

Report to: **Audit Committee**  
Date: **30 June 2016**  
Title: **Internal Audit Annual Report 2015/16**  
Portfolio Area: **Support Services**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Brenda Davis** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**  
Contact: [Brenda.davis@swdevon.gov.uk](mailto:Brenda.davis@swdevon.gov.uk) **01803 861375**  
[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

---

**Recommendations:**

**It is recommended that:**

1. The Audit Committee note that overall and based on work performed during 2015/16, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.
2. Members note the satisfactory performance and achievements of the Internal Audit Team during 2015/16.

**1. Executive summary**

- 1) This report summarises the work undertaken by the Council's Internal Audit team during 2015/16, 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) Regulations 2015.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2015/16 to the 31st March 2016, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2015/16 annual internal audit plan, as approved by this Committee in March 2015, and
- Providing an opinion on the adequacy of the Council's control environment.

## **2. Background**

The Audit Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to consider the Head of Internal Audit's annual report, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2015/16 was presented to and approved by the Audit Committee in March 2015. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2015/16, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

## **3. Outcomes/outputs**

The Public Sector Internal Audit Standards require the Head of Internal Audit to present an annual report providing an opinion that can be used by the organisation to inform its governance statement.

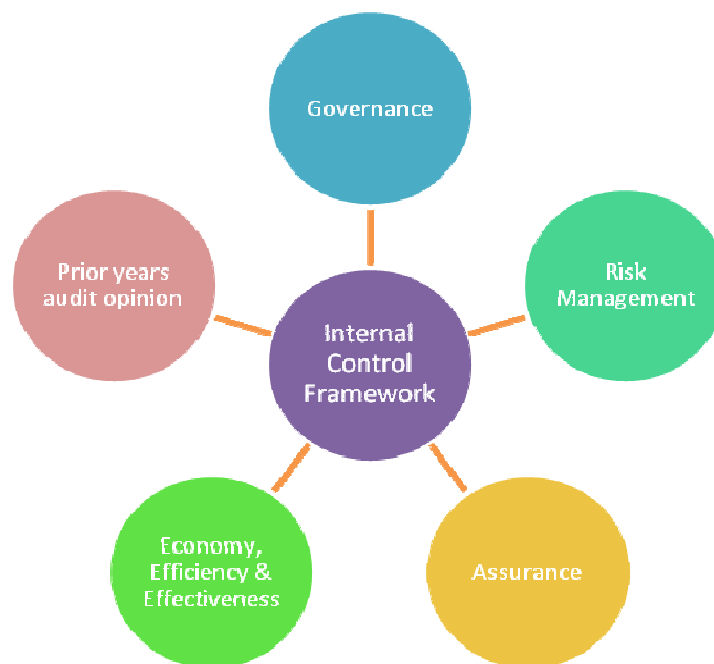
In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Details of Internal Audit's opinion on each audit review carried out in 2015/16 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 2015/16, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**

*This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement*

The above statement of opinion is underpinned by our consideration of:



|                              |  |
|------------------------------|--|
| Full Assurance               | Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.   |
| <b>Significant Assurance</b> | Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.                                  |
| Limited Assurance            | Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls, put the achievement of the organisation's objectives at risk in a number of areas reviewed.   |
| No Assurance                 | Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected. |

## **Key Findings 2015/16**

As stated above we are, overall, able to provide significant assurance on the internal control framework. During the year a number of audit assignments have been completed for which an audit opinion of "improvements required" has been provided (please refer to appendix B for definition of "improvements required").

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. Many of the findings have previously been reported at audit committee meetings during the 2015/16 year.

### **Cash Collection – inc. Banking Arrangements** (previously reported)

Whilst cash and cheque receipts are processed promptly and income is banked on a regular basis and properly reconciled, some areas for improvement were identified relating to the review and clearance of suspense accounts and the forwarding of cheques to departments without a record being maintained of details. Suspense accounts have subsequently been reviewed and cleared as part of the year end process.

### **Creditor Payments** – see App B

Our conclusion was that the creditors system is fulfilling the purpose for which it is intended with invoices presented to the Council being processed and paid. The recommendations made contribute to the strengthening of existing procedures around the timeliness of payments, potential for duplicate payments, processes to allow VAT to be reclaimed when using purchasing cards and greater use of periodical payments.

