

AUDIT COMMITTEE
23 JUNE 2015

INTERNAL AUDIT OUTTURN REPORT 2014/15

Cabinet Member **Cllr Peter Hare-Scott**
Responsible Officer **Audit Team Leader**

Reason for Report: To update the Committee on the work performed by Internal Audit during the 2014/15 financial year as required by the Public Sector Internal Audit Standards.

RECOMMENDATION(S): That the Audit Team Leader continues to report back to the Committee on any outstanding audit recommendations as part of the regular progress reports.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council with its governance and assurance process.

Financial Implications: None

Legal Implications: None

Risk Assessment: Potential breach of the Public Sector Internal Audit Standards.

1.0 Introduction

- 1.1 This report summarises the activities of Internal Audit for the year ended 31 March 2015, as required by the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS define Internal Audit as; *'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'*
- 1.3 The conclusion from the work conducted by Internal Audit is that generally the systems reviewed contained a satisfactory level of internal control, achieved their desired objectives and complied with the requirements of the Financial and Contract Procedure Rules as laid down in the Authority's Constitution.
- 1.4 If during the course of our work we have identified areas where financial and management controls could be improved or laid down procedures were not fully followed, recommendations for change and improvement have been agreed with appropriate officers and corrective action planned and/or implemented accordingly.
- 1.5 We use our Service Performance and Risk software (SPAR) to monitor and report on outstanding recommendations which has improved the management

of audit action plans. Information from SPAR regarding recommendations, completed and outstanding, is attached as appendices 1 and 2 to this report.

2.0 Compliance with Professional Standards

- 2.1 The practices and procedures of Internal Audit are periodically reviewed against the PSIAS by self-assessment done annually as part of the evidence gathering process for the Annual Governance Statement.
- 2.2 Every public sector body is required to ensure an ongoing commitment to the PSIAS and, at least once every 5 years, arrange for the external assessment of the internal audit service against the standards. MDDC took the approach of an independent validation of the self-assessment findings with a formal report in November 2014.
- 2.3 The consultant was of the opinion that the content of the 2014 self-assessment of the Internal Audit service against the PSIAS presents a true and fair view.
- 2.4 However, a few areas of concern were highlighted within the independent report (responses in italics):
- Risk Based Audit Plan – The allocation of days to audits in the work plan for 2014/15 was not based on a formal risk calculation model. *This was re-introduced in the preparation of the 2015/16 plan. Risk is being fully embedded throughout the audit process and reports.*
 - IT Auditing – It is understood that the Audit Manager will not now undertake the IT audit training and thus provide the IT audit role within the authority. *The Internal Audit Team Leader has looked into an alternative training module and is now booked on a course in July 2015.*
 - Management of SPAR - The Internal Audit service manages and oversees the update to and reporting from the SPAR software. *Whilst the Internal Audit Team manages and oversees SPAR the input of data into the system is the responsibility of service managers.*
 - General Changes - It was noted that several changes are to be introduced following completion of the PSIAS self-assessment. *Formally documenting the preliminary risk assessments and consideration of fraud etc. done as part of the audit planning.*
- 2.5 PSIAS 2450 requires the Audit Team Leader to provide an annual report to the Audit Committee timed to inform the Annual Governance Statement, This must include:
- An opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
 - The expectations of senior management, the board and other stakeholders
 - Disclose any qualifications to that opinion, together with reasons for the qualification

- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance
- Draw attention to any issues the Audit Team Leader judges particularly relevant to the preparation of the Annual Governance Statement Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
- Comment on the compliance with the PSIAS
- The results of the internal audit quality assurance and improvement programme

3.0 Scope of Internal Audit Activities

- 3.1 The scope of Internal Audit within the Council is unrestricted in that the Audit Team Leader is responsible for the review of all aspects of internal control across the Council's activities.
- 3.2 Internal Audit was afforded unrestricted access to all relevant personnel, records, documents and correspondence to enable audit reviews to be conducted effectively in the 2014/15 financial year.
- 3.3 The Audit Team Leader also has access to the Chief Executive, the Section 151 Officer, the Leader of the Council and Chairperson/Vice Chairperson of the Audit Committee as outlined in Section 18.3.3 of the Financial Regulations (approved by Cabinet on 24 April 2013).

4.0 Basis and Completion of the Annual Internal Audit Plan 2014/15

- 4.1 The 2014/15 Strategic Audit Plan was presented to the Audit Committee at its meeting on 11 March 2014, where it was approved. The Internal Audit Section has 2.7 FTE staff.
- 4.2 The sections below give a summary of the work completed by Internal Audit in the 2014/15 financial year against the approved Audit Plan: A total of 24 audit reviews were conducted for the 2014/15 financial year against the planned 28. The audit opinions are reproduced in full below.
- 4.3 Five of these, included at 23-27 below, have not previously been discussed at Audit Committee.
- 4.4 **Core Audits** – All core audits for 2014/15 were completed i.e. Council Tax & NNDR, Income and Cash Collection, Main Accounting System, Housing Benefits, Creditors, Housing Rents, Treasury & Cashflow Management, Payroll, Recovery, Car Parking Income (biennial with Trade Waste) and ICT Core. Treasury & Deeds were combined with Main Accounting.
- 4.5 **Systems Audits** – The following 13 were completed: Contracts, Repairs & Maintenance, Leasing & Capital Asset Management, Gazetteer Management, Economic Development & Industrial Rents, Lords Meadow Leisure Centre, Data Protection & Information Security, Housing Health & Safety Management, Telephones, Gifts & Hospitality, Tiverton Pannier Market, VAT and Time Recording.

