

Internal Audit

Audit Progress Report 2020-21

Mid Devon District Council
Audit Committee

January 2021

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 carry out an annual review of the effectiveness of their internal audit system and incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion for use by the organisation to inform its governance statement. This report provides our proposed opinion for 2020-21 based on work undertaken to date in the Opinion Statement.

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 with reduced available resources. The following report and appendices set out the background to audit service provision; summaries of audit work undertaken during the year and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

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;
- approve the amendments to the audit plan.

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 2020/21 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is "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 specific follow-ups.

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

We have completed six of the ten core audits planned for this year to draft or final report stage. We provided Reasonable Assurance for each of these audits. These have found that the control framework remains generally sound. This 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. That said we have concerns relating to staff resourcing in some areas such as HR which are exacerbated due to work at home requirements.

Covid-19 Grants

Significant government grants have been paid out through local authorities. We undertook work on the following:

- The Income Compensation Scheme, Claim 2. We reviewed the second tranche of claims and confirmed that figures prepared appear to be a true and fair reflection of those within the financial systems, and lost income claimed could reasonably fall within the eligibility criteria as outlined in the MHCLG guidance document.
- Covid-19 Small Business Grants, and Retail, Hospitality and Leisure Grants. We consider the system for processing grant applications was generally effective and made recommendations to improve future grant making.

Risk Based Audits

During the period we completed five audits to draft or final report stage. We provide a Limited Opinion for two of these:

- Commercial Rents. We identify a need for management review of the practice of holding over legal licences for industrial units and shops rather than renewing them.
- Digitalisation. We identify opportunity for the Council to maximise the benefits and ensure controls in this high-risk area are effective through a Social Media Strategy and greater central oversight.

We have also undertaken a report on Safe Covid-19 Operations for council staff which we will discuss during the Audit Committee. We have not identified any significant areas of concern.

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.
- Undertaking audits across organisational boundaries such as the recent audit on Building Control for North Devon and Mid Devon.

Audit Coverage and Performance Against Plan

Appendix 1 to this report provides a summary of the audits undertaken since our last progress report in November 2020, along with our assurance opinion. Where we provide a "Substantial assurance" or "Reasonable assurance" of audit opinion we can confirm that, overall, sound controls exist to mitigate exposure to risks identified. Where we have provided a "Limited assurance" opinion then issues were identified during the audit process that required attention. We are broadly content that management are appropriately addressing these issues albeit recent audits have identified instances where recommendations are yet to be fully completed.

We are broadly on track to deliver our revised audit plan as shown in the diagram below.



Revisions to the audit plan

We have recently reviewed the audit plan to adjust it to what we are able to deliver with available resources in-year. The revised plan agreed with management is at **Appendix 3**. At this point we expect to deliver approximately 75% of the plan for this year, including all but one of the Core audits, and the significant Risk Based Audits. While we have deferred some audits, we will include review of significant recommendations from these areas to ensure that have been effectively implemented. We submit the plan for Audit Committee approval.

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

Management have referred to us a case of misuse of an e-procurement card for review. We understand that the card use has been stopped pending investigation. We are making initial exploratory inquiries.

We continue to liaise with the Group Manager Risk and Performance on future direction of Counter Fraud strategy work which has yet to be commissioned.

Assurance Mapping

We have continued to refine our assurance map based on our work undertaken this year. We will share this with the next audit committee.

