

Internal Audit

Audit Progress Report 2020-21

Mid Devon District Council
Audit Committee

November 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 2020-21 was presented and approved by the Audit Committee in June 2020. This report includes a revised audit plan to ensure an assurance opinion can be provided during the C-19 emergency. 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 our current proposed opinion for 2020-21 at this point of time.

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.

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Head of Devon Audit Partnership

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Opinion Statement

Overall, based on work performed during 2020/21 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable 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. 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 are 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.

Substantial Assurance	A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Executive Summary of Audit Results

Core Audits - The Council's key financial controls remain constant and previous assurance work completed should hold true where systems continue to operate in the normal manner.

We have made good progress on completing the Core Audits, with eight of eleven of these audits in fieldwork, or at reporting stage. This includes recent reports on Income Collection; Creditor system; and Information, Communications and Technology. These have found that the control framework remains generally sound. The work supports our view that core systems have not significantly changed in year, so the assurance level should not be significantly adversely affected by current working arrangements.

Covid-19 Grants Significant funding has been made through the government and paid out through local authorities. We have undertaken work on:

- The Income Compensation Scheme. Based on review of the first tranche of claims, we have concluded the figures provided to date appear to be a fair reflection of those within the financial systems, and that the income being claimed can reasonably be considered to fall within the MHCLG eligibility criteria. We will provide a final report will be provided when all claims have been submitted.
- Covid-19 Small Business Grants, and Retail, Hospitality and Leisure Grants. A sound approach and methodology has been established to administer payments and a sample has been selected that we are reviewing the evidence provided.

Risk Based Audits The draft report on Building Control has been issued for consideration by both North and Mid Devon. This represents an example where value is being obtained through provision of assurances for both councils. We have also recently started audits on Procurement, and Digitalisation.

Opinions of reviews undertaken this year are included in Appendix 1.

Findings have generally found a good level of control and some opportunities to improve achievement of objectives.

Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can. 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.

Audit Coverage and Performance Against Plan

We have recently reviewed the audit plan and considered what is achievable to deliver in-year. At this point we expect to deliver approximately 75% of our audit plan this year, including all Core and the significant Risk Based Audits. We will discuss the revised plan and performance measures with management in the next two weeks, and it will then be shared with Audit Committee at the next meeting. As part of this review we will consider additional audits useful to confirm that specific C-19 risks are managed during the ongoing emergency alongside work already currently being undertaken.

Appendix 1 to this report provides a summary of the audits undertaken since our last progress report in June 2020, along with our assurance opinion. Where a "substantial assurance" or "reasonable assurance" 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 "limited assurance" has been provided then issues were identified during the audit process that required attention. We include a summary of some of the key issues reported that are being addressed by management. We are broadly content that management are appropriately addressing these issues albeit recent audits have identified instances where recommendations remain open from last year.

Key performance indicators on progress against audit recommendations reveals that the Council continues to make progress although there are two High Recommendations that are currently overdue from prior year audits (See appendix 2).

Fraud Prevention and Detection

There have been no reported issues in the year to date. Management are aware that they can refer any suspected issues to our counter fraud team. We will liaise with management to undertake some sample testing of payments for compliance purposes.

