

South Hams Audit Committee



Title:	Agenda
Date:	Thursday, 25th June, 2015
Time:	10.00 am
Venue:	Cary Room - Follaton House
Full Members:	<p style="text-align: center;">Chairman Cllr Pennington</p> <p style="text-align: center;">Vice Chairman Cllr Wingate</p> <p><i>Members:</i> Cllr Bramble Cllr Foss Cllr Brazil</p>
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

- 1. Minutes** **1 - 6**

to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 12 March 2015
- 2. Urgent Business**

Brought forward at the discretion of the Chairman;
- 3. Division of Agenda**

To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;
- 4. Declarations of Interest**

Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;
- 5. Annual Audit Fee Letter 2015/16** **7 - 12**

to consider a paper which sets out the details of the audit fee for the Council
- 6. Audit Committee Update for South Hams District Council** **13 - 26**

to consider a report which presents the matters which have come to the attention of Grant Thornton, which they believe requires reporting to the Council
- 7. Internal Audit Annual Report 2014/15** **27 - 50**

to consider a report which summarises and informs the Committee of the principal activities of the Internal Audit section of the Council during 2014/15.

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 12 MARCH 2015**

Members in attendance * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr L P Jones
*	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
∅	Cllr A S Gorman		

Members in attendance and participating
Cllrs H D Bastone, P W Hitchins and L A H Ward

Members in attendance and not participating
None

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Group Manager – Support Services, S151 Officer, Head of Devon Audit Partnership, Monitoring Officer, Democratic Services Manager, Specialist Auditor, Grant Thornton Audit Manager and Grant Thornton Engagement Lead

A.30/14 MINUTES

The minutes of the meeting held on 8 January 2015 were confirmed as a correct record and signed by the Chairman.

A.31/14 DECLARATIONS OF INTEREST

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.32/14 AUDIT COMMITTEE UPDATE – REPORT OF GRANT THORNTON

The Committee was presented with a report from Grant Thornton that provided it with a report on progress in delivering on its responsibilities and also included:-

- a summary of emerging national issues and developments that could be relevant to the Council; and

- a number of challenging questions in respect of those emerging issues which the Committee may wish to consider.

In discussion, reference was made to:-

- (a) the Grant Thornton publications. The Grant Thornton representatives highlighted the importance of these publications and advised that copies were available for the Committee and the wider Council membership. The representatives also highlighted the comments contained whereby district councils were responding better to the financial climate in comparison to county councils and single tier authorities;
- (b) the Kerslake report on Birmingham City Council. The Committee requested that the S151 Officer present a report back to its next meeting on the potential implications for the Council arising from this report;
- (c) the Local Government governance review 2015. Members noted that 43% of those surveyed felt that scrutiny committees were not challenging enough about the way authorities conducted their business;
- (d) police and crime commissioners. The Committee had sympathy with 49% of those surveyed who felt that the transition to police and crime commissioners had not had a positive impact on local partnership working arrangements.

It was then:

RESOLVED

That the report be noted.

A.33/14

THE AUDIT PLAN FOR SOUTH HAMS DISTRICT COUNCIL

The Committee considered Grant Thornton's report that presented the Audit Plan for the Council.

In discussion, the following points were raised:-

- (a) Grant Thornton representatives emphasised the significant risk that they had identified in relation to the redundancy provision at 31 March 2015 being understated. The representatives proceeded to inform that they had held detailed discussions with officers on this matter. In so doing, the representatives wished to pay testament to the officers, who had been honest, open and transparent during these deliberations and had entered into early planning discussions with the external auditors on this matter;

- (b) In respect of the payroll authority list recommendation, it was confirmed that responsibility for this action should be attributed to the Case Management Team Leader.

It was then:

RESOLVED

That the report be noted.

A.34/14

CERTIFICATION WORK FOR SOUTH HAMS DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2014

A paper was presented that considered the certification work for 31 March 2014, as published by Grant Thornton.

It was then:

RESOLVED

That the report be noted.

A.35/14

INTERNAL AUDIT – REVISION OF AND PROGRESS AGAINST THE 2014/15 PLAN

The Committee considered a report that informed Members of the principal activities and findings of the Council's Internal Audit team for 2014/15 to the end of January 2015 by:-

- providing a summary of the main issues raised by completed individual audits; and
- showing the progress made by Internal Audit against the 2014/15 annual internal audit plan, as approved by the Committee in April 2014.

In discussion, reference was made to:-

- (a) the transitional period of T18. In recognising the inevitable impact of the transitional period on the Council, Members hoped that this could be kept to an absolute minimum;
- (b) measures currently being considered to reduce the levels of Housing Benefit debtors;
- (c) the counter fraud audit. Since they were considered to be quick wins by the Committee, Members questioned why the issues identified during this audit were not being reviewed before the new financial year.

It was then:

RESOLVED

That progress made against the 2014/15 internal audit plan and the identified key issues arising be noted.

A.36/14 THREE YEAR INTERNAL AUDIT PLAN 2015/16 TO 2017/18 AND ANNUAL INTERNAL AUDIT PLAN – 2015/16

A report was considered that provided Members with the opportunity to review and comment upon the proposed internal audit plan for the coming three years (2015/16 to 2017/18) and the proposed annual internal audit plan for 2015/16.

In discussion, the following points were raised:-

- (a) The Committee was advised that the purpose of the Plan was to provide a framework within which the service operated and it was acknowledged that the Plan would evolve;
- (b) As an update, officers informed that there was an error on paragraph 2.4 of the presented agenda report. It was noted that the report should state that the internal audit resource had been reduced from around 377 days per year to around 345 days;
- (c) In light of a number of Member frustrations regarding ‘Development Control – Enforcement’, the Committee concluded that the priority of this audit should be increased from ‘low’ to ‘medium’.