- 4.6 The 4 systems audits not completed in 2014/15 were prioritised in the 2015/16 plan; they are all now complete and will be sent out for consideration at the next meeting on 28 July.
- 4.7 **Corporate Work** – Included work on SPAR, analysing and reviewing the adequacy of the council's risk management arrangements, job evaluation panels for Human Resources, data quality, investigations, and the annual Stores stock take.

5.0 **Contracts**

- 5.1 The Contracts process is now managed using the Pro Contract software, through the supplyingthesouthwest.org.uk procurement portal. Where a contract has been advertised and awarded through Pro Contact, all the documents relating to the invitation to tender, contract evaluation documents and letters to the tenderer's are saved onto the system along with the date and time this was done which ensures a good audit trail.
- 5.2 There is clear evidence that when a decision to award a contract has been challenged by an unsuccessful tenderer, that procedures for responding to a written 'request for reasons' are followed. The tenderer is notified within the agreed timescales and given an explanation on all the points raised by them to as to why their tender application was unsuccessful.
- 5.3 Mid Devon DC is part of the Devon Procurement Partnership (DPP) which is made up of procurement representatives from the Devon Public Sector Organisations. Through collaboration with these organisations, DPP aims to share knowledge, expertise and best practice, and maximise Devon's purchasing influence.
- 5.4 MDDC also utilises a number of frameworks available to Public Sector organisations and the Procurement team at MDDC is responsible for maintaining a framework spreadsheet on behalf of the DPP, which is available for the other members to access.
- 5.5 However, there are a number of weaknesses. The Council needs to ensure that it gets value for money from all the suppliers it regularly uses, but who are not necessarily on a contract. Therefore supplier spend needs to be monitored to establish if MDDC is paying any suppliers over the £50k limit where a contract would normally have to be in place; this spend would be within a financial year or over the period of time in which the services are provided.
- 5.6 Although there is evidence that work has commenced on this area, there is no target date for completion on the Procurement workplan and the current status is 'on hold'. There is a risk therefore; that the Council could not be getting value for money for goods or services, and that it is not complying with the Financial Regulations on contract procedures.
- 5.7 Although the Financial Regulations state that Service Managers are responsible for ensuring that all of their staff who are required to use Contract Procedure Regulations as part of their job have to confirm that they have read

and understood the Contract Procedure Regulations as part of their induction, it is not possible to prove that this is done or monitored.

- 5.8 It is the overall opinion of the auditor that the Contracts system is adequately controlled.

6.0 Repairs & Maintenance

- 6.1 There have been many improvements in the Repairs and Maintenance Service since the previous Audit with performance being regularly monitored and benchmarked against other Housing providers.
- 6.2 The Repairs Handbook is given to tenants when they sign their tenancy agreement and is also available on the Housing webpage. The Handbook lists what the Council is responsible for repairing and what tenants are expected to replace or pay for when a repair is carried out by MDDC.
- 6.3 The process for recharging tenants for repairs, once the repair is identified as rechargeable, is well documented and more automated now that the workflow function within the Orchard system is being utilised. However, evidence suggests that not all rechargeable items are being identified at the first point of contact, which means that the Council may not be collecting income which is due. While the monetary value of the samples selected was not significant, this issue still needs to be addressed.
- 6.4 The process for logging calls for repairs has changed since the previous Audit, as Customer First are now logging calls and using the diagnostic (Omfax) module in the Housing Orchard System. The script used for the diagnosis is updated by the Maintenance Supervisor (Cyclical & Systems) regularly to ensure that repairs are diagnosed correctly. The call logging and diagnosis part of the process is working well, and there is no evidence that calls are being mis-diagnosed, although as mentioned above not all rechargeable repairs are being identified at first point of contact so further amendments to the scripts may be needed to address this.
- 6.5 The number of inspections carried out by the Maintenance Supervisor for damp and mould problems in Council properties accounted for 32% of all appointments made for him in 2013/14. The Repairs Handbook advises tenants that the Council expects them to keep their home properly heated and ventilated to prevent condensation and also gives advise on how to do this. Damp and mould seems to be a common problem and is often due to 'lifestyle' issues however remedial works associated with these inspections are not charged for. It is worth noting that some of the works carried out are done on wet rooms for the elderly where the tenants cannot adequately ventilate rooms or cleanse mould issues at an early stage.
- 6.6 It is the overall opinion of the auditor that the Repairs and Maintenance system is adequately controlled.

7.0 Economic Development and Industrial Rents

- 7.1 The current tenants of the Council owned Industrial Units and HRA shops all pay their rent on a timely basis and there has only been one rent write off

recently which was caused by a business becoming insolvent. Historically, the occupancy rates for Council owned commercial properties have been very high. When a new tenant applies for a lease, bank status enquiries are requested along with two trade references which is good credit management practice.