### **Council Tax** - see App B

Council Tax bills are accurate and the system is operating with generally satisfactory controls but there were some areas highlighted where there is scope for improvement, in particular more regular review of Single Persons Discount. Staff resources have reduced and some of the audit recommendations may help create additional capacity within the team to enable key tasks to be completed promptly and effectively.

### **Business Rates** – see App B

The billing and collection of Business Rates sits in the same service area as Council Tax and therefore face similar resource challenges. Areas that require improvement include the monitoring and review of account suppressions and broken arrangements. Assurance can be given that bills are raised and calculated correctly.

### **Benefits (draft)** – see App B

Although some of the agreed actions from our 2014/15 audit report have been implemented there remain a number of outstanding issues, which management have advised are either due to limited staff resource, or because there is still work to be completed as part of the T18 programme. In the short-term this may also mean further concerns and pressure for the service.

Quality checks and targeted reviews have lapsed in recent months, possibly due to T18 changes and related resource issues but do need to be reinstated using a risk based approach. However, we tested a sample benefit claims and can confirm that the claims were supported by the required data and were calculated correctly. The ability for

claimants to be able to submit claims electronically would reduce the amount of manual intervention needed in processing some claims and create some additional capacity.

**Procurement** (previously reported)

The Corporate Procurement Officer has taken a report to the Executive Director, making recommendations as to the future direction of the procurement function, at both a strategic and an operation level; we are satisfied that the report addresses a number of issues raised in our internal audit report.

**Household Waste** – see App B

Members will shortly be determining if SHDC and WDBC will move towards the formation of a Local Authority Controlled Company (LACC). If approved, the WDBC household waste collection service may also be delivered through the LACC and the recommendations made provide an opportunity to help ensure fees and charges remain appropriate and at the right level and, that items sold to the public are well controlled. Based on our work we can confirm that the South Hams “in-house” household waste collection service is operating effectively and complies with regulatory requirements.

**Trade Waste** – see App B

The Council continues to deliver a reliable commercial waste collection service to its customers which meets regulatory requirements. The charging structure for the service was reviewed for 2015/16 with some changes made to maintain the viability of the service. Controls and compliance with Council procedures could be strengthened and further consideration should be given to ensuring the most cost-effective delivery of the service moving forward.

**Recycling** – see App B

As a Waste Collection Authority, the Council has sound arrangements in place to collect recyclable materials from households, with more than 50% of household waste being re-used, recycled or composted. Recycling Credit claims are submitted to Devon County Council (DCC) on a quarterly basis; DCC carry out an annual audit of SHDC's records to confirm that these claims are accurate. SHDC also administers a scheme of payments of recycling credits to voluntary groups on behalf of the Waste Disposal Authority, from whom it then reclaims the costs. Some areas were identified where the “back office” processes and procedures could be strengthened.

**Dartmouth Lower Ferry** – see App B

Ferry system controls are heavily dependent on manual processes and in some instances they were not considered sufficiently robust.

As part of the Councils' drive to review and improve services, an external business review of the Dartmouth Lower Ferry was commissioned and the report included a number of areas for considerations if the ferry operation is to continue to improve and remain a viable service in the future. The internal audit recommendations along with those coming out of the external business review are to be incorporated into future changes planned for the service.

### **Complaints** - see App B

The Complaints system provides a basic framework for managing complaints and those reviewed appeared in general to have been responded to satisfactorily. The areas for improvement identified are being used by management to inform the updating of policy and procedures.

### **Computer Audit – ICT Incident & Problem Management** - see App B

The Sostenuto Sunrise IT Service Management (ITSM) was purchased in 2015 to provide a centralised software solution to assist with the administration of ICT services for the future. The functionality and configuration of ITSM together with the use of inbuilt workflows, reinforces sound operational procedures. It is acknowledged that the system is still in the early stages of development and as yet, not all of the available functionality is embedded in business as usual.

### **Business Continuity & Emergency Planning** – see App B

There are a number of actions required, common to both emergency planning and business continuity aspects, which would improve the organisations overall emergency preparedness. However, from April 2016 DCC has been contracted to deliver an emergency planning and business continuity service to the Councils. We understand that the work plan agreed with DCC addresses many of the recommendations raised and that these are to be actioned by the end of 2016.

