

# Internal Audit

## Audit Progress Report 2019-20

### Mid Devon District Council Audit Committee

March 2020



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

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## Head of Devon Audit Partnership

## 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.
<b>Substantial 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.
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** of the Council's key financial controls are near completion with creditors and payroll coming out at 'good standard' with improvements in control and in particular resilience in the payroll arrangements in the last twelve months. Again, this is to the credit of staff involved. The focus this year has, as agreed in the audit plan, been on review and documentation of the control environment with focused testing on 'hotspot' areas rather than wide ranging compliance testing.

We have noted that recommendations previously made in both the creditors and trade waste income audits for reconciliation and non-ordering respectively have still to be implemented.

We are completing of the finishing pieces to the housing rents review and clearing queries on the council tax and NNDR audit, no material issues have been identified to date.

**Risk Based Audits** make up the remainder of the work for the final 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 are arrangements regarding contract management where improvements continue to be made from where we observed 'improvements required' two years ago. This is a significant area and whilst assurance seen is good, there are many areas of the Council where contract arrangements exist that have not been subject of focus within these reviews. In the sector generally '3<sup>rd</sup> Party Risk' is considered high and additional work is planned in the wider context next year particularly where the Council does not yet have a 3<sup>rd</sup> party risk strategy and policy.

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

### Other Work

- Audit Committee received guidance on counter fraud management in January and are to identify risk areas for review.

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 Group Managers to consider the counter fraud arrangements. This has led to training for the audit Committee members and identification of further training and assessment opportunities to be pursued by the Council

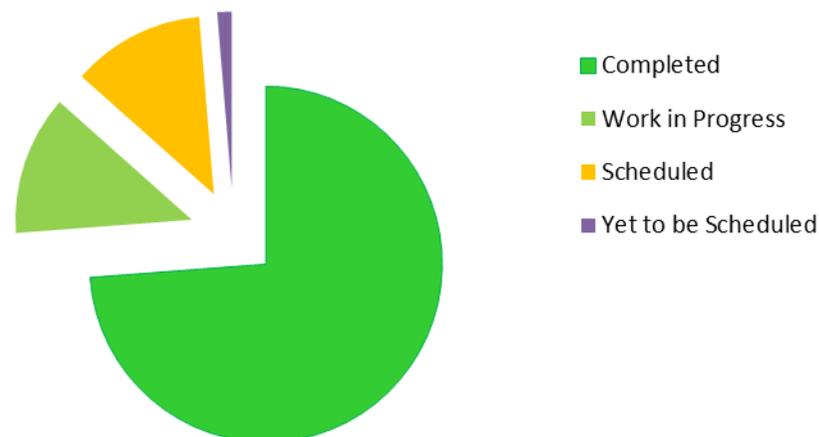
## Audit Coverage and Performance Against Plan

Performance against plan shows work has gained pace though there is still some work to complete. Several audits are near completion now and will be finalised before year end. We have retained resource from additional staff covering some specialist areas (including ICT) over the next 8 weeks. We continue with the view that the larger proportion of the work to be completed before year end though we have agreed with client that a small number of audits will be rolled forwards into April and completed alongside the work plan for next year. Work on the core financial systems is progressing to fit with External Audit requirements.

The pie chart 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 December 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 has been one incident identified in this period relating to misstatement of personal status in Housing Options – Homelessness. We are currently investigating the concerns.

Housing Services has requested Fraud Detection training as part of their engagement with the local Housing Tenancy Forum. Our Counter Fraud service will be able to support this need