It was then:

RESOLVED

1. That the content of the three-year Internal Audit Plan for the period 2015/16 to 2017/18 (Appendix A of the presented agenda report refers) be endorsed, subject to re-classification of the ‘Development Control – Enforcement’ audit from ‘low’ to ‘medium’; and
2. That the content of the Annual Internal Audit Plan for 2015/16 (Appendix C of the presented agenda report refers) be endorsed.

A.37/14 INTERNAL AUDIT: CHARTER AND STRATEGY – 2015/16

A report was considered that provided the opportunity for the Committee to review and comment upon the Internal Audit Charter and Strategy for 2015/16.

In discussion, reference was made to:-

- (a) the quality, experience and morale of officers involved in the system. The Committee emphasised that this was a fundamental issue for the Council to address at this current time. In reply, the Group Manager – Support Services informed that the new Senior Leadership Team was fully aware of this point and had already begun to put measures in place to keep the period of uncertainty to an absolute minimum;
- (b) the importance of the Internal Audit service being able to have direct access and freedom to report in their own name and without fear or favour to all officers and Members was stressed;
- (c) continual professional development. The Committee welcomed the comments whereby time would be allowed within the annual audit plan to allow internal audit staff to receive relevant training. A Member questioned whether there were any capacity issues within the Internal Audit team as a consequence of the Transformation Programme. In response, the S151 Officer informed that the current staffing levels were deemed appropriate and were consistent with the service blueprinting exercise which had been undertaken at the start of the Programme.
- (d) the work and attitudes demonstrated by Support Services staff. To their great credit, the lead Executive Member for Support Services highlighted the excellent work and attitudes which had been demonstrated by those staff within her service area, who had risen to the challenge in what had been difficult circumstances.

It was then:

RESOLVED

That the Internal Audit Charter and Strategy 2015/16 has been reviewed and consequently be approved.

A.38/14

ANNUAL REVIEW OF THE COUNCIL'S CONSTITUTION

The Committee considered a report that presented the annual review of the Council's Constitution.

In light of the revised governance arrangements, Members noted that there would be no need for the Programming Panel to be convened in the 2015/16 Municipal Year.

It was then:

RECOMMENDED

That the Council be **RECOMMENDED** that the amendments to the Council Constitution 2015 (as summarised in paragraph 2.2 of the presented agenda report and fully outlined on the website) be approved.

A.39/14 **UPDATE ON INDICATORS FROM THE AUDIT COMMISSION'S VALUE FOR MONEY PROFILE TOOL**

Consideration was given to a report that updated Members on the latest indicators available from the Audit Commission's Value for Money Profile Tool.

It was then:

RESOLVED

That the report be noted.

A.40/14 **CHAIRMAN'S CONCLUDING REMARKS**

As this was the last scheduled Committee meeting of the 2014/15 Municipal Year, and the local elections would have taken place before the Committee was to meet again, the Chairman wished to thank all Members and officers for their respective contributions. In addition, the Chairman commented that, through collective working, the Committee had achieved plenty during the four year term of this Council.

(Meeting commenced at 10.00 am and finished at 11.25 am)

Chairman



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Our ref SHDC/1516/FeeLetter

9 April 2015

Dear Lisa

Annual audit fee 2015/16

I am writing to confirm the audit work and fee that we propose for the 2015/16 financial year at South Hams District Council.

Closure of the Audit Commission

Although the Audit Commission formally closed at the end of March 2015, it was responsible for setting audit fees for the audit of the 2015/16 financial year. Our fee proposals are therefore based on the Audit Commission's *Work Programme & Scales of Fees 2015/16*.

Following the closure of the Audit Commission, responsibility for determining audit fees in the future has transferred to Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association. PSAA will oversee the management of the Audit Commission's audit contracts until they end in 2017, or 2020 if they are extended. The Secretary of State for Communities and Local Government has delegated certain functions formerly exercised by the Audit Commission to PSAA to enable it to deliver these functions.

Also following the Audit Commission's closure, the National Audit Office (NAO) is now responsible for producing and maintaining the Code of Audit Practice (the Code) and providing supporting guidance to auditors. We will follow the requirements of the Code and supporting guidance when delivering our audit work.

Planned audit fee

The planned audit and certification fees for 2015/16 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2015/16	Planned fee 2014/15*
Code of Audit Practice audit fee	43,404	57,872
Certification of grant claims & returns	7,670	9,770

* Fees for 2014/15 are those to be charged by Grant Thornton as per the published scale rates

In general, the Audit Commission set 2015/16 scale fees based on a reduction of 25 per cent to the fees applicable for 2014/15. This reduction is in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012. The planned fee is in line with the scale fee.

As 2015/16 is our first year of audit following our appointment as your external auditor, we will liaise with the out-going auditor, Grant Thornton, as their 2014/15 audit progresses to inform our risk assessment, and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Factors affecting audit work for 2015/16

We tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering changes affecting our audit responsibilities or financial reporting standards.

The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that a change in accounting policy will be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities. Fees for any additional audit work required in 2015/16, the preparatory year, in relation to disclosures in the financial statements, will be subject to approval under the normal fee variations process. The Audit Commission decided that it was not appropriate to increase scale fees because the amount of work required at individual authorities will vary based on local circumstances, and may not be required for more than one year.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources. The 2015/16 fees have been set on the basis that the NAO's Code maintains the scope of work required by auditors under the Audit Commission's previous Code and supporting guidance. The NAO has not yet published guidance for auditors on the required approach to work on value for money arrangements for 2015/16.