- 7.2 There is clear evidence that rents are reviewed and that they are compared to the market value of similar properties every 5 years by a qualified Chartered Surveyor. The Estates Manager also confirmed that the Industrial units were inspected in 2013 by an external company of Structural & Civil Engineers, and they found that the buildings were structurally sound, and had made recommendations for only minor issues.
- 7.3 The Economic Development Manager has a wide ranging knowledge and engages with local businesses providing business support and advice when requested and has worked hard to establish good relationships with tenants of the Commercial properties.
- 7.4 However, there are areas of the letting process where there seems to be significant duplication of duties between departments, particularly where record keeping is concerned; to improve efficiency it would be prudent to keep all of the relevant information on one database. With this in mind, the option of all the information being kept on the CAPS system should be considered. Utilising workflow function within the system should be explored and developed for a more automated system of reminder dates; this would ensure key dates are not missed.
- 7.5 With the responsibility for the administration of the leases for the Commercial Properties passing to the Estates Section, this would seem a good opportunity to rationalise the process. The timetable for the handover of responsibility for this process is by the end of September 2014.
- 7.6 There does appear to be some overlap with the services currently provided by an external business advisor and the responsibilities of the new Economic Development Officer's job description, in terms of offering advice and support to businesses. The contract is due to be re-tendered by the end of October, so this should be taken into account when the specification for the service is considered.
- 7.7 It is the overall opinion of the auditor that the Economic Development System is adequately controlled.

8.0 Gazetteer Management Service

- 8.1 The Gazetteer Management System (GMS) is maintained in accordance with a British Standard (BS 7666) and national guidelines produced by a working group (under the steer of GeoPlace) comprised of experienced volunteer LLPG Custodians.
- 8.2 MDDC has also signed a Data Co-operation agreement with GeoPlace LLP which details the data sharing agreement and guidelines between local authorities, Ordnance Survey and users included in the Public Sector

Mapping Agreement (PSMA – which is the agreement between OS and the Secretary of State for Business, Innovation and Skills).

- 8.3 The agreements and guidelines ensure that GMS is highly regulated and needs to achieve very high standards in order to be considered as a Gold Standard Service. In all of the criteria which are measured, an authority needs to attain levels of at least 99% accuracy when matching with other data sources such as the Valuation Office Agency; the fact that the section has received the Gold Award Standard annually since 2010 is testament to the highest standards maintained by the section.
- 8.4 It is the overall opinion of the auditor that GMS is well controlled.

9.0 Data Protection and Information Security

- 9.1 Many of the recommendations from the last Audit in 2011 have since been addressed, and any which haven't been implemented have been revisited as part of this Audit. The Head of ICT's job title has changed to Head of Business Information Systems, which recognises the fact that it is not exclusively digital information that is subject to this legislation.
- 9.2 The system of monitoring computer users (employees) acceptance of any of the mandatory Council policies including the DPP and Information Security policies is well controlled. ICT procedures do not allow new employees any access to Council systems or Outlook until the courses relating to these policies are completed using the on-line induction process. Also, the new software which is now being used (INSIGHT) is able to generate and send weekly reminders to staff when a policy is updated or an on-line course needs to be completed.
- 9.3 However, there is still an ongoing problem proving and monitoring that employees who are non-computer users are reading and accepting these policies. There seems to be a common misconception that the Data Protection Policy and Information Security only affects and applies to computer users, but this is not the case. It applies to *all* personal data, however it may be stored or used and there is always the possibility that non computer users may come into possession or contact with sensitive personal information.
- 9.4 There are currently a number of Councillors who have not accepted any of the Council policies, in particular the Data Protection Policy and the Information Security Policy. This is considered to be a significant risk considering that Councillors are in regular contact with their constituents, and potentially may be acquire personal sensitive information in the course of their duties.
- 9.5 It is recognised that Councillors cannot access the on-line courses from home unless they have a Citrix key fob, which means they have to come into the Council Offices to be able to complete the courses. This issue aside, there is a potential risk that Councillors and employees who have not read and accepted these policies may mishandle personal sensitive information as they are unaware of the provisions in these documents. This could ultimately lead

to a security breach and a monetary penalty of up to £500k for the Council; in addition the Information Commissioners Office may impose a fine.

- 9.6 It is the overall opinion of the auditor that the Data Protection Policy and Information Security policy system is well controlled for computer-using employees; however it is poorly controlled for non-computer users and Councillors.

10.0 Leasing and Capital Asset Management

- 10.1 It is evident that every effort is made to utilise our assets efficiently with the installation of solar panels on corporate buildings and housing stock, creation of increased usable floor space in Leisure Centres etc.
- 10.2 The process of tendering for quotes in respect of Finance leases is done through an Agent and there is a clear audit trail for this process.
- 10.3 However the adherence to the financial regulations by some managers to involve their Service Accountant in the decision on whether to lease or purchase an asset is not evident in some cases. The Finance department is sometimes being involved at a late stage with the decision to lease an asset having already been made or even after a lease agreement has already been signed. This means that there is a risk that MDDC may not be making the best financing decisions. The Financial Regulations need to be adhered to better; this is the responsibility of individual Service Managers, however it is the responsibility of the Head of Finance to enforce the regulations and a monitoring process needs to be put in place.
- 10.4 It is the overall opinion of the auditor that Leasing and Asset management is adequately controlled.