**Customer Satisfaction** – satisfaction returns specific to MDDC have yet to be received this year though in general for DAP, survey returns score 99% 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
<b>Core - Key Financial Systems</b>						
<b>Creditors</b> Risk / ANA: ANA –High Spar – no risk identified	Good Standard  Status: Final	Overall, the controls in place to ensure that the correct supplier is paid the correct amount within payment terms, operates to a good standard, however, there is evidence of some non-order purchasing with the risk of unauthorised expenditure and reduced budgetary control. This coupled with some delay in GRN'ing orders in a timely manner has an impact on creditor late payment performance. The performance target relating to paying invoices within payment terms is 99%; this hasn't been achieved since May 2018, and there has been a slight downward trend, although it is not substantial. There is opportunity to improve the control environment of non-order payments (e.g. refunds). ICT have produced an on-line pro-forma form with the added control of code checking i.e. the appropriate manager is authorising. It is understood that testing is required from Finance before the on-line pro-forma can be used	1	2	3	
<b>Payroll</b> Risk / ANA: ANA –High Spar 4x1=4 Low	Good Standard  Status: Draft	There is a sound control framework for the payroll process. Business resilience has been improved since our previous review, as the Senior HRBP now processes the payroll run every couple of months which gives assurance that there is sufficient business continuity cover in the absence of the Payroll Manager to pay employees on time. There is also now a Payroll Assistant in post who supports the administrative tasks associated with payroll. We feel that further elements of the payroll task should pass to the Payroll Assistant to allow the Payroll manager to undertake the control check on calculation. This will allow improved segregation of duty and control check with better utilisation of the Payroll Managers expertise.	0	4	1	
<b>Treasury Management</b> Risk / ANA: ANA –Medium Spar 4x2=8 Low	High Standard  Status: Final	The Treasury Management function has been found to be well managed and monitored. Whilst it is evident that the security of the Council's financial assets is paramount, the rate of return is also monitored to obtain the best value for the Council. Investments were sample tested and found to be carried out in line with the Treasury Management Strategy and policy.	0	0	0	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
<b>Trade Waste – Income Collection</b>  Spar 4x2=8 Low	Good Standard  Status: Draft	<p>Controls in place for monitoring of trade waste expenditure are effective and there are regular reconciliations with DCC charges to ensure accuracy. The expected income for trade waste has exceeded the budget level of expectation to date. Customers' collections and accounts have recently been reviewed by the service to ensure that all customers are being accurately charged and in line with the service they are receiving. These two controls are considered to provide good overview indication at materiality level that income is being effectively managed.</p> <p>We have identified some control weaknesses where sample testing found not all contracts with customers were retained and data transfer reconciliations are not completed with eFinancials at time of processing. This increases the risk of reduced income recovery, (the recommendation remains outstanding from the previous report) and reputational risk though the duty of care agreement.</p>	1	3	3	
<b>Risk Based Reviews</b>						
<b>Contract Management - Vehicle and Fleet</b>  Risk / ANA: ANA – Low Spar 3x3=9 Low	Good Standard  Status: Final	<p>There is a robust framework in place to ensure performance management of the vehicle supply and maintenance contract. At this early stage of the contract, evidence obtained during the course of our review, found a good level of assurance that performance of the contractor (SFS) is being monitored through a number of measures.</p> <p>Procedures are in place to ensure that the service is compliant with the conditions of their Operators Licence, and a separate independent audit is carried out annually by an external specialist as best practice. There is currently one outstanding recommendation that has not been addressed, and this relates to the review of the Drivers Handbook.</p> <p>A recent upgrade of the fuel system software has improved back-office system access, and enhanced reporting capability relating to fuel usage. Evidence relating to the quotes obtained to ensure fuel is purchased at the best price is retained to demonstrate value for money has been achieved.</p>	1	1	0	