Certification work

As well as our work under the Code, we will certify the 2015/16 claim for housing benefit subsidy to the Department for Work & Pensions.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued in early 2016. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of South Hams District Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Our team

The key members of our audit team for the 2015/16 audit are:

Name	Role	Contact details
Darren Gilbert	Engagement Lead	darren.gilbert@kpmg.co.uk +44 (0) 292 046 8205
Adam Bunting	Manager	adam.bunting@kpmg.co.uk +44 (0) 117 905 4470

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Trevor Rees (on 0161 246 4063, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3H

Yours sincerely



Darren Gilbert
Director

cc: Steve Jordan – Executive Director (Strategy & Commissioning) and Head of Paid Service

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2015/16 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date*
External audit plan	January 2016
Interim audit letter	June 2016
Report to those charged with governance (ISA260 report)	July 2016
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	July 2016
Opinion on Whole of Government Accounts return	TBC 2016
Annual audit letter	TBC 2016
Certification of grant claims and returns	January 2017

* The 2015/16 financial statements will be the first to be prepared under the new Accounts & Audit Regulations 2015 (the 2015 Regulations). The 2015 Regulations bring forward the deadline for the publication of audited financial statements from 30 September to 31 July. This will therefore compress the audit timetable. The impact this will have on certain audit deadlines is not yet clear.

South Hams District Council Audit Committee Update

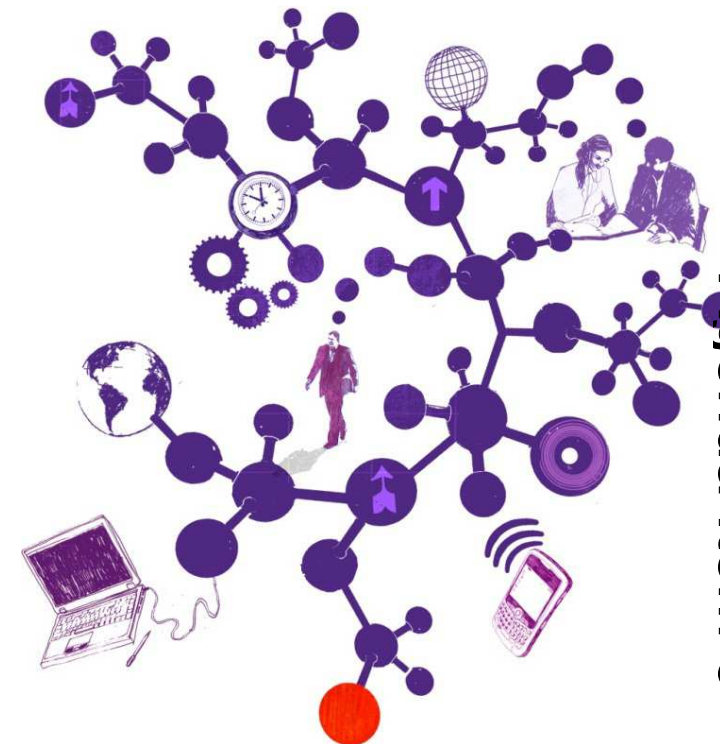
Year ended 31 March 2015

4 June 2015

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Agenda Item 6

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Barrie Morris	Engagement Lead	T 0117 305 7708	barrie.morris@uk.gt.com
Steve Johnson	Audit Manager	M 07880 456134	steve.p.johnson@uk.gt.com

Progress at 22 May 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	12 March 2015.	Yes	Initial planning work is complete.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January to March 2015.	Yes	Our initial review of the Council's control's and our early substantive testing has been undertaken and was reported as part of the Audit Plan.at the March Audit Committee.
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion. 	20 July to September 2015	Not yet due	<p>The audit of the 2014/15 financial statements will be undertaken between July and September 2015 and reported to the September Audit Committee to meet the 30 September 2015 deadline.</p> <p>We are undertaking an early review of the Council's provisions for Redundancy and NDR appeals in early June.</p>

Progress at 22 May 2015

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises a review of whether the Council has:</p> <ul style="list-style-type: none"> • proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. • proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. 	February 2015 to September 2015.	Not yet due	<p>An interim risk assessment was made as part of the Audit planning in March 2015.</p> <p>The detailed work will continue through to September 2015, when we are required to give our VfM conclusion.</p>
<p>Certify the Council's WGA accounts</p>	September 2015.	Not yet due	To be completed as part of the final accounts audit.
<p>Grant claims and certification.</p> <p>We anticipate that the only claim that will require certification for 2014/15 will be the Housing benefit and council tax subsidy claim.</p>	June 2015 to November 2015.	Not yet due	Work will commence in June 2015 and will be completed by November 2015.

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey
Is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Independent Commission into Local Government Finance (Continued)

Local government issues

Issue to consider

Have members been briefed by your Finance Community of Practice Lead on the key findings of the Independent Commission's final report?

Response

This topic was discussed at Members' Induction in May 2015 and the key findings from the Independent Commission's final report will be summarised in the Council's Medium Term Financial Strategy in September. The Commission's vision is for a finance system that promotes self-reliance and self-sufficiency and encourages entrepreneurialism and innovation.

The key findings and the Commission's recommendations are summarised below:-

Ending the policy of setting referendum limits on council tax and leaving the decision to local politicians.

Devolving council tax discount setting and the power to determine who receives council tax support to local authorities.

That 100% of business rates and business rates growth should be retained by local government.

A commitment from the Government to full and clear multi-year settlements to enable long-term planning for local authorities and other public sector services.

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion [Build to Rent scheme](#), which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a [How to rent](#) guide, so tenants and landlords know their rights and what to expect when renting privately
- published a [model tenancy agreement](#), so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Issue to consider

Have members been briefed by your Finance Community of Practice Lead on the government's Build to Rent scheme and other aspects of its initiative to increase the private sector housing market and its implications for the authority's housing strategy?

Response

Whilst the Council would be eligible, our initial view is that this publication isn't really aimed at non –developing Local Authorities. The Council would be able to access funding through the Public Works Loan Board at a competitive rate.

Provision for Business Rates Appeals

Accounting and audit issues

Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

Issues to consider

- Has your Finance Community of Practice Lead reassessed the methodology for making the business rates provision?
- Has your Finance Community of Practice Lead got arrangements in place for the estimation of appeals to be charged against the provision?

Response –

- The Council does not have any provision for unlodged appeals in its 2014/15 Accounts.
- A methodology has been adopted by the Authorities of the Devon Business Rates Pool (of which South Hams is a member in 2014/15) for the calculation of the business rates appeals provision and this methodology has been reviewed by Grant Thornton previously. The provision for 2014/15 is on the same basis as that for 2013/14.