The 2015/16 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

**Appendix C** provides a summary of work where the planned work is complete but no audit report produced.

### **Non Compliance with Contract or Financial Procedure Rules**

There are no significant issues to bring to the attention of the Committee for 2015/16. Six applications for exemptions to Contract / Financial Procedure Rules have been received, five were accepted and one was not necessary.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (National Fraud Initiative – NFI) every two years but some service areas have struggled to find the resource to complete the review of the data matches received. Management have been made aware of the situation. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single person's discounts and creditor payments.

## Irregularities

During 15/16, Internal Audit have provided advice and support to an investigation into alleged misappropriation of Council assets. The matter was referred to the Police and the defendant pleaded guilty in Court to stealing diesel fuel to the value of £464.33 belonging to South Hams District Council. The defendant was committed to prison for 12 weeks suspended for 12 months and also required to carry out 200 hours of unpaid work. The defendant was also ordered to pay compensation of £464.33, a victim surcharge of £80 and £85 costs to the Crown Prosecution Service.

## 4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

## 5. Proposed Way Forward

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

## PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2015/16

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

| Local performance indicator   | 2015/16 Target | 2015/16 Actual |
|---|----------------|----------------|
| Percentage of audit plan commenced  | 95%            | 98%            |
| Percentage of audit plan completed  | 95%            | 98%            |
| Actual audit days as a percentage of planned  | 95%            | 96%*           |
| 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%             | 0.5%***        |
| Outturn within budget   | Yes            | Yes            |

\* In addition to the planned work, 50 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work.

\*\* During the period we issue client survey forms with our final report and it is pleasing to note that auditees considered that the team continue to provide a good or excellent service.

\*\*\* Sickness relating to officers within the combined internal audit team equates to 2 days in the period 1st April 2015 to 31st March 2016.

## 6. Implications

| Implications                                 | Relevant to proposals Y/N | Details and proposed measures to address   |
|--|---------------------------|--|
| Legal/Governance                             | Y                         | <p>The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p> |
| Financial                                    | Y                         | There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.   |
| Risk   | Y                         | The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.  |
| Comprehensive Impact Assessment Implications |                           |  |
| Equality and Diversity                       | N                         | There are no specific equality and diversity issues arising from this report.  |
| Safeguarding                                 | N                         | There are no specific safeguarding issues arising from this report.  |
| Community Safety, Crime and Disorder         | N                         | There are no specific community safety, crime and disorder issues arising from this report.  |
| Health, Safety and Wellbeing                 | N                         | There are no specific health, safety and wellbeing issues arising from this report.  |
| Other implications                           | N                         | There are no other specific implications arising from this report.   |



## **Supporting Information**

### **Appendices:**

There are no separate appendices to this report.

### **Background Papers:**

Annual Internal Audit Plan 2015/16 as approved by the Audit Committee on 12 March 2015.

### **Approval and clearance of report**

| <b>Process checklist</b>   | <b>Completed</b> |
|--|------------------|
| Portfolio Holder briefed   | <b>Yes</b>       |
| SLT Rep briefed  | <b>Yes</b>       |
| Relevant Exec Director sign off (draft)  | <b>Yes</b>       |
| Data protection issues considered  | <b>Yes</b>       |
| If exempt information, public (part 1) report also drafted. (Committee/Scrutiny) | <b>N/A</b>       |

**APPENDIX A**

| Projects agreed in the Audit Plan                | Planned Number of Days | Fieldwork started | Issued in draft | Management comments received | Final | Opinion       |               |                       |                        | Comments   |
|--|------------------------|-------------------|-----------------|------------------------------|-------|---------------|---------------|-----------------------|------------------------|--|
|  |                        |                   |                 |                              |       | High Standard | Good Standard | Improvements Required | Fundamental Weaknesses |  |
| MAS & Budgetary Control                          | 6                      | ■                 | ■               |                              |       |               | ■             |                       |                        | Summary in App B below.  |
| Banking Arrangements (see cash collection below) | 5                      | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary to Audit Committee – September 2015                              |
| Creditor Payments                                | 10                     | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary in App B below.  |
| Payroll  | 10                     | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary in App B below.  |
| Council Tax                                      | 10                     | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary in App B below.  |
| Business Rates (NNDR)                            | 10                     | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary in App B below.  |
| Benefits Payments                                | 10                     | ■                 | ■               |                              |       |               |               | ■                     |                        | Summary in App B below.  |
| Treasury Management                              | 5                      | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary in App B below.  |
| <b>Main Financial Systems</b>                    | <b>66</b>              |                   |                 |                              |       |               |               |                       |                        |  |
| Cash Collection (see banking above)              | 5                      | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary to Audit Committee – September 2015                              |
| VAT  | 10                     | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary to Audit Committee – January 2016                                |
| Procurement and Contract Management              | 10                     | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Summary to Audit Committee – January 2016                                |
| ICT Incident & Problem Management                | 26                     | ■                 | ■               |                              |       |               |               | ■                     |                        | Summary in App B below.  |
| Internet Monitoring                              | 4                      | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        | Issued as a combined report, summary to Audit Committee – September 2015 |
| Email Monitoring                                 | 4                      | ■                 | ■               | ■                            | ■     |               |               | ■                     |                        |  |
| Performance Management - Pls                     | 10                     | -                 | -               | -                            |       | -             | -             | -                     | -                      | Deferred to 2016/17  |
| Performance Management –Data Quality             | 5                      | -                 | -               | -                            |       | -             | -             | -                     | -                      |  |
| Risk Management                                  | 15                     | ■                 | ■               |                              |       |               |               | ■                     |                        | Summary in App B below.  |