Risk Area / Audit Entity	Audit Report					
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<b>Contracts Register</b> Risk / ANA: ANA – High Spar Spar	Good Standard  Status: Final	Overall, there is a high standard of assurance that the Council's contract register is accurate, up to date and published in line with the Local Government Transparency Code. The Corporate Procurement Manager has introduced a number of compliance procedures to maintain the integrity of information held on register, which has increased the assurance that information is accurate. All relevant information relating to contracts over £5k that have been awarded by the Council is published on the Council's website, with in line with Procurement Regulations and the Local Government Transparency Code. There is an opportunity to increase assurance for supplier spend analysis using automated reports, rather than the current system of manual review of spending, and we understand that this is being investigated.	0	0	1	
<b>Counter Fraud</b> Risk / ANA: ANA – Low Spar 4x2=8 Low	Opportunity  Status: Draft	There are recognised policies and procedures within the Council for the management of fraud. Our review confirmed that management are clear on their understanding of the requirements and expected action. There are few recognised incidents of fraud and whilst this can be taken as a level of comfort, all agreed that there is opportunity to improve identification, reporting, prevention and management of potential fraud to improve the assurance that can be taken from the current level of general awareness. This should also lead to an improved consciousness of dealing with any potential incidents that may arise. The Council are keen to engage further support from our counter fraud services.	0	0	9	
<b>Human Resources – Job Evaluation System</b> Risk / ANA: ANA – Low Client Request – new system	Good Standard  Status: Final	The main risk with regard to job evaluation is non-compliance of equal pay. The Council has a procedure in place where all job evaluations are ratified by the Pay and Grading Group, this provides consistency in the process and reassurance that posts are scrutinized to achieve equal pay. Since February 2019 the Council has moved from a manual process of evaluating posts to a computerised system. It is considered that the computer system has provided automation and consistency to the job evaluation process and that ratification of posts contributes towards compliance of equal pay. There was found to be some lack of evidence to support the reviews, of particular note the justification or business case required to support the need for an evaluation, though, this was identified in the process and addressed before approval. A monitoring and analysis overview of post scores council wide would provide the Council with reassurance of their compliance with equal pay and provide insight on whether further mitigation for the risk is required.	0	3	3	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
<b>Human Resources – Appraisals and Training</b> Risk / ANA: ANA – Low Client Request – new system	Opportunity Status: Final	<p>The implementation plan for the Evolve project is in place, and the initial part of the process for introducing the competency framework, which is a pivotal aspect of the new appraisals process, has been approved by Leadership Team. This will soon go to the Group Managers Team to also review. We noted that some of the deadlines in the Evolve timeline monitoring process that have not been met. The GM for HR has advised that this will be reviewed and updated imminently.</p> <p>One of the main issues identified with the current appraisal system has been the non-return of appraisal forms to the document storage area. The appraisals project presents the opportunity to engage with managers to identify the issues that have led to the poor rate of return. It is not yet been agreed how the new process will enable L &amp; D to monitor the return of the forms and how the relevant information from the forms will be gathered and analysed for training needs.</p> <p>The successful outcome of the new appraisals process will rely on continued engagement with managers and staff and by ensuring that there is capacity to deliver tasks set out in the plan within the timelines. The key elements of the plan to introduce the new appraisal and training process are in place, although our observations have identified further improvement opportunities.</p>	0	0	7	
<b>VAT Partial Exemption Follow-up Review</b> Risk / ANA: ANA – medium Spar 4x3=8 Medium (orange)	High Standard Status: Final	<p>Recommendations from our previous review where the assurance opinion was improvements required have all been implemented and the control framework is now considered robust. It is recognised though that the partial exemption status is very close to the limit of 5%. This is being carefully monitored by Finance.</p>	0	0	0	

The following audits have been completed and draft reports are being prepared for:

- ICT Core
- Commercial Rents
- Council Tax and NNDR
- Housing Rents
- EVLC Benefits Realisation
- Partnership Management

No material concerns have been identified with these reviews. Opinions will be provided in the June 2020 progress/annual report.

The remaining plan work is scheduled for mainly for completion by the year end though in agreement with client some have been deferred until April 2020 (Cyber Security and ICT Strategy).

## 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	5		1				5	0	2	↗
Housing Rents	2018	3		1	6						9	0	1	↗
Partnerships - Building Control	2018	2			3	3	2				5	3	2	↗
Creditors	2018				3		1	2		1	5	0	2	↗
Housing Health & Safety Debtors	2018	1			6	4	5	1		1	8	4	6	↗
Private Sector Housing	2019						3		1	2	0	1	5	↗
Safeguarding	2019				2		3	3			5	0	3	↗
Vehicles & Fuel	2019	2			3		1				5	1	0	↑
Vehicles & Fuel	2015	5			6		1				11	0	1	↑
Housing - adaptations	2019		1				1				0	2	0	↑
Housing Benefits	2019				6					3	0	10	0	↑
Housing Benefits	2019				2		1				2	1	0	↑
Housing Benefits	2018				1		1	1			2	1	0	↑
Ctax and NNDR and recovery	2018	1			2		1	3			6	0	1	↑
Business Continuity Planning	2018						2				0	2	0	↑
Risk Management	2018		6				7			0	0	13	0	↑
Housing Lettings	2019						1				0	1	0	↑
ICT Service Transition	2019	3	1		3		5				6	6	0	↑
Asset Management	2019						1	1		2	0	3	1	↑
Cyber Security and LGA Stocktake	2018	5	2		5		1	1			10	3	1	↑
		26	11	5	59	35	22	10	6	5	95	52	32	

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. Currently at end-user testing stage. 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. 75% contracts are sourced through Framework agreements or SLoAC; compliance insurance is Corporate Procurement Strategy outstanding - deadline extended. Monitoring Waivers

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.

On-line pro-forma has not yet gone 'live'. End-user testing still needs to be done. User guides for creditors process need to be reviewed and saved in digital format.

3 safeguarding awareness training sessions have been carried out with operatives during Jan 2020. Now need to pick up on those who were unavailable at the time. Will be rolled out by end of March for Carlu close.

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

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

Outstanding S106 invoice escalated to now Legal for debt recovery

CORE
SYSTEM

C = Completed

53%

Not progressing ↳

N= Not yet due

29%

Progressing some ↗

O= Overdue

18%

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](mailto:robert.hutchins@devonaudit.gov.uk).