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.

Glossary

Abbreviation	Detail
DCLG	Department for Communities and Local Government
HCA	Homes and Community Agency
NDR	Non Domestic Rates
VFM	Value for Money
VOA	Valuation Office Agency
WGA	Whole of Government Accounts



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AGENDA
ITEM

SOUTH HAMS DISTRICT COUNCIL

AGENDA
ITEM

NAME OF COMMITTEE	Audit Committee
DATE	25 June 2015
REPORT TITLE	INTERNAL AUDIT ANNUAL REPORT 2014/15
Report of	Head of Devon Audit Partnership
WARDS AFFECTED	All/Corporate

Summary of report:

This report summarises the work undertaken by the Council's Internal Audit Team during 2014/15, reviews the performance of the Internal Audit service, and provides an audit opinion on the adequacy of internal control. The report is particularly relevant to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulation 2011.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2014/15 to the 31st March 2015, by:

- Providing a summary of the main issues raised by completed individual audits;
- Showing the progress made by the section against the 2014/15 annual audit plan, reviewed by this Committee in April 2014; and
- Providing an opinion on the adequacy of the Councils control environment.

Financial implications:

There are no direct financial implications, the internal audit costs for the year were as budgeted.

RECOMMENDATIONS:

That the Audit Committee notes the internal audit opinion that the Council's systems contain a satisfactory level of internal control.

That members note the satisfactory performance and achievements of the Internal Audit Team during 2014/15

Officer contact:

For further information concerning this report, please contact:

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robert.hutchins@swdevon.gov.uk

Lisa Buckle, S.151 Officer – 01803 861413

1. BACKGROUND

1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference A.32/13) and covers:

Purpose, Authority and Responsibility;
Independence;
Audit Management;
Scope of Internal Audit's Work;
Audit Reporting; and
Audit Committee.

1.2 The Audit Strategy was updated for 2014/15 and was approved by the Audit Committee in April 2014 (Minute reference A.32/13 refers). It covers:

Objectives and Outcomes;
Opinion on Internal Control;
Local and National Risk Issues;
Provision of Internal Audit; and
Resources and Skills.

2. Assurance Statement

2.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

2.2 Final audit reports will, if applicable, include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review.

2.3 Details of Internal Audit's opinion on each audit review carried out in 2014/15 have been provided to relevant members of the Senior Leadership Team to assist them with compilation of their individual annual governance assurance statements.

Overall and based on work performed during 2014/15, and that of our experience from previous years audit, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework.

3 Key Audit Findings 2014/15

3.1 As stated above we are, overall, able to provide reasonable assurance on the internal control framework. During the year a number of audit assignments have been completed for which a “fair” audit opinion has been provided (please refer to appendix B for definition of “fair”).

3.2 We set out below some of the key issues of concern identified. It should be noted that agreed management actions plans are in place to address the weaknesses, and we consider that if such actions are completed promptly then the control issue will be addressed. The majority of findings have previously been reported at audit committee meetings during the 2014/15 year.

3.3 **Main Accounting System & Budgetary Control**
We have downgraded our Audit Opinion from last year as some controls over the main accounting system and budgetary control have not been actioned on a timely basis throughout the year, although we are aware that efforts were underway to bring these up to date before the year end.

We understand that this is largely due to the resource pressures experienced by those officers operating the controls, due to a significant re-organisation of staff and responsibilities during the second half of 2014/15.

3.4 **Creditor Payments (previously reported)**
Our conclusion was that the creditors system is fulfilling the purpose for which it is intended. Invoices presented to the Council are being processed and paid. However controls can be further improved to both receive the full benefit of a more automated system for processing invoices and to reduce the risk of incorrect payments being made.

3.5 **Payroll**
The Payroll section is able to meet its objectives in providing accurate payments to staff in a timely manner. There were a number of issues identified where operational controls should be improved.

3.6 **Council Tax (previously reported)**
The system is operating with generally satisfactory controls but there are still some areas where these can be improved, some relating to previously reported issues.

At the time of the audit management stated that tasks were not being completed due to other demands on staff resources. Managers need to ensure that key tasks are completed promptly and effectively.

3.7 **Business Rates (NDR) (previously reported)**
The system is operating with generally satisfactory controls but there were some areas that required improvement including:-

- Limited separation of duties linked to the need to consider procedures for the timely and efficient review of long term suppressions;
- Management and review of the suspense account within the Council Tax system.

3.8 Benefits (previously reported)

Our work during 2014/15 has highlighted some other areas where the controls over the management of Benefits could be further strengthened, the most significant of which were:

- Users access to the system needs to be reviewed, particularly in light of a number of staffing restructures; and
- The Benefits Technical Team are already investigating ways to simplify the reconciliations for each benefits payments run. Current procedures, whilst not wrong, are complex and time-consuming and rely on the knowledge of a single officer should any discrepancies arise.

3.9 Benefits Debtors (previously reported)

We recognise that, in the majority of cases, action has been undertaken by officers to identify and to recover housing benefit debt in line with policy and procedures.

However, we are advised by managers that the effectiveness of procedures is hampered by the restricted functionality of the housing benefit debtors system.

3.10 Dartmouth Lower Ferry (previously reported)

The majority of the recommendations made in last year's internal audit report have been implemented, and controls have improved in many areas, but some weaknesses remain in spite of the best efforts of the ferry management and staff.

The service has introduced a new ferry system, using electronic cards, which will improve some of the system weaknesses but as the system is new it also has a number of teething issues that need to be developed before it can provide fully adequate controls.

3.11 Risk Management

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

3.12 Computer Audit

Generally, arrangements are in place to ensure that the Councils' IT services are delivered in a controlled environment, with procedures in place to manage access, system changes, loss of systems in the event of an emergency, assets etc. However with significant changes having taken place to the Councils' IT systems, working arrangements and staff

in recent months, many of these arrangements may no longer be appropriate or effective.