11.0 ICT Core

- 11.1 There were only a few tests carried out for this audit as the ICT department is currently in the process of replacing their Helpdesk system so it was felt that full systems testing would not be beneficial. After discussions with the Head of Business Information Services (BIS) it was agreed that we would review some of the current processes to see if we could identify any areas that needed to be included during the change over to the new system; Support Works from Hornbill.
- 11.2 It is the overall opinion of the auditor that the ICT system remains adequately controlled at present.

12.0 Gifts & Hospitality

- 12.1 All Members were required to declare any 'Disclosable Pecuniary Interest' and 'non Pecuniary Interests' after election in 2013. Whilst there have not been any new Members since the last audit Members do amend their Register of Interest forms frequently as changes occur.

- 12.2 New employees are required to agree to the terms and conditions of the Officers' Code of Conduct before they start work. This area seems to be well monitored with 8 out of 8 forms being returned, although 3 out of the 8 were signed after the employee's start date; 2 were signed within the first week and the other one was signed 12 working days after the start date.
- 12.3 It is difficult to monitor the area of gifts and hospitality as it relies on staff and Members declaring fully any items/hospitality received. There have been quite a few declarations received from members of staff but a lot of them are for a value below £10 (which does not need to be declared). There were 7 declarations of over £10; some of these items exceeded the £25 threshold. There were 2 declarations of gifts from Members. The wording in the Constitution with regard to acceptance of gifts and hospitality is ambiguous and needs clarification.
- 12.4 Civic Expenses expenditure was examined as part of this audit and all expenses were found to be legitimate and well within budget.
- 12.5 An annual reminder for staff and Members with regard to registering of interests and declaring gifts and hospitality is appropriate; however it seems that the reminder for 2014 has not yet been carried out.
- 12.6 It is the overall opinion of the auditor that gifts and hospitality and register of interests are adequately controlled.

13.0 Telephones

- 13.1 The cost of mobile phones and landlines has decreased significantly over the past 5 years, and the ICT (telephones) section has achieved savings by negotiating more competitive rates in contracts.
- 13.2 A mini competition tendering exercise was carried out recently and the mobile contract has been re-tendered by the existing supplier. This also applies to the landline telephones contract which has been awarded to a new supplier under one of the framework agreements that the Council is a member of.
- 13.3 However, there is a weakness in the procedure for notifying changes in users: Currently when an employee leaves, an HR leaver's memo is sent to the ICT helpdesk, their system access is removed and the internal directory is updated accordingly. Employees are supposed to hand over all Council property on their last day (or before), but where a department has purchased a handset, the phone stays with the department which means ICT may not be informed of a new user until sometime later. There is a risk therefore, that the phone is being used by another employee without them having read and signed the mobile phone user's policy so they may not be aware of the document, and could use the phone inappropriately. There would also be a cost implication as the department could be paying the monthly charge for a phone which is not being used; however it is appreciated that the cost is minimal as the monthly charge is very small.
- 13.4 It is the overall opinion of the auditor that the telephone system is well controlled.

14.0 Lords Meadow Leisure Centre

- 14.1 Management take staff training very seriously, and ensure that all staff receive the mandatory training in terms of Health and Safety, which is of paramount importance to ensure the safe running of Lords Meadow Leisure Centre. The two Leisure centres with pools are inspected in alternate years by the Royal Life Saving Society, and have to undergo numerous quality assurance checks in order to achieve ATC (Approved Training Centre) status, which they hold.
- 14.2 The Duty Managers have now been assigned distinct budget areas which they are responsible for. This will allow them to concentrate their efforts and to be more focused in their areas.
- 14.3 However, there are a number of weaknesses in some processes and procedures that need to be addressed.
- 14.4 The paperwork process and writing up of transactions for Petty Cash recording requires improvement, and there are also issues with weak practices in terms of till and cashing up procedures; e.g. till sessions where one user logs in and other members of staff use the same till without starting a new session; some of the daily takings sheets have not been countersigned by a Duty Manager.
- 14.5 Whilst there is no evidence to suggest that there have been any significant errors or discrepancies, there is a risk of suspicion resting with a number of staff if a major discrepancy was identified, and these procedures need to be improved to provide assurance that the process is more robust and protect staff.
- 14.6 It is the overall opinion of the auditor that the system is adequately controlled.

15.0 Tiverton Pannier Market

- 15.1 It is clear that the Market Manager has worked hard to maintain a good relationship between himself and the traders at the Pannier Market. Recent events hosted at the Pannier Market have been successful in bringing people into the town centre and it is hoped that this will be built on with a list of events leading up to Christmas and more being planned in the New year.
- 15.2 However, there are a number of weaknesses in the systems of internal check and control that need to be addressed, including the banking of cash. Although the recording of this this has been accurate, the banking of the market tolls needs to be done more regularly.
- 15.3 Where the Pannier Market is used for external events which are outside of the normal terms and conditions of hire, there must be a written agreement which is signed off by both parties to ensure that their respective responsibilities are clearly defined and understood.
- 15.4 It is the overall opinion of the auditor that the Pannier Market system is adequately controlled.