**APPENDIX A**

| Projects agreed in the Audit Plan                      | Planned Number of Days | Fieldwork started | Issued in draft | Management comments received | Final | Opinion (final reports only) |               |                       |                        | Comments   |
|--|------------------------|-------------------|-----------------|------------------------------|-------|------------------------------|---------------|-----------------------|------------------------|--|
|  |                        |                   |                 |                              |       | High Standard                | Good Standard | Improvements Required | Fundamental Weaknesses |  |
| T18 Transformation Programme                           | 10                     | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        | Summary in App B below.  |
| Leisure Centres  | 10                     | ■                 | -               | -                            | -     | -                            | -             | -                     | -                      | A "watching brief" has been maintained as the procurement exercise progresses, this will continue into 2016/17.                            |
| Marketing & Tourism                                    | 2                      | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        | Summary to Audit Committee – January 2016  |
| Household Waste Collection                             | 7                      | ■                 | ■               | ■                            | ■     |                              |               | ■                     |                        | Summary in App B below.  |
| Trade Waste  | 5                      | ■                 | ■               | ■                            | ■     |                              |               | ■                     |                        | Summary in App B below.  |
| Recycling  | 5                      | ■                 | ■               | ■                            | ■     |                              |               | ■                     |                        | Summary in App B below.  |
| Grounds Maintenance                                    | 5                      | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        | Summary to Audit Committee – January 2016  |
| Dartmouth Lower Ferry                                  | 8                      | ■                 | ■               | ■                            | ■     |                              |               | ■                     |                        | Summary in App B below.  |
| Street Scene - Car Parking                             | 8                      | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        | Summary in App B below.  |
| Salcombe Harbour                                       | 8                      | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        | Summary in App B below.  |
| Housing Advice   | 5                      | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        | Combined report issued, summary to Audit Committee – January 2016  |
| Homelessness   | 5                      | ■                 | ■               | ■                            | ■     |                              | ■             |                       |                        |  |
| Building Regulations                                   | 7                      |                   |                 |                              |       |                              |               |                       |                        | Carried forward to 2016/17.  |
| Development Control (Enforcement)                      | 10                     |                   |                 |                              |       |                              |               |                       |                        | At the request of management, review deferred to 2016/17.  |
| Corporate Governance Annual Governance Statement (AGS) | 6                      | -                 | -               | -                            | -     | -                            | -             | -                     | -                      | Review of the Code of Corporate Governance presented to June 2015 Audit Committee under separate cover. Input into review of constitution. |
| Exemptions to Contract or Financial Procedure Rules    | 5                      | ■                 | -               | -                            | -     | -                            | -             | -                     | -                      | 6 Exemption applications received and processed in 2015/16, of which 5 accepted and 1 was not necessary.                                   |