There are also some areas where further improvements could be implemented to strengthen the resilience of the ICT service and controls over associated systems.

- 3.13 Attached to this report are a number of appendices which provide further information with regards the work completed by internal audit in 2014./15:

Appendix A presents a summary of the audit work undertaken together with each audit opinion.

Appendix B provides a summary of the key findings from audit reports issued since the last audit committee (12 March 2015).

Appendix C provides a brief summary of unplanned work and the results from the work.

Appendix D provides a summary of feedback from auditees relating to audits carried out during the year.

4. PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2014/15

Audit Plan 2014/15

- 4.1 The 2014/15 audit plan was presented and accepted by the Audit Committee at their meeting of April 2014 (A.33/13 refers).

Impact of Local and National Risks (including T18 Transformation)

- 4.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated either through the contingency days or by changes to the plan, depending on the significance.

Progress against the Plan

- 4.3 Progress against the 2014/15 Internal Audit Plan is summarised at **Appendix A**. In summary, the key elements of the plan were completed.
- 4.4 The councils transformation programme (T18) had a direct impact on the internal audit team, with the resources available for internal audit reduced to 2.6 whole time equivalents (from 2.9).
- 4.5 To meet this challenge it was decided that two whole time equivalent auditors be retained in-house and the management supplied externally. After a competitive process it was determined that Devon Audit Partnership would provide the management role.
- 4.6 The changes resulted in a reduction in audit days available and this resulted in a small number of reviews in the original 2014/15 being removed from the plan; these areas will be considered in later years. The

subject areas removed have been previously reported, but included reviews of cemeteries and burials; grounds maintenance and drawing office.

Resourcing

- 4.7 Audit resources are affected by sickness and other unforeseen events. Sickness relating to officers within the combined internal audit team equates to 10 days in the period April 2014 to 31st March 2015.
- 4.8 It is important to ensure that the team has the right skills to enable them to perform audits effectively; in 2014/15 8 days training was been provided to the audit team.

Non Compliance with Contract or Financial Procedure Rules

- 4.9 There are no significant issues to bring to the attention of the Committee for 2014/15.

Fraud, Corruption, Bribery and Whistle Blowing

- 4.10 Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Audit Commission runs a national data matching exercise (National Fraud Initiative – NFI) every two years. In October 2014 a number of data sets of information were provided to the Audit Commission and a list of potential matches have now been received. This data is currently being reviewed by management and appropriate action is being taken.
- 4.11 The Council became aware of two potential frauds involving Council Tax refunds, one for each authority. The fraud related to a person paying their annual Council Tax for a new property, using a potentially fraudulent payment method, and then subsequently requesting a refund stating they had vacated the property. Revenue staff have been made aware of the issue and additional controls were agreed between Audit and Revenues to ensure similar cases are only refunded back using the original payment method.

Performance Indicators

- 4.12 There are no national performance indicators in place for internal audit; however the team monitor against local performance indicators as follows:-

Local performance indicator	2014/15 Target	2014/15 Actual
Percentage of audit plan commenced	95%	100%
Percentage of audit plan completed	95%	99%

Actual audit days as a percentage of planned	95%	98%
Customer satisfaction (percentage of customers stating that service is “good” or “excellent”)	90%	100%
Draft reports issued within target days	90%	100%
Average level of sickness	2%	1%
Outturn within budget	Yes	Yes

It is very pleasing to note that auditees considered that the team provided a good or excellent service. Further details of customer feedback can be found at Appendix D.

Internal Audit – Shared Service

4.13 The following has been achieved this financial year:

Working with Devon Audit Partnership (DAP)

- The MKi audit management system has been installed on the PC’s of the internal audit team. Staff are becoming familiar with the system and formal training was provided in April.

Conformance with Public Sector Internal Audit Standards (PSIAS)

4.14 The Internal Audit Team conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in the audit charter which was approved by the Audit Committee in April 2014. The Head of Devon Audit Partnership maintains a quality assessment process which includes review by audit managers of all audit work. Independent external assessment of Devon Audit Partnership (DAP) provides assurance of compliance against the Institute of Internal Auditors Quality Assessment & Public Sector Internal Audit Standards.

5. LEGAL IMPLICATIONS

5.1 Statutory Powers: **Accounts and Audit Regulations 2011.**

6. FINANCIAL IMPLICATIONS

6.1 None, within existing budgets.

7. RISK MANAGEMENT

7.1 The risk management implications follow this table:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2011.
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	CIPFA Local Government Application Note for the united Kingdom Public Sector internal Audit Standards 2013; CIPFA Code of Practice for Internal Audit in Local Government 2006; and SHDC 5-year Audit Plan 2010/11 to 2014/15.
Appendices attached:	Appendix A: Progress Against the 2014/15 Internal Audit Plan Appendix B: Audit Assignment Opinions 2014/15. Appendix C: Unplanned Audit Work 2014/15 – Summary of Results. Appendix D – Analysis of auditee feedback 2014/15

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity to Make the Best Use of Scarce Audit Resource	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor gains assurance from the work of internal audit. The result is no additional charges being requested to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Head of Devon Audit Partnership
2	Inappropriate Use of Scarce Audit Resource	The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Chief Internal Auditor on the System of Internal Control.	2	2	4	↔	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.	Head of Devon Audit Partnership

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Links with External Audit	The external auditor may gain no assurance from the work of internal audit, potentially resulting in requests for additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	2	2	4	↔	Regular liaison with the external auditor. Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year. Regular monitoring of progress by the S.151 Officer and the Audit Committee.	Head of Devon Audit Partnership
4	Assurance for the Annual Governance Statement	The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	3	2	6	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee. Audit approach adheres to the appropriate professional standards. Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail, should significant resource issue arise.	Head of Devon Audit Partnership