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						
Creditors System Risk / ANA: ANA –Medium Spar 4x2=8 Low	Reasonable Assurance Status: Final Report	There are effective controls to ensure correct and timely payment to suppliers within payment terms. This includes good controls for the BACs payment process with automation and levels of authorization and monitoring and separation of duties to reduce the risk of fraud. Payments are made in a timely manner. This is reflected in the key performance indicator where the percentage of invoices paid on time is 99.19% against a target of 95%. We identified residual risk in areas previously reported related to: <ul style="list-style-type: none"> Review of the Creditors Masterfile in accordance with GDPR compliance and to prevent incorrect payment of a supplier. Reduction in non-order purchasing and improvement in good receipting processes. Updating authorisation signatory listings. 	0	4	3	
ICT Core Risk / ANA: ANA – High Risk Spar (Cyber Security) 5 x 4 = High	Reasonable Assurance Status: Final Report	Compliance and organizational controls were generally sound related to policies, inventories, and compliance with Public Services Network (PSN) requirements. There is scope to update policies and ways of working to reflect innovations in technology, and advice from the UK National Cyber Security Centre. Physical and environmental controls are working well with complete and up to date network documentation and appropriate environmental controls in the data center. Operational availability of material systems is sufficiently protected by the resilience built into the Council's computing infrastructure. Lack of redundancy (lack of backup resource) on the main network link has been identified as an issue by the Office 365 work and presents risks to the operation of	0	5	5	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		<p>material systems too. While backup arrangements are suitable, more frequent testing of backups is desirable.</p> <p>Network security controls are well implemented, while proactive monitoring controls are in place. These are not comprehensive and may need to evolve to accommodate planned changes such as an increased reliance on Internet based services, and an increased threat from malicious activity. This could be further strengthened with password policies to reduce the risk of a successful attack.</p>				
Main Accounting System	Reasonable Assurance Status: Final Report	<p>The MAS functionality provided by e-Financials provides a good foundation of system controls to support the accounting process requirements of the Council. We found good controls supporting budget management and compliance with procedures.</p> <p>In relation to the specific risk of undetected fraud and error we identify some areas where second line checks were not being undertaken, or were not being done on a timely basis, such as the completion and sign-off of bank reconciliations as required by council regulations, and senior management authorisation of journals over £25k. We consider these control weaknesses were a short-term impact following introduction of the Covid-19 arrangements and confirm that management has brought in an additional finance officer to bring all reconciliations up to date. We also recommended creation of a basic finance manual to support greater resilience and compliance with policies and procedures. Finally, management has decided to accept any risk relating to the practice of raising and posting the same journal, which they consider to be low.</p>		3	2	
Payroll Spar (Payroll) Risk 1 x 1 = Low	Proposed Reasonable Assurance Status: Draft Report	<p>We are discussing this draft report with management.</p> <p>Findings will be reported in due course.</p>	1	7	1	
Car Parking Spar Parking Income) Risk 3 x 2 = Medium	Proposed Reasonable Assurance	<p>We are discussing this draft report with management.</p> <p>Findings will be reported in due course.</p>	1	4	0	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
	Status: Draft Report					
COVID-19 GRANT REVIEWS						
The Income Compensation Scheme Tranche 2	Status: Completed	<p>We reviewed the second tranche of claims for the ICS Claim 2 and report that figures prepared appear to be a true and fair reflection of those within the financial systems, and lost income within the claim could reasonably fall within the eligibility criteria as outlined in the MHCLG guidance document.</p> <p>We made some minor observations related to some of the calculations. We also identified that for some cost centers, the cumulative variance was lower at the end of P8 than it was at P4, meaning that the Council has currently been overpaid. This may change for the final claim. We understand that any overpayments will be identified as part of the final reconciliation process after Claim 3 has been submitted, or as part of the Claim 3 submission.</p>	n/a	n/a	n/a	
Covid-19 Small Business Grants, and Retail, Hospitality and Leisure Grants	Proposed Reasonable Assurance Status: Draft Report	<p>We are discussing this draft report with management.</p> <p>Findings will be reported in due course.</p>	0	3	0	
RISK BASED REVIEWS						
Building Control	Reasonable Assurance Status: Final Report	<p>The NMD Building Control Partnership continues to develop and operate effectively. The Quality Management System framework appears to be working well, is supported by documentary evidence and has been certified by an independent UKAS accredited body. Local accreditation by an external assessment is expected soon. NMD Building Control have a good awareness of the Hackitt Inquiry and the proposed changes likely to affect them. Being a member of the LABC and the certification in the ISO9001 enables NMD Building Control to keep up to date with legislation, impending changes and the impact of these on their service. NMD Building Control has obtained qualifications outlined by the LABC to demonstrate their competency which is believed to be part of the proposal of the Hackitt review.</p>	3	2	1	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		Residual risk relates to: <ul style="list-style-type: none"> • Holding quarterly partnership meetings between NMD Building Control, North Devon and Mid Devon to review delivery and performance (now happening); • Ensuring that appropriate NMD Building Control risks are escalated to Mid Devon (and North Devon) Council risk registers; • Considering risk related to the impending changes to the Building Safety Bill. 				
Commercial Rents	Limited Assurance Status: Final Report	<p>There are sound governance arrangements with involvement of senior officers and members of the Council who sit on the Capital Asset Management Group, with the overall monitoring of the asset management initiative the responsibility of Cabinet. Regarding the Asset Management Plan, controls operate effectively to ensure that asset management is managed and monitored effectively in line with the strategy.</p> <p>We identify operational concerns around expiry of leases, rent reviews and agency property management. We understand the sensitivities on decisions around their management. We have highlighted areas where there is opportunity to reconsider the impacts of this and change the approach taken to ensure that all risks, not just financial are covered. Included in the short-term objectives of the annual plan is 'to review all legal licences and leases to ensure that the Council are meeting their client duties and maximise income and use professional valuations as a base line only for any land sale'. This objective remains to be completed.</p> <p>Our management actions, and overall Limited Assurance relate mainly to the following:</p> <ul style="list-style-type: none"> • The view based on professional advisors (MIRCS) is that rental values are very much static so that there is little scope to engage in rental valuations resulting in new leases on different rental terms. Prevailing market conditions has thus necessitated a pragmatic approach to rent reviews even if the date for review has passed. However, most of the Industrial units and most shops have a mix of current and expired leases. The expired leases are not being renewed but are in a "holding over" basis continuing by agreement (4 months-notice either party) of terms and conditions in force. However, there is a risk to third party risk, income certainty and budget setting if this situation is not addressed and regularised. • The Agency Agreement (2015) with the property administrator who manage the Market Walk properties portfolio requires review so that it contains clearer lines of communication documented in the event of possible unrecoverable or 	0	6	1	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		overdue rental income and agreed processes for actions to be taken in such situations. Consideration should be given to the setting of clear indicators to measure the agent's performance. There is currently a risk of loss of rental income and longer void periods.				
Licensing Control	Substantial Assurance Status: Final Report	Overall, we consider there is a good process to manage Licensing Hearings. The Licensing Team has a comprehensive process for Hearing meetings and Members are subsequently confident about the format meetings will take and supported by the training they have received. To promote on-going learning for Members, we recommend follow up meetings after each hearing to reflect on the specific hearing and any good practice, and opportunities to improve.	0	1	0	
Digitalisation: Electronic Payments, Online forms and Social Media Risk (Social Media) - SPAR 5x2 = Medium	Limited Assurance Status: Draft Report	We are discussing this draft report with management. Findings will be reported in due course.	1	4		
Safe staff operations during Covid-19		We have reviewed how Mid Devon council has supported its staff during the Covid-19 emergency. This has considered what additional support can be offered to staff, including through consideration of what other councils have done. We have also undertaken a survey of Mid Devon staff to assess their views on how they have been supported. Conclusions and a report will be produced later in January.				

