing Rents and Treasury Management.

No material concerns have been identified with these reviews. Opinions will be provided in the May progress and Annual Audit 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	↑G	
Creditors	2018				1	3		1	3		2	6	0	↑G	System accountant recently appointed and will progress with the invoice scanning project asap
Housing Benefits	2018				2			1			0	3	0	↑G	
Income & Cash Collection	2017				1		2	2			3	0	2	↔	These outstanding recommendations have reduced significance with the reduction in cash handling. BCP's for all services are being reviewed.
Main Accounting System	2017				3	1		1			4	1	0	↑G	Budget reconciliation control to be put in March for 2019/20
Payroll	2017	2	1		5	2					7	3	0	↔	Dates deferred to March 2019.
Ctax and NNDR	2018	1			1	2		2	1		4	3	0	↑G	
VAT - Partial Exemption	2018		1	1			1	2		1	2	1	3	↔	Review process has been added to the VAT calculation, further elements will be built into the wider VAT monitoring process in April 2019
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 - still to be signed.
Car Park	2018	1			1			4		1	6	0	1	↑G	
Leisure CVSC	2018					1	5				0	1	5	↔	
Development Management S106	2017			2			3				0	0	5	↔	Progress being monitored by LT. S106 Governance arrangements to be approved by Cabinet. Reconsidering systems design.
Electronic Payments/ Online Forms	2017	1			2						3	0	0	↑G	
Emergency Planning	2015				3		1	1			4	0	1	↑G	Business Continuity Plan - documents available and training provided
Equality Impact Assessment	2018		1		2	1				1	2	2	1	↔	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	↔	Create a policy for returning equipment
Insurance	2017	1			3			1			4	1	0	↑G	
Legal Services	2015				2		2				2	0	2	↔	Date extended, digital archiving system required
Procurement	2018		1		1	3	2				1	4	2	↑G	
Recruitment, Selection & Succession Planning	2018	1			1		1				2	0	1	↑G	
Refuse and recycling	2018			1	2	1					2	1	1	↔	Draft agreement currently being reviewed, target put back to 31/3/19
Safeguarding	2017	1			3		1				4	0	1	↑G	Risk register - front line services
Sickness & Other Time Off	2016				7	1					7	1	0	↔	Policy update deferred to June 19.
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	↑G	Transport policy (fleet management)
		21	5	5	74	18	23	16	6	3	111	29	31		

CORE
SYSTEM

C = Completed

65%

Not progressing ↔

N= Not yet due

17%

Progressing some overdue ↔

O= Overdue

18%

On Target ↑G

* report just issued

This page is intentionally blank.

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 .