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	13	■	■	■	■			■		See Appendix B
Creditor Payments	11	■	■	■	■			■		
Payroll	10	■	■	■	■			■		See Appendix B
Council Tax	14	■	■	■	■			■		
Business Rates (NDR)	12	■	■	■	■			■		
Benefits	15	■	■	■	■			■		
Benefits Debtors	5	■	■	■	■			■		
Debtors	10	■	■	■	■		■			
Treasury Management	4	■	■	■	■		■			
Capital Expenditure & Receipts	11	■	■	■	■		■			
Fundamental Systems	105									
Salcombe Harbour	10	■	■	■	■		■			
Dartmouth Lower Ferry	9	■	■	■	■			■		
Street Scene - Car and Boat Parking	9	■	■	■	■		■			
Private Sector Housing Renewal	8	■	■	■	■		■			
Data Quality & Performance Indicators	5	■	■	■	■		■			Strategy only.
Use of Email & Internet	10	■	■	■	■		■			
Computer Audit (see below)	26	-	-	-	-	-	-	-	-	
Grants - RDPE Rural Community LAGs	20	■			■					See below

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Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Coastal Communities Fund – Accountable Body	7	■	-	-	■	-	-	-	-	Minute reference E.28/12 refers. 5 project and 5 management claims audited.
Follow Up of Previous Year's Audits	10	■	-	-	■	-	-	-	-	
Contingency – advice guidance and other unplanned work	54	67 days used, of which 23 for T18.	-	-	-	-	-	-	-	Includes:- <ul style="list-style-type: none"> • Advice / guidance on new creditors system work • SH election duties • Support re Oct payroll issue
Corporate Governance	8	■								
Exemptions to Contract or Financial Procedure Rules	5	■	-	-	-	-	-	-	-	16 Exemption applications received and processed in 2014/15, of which 12 accepted.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■				-	-	-	-	Support to, and audit of, process Reports to the July and October 2014 Audit Committees for approval of the Annual Governance Statement.
Risk Management / Business Continuity	3	■	■					■		See below
Other Essential (Revised)	189									
Coast Protection	5	■	■	■	■			■		
Flood Defence and Land Drainage	6	■	■	■	■		■			
Environmental Initiatives including AONB	6	■	■	■	■		■			
Land and Investment Properties	7	■	■	■	■		■			
Democratic Representation including Members	6	■	■	■	■		■			
Community Safety	4	■	■	■	■	■				
Housing Standards	3	■	■	■	■		■			

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Pest Control	1	■	■	■	■	■				
Beach Cleaning	6	■	■	■	■		■			
Non distributed costs including Redundancies	5	■								
Economic Development	5	■	■	■	■	■				
Advice to RM/ Information Compliance/Other Groups	3	-	-	-	-	-	-	-	-	
Shared Services	5	■	■	■	■		■			
Sustainability	4	■	■	■	■		■			
T18 Transformation Programme	5	■	■	■	■		■			See Appendix B
Counter Fraud Work	10	■	■	■	■		■			
Other (Revised)	81									

Computer audit (referred to above)										
Installation & Healthcheck	7	■	■					■		See Appendix B
Computer & Network Management and Security	9	■	■					■		See Appendix B
Change Control	7	■	■					■		See Appendix B
Other Reviews including Internet Controls	3	■	■					■		See Appendix B
Computer Audit	26									

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Overheads											
Audit Administration	15	14 days used	-	-	-	-	-	-	-	-	Includes team briefings, staff voice etc.
Audit Management, including <ul style="list-style-type: none"> • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit committee 	46	31 days used	-	-	-	-	-	-	-	Includes attendance at Audit Committee.	
Training	12	8 days used	-	-	-	-	-	-	-	-	
Miscellaneous e.g. CPR, FPR etc.	5	1 days used	-	-	-	-	-	-	-	-	Update of CPR
Total (Revised)	78	54 days used									
Overall Total (Revised)	453										From 518 days

Audit Assignment Opinions 2014/15

The following tables provide a summary of the **audit opinion** and main issues raised in the reports issued to managers since the last audit committee (March 2015).

Opinion Definitions

Excellent

The areas reviewed were found to be well controlled; internal controls are in place and operating effectively. Risks against the achievement of objectives are well managed.

Good

The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.

Fair

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

Poor

Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

Subject	Audit Findings	Management Response
<p data-bbox="91 699 136 863" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 42</p> <p data-bbox="103 284 367 448">Main Accounting System & Budgetary Control (Final report)</p>	<p data-bbox="423 284 607 316">Audit Opinion</p> <p data-bbox="423 341 483 373"><i>Fair</i></p> <p data-bbox="423 399 591 430">Conclusions</p> <p data-bbox="423 456 1402 600">We have downgraded our Audit Opinion from last year as some controls over the main accounting system and budgetary control have not been actioned on a timely basis throughout the year, although we are aware that efforts were underway to bring these up to date before the year end.</p> <p data-bbox="423 625 1373 730">We understand that this is largely due to the resource pressures experienced by those officers operating the controls, due to a significant re-organisation of staff and responsibilities during the second half of 2014/15.</p> <p data-bbox="423 756 1335 826">We were able to confirm that the agreed actions to the 2013/14 internal audit reports have been implemented or are under way.</p> <p data-bbox="423 852 1391 884">The main issues where action can be taken to further strengthen controls include:</p> <ol data-bbox="423 909 1391 1292" style="list-style-type: none"> <li data-bbox="423 909 1283 979">1. The bank reconciliation - the balancing of the daily and cumulative reconciliation has fallen behind at both authorities; <li data-bbox="423 1005 1391 1110">2. Ensuring that all reconciliations of control accounts are undertaken on a timely basis, that they are reviewed by a second officer and that these actions are evidenced; <li data-bbox="423 1136 1379 1206">3. Ensuring that suspense accounts are regularly reviewed on a timely basis; & <li data-bbox="423 1232 1357 1302">4. Ensuring that user access rights to the main financial information system remain up to date and that leavers are removed promptly. 	<p data-bbox="1440 571 2114 753">1. Bank Reconciliation - this was partly due to resource pressures and partly due to the fact that in 2014/15 both Councils changed their bank accounts to move to Lloyds Bank. There were complications with the uploading of bank files into the main accounting system which had a knock on impact on the bank reconciliation process.</p> <p data-bbox="1440 794 2101 916">This has been rectified and in 2014/15 all bank reconciliations balanced to zero. Currently daily reconciliations are fully reconciled unless the automatic ICT downloads prevent this from happening.</p> <p data-bbox="1440 957 2114 1043">With effect from May 2015, the bank reconciliation process for both Councils has been aligned and are now carried out in the same way.</p> <p data-bbox="1440 1085 2101 1267">2 & 3. Control and Suspense Accounts - officers were aware of the issues and additional temporary resources were brought in to assist with this before the closedown of the 2014/15 Accounts. The second Monday of every month has been put aside to sign off the control accounts that sit within the Service Processing Team.</p> <p data-bbox="1440 1308 2092 1430">4. User Access Rights - this has been discussed at the Support Services COP meeting and all leavers will be promptly removed from information taken from the leavers form.</p>

