

Internal Audit

Audit Progress Report 2019-20

Mid Devon District Council Audit Committee

December 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 2019/20 was presented and approved by the Audit Committee in March 2019. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2019/20 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 2019/20 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Substantial 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.
Substantial 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 have completed several reviews covering the Council's key financial controls including housing benefits, debtors and main accounting systems where assurance has been of a high standard much to the credit of individuals concerned.. The focus this year will, as agreed in the audit plan, be on review and documentation of the control environment with focused testing on 'hotspot' areas rather than wide ranging compliance testing.

We are near completion of the council tax and NNDR audit ,no material issues have been identified to date. Creditors review has commenced, assurance is expected to be of good to high standard in these reviews.

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

Findings have generally found a good level of control and opportunity value for improvement in achievement of objectives.

Of particular note is the property development company:

- much progress has been made since our initial review though the assurance remains at 'improvements required' though this is largely due to market forces and the need for greater depth of monitoring of performance.

Our reviews, in general terms, provide assurance of a sound internal control framework that is generally operating as required.

Other Work

- Audit Committee guidance on fraud management is being planned at the moment for presentation and training in January

Tender documents have been verified as usual.

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.

We have been working with the Authority's External Auditors to provide a joint review of the housing benefits subsidy claim for 2018/19 with a particular focus on the 'Discovery Testing'. This joint work should provide benefits to all parties in knowledge sharing, skill development and resource management.

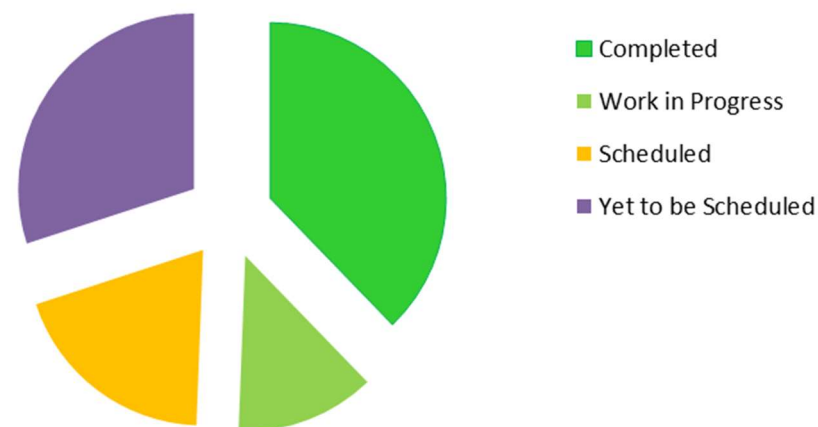
Audit Coverage and Performance Against Plan

Performance against plan shows work to be gaining pace though there is still a good deal to complete though several audits are near completion now. We have scheduled resource from three additional staff covering some specialist areas (including ICT) over the next few months. It is generally as expected that the larger proportion of the work to be completed in the second half of the year. This is due in part to leave arrangements and the continued development of the audit approach. It is expected that DAP will complete the audit plan by year end. Work on the core financial systems is progressing the to fit with External Audit requirements.

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 being commenced now.

Appendix 1 to this report provides a summary of the audits undertaken since our last progress report in October 2019, 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.

Progress of Audit Plan 2019-20



Key performance indicators on progress against audit recommendations reveals that the Council continues to make progress though there remain several recommendations outstanding from prior year audits. See appendix 2. We have been working with the Council to improve procedures to ensure that these are monitored more effectively such that they are brought to a close more quickly.

Fraud Prevention and Detection

There have been no reviews this period.

Customer Satisfaction – satisfaction returns specific to MDDC have yet to be received this year though in general for DAP, survey returns score 98% satisfaction year to date.



Appendix 1 – Summary of audit reports and findings for 2019/20

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
Risk Based Reviews						
Housing Benefits Risk / ANA: ANA – High	Good Standard Status: Final	This review was reported as part of the October progress report. Recommendations have now been finalised and management actions agreed.	0	4	0	 *
Housing Benefit – Subsidy Claim discovery testing Risk / ANA: ANA – High	Opportunity Status: Completed	We have supported External Auditor with the process of initial ‘discovery testing’ of the subsidy claim. This work identifies if there are any errors in supporting evidence for individual benefit claims and the possible impact of this on the overall validity of the claim itself. We undertook work jointly with staff from the MDDC Housing Benefits Team who were very supportive in the process. The External Auditors have accepted this discovery work and used it to form the basis for further substantive work(40+ testing) which has now also been completed by the MDDC Housing Benefits Team. The final outcome report is awaited.		n/a		n/a
Debtors Risk / ANA: ANA – Med	Good Standard Status: Final	Overall control framework is sound, although areas were identified where controls could be enhanced. These include: reviewing access to customer entry screen, regular review of customer database, obtaining a complete list of periodic bills from service areas to ensure completeness of income. There remains some issues relating to posting of VAT allocations though these are now from the Capita online system; although the amount of money involved is not material, this still represents a risk to accurate accounting for VAT, and increased checking by accountants. We have undertaken some analysis of data quality within the debtors master file during the course of the review and have identified several areas for improvement including: - removal of old records (data protection requirements); - debtor name recording (to reduce poor recovery risk); - future digital improvement opportunities (debtor categorisation and contact info).	0	3	3	