16.0 Housing Health & Safety Management

- 16.1 There is a comprehensive programme and systems in place to ensure all required servicing takes place on a timely basis. There are also robust procedures in place to address occasions when access is not given by a tenant in order to fulfil our legal requirements as a landlord.
- 16.2 However, there are a number of weaknesses in the systems of internal check and control that need to be addressed. Some of these weaknesses are significant and need to be addressed as a matter of urgency in particular getting the Integrator database up to date.
- 16.3 Since the audit 2 fixed term employees have been taken on for 3 months to specifically update Integrator including the Asbestos Register. An independent health and safety consultant has also been engaged.
- 16.4 It is the overall opinion of the auditor that the Housing Health and safety arrangements are adequate.

17.0 Car Park Income

- 17.1 The responsibility for on street parking has now been transferred back to Devon County Council. Due to this and departmental restructuring the administration for off street parking has been transferred from the Miscellaneous Income Section to the Environment and Enforcement section.
- 17.2 As a result of the change of staff and long term sickness, it has been difficult to complete some of the testing required for this audit, due to lack of detailed knowledge and information in some areas. Despite this the car parking service administration has been kept running by the current staff in a challenging time, and the staff deserve praise for this. They were also very helpful and tried to answer questions as best they could.
- 17.3 This highlights across all services the need for good procedure notes and to factor in a suitable handover period when services are restructured requiring staff to take on new duties in order to ensure a smooth transition.
- 17.4 Some of the 'housekeeping' tasks within the SPUR system which is used to record the Penalty Charge Notices need to be addressed as soon as possible.
- 17.5 The procedure for monitoring the return of staff parking permits once a member of staff leaves the council's employment also needs to be more robust.
- 17.6 It is the overall opinion of the auditor that the Car Parking system is adequately controlled.

18.0 VAT

- 18.1 One of the Accountants in Finance has taken on responsibility for VAT administration, preparation of the VAT returns each month and promoting awareness of VAT matters across relevant services such as legal and

property services. She has also set in place excellent paperwork and processes for preparing and evidencing the VAT returns.

- 18.2 However, the Council is close to the 5% de minimis threshold for exempt tax and has several capital programmes planned which could affect the recovery of exempt tax in the future so care must be taken. The amount of exempt tax recovered under the Section 33 special rules is substantial; over £100k per annum on average.
- 18.3 Further awareness of the importance of using the correct VAT code particularly 8 and 9 needs to be promoted this could be via the procurement User Group maybe.
- 18.4 It is the overall opinion of the auditor that the process for reclaiming VAT is well controlled.

19.0 Time Recording

- 19.1 The rules governing flexitime have been amended since the previous audit. One of the most significant changes being that for some employees there are no longer set times or 'core hours' where they have to be in their place of work. Instead, the rules now state that employees have to work a minimum number of 5 hours per day (or pro-rata if their contractual hours are less than 37 hours per week). However, there are exceptions to this rule where there is a business need e.g. Customer First which has to be staffed during certain hours.
- 19.2 The Human Resources department administers the Wintime system with support from four Officers in Customer Services, who manage most of the manual adjustments once they have been authorised by line managers. There is a facility within the Wintime system to produce monthly anomaly reports which can be sent to managers to enable them to monitor the time records of their staff and ensure the correct operation of the Wintime and flexi time systems. However, it was found that currently, not all managers were set up to receive these reports.
- 19.3 Despite the detailed guidance provided for managers and employees by HR, there are a number of weaknesses in the systems of internal check and control that need to be addressed. It is hoped that the upgraded system will address some of these; this is due to take place by 1 April 2015.
- 19.4 There is evidence to suggest that some employees may not be taking a mandatory lunch break, as they are failing to log out of the Wintime system during their working day for the minimum 20 minutes. This means that there is a risk that the Council may be in breach of the Working Time Rules.
- 19.5 Some employees regularly work outside of the office and use the Business Absence procedure to log out. If they do not return to the office that day the system automatically clocks them out at 5.00pm. It is apparent that some employees submit time reconciliations when they work beyond 5.00pm but there do not seem to be the same volume of adjustments for finishing before 5.00pm, therefore there is a lack of consistency in this area.

- 19.6 In the Guidance for managers for Wintime, the policy states that '*You may get a request from your employees whose flexi balance is over the credit limit of 20 hours (pro-rata) to move the lost hours to toil, this is not acceptable. Toil is calculated differently to flexi and you cannot convert*'. Despite this guidance, this has occurred on 2 cases out of the 30 sampled. There have also been 2 cases from the same sample where an amount of toil has been converted into pay for an employee which again is not allowed within the policy guidelines. However, it is recognised that with spending cuts and departmental restructuring, it may be necessary to allow this in exceptional circumstances and with authorisation from the Chief Executive or Head of HR & Development.
- 19.7 The Wintime system is not suitable for all employees e. g. in the case of Waste & Recycling operatives, who spend the majority of their time out of the office or work with others in a MDDC vehicle.
- 19.8 It is the overall opinion of the auditor that Flexitime is poorly controlled.