<p>Payroll (Final report)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 43</p>	<p>Audit Opinion</p> <p><i>Fair</i></p> <p>Conclusions</p> <p>Some controls over the system were not in place at the time of the audit, although we are aware that efforts were underway to bring these up to date before the year end.</p> <p>We understand that this is largely due to the resource pressures experienced by those officers operating the controls, due to a significant re-organisation of staff during the second half of 2014/15.</p> <p>The main issues where action can be taken to further strengthen controls include:</p> <ol style="list-style-type: none"> 1. Access to the payroll system should be restricted to current authorised staff and all previous users disabled; 2. Future processes, such as travel claims, are likely to be input to the payroll system directly by staff and a robust system of checks and control needs to be established to prevent error and fraud; 3. An issue arose during the audit where errors in processing BACS payments meant that salary payments for October had to be processed individually. System procedures need to be improved to ensure that this and similar issues do not re-occur in the future; and 4. Due to pressures on staff the reconciliation of the payroll control accounts have not been regularly maintained; these should be promptly completed. 	<ol style="list-style-type: none"> 1. An audit of personnel with access to the system will be completed by end of April 2015. 2. Processes for staff, clarity on expectations and behaviours as well as the control processes are still to be completed prior to any roll-out. A review of the controls and management and reporting of these will be completed by SLT and reviewed by Audit prior to implementation. 3. This was due to human error, this has been addressed by introducing an additional check by a second individual and the processing date has been changed to allow for extra time prior to processing and checking. 4. This has now been rectified and the processes have been verified by one of the senior accountants. The reconciliation of the control accounts are now defined within the key tasks part of the responsibilities of the team and will be carried out monthly.
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<p>Risk Management (Draft report)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 44</p>	<p>Audit Opinion</p> <p><i>Fair</i></p> <p>There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.</p> <p>We have given this opinion based on the current system at the time of the audit and are aware that future changes to the system will further strengthen the control over the risks identified.</p> <p>Conclusions</p> <p>We have raised a number of recommendations that have been previously reported and we have identified that due to the significant changes undertaken by the Councils the overall commitment to managing current and emerging strategic and operational risks is in need of a fundamental review as monitoring and formal recording has declined.</p> <p>Indeed the formal Operational Risk Register within Covalent has been rendered inactive because it was not being used, with reliance placed on old Service Blueprint risk registers. The future of the Service Blueprints is also in doubt due to the fundamental changes occurring across services.</p> <p>The Corporate Risk Management Group, which provides a more detailed review of corporate risks and some operational risk, has not met for over 6 months and so has not fed issues into the risk management process.</p> <p>We have raised the need to have a more central method of recording and reporting on operational risks, including projects, and the need to update Covalent as a reporting tool.</p> <p>We have reported on issues, also identified in related 2014/15 audit reports, in relation to corporate business continuity planning and data protection and the risks these entail for the Councils.</p>	<ul style="list-style-type: none"> • Consideration will be given to the Statutory Officers Panel picking up the areas that the Risk Management Group covered previously, to ensure coverage from a corporate overview perspective. Others can be invited along for that item for input (previously assisted by Insurance officers and H&S officer) once identified where this lies.
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	<p>The Councils Risk Management Strategy and Policy will need updating and new member, management and staff will need information and training on risk management.</p>	
<p>T18 Transformation Programme (Final report)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 45</p>	<p>Audit Opinion</p> <p>Good</p> <p>The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p>Conclusions</p> <p>We have raised some issues in the detailed appendix to the report, the most significant areas being:</p> <ul style="list-style-type: none"> • There have been significant changes in senior management at both councils; in light of these changes, and the significance of the T18 programme on service delivery, we consider there is a need to review project governance arrangements to ensure they meet expectations and are effective in practice; • This is an ambitious transition programme and the Executive Directors need to ensure that there is a robust plan and sufficient and appropriate resources to deliver the programme on target and within the agreed budgets; • Due to the requirement for delivery from a number of internal and external sources there is a need to ensure that the main technical contractor is able to deliver the agreed programme objectives to plan and that related third party contractors and the Council resources are in place; • The Councils are entering the second critical phase (1b) with a significant volume of redundancies and potential recruitment required; good financial planning will be required to identify and control the delivery of the programme and budgeted costs; and • The Council will need clear guidelines and controls on the processing and management of electronic data. 	<ul style="list-style-type: none"> • Plans are in place to deliver the projects to agreed timescales. Resources are being monitored and managers are keeping SLT aware of requirements. • The Programme Board meet regularly to review the project and agree plans in conjunction with the Programme Delivery Groups. A programme is in place to identify the key projects to be delivered, their priority and ensure effective resources are in place. • Following phase 1b there has been an analysis undertaken of resources and this has been matched to the current programme plan. • The financial position is subject to close scrutiny and is reviewed at the Programme Board. The current budget shows an overall underspend with some small overspends in areas such as furniture and consultancy. • Good communication is now in place with the contractors and although there are some issues overall the delivery of work is to agreed timescales, within programme schedules and to agreed budgets. • We are working on at present to deliver to staff and members a clear policy and procedure for them to follow regarding the evaluation and use of data in the future.