Appendix 2 – Clearance of audit recommendations

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. Managers have received training in 2018/19 on monitoring of contracts. The Procurement Manager is about to roll out refresher training, due to complete end June 2020.
Job Evaluation	2019				2	1	2	3			5	1	2		Work to implement these are in hand and are expected to complete in January 2021.
Development Management S106	2017			2		1	2				0	1	4		Community Infrastructure levy: at the meeting of Council on 6 January 21 it was decided not to progress CIL. The Exacom system is surplus to requirement and will not be renewed The Infrastructure Funding Statement for 19/20 including S106 records for that year was prepared and published to meet the 31 Dec 20 deadline. Information has also been published and shared with parishes on public open space S106 funding. Interim measures are in place for project reporting until the full reporting arrangements under the project management system can be finalised. This has been delayed as a result of issues identified through system testing and ICT staff resource pressures. In the next project phase application and payment records need to be added / updated in the new system.
Creditors	2018				3		1	2	1	1	5	1	2		On-line pro-forma has not yet gone 'live'. End-user testing complete, ICT now to resource the change need - date extended. Review of masterfile - date has been extended to end February 2021 to fit with workflows.
Housing Health & Safety	2019	1			12	1	2	2			15	1	2		Reducing Medium risk properties to low risk over next 2 years - budget resourced to increase target for 2021/22. Training - delayed due to Covid - dates extended.
Debtors	2019&20				3		1	4	1		7	1	1		New sales pro-forma has been ceated to be introduced by end of January 2021. Identification of duplicate customers - deadline extened to end of February 2021 to fit with workflows.
Adaptations	2019	1			4	1	1	2		1	7	1	2		Aids and Adaptations policy has been updated, currently being reviewed Internally. Due to go to Housing PDG later in the year.
Sickness and Absence	2020			1		1	3	2			2	1	4		
Creditors	2020				1		2	3							
Members Allowances	2020				2			2	2		4	2	0		
Ctax and NNDR and recovery	2018	1			1	2	1	4			6	2	1		Outstanding S106 invoice escalated now to Legal for debt recovery
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 - delayed due to Covid.
Housing Benefits	2019						2				0	0	2		
Asset Management	2019				2			2			2	2	0		Dates extended
Licensing - Hearings process	2020					1		2			0	3	0		
Building Control	2020			3		2		1			0	6	0		
		10	4	3	39	17	16	24	9	3	69	28	22		