Risk Area / Audit Entity	Audit Report				
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low		
Main Accounting System Risk / ANA: ANA – High Spar 5x4=High/Red Linked to Risk of Reduced Funding	High Standard Status: Final	MAS system functionality operates effectively to ensure mandatory fields are populated, which prevents omissions. System automatically validates information such as coding before amendments can be posted. Access to online banking system is well controlled. Robust budget monitoring procedures in place, and amendments to budgets and actuals comply with financial regulations. All amendments tested during our review had sufficient evidence of authorisation where required.	0	0	0
Risk Based Reviews					
Housing repairs and Maintenance - Adaptations Risk / ANA: ANA – Low Client Request	Good Standard Status: Final	Our review of the aids and adaptations processes found that the Council is proactive in providing aids and adaptations to tenants where a need has been identified. This is carried out in line with the policy and/or the process map for major adaptations. However, our review of some of the applications found that although the Team follows the process map for major adaptations evidence of several of the financial assessment controls are not always retained or available to substantiate that controls have been carried out. Although the Team may be carrying out all of the necessary steps the lack of evidence to show that it has been completed reduces the assurance that can be given on the adequacy of the control framework. This could result in the Council meeting a higher cost for adaptations than appropriate. An area of concern is that of data security for applicant's personal information from when it is received by the Council until it arriving at the service department – this is being considered as part of a wider information review – Paperless Project.	2	5	3
Property Development Company – Governance Review – Follow-up review Risk / ANA: ANA – High Spar Spar 5x4=High/Red Linked to risk of success of failure of the company	Improvements Required Status: Final	Overall we are pleased to recognise the significant steps that have been taken to improve the control framework around the highest risk areas previously identified and to provide greater clarity in reporting to Members. However, performance monitoring information including KPIs (on financial information) are not sufficiently clear at present to recognise the returns that projects may provide, and progress with projects. In addition to this, whilst current projects are progressing, there is currently little guaranteed future work on the books at the time of the audit. The combination of these two factors present considerable risk to the primary objective for the Company to provide the additional income streams for the Authority We previously reported that a significant issue for many organisations who develop outsourced / arms-length / partner organisations is the requirement for a 'retained client' function and that of managing the performance measures of the new	2	7	2

Risk Area / Audit Entity	Audit Report				
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low		
		<p>organisation to include KPIs, performance management and reporting requirements for the Authority. For Mid Devon, the initial monitoring was in the main by the Cabinet, and this has been built upon with an additional quarterly Officer Shareholder meeting. Given the significance of the venture it is wholly appropriate that Cabinet should monitor performance and achievement of objectives in line with the business plan. It is, however, not yet clear that Cabinet are fully sighted on the link between turnover and overall profitability taking into account working capital – since much of the reporting is done at individual scheme level. Therefore, our assurance currently remains at 'Improvements Required'. We recommend that the performance monitoring is developed further to provide clear key performance indicators at both project and company levels to address this. This view aligns with the External Auditor's recommendations made in July 2019. This reporting should jointly address the lack of future projects.</p> <p>At the time of our initial review the Company had commenced development projects and was drawing down money to deliver this. We found that several governance procedures including loan agreements, approvals and monitoring had yet to keep pace with development and there were some key conflicts of interest within the directorship. These have now been substantially addressed by the appropriate separation of approvals and controls.</p>			
Property Development Company – Internal Controls Review Company Request	Good Standard Status: Draft	<p>This review has considered the internal controls operating within the Company. The Company has expressed that though this is an internal report it wished to be transparent in presentation of the findings through its own and the Councils governance arrangements.</p> <p>This a relatively small company that has only two direct employees and three Directors yet has significant value in projects underway supported by investment from the Authority. By necessity the control framework is very light in comparison to a larger organisation. Additional control is provided through specialist advisors with opportunities to prevent and / or detect errors, not least through the use of a project consultant, a firm of accountants, an independent legal advisor / company secretary and oversight from the LA. We feel that given the size of operation and these additional measures that the control framework is generally sound on governance and the day to day financial operation of the business.</p> <p>It is clear that the Board's Directors are closely involved in operational business at a project level on a regular basis and have a good understanding of project delivery,</p>	1	6	1