<p>ICT Audits (Draft report) Installation & Healthcheck Computer & Network Management and Security Change Control Other Reviews including Internet Controls</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 46</p>	<p>Audit Opinion</p> <p><i>Fair</i></p> <p>There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.</p> <p>Conclusions</p> <p>Generally, arrangements are in place to ensure that the Councils' IT services are delivered in a controlled environment, with procedures in place to manage access, system changes, loss of systems in the event of an emergency, assets etc.</p> <p>However with significant changes having taken place to the Councils' IT systems, working arrangements and staff in recent months, many of these arrangements may no longer be appropriate or effective.</p> <p>There are also some areas where further improvements could be implemented to strengthen the resilience of the ICT service and controls over associated systems, the most significant of which are:</p> <ul style="list-style-type: none"> • The ICT Security Policy and associated documents need to be reviewed, updated, issued jointly across both authorities and brought to the attention of staff and members; • The ICT Business Continuity Plan needs to be reviewed and updated to account for the new systems and service delivery arrangements under T18. This needs to include the resilience of IT systems, the Councils websites and IT-specific disaster recovery arrangements; • The IT hardware and software inventory needs to be reviewed and updated, which we understand will be facilitated by the installation of more sophisticated service desk software during 2015/16; • Staff need to be made aware of their responsibilities under the Data Protection Act, including when storing or transmitting data electronically; & 	<ul style="list-style-type: none"> • Data Protection - a new Joint Policy has now been completed and Member training (FOI/Data
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	<ul style="list-style-type: none"> The need to ensure formal procedures are in place for the management of change controls, which again we understand will be facilitated by the installation of more sophisticated service desk software during 2015/16. 	<p>Protection) to be undertaken on 9 June for both Councils.</p>
<p>LAGS No report issued</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 47</p>	<p>South Hams District Council, in association with several partner organisations, submitted two bids to Defra for funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m being awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m being awarded to the Greater Dartmoor Local Enterprise Action Fund (LEAF).</p> <p>The Council is the agreed Accountable Body for both the LAG and the LEAF and therefore takes responsibility for the legal and financial management of the grants awarded to the programmes, overseeing the allocation and spend of the funding.</p> <p>The LAG and the LEAF each have a Steering Group which approves the allocation of the funding to a range of individual projects. Every project must submit a grant claim on a quarterly or monthly frequency to draw down funding.</p> <p>The Council is required to have arrangements in place to audit each grant claim submitted by the projects, to exacting standards set by Defra. This is to ensure that the projects are only claiming funding against eligible expenditure as approved by the Steering Groups.</p> <p>Our audit work also ensures that the Council has suitable arrangements in place to control the grants and to capture the necessary data to make the required returns.</p> <p>We are also required to compile quarterly ‘Management & Administration’ claims, including detailed supporting evidence, which allow the Council to draw down funding against officer time spent on administering the LAG and the LEAF.</p>	

Unplanned Audit Work 2014/15 – Summary of Results

Description	Main Issues
<p>Minor enquiries and issues investigated, including some planned work, which by its nature does not require a report. Resourced from the contingency line of the audit plan.</p>	<ul style="list-style-type: none"> • General procurement and disposal rules advice; • General ICT issues; • General Finance issues; • Advice and review of updated finance software including ordering system and creditor payments; • Dartmouth Ferry – advice and assistance re new software; • T18 Transformation – various; • Advice re RDPE LAGs Accountable Body; • Minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies.

Analysis of Auditee Feedback 2014/15

	<u>EXCELLENT</u>	<u>GOOD</u>	<u>ADEQUATE</u>	<u>POOR</u>	<u>NO RESPONSE</u>
Number of surveys returned = 7					
(A) AUDIT PLANNING					
1. Consultation on audit coverage	4	3	0	0	0
PERCENTAGE	57.1	42.9	0.0	0.0	0.0
2. Relevance of stated objectives	5	2	0	0	0
PERCENTAGE	71.4	28.6	0.0	0.0	0.0
3. Fulfilment of scope and objectives	5	2	0	0	0
PERCENTAGE	71.4	28.6	0.0	0.0	0.0
OVERALL PERCENTAGE (A)	66.7	33.3	0.0	0.0	0.0
(B) QUALITY OF AUDIT REPORT					
1. Clarity of report	5	2	0	0	0
PERCENTAGE	71.4	28.6	0.0	0.0	0.0
2. Accuracy of findings	7	0	0	0	0
PERCENTAGE	100.0	0.0	0.0	0.0	0.0
3. Presentation of conclusions	5	2	0	0	0
PERCENTAGE	71.4	28.6	0.0	0.0	0.0
4. Value of audit recommendations	4	3	0	0	0
PERCENTAGE	57.1	42.9	0.0	0.0	0.0
OVERALL PERCENTAGE (B)	75.0	25.0	0.0	0.0	0.0
(C) COMMUNICATION					
1. Feedback of findings during audit	7	0	0	0	0
PERCENTAGE	100.0	0.0	0.0	0.0	0.0
2. Consultation by auditors	7	0	0	0	0
PERCENTAGE	100.0	0.0	0.0	0.0	0.0
3. Helpfulness of auditors	7	0	0	0	0
PERCENTAGE	100.0	0.0	0.0	0.0	0.0
4. Professionalism of audit team	7	0	0	0	0
PERCENTAGE	100.0	0.0	0.0	0.0	0.0
5. Prompt delivery of the audit report	7	0	0	0	0
PERCENTAGE	100.0	0.0	0.0	0.0	0.0
OVERALL PERCENTAGE (C)	100.0	0.0	0.0	0.0	0.0
PERCENTAGE OVERALL	83.3	16.7	0.0	0.0	0.0

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