20.0 Council Tax/NNDR

- 20.1 The collection of Council Tax and Business Rates remains above the English average as MDDC continues to perform well and collects a high proportion by Direct Debit (over 70%). The total collected was nearly £57M.
- 20.2 However, due to the lack of procedure notes and effective targets for processes it is difficult to assess the Service's day to day performance and as the section has been subject to extensive changes recently it is felt that work needs to be done to put clear guidelines and processes in place so it is clear who may do what.
- 20.3 This becomes even more relevant now Revenues are part of Customer First (CF): CF staff are picking up some of the more routine Revenues work and more generic working is being encouraged generally as part of 'Digital Transformation'.
- 20.4 The level of resource should also be reviewed as it is felt that the strain is starting to show and only a small increase in recovery rates would cover the cost of the extra resource. This suggestion will be followed up on the Recovery audit.
- 20.5 It is the overall opinion of the auditor that the Revenues system is adequately controlled.

21.0 Housing Benefit

- 21.1 Most of the areas of the Housing Benefit section are well managed, these being:
- All appropriate evidence for change of circumstances is obtained before implementing the change.
 - Updates to claimants' accounts are carried out promptly.

- The overpayment receipts are reconciled on a monthly basis to the e-Financials system.
- There is adequate provision for bad debt
- Following a recommendation from the previous Audit, all debtors accounts prior to 2012 have now been added to the workflow system
- Copies of Sundry Debtor invoices are now being saved in line with the document retention guidelines.

21.2 However, there are some minor issues which need to be addressed: The accuracy figures reported to Cabinet were found to be slightly less than those on the Housing Benefit Accuracy Calculation spreadsheet. There is inconsistency between the reports and the figures on SPAR.

21.3 It is the overall opinion of the auditor that the Housing Benefit system is well controlled but there are still problems with the recovery of overpayments.

22.0 Payroll

22.1 The Aurora payroll & HR system has now been in operation for over a year, the first year end payroll processing was done in March 2014; went well and has been well documented. The transfer to Real Time Information (RTI) processing for HMRC has also been a smooth transition.

22.2 However, there are a number of weaknesses in the systems of internal check and control that need to be addressed, as follows:

22.3 The year-end procedure of changes to parameters has improved with the new system, there is some automation and with other changes the 'before' and 'after' is kept as an audit trail and could be checked at any point. However, it would be prudent to introduce a process to verify the system parameter changes for items such as changes as Tax code updates, pay increases, SSP updates etc.

22.4 A structure chart facility has not yet been activated on the Aurora system.

22.5 Some of the salary estimates have not been signed off and dated by the relevant Manager(s).

22.6 There has been some uncertainty as to the timing of changes to Unison subscriptions when there has been a change in salary. Unison has confirmed that it is the responsibility of Unison members to inform Unison of a salary change that could affect the amount of the Unison Subscription. Unison will then inform Payroll should a change be necessary. This is due to the Unison Member needing to be up to date with their subscription, to be entitled to Unison representation should they need it, but that this should not be the responsibility of the Payroll section. It is a concern that employees are not aware that this is the procedure and could be denied representation as a result of underpaid subs.

22.7 It is the overall opinion of the auditor that the Payroll system is adequately controlled.

23.0 Income & Cash Collection

- 23.1 The Management of Income & Cash Collection is very good, bankings and records are clear and processes well understood. Customer First can be relied upon to report any unusual transactions or concerns to audit at the time they occur and also run new procedures past Internal Audit before they are introduced to make sure they meet requirements such as separation of duties, satisfactory authorisation etc. A recent example of this is the introduction of the payment kiosk in December 2014.
- 23.2 There is only one recommendation relating to the giving of further information on invoices.
- 23.3 It is the overall opinion of the auditor that the Income & Cash Collection system is well controlled.

24.0 Housing Rents

- 24.1 There are a number of areas within the Housing Rents service that are well controlled. Separation of duties between raising the rent debt and collection of rent is good. There is a robust system in place for monitoring collection rates, and the Housing Service has worked hard to improve the rent arrears procedure.
- 24.2 Since the previous audit a new 'traffic light' system of reminder letters has been introduced which gives tenants a clear visual representation of where they are in the arrears process, which is very helpful.
- 24.3 However, the process for removing users from the Orchard System remains weak, as there are currently a number of 'active' users who are either no longer employed by the Council, or who have changed roles and their user roles have not been updated on the system to reflect this. Although ex-employees cannot access the network, this is not good practice, and those who are still employed may have access to information which they would not be authorised to access.
- 24.4 There are a number of rent accounts that have high credit balances, but not all the relevant tenants had been informed of this. Some of these credits are being reduced each week by the difference between the Housing Benefit payment and the value of the rent, which means that the tenant may not be aware that they are due to start paying until they are notified of arrears. This is the subject of a recommendation brought forward from 2012.
- 24.5 Voids were looked at as part of this audit and it was found that there is quite a bit of reporting with regard to voids and loss of income within the Housing section. However, it was also found that the cost of and number of voids are not reported to Management Team or DAH PDG on a regular basis.
- 24.6 It is the overall opinion of the auditor that the Housing Rent system is adequately controlled.