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 2020-21

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 – KEY FINANCIAL SYSTEMS						
Income Collection Risk / ANA: ANA - Medium Spar	Reasonable Assurance Status: Final Report	The control framework for income and debt collection is generally sound and testing found that invoices are raised and collected in an appropriate manner. Reconciliations have improved and are timely which should provide second line control to ensure prompt and accurate posting to the accounts. Recommendations made in the previous report have not all been progressed and those regarding user access and data retention remain outstanding (a new member of staff has now been tasked with this). It is recognised that there are systems limitations for managing record retention, however, there is increased risk of non-compliance with data protection where information is retained unnecessarily.	0	8	2	
Creditors System Risk / ANA: ANA –Medium Spar 4x2=8 Low	Reasonable Assurance Status: Draft Report	A draft report is being discussed with management. We are proposing a Reasonable Opinion, as we consider there were good processes to ensure correct payment of suppliers within required timescales. That said, we identified instances where the required procurement processes were not followed. In addition, we note that the Supplier Masterfile has not been reviewed for some years, which increases risk of a payment to an incorrect supplier. These were both issues identified in audit reports last year that remain to be resolved.	1	3	3	
ICT Core	Reasonable Assurance Status: Draft Report	Management has accepted the draft report, and we are now discussing the management actions. We have provided a Reasonable Opinion based on: good compliance to Council policies and organizational controls; the physical and environmental controls to protect core network infrastructure; system performance management, backup and change procedures to ensure availability of applications; and effective work to secure infrastructure and information assets.	-	5	5	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
Payroll	Status: Fieldwork	This audit is in fieldwork. To date we have not identified any significant control weaknesses.				
COVID-19 REVIEWS						
The Income Compensation Scheme	Reasonable Assurance Status: Fieldwork	We have reviewed the first tranche of transactions provided to us. The figures provided to date appear to be a fair reflection of those within the financial systems, and that the income being claimed can reasonable be considered to fall within the MHCLG eligibility criteria. We will provide a final report will be provided when all claims have been submitted.		n/a		
Covid-19 Small Business Grants, and Retail, Hospitality and Leisure Grants	Status: Fieldwork	A sample of transactions has been selected, and we are currently reviewing the evidence.				
RISK BASED REVIEWS						
Partnership Governance - Building Control	Reasonable Assurance Status: Draft Report	A draft has been provided for management consideration. We propose a Reasonable Assurance as we consider appropriate action is being taken to develop the Quality Management System to address outcomes from the Hackitt Inquiry (relating to Grenfell Tower and building control services). However, we note that a previous recommendation for quarterly management meetings between the Building Control Partnership Manager and North and Mid Council officer has not been implemented. These meetings will help ensure that there is appropriate council focus on performance, risks and issues related to this partnership. The draft report has been provided to Mid Devon, and North Devon, as assurances for this partnership are relevant to both areas.	3	3	1	

The remaining plan work is currently being reviewed and will be discussed with management to ensure delivery of the significant part of the audit plan.

Appendix 2 – Performance Indicators

Incomplete Audits	Year	Recommendations									Direction of Travel RAG	COMMENTS ON IMPLEMENTATION			
		High			Medium			Low					Totals		
		C	N	O	C	N	O	C	N	O			C	N	O
Insurance	2017	1			3				1		4	0	1		Insurance checks for external contractors. 75% contracts are souced through Framework agreements or SLoAC; compliance insurance is monitored through these agreements.
Job Evaluation	2019				1	4			3		0	1	7		Work to implement these are in hand and are expected to complete in January 2021.
Development Management S106	2017			2	1	3					0	1	5		In house software solution has been built, is being refined and tested. Reporting on 19/20 S106 financial records in progress to meet legal requirement by 31 December 2020. Financial reconciliation between S106 records and financial system is taking place monthly. Local Plan is now adopted. Future of CIL and hence Exacom CIL management system subject to a Cabinet report (3rd December 20) and Council (6 January 21).
Creditors	2018				3	1		2	1		5	0	2		On-line pro-forma has not yet gone 'live'. End-user testing complete, ICT now to resource the change need - date extended.
Creditors	2019	1			1				2	1	2	2	1		Reconciliation review being reallocated due to sickness absence.
Housing Health & Safety	2019	1			6	9		1	1		8	0	10		Policies were approved at Cabinet May 2020 - report backlog and systems improvements still being worked through
Debtors	2019				2	2		2	3		4	5	0		New staff member in place revised date Sept 2020
Members Allowances	2020					2		2	2		0	2	4		
Ctax and NNDR and recovery	2018	1			1	1	1	3			5	1	1		Outstanding S106 invoice escalated to now Legal for debt recovery
Business Continuity Planning	2018					2					0	0	2		Links to third party assurance
Safeguarding	2019	3			3	1					6	0	1		3 safeguarding awareness training sessions have been carried out with operatives during May 2020. Now need to pick up on those who were unavailable at the time.
Housing Benefits	2019					2					0	0	2		
ICT Service Transition	2019	3	1		3	5					6	6	0		
Asset Management	2019				1	1		2			0	3	1		Dates extended
Sickness and Absence	2020		1		2	2		1	1		0	4	3		
		10	2	2	22	13	28	8	10	10	40	25	40		

CORE
SYSTEM

C = Completed 38%
N= Not yet due 24%
O = Overdue 38%

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 .