CORE
SYSTEM

C = Completed 58%
N= Not yet due 24%
O = Overdue 18%

Not progressing
 Progressing some overdue
 On Target, report just issued

Appendix 3 – Revised Audit Plan

The Blue highlight indicates an amendment

Audit Area	Year Last Audited	Days 2020/21	Revised Days	Comments
Council Tax and NNDR	2019/20	15	15	FIELDWORK
Income and Cash Collection (inc Debtors)	2019/20	10	10	FINAL REPORT
Debt Recovery	2019/20	10	10	FIELDWORK
Main Accounting System	2019/20	10	10	DRAFT REPORT
Housing Benefits	2019/20	10	10	FIELDWORK
Creditors	2019/20	10	10	FINAL REPORT
Housing Rents (including rent arrears)	2019/20	10	10	Compliance Review Progress on systems deployment to Cloud
Treasury and Cashflow Management	2019/20	5	0	DEFER – previous reviews found good level of control.
Payroll	2019/20	10	10	DRAFT REPORT
Car Parking Income} alternate years	2018/19	10	10	DRAFT REPORT
ICT Core Audit	2019/20	5	5	FINAL REPORT
CORE FINANCIAL ASSURANCE AUDITS		105	100	

Sickness and Other Time Off	2019/20	5	0	2019 FINAL REPORT issued, making further audit unnecessary.
Skills and Training		3	0	DEFER -Trusted Advisor support on skills database.
Appraisals and Training	2019/20	7	7	Review how it is working, are they being completed, are people engaging in the new competency process. Evolve Project.
Procurement (2-yearly)	2018/19	10	10	FIELDWORK
Contract Management - Contract Register & Contracts (2-yearly)	2019/20	5	5	Third Party Risk - Full risk-based review (link to Collaborative and Partner Working audit)
Transformation - Benefits Realisation		5	0	Cancel as C-19 emergency has put projects on hold.
Cyber Security (inc Information Security)	2019/20	10	10	
ICT systems (ITIL Methodology)	2019/20	15	15	FOCUS ON CONSULTANCY as suggested to Lisa Lewis as new IT MGR not yet in post and work is needed
Building Control (incl income and all other areas)	2018/19	5	5	FINAL REPORT
Development Control - (incl S106)	2019/20	10	0	We have been asked to defer this to 2021/22 as a report on use of the Community Infrastructure Level is to go to

				management in December, and then Council approval.
- Monitoring of developments		10	0	We have been asked to defer this audit to Q1 of 2021/22, when new officer will be in post and made progress on updating system databases.
Forward Planning	2013/14	10	0	DEFER, as planning proposals being considered by councils.
Licensing Services	2016/17	5	5	FINAL REPORT
Emergency Planning (also Business Continuity Planning) (2yrs)	2015/16	10	10	Lesson learnt from C-19
Gifts & Hospitality/Register of Interests	2016/17	5	0	DEFER
Digitalisation - Social Media	2017/18	10	10	DRAFT REPORT
Stores	2016/17	10	0	DEFER
Health & Safety Management Arrangements incl Estate Inspections (2-yearly)	2018/19	10	10	Property Services
Service Charges		10	0	DEFER
Housing Company (3 Rivers)	2019/20	8	8	Follow-up review focus on business case and performance monitoring reports.
RISK BASED AUDITS TOTAL		163	95	

Governance - inc Ethics and Culture	2018/19	10	0	DEFER - New Mandatory Policy Dec 2019 - embed process
Safeguarding	2019/20	5	0	DEFER - Focus Area – identification and reporting of concerns - Housing Tenant Services & Housing Repairs
Corporate Information Management - Information Assets Data Protection (2-yearly)	2018/19	10	10	Progress of Corporate information Management actions from 2018 Data Protection Act - staff compliance and data sharing agreements
Corporate Plan		10	0	DEFER - Establishment of actions, links to business plans and KPIs
Collaborative / Partnership Working	2019/20	5	5	Underway. Link to Contract Management
Risk Management - Spar/Data Quality	2018/19	5	5	Training GMs - risk description and mitigation recording. Planning Service workshop
Climate Change - Environmental impacts		15	15	Strategic review of governance arrangements, alignment and transition plans
COVID 19 Review on Income Compensation Scheme	NA	0	5	ADDITION to original plan, providing assurance on ICS scheme.
COVID 19 Review of Small Business Grants and Leisure Grants	NA	0	7	DRAFT REPORT - ADDITION to original plan providing assurance on Small Business Grants and Leisure Grants.

Safe staff operations during Covid-19	NA	0	7	ADDITION - providing assurance on how risk to staff has been managed.
Audit Follow-up (key reviews from last year)	2019/20	10	5	Slight reduction in number of days.
CORPORATE ASSURANCE		70	59	

Audit Governance		35	35	
Fraud/Irregularity and prevention		10	10	
Consultancy/Advice/Contingency		15	5	
CORPORATE GOVERNANCE		60	50	

SUMMARY - Original versus revised

Core Systems	105	100
Risk Based Audit	163	95
Corporate Assurance	70	59
Corporate Governance	60	50
TOTAL	398	304

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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 .