25.0 Creditors

- 25.1 The time it takes to process invoices for payment has improved tremendously, although the target of 97.5% on time was not achieved for 2013/14 it was exceeded for the 12 months ending 30 June 2014. It would also appear that the process for claiming VAT has improved which was corroborated by a favourable audit opinion on VAT earlier this year.
- 25.2 There are only 3 recommendations on the action plan all referring to aspects of the process to accept invoices for payment. While there is no evidence that invoices have been paid in error these minor procedural weaknesses should be tightened up.
- 25.3 It is the overall opinion of the auditor that the Creditors system is well controlled.

26.0 Recovery

- 26.1 The process of authorising and raising credit notes and the authorisation for writing off irrecoverable debt is well controlled.
- 26.2 Although Service Managers are sent monthly status reports on any outstanding debt by the Recovery section, it would be more meaningful to redesign the report and send a report for overdue debt. This may improve the response by Managers which historically has been very poor as highlighted in previous audits. However, it is encouraging to note that Leisure services are the most proactive in reviewing and responding to the current reports.
- 26.3 The initial stages of the recovery process which the Recovery team is responsible for is efficient and well monitored, however there are still significant delays in the overall process when departments are asked for instruction for the next course of action, and delays within the Legal Section once a debt has reached this stage.
- 26.4 It could be seen that there is a monthly report to monitor collection rates for Sundry Debts. The report shows all arrears (money owing), value of accounts on suppression, a breakdown of dispute codes and total amount collectable. This is a good reporting tool however; there were some issues with being able to replicate reports due to them being 'at that point in time'. Some recommendations have been made to help apply a more consistent and efficient approach.
- 26.5 It is the overall opinion of the auditor that whilst there are a number of processes carried out by the Debt Recovery Section which are well controlled, once the responsibility is passed to the Service areas or the Legal Section, the process loses momentum and in some cases becomes inefficient, making this aspect of the process poorly controlled.

27.0 Main Accounting

- 27.1 There is 1 recommendation relating to budgeting and monitoring (medium risk). The concern is the proposals to bring forward the audit deadline (from

2017/18). Even if MDDC do the accounts on time it may be hard for the external auditors to achieve the audit deadline of end of July 2018.

Treasury

- 27.2 It was disappointing to see that there are still inconsistencies with figures on some of the Quarterly Borrowing and Lending Returns. 1 out of the 2 quarters checked for 2014/15 period was incorrect. This is consistent with previous years' findings.
- 27.3 It is the overall opinion of the auditor that the Main Accounting system is well controlled.

28.0 Comment on the Council's Control Environment

- 28.1 Following on from the individual audit opinions above, the table below provides a summary of the Auditor's judgement on the control environment from the areas being reviewed (i.e. well controlled, adequately controlled or poorly controlled). The data for 2012/13 and 2013/14 are included to provide a comparison.

	2012/13	2013/14	2014/15
Well Controlled	4	6	8
Adequately Controlled	14	11	15
Poorly Controlled	2	3	1
Total	20	20	24

- 28.2 It is the opinion of the Audit Team Leader that the Council's control environment was, on the whole, adequate and effective in the 2014/15 financial year. If the audit recommendations on the action plans are carried out the adequately controlled systems would become well-controlled. Half the Core Audit areas were judged as well controlled in 2014/15 which is a further improvement on 2013/14. The areas for which a poor opinion was given are considered further below.
- 28.3 Only 1 area has been given a poor opinion in 2014/15, this was the Time Recording system. Some improvements have been made since the audit but there are still recommendations outstanding.
- 28.4 There were 3 "poor" opinions given for 2013/14; Corporate Health & Safety, Travel & Subsistence and Trade Waste. There have been significant improvements to these areas:
- 28.5 Corporate Health & Safety - several problem areas were resolved before the end of 2013/14. Since 2013/14 a full-time internal Health & Safety Officer has been appointed which has enabled further weaknesses to be addressed and improvements put in place such as risk assessment training.
- 28.6 Travel & Subsistence - since 2013/14 MyView, the HR and Payroll software, is being used for "self-service" expense claims which should improve the authorisation process for expense claims by managers. However there was an issue with the document storage folders which form part of the process,

this too has been resolved with managers having access to the receipts and training folders only, not other folders which may contain confidential information.

- 28.7 Trade Waste - staffing has been resolved and the new invoicing process via Metastorm from 1 April 2014 resolves a lot of the other issues identified. There are still a few areas which will be addressed in phase 2 of the project.

29.0 Work Undertaken by Other Assurance Bodies

- 29.1 There were some external inspections during 2014/15 which were taken into account when planning the Internal Audit work plan for 2015/16. The reviews included the QLM report on Leisure Health & Safety (especially the centres' Emergency Action Plans), SWAP on Wessex Home Improvement Loans, EDDC on Devon Home Choice, the Food Standards Agency on food inspections, the HSE and the consultancy work undertaken to gain the annual Public Computer Network Compliance Certificate.