Risk Area / Audit Entity	Audit Report					
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		<p>finances and progress. We have identified the need for improvement in business cases for projects through templating their format, and with the inclusion of key KPIs that might be expected at both project and company financial levels. This, as they stand, reduces the clarity and transparency of performance reporting both internally to the Board and also to the Council as identified in their report on governance of the company. Having the KPI's aligned from Company to Council will improve efficiency of reporting, consistency and assurance.</p> <p>This lack of clarity extends to the accountant's monthly financial management reports where the Company recognises the need for improved reporting transparency of performance against target. This would provide greater alignment of management accounts to project reporting information to the Board improving overall assurance. We have reported an assurance level of 'improvements required' for these elements. The Company are in the process of agreeing actions to address these matters and see the benefits of aligning KPIs internally to those for reporting to the Council on performance management which are in matter of fact the same reported issue.</p>				
Human Resources – Job Evaluation System	Good Standard Status: Completed	Audit work has been completed on the new on-line job evaluation system. Initial findings are that the systems controls and evaluation methodology are sound and should ensure consistency through what is a nationally accepted standard of assessment. No material concerns have been identified.		n/a		n/a
Human Resources – Appraisals and Training	Opportunity Status: Draft	This review is as a Trusted Advisor considering the proposed developments in the appraisal process. We are currently discussing opportunities to engender greater engagement in the appraisal process and how performance monitoring of appraisals and use of information management can be made to better inform the process. This all supports the wider objective of the Evolve project which aims to strengthen the Council's culture values and expected behaviours.		n/a		n/a

The following audits have been completed:

Draft reports are being prepared for:















- Job evaluation
- Appraisals and Training
- Council Tax and NNDR
- Street Scene – Fleet Contract Hire

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.

Risk Area / Audit Entity	Audit Report			
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low	Direction of Travel Assurance
We are bringing in three additional staff with different skill sets for specific audits including ICT				

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	
Care Services - Alarm Call	2017	1		1	3						4	0	1	
Development Management S106	2017			2		1	2				0	1	4	
Payroll	2017	3			6		1				9	0	1	
Insurance	2017				3				1		3	0	1	
Procurement	2018			1	4						4	0	1	
Housing Rents	2018	3		1	5		1				8	0	2	
Partnerships - Building Control	2018	2			3	3	2				5	3	2	
Creditors	2018				2		2	1		2	3	0	4	
Housing Health & Safety	2018	1					15	1		1	2	0	16	
Leisure CVSC	2018				5		1				5	0	1	
Grounds Maintenance	2018				2		1	2			4	0	1	
Safeguarding	2019			2			4				0	4	2	
Vehicles & Fuel	2015	5			6		1				11	0	1	
Housing Benefits	2018				1		1	1			2	1	0	
Ctax and NNDR and recovery	2018	1			1		1	1	3		5	1	1	
Business Continuity Planning	2018						2				0	2	0	
Culture and Ethics	2018				2			1		1	3	1	0	
Risk Management	2018		6				7			0	0	13	0	
Private Sector Housing	2019				2		3	3			5	3	0	
Housing Lettings	2019						1				0	1	0	
ICT Service Transition	2019	3	1		3		5				6	6	0	
Asset Management	2019						2		2		0	4	0	
Cyber Security and LGA Stocktake	2018	5	2		5		1	1			10	3	1	
		24	9	7	53	31	28	12	3	4	89	43	39	

Comments

West Somerset and Taunton Deane merger now complete (to form Somerset West and Taunton) Data Sharing agreement is now near completion.

Progress being monitored by LT. S106 Governance arrangements to be approved by Cabinet. ICT have developed an in-house software solution. Go-live date is December 2019. CIL action plan delayed due to Inspector review of Local Plan. New target date for CIL is 31/03/20

Call logged with Zellis, awaiting information on how to set up auditing using the auditing report

Insurance checks for external contractors - in discussion with Procurement.

Corporate Procurement Strategy outstanding - deadline extended.

Officers now allocating time each week to carry out work to deal with backlog of refunds for accounts in credit. ICT helpdesk request raised for workflow process in respect of movers.

New procedures in place. Amended target date to reflect on-going review/testing of process in partnership with HR.

Departmental SLA's for grass cutting - frequency of cuts TBC

Risk register - front line services. Requests sent to GMs to add to SPAR. Housing Repairs and Leisure services to add to Risk Register

Draft transport policy had now been written & to LT in December

Re-tendering of disaster recovery contract - due date June 2020

This relates to s106 developer payment (sundry debt raised). Developer continuing to pay monthly at a rate of £2k per month. Outstanding debt is currently £152K

CORE
SYSTEM

C = Completed


52%


N= Not yet due


25%

O= Overdue

23%

Not progressing 

Progressing some overdue 

On Target 

* report just issued

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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.