30.0 Performance Information

- 30.1 The Internal Audit Charter outlines the quality assurance process. The Audit Team Leader supervises the Internal Audit Team and review the work for each audit prior to the draft report being issued to the audit client.
- 30.2 Where the Audit Team Leader has carried out an audit directly the Head of Communities & Governance (HOCG) reviews her work. If the work is on an area which comes under the HOCG the report is discussed with her line manager i.e. the Chief Executive.
- 30.3 We aim to send out surveys after the systems audits. Only 7 were sent out but of the 6 returned, 1 was "satisfied" and 5 "very satisfied" with the process. We reflect any comments made in our audit process where possible.

31.0 Conclusion

- 31.1 This report contains a summary of the work undertaken by Internal Audit in the 2014/15 financial year as well as ensuring that the requirements of the PSIAS are met.
- 31.2 I would like to take this opportunity to formally record my thanks to the Audit Team for their hard work and for the consistent quality of the work that they have produced during the 2014/15 financial year.

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01884 234975**

Circulation of the Report: Management Team and Cabinet Member

Incomplete Audits	Year	Recommendations											
		High			Medium			Low			Total		
		C	N	O	C	N	O	C	N	O	C	N	O
Building Control	2012	1			2	2		7	3		10	0	5
Car Park Income	2014	1				3	4				1	3	4
Contracts	2014			1				1	3		1	3	1
Council tax/NNDR	2014					1					0	1	0
Creditors	2014						2			1	0	0	3
Customer Care - Complaints	2013				2	3		2	3		4	0	6
Data Protection	2014	2		1			4				2	0	5
Elections	2013				2			2	2		4	0	2
Gifts & Hospitality	2014					1				4	0	0	5
Homelessness	2013					1		2			2	0	1
Housing Benefits	2014						4				0	0	4
Housing H & S Management	2014	1		1		2		1	2		2	2	3
Housing Repairs & Maintenance	2014				1		3			2	1	0	5
Housing Rents	2014					4	2				0	4	2
ICT Core	2014	1					4			3	1	0	7
Income & Cash Collection	2013						1				0	0	1
Leasing and Asset Management	2014						1	1			1	0	1
Leisure LMLC	2014				3			2			5	0	0
Main Accounting	2014					1					0	1	0
Payroll	2013				2	1					2	1	0
Payroll	2014				1		4				1	0	4
Procurement	2013	1			2	1		2	1		5	0	2
Recovery	2009						1				0	0	1
Recovery	2013						1		1		0	1	1
Recovery	2014					1					0	1	0
Sickness & Other Time Off	2012				2			2	2		4	0	2
Standby	2012				2		2				2	0	2
Time Recording	2014				3		6				3	0	6
Tiverton Pannier Market	2014				7		2	2			9	0	2
Trade Waste	2013				4		1	6	2	2	10	2	3
Treasury	2014					1					0	1	0
VAT	2014		1			1					0	2	0
		7	1	3	33	15	50	30	6	25	70	22	78

CORE
SYSTEM

C = Completed 41%
N = Not yet due 13%
O = Overdue 46%

Audit Report - High Priority Outstanding Recommendations Appendix 2

Annual report for 2015-2016

Arranged by Service

Filtered by Flag: Include: Audit Recommendations

Filtered by Performance Status: Include Project Status: No Data available,
Milestone Missed, Behind schedule, On / ahead of schedule

Exclude Project Status: Cancelled, Completed and evaluated

Key to Performance Status:

Projects:		No Data available	Milestone Missed	Behind schedule	On / ahead of schedule	Completed and evaluated
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Audit Report - High Priority Outstanding Recommendations Appendix 2

Service: Housing Services	Head of Service: Nick Sanderson	Portfolio: n/a
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Projects						
Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
Milestone Missed	A - 2014-H&S-1.3-H	<u>Ensure that the Integrator system is promptly updated, with works already carried out to properties, as a matter of urgency. Integrator must then be kept up to date on an on-going basis.</u>	31/03/2015 (due)			

Service: Procurement	Head of Service: Andrew Jarrett	Portfolio: n/a
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Projects						
Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
Behind schedule	A - 2013 - PC - 1.1 - H	<u>Put contracts in place where spend is over £50,000 in a year in accordance</u>	30/04/2015	11/06/2015		The Procurement Manager has just returned to work and a new Support Officer was

Audit Report - High Priority Outstanding Recommendations Appendix 2

Service: Procurement **Head of Service: Andrew Jarrett** **Portfolio: n/a**

Projects

Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
		<u>with the Financial Rules.</u>				recently appointed. This will provide the required resource to re-commence this piece of work
Behind schedule	A - 2014 - CON - 2.1 - H	<u>Ensure that the supplier spend monitoring process resumes as soon as possible to ensure that the Council obtains the best prices and value for money.</u>	31/08/2014 (due)	11/06/2015		The Procurement Manager has just returned to work and a new Support Officer was recently appointed. This will provide the required resource to re-commence this piece of work