## **Planned Audit 2015/16 – Final Reports**

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

### **Definitions of Audit Assurance Opinion Levels**

#### **High Standard**

The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

#### **Good Standard**

The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

#### **Improvements Required**

In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

#### **Fundamental Weaknesses Identified**

The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Planned Audit 2015/16 – Final Reports

| Subject   | Audit Findings   | Management Response   |
|---|--|---|
| <p><b>Main Accounting System (inc. budgetary control) (Draft)</b></p> | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>Improved controls and more timely reconciliations throughout the year has meant that the assurance opinion has moved from “Improvements Required” in 2014/15 to a “Good Standard”. Potential opportunities to re-engineer some processes were identified during the review relating to:-</p> <ul style="list-style-type: none"> <li>• Use of Civica W2 software to control reconciliations;</li> <li>• Further aligning and improving the efficiencies of the many financial processes and procedures;</li> <li>• Self-service tools to reduce the level of finance officer support needed by budget holders.</li> </ul> |   |
| <p><b>Creditor Payments</b></p>                                       | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>Based on our work we can confirm that the controls in place over the payment of creditors are generally appropriate and effective. However we have made recommendations that service to further improve existing processes and controls, relating to:</p> <ul style="list-style-type: none"> <li>• Timeliness of raising orders;</li> </ul>  | <p>Extra resourcing has been allocated to improve timeliness of raising orders. It has been suggested that the creditor payments functions for the two Councils are returned to a centralised service to enable refinement and improvement of the process, this is currently under consideration by SLT.</p> <p>Duplicate payment reports are now run monthly, training has been provided to the team to ensure proper checks are carried out, extra resourcing would allow this to occur prior to all payment runs.</p> <p>There are no plans at present to increase the number of periodical payments due to the extra workload involved. Review of purchase card procedures to be undertaken</p> |

**APPENDIX B**

|                                   |   |   |
|-----------------------------------|---|---|
|                                   | <ul style="list-style-type: none"> <li>• Develop procedure to identify potential duplicate payments;</li> <li>• Greater use of the periodical payment function;</li> <li>• Review of purchasing card procedures, including processes to allow VAT to be reclaimed; and</li> <li>• Review of aged credit notes and invoices marked as disputed.</li> </ul>   | <p>by Dec 2016 (Resourcing dependant).</p> <p>Review of disputed items undertaken as part of Year End procedure, extra resourcing would be required to allow regular checking.</p> <p>Support Services Case Management Manager (SP)</p>   |
| <p><b>Payroll</b></p>             | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>Overall we have found the payroll system and process design to be adequate, providing suitable key controls. The computerised system is currently supported by a manual process of authorisation and certification. Changes of a permanent nature (starters, leavers, change of grade etc.) as well as temporary changes (e.g. overtime) require an authorised signature. It is intended that these processes will become more automated through online functionality in the future.</p>  | <p>The process of automating the payroll functions is ongoing and a number of actions have already been implemented.</p>  |
| <p><b>Council Tax (Draft)</b></p> | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>Assurance can be given that the Council Tax bills issued are calculated correctly. However controls do need strengthening in some areas; weaknesses identified include the lack of regular monitoring and / or review of:</p> <ul style="list-style-type: none"> <li>• User's system access rights;</li> <li>• Single Persons Discount;</li> <li>• The suspense account;</li> <li>• Broken arrangements to pay;</li> <li>• Accounts sent to the bailiff; and</li> </ul> | <p>We accept these recommendations and as part of our system improvements and transformation are seeking to improve processes throughout the year. All of the findings of the audit will be reviewed and implemented where appropriate.</p> <p>COP Lead for Housing, Revenues and Benefits (IB)</p> |

**APPENDIX B**

|                                      |  |  |
|--------------------------------------|--|--|
|                                      | <ul style="list-style-type: none"> <li>• Long-term suppressions.</li> </ul> <p>Some recommendations have been made which will may enable the service to adopt a different approach in some aspects of the work which could help create additional capacity within the team.</p>  |  |
| <p><b>Business Rates (Draft)</b></p> | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>The findings following the review of the business rates system is similar to that of Council Tax above. Both taxes are administered by the same officers and assurance can be given that the Business Rate bills are calculatedly correctly. This review also found that the suspense account was being reviewed and cleared.</p>  | <p>We accept these recommendations and as part of our system improvements and transformation are seeking to improve processes throughout the year. All of the findings of the audit will be reviewed and implemented where appropriate.</p> <p>COP Lead for Housing, Revenues and Benefits (IB)</p>  |
| <p><b>Benefits (Draft)</b></p>       | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>We can confirm that some of the agreed actions to our recommendations in the 2014/15 audit reports have been implemented. However there remain a number of outstanding issues, which management have advised are either due to limited staff resource, or because there is still work to be completed as part of the T18 programme.</p> <p>Following previous Audit recommendations, procedures for the recovery of overpayments have been reviewed but there remains a need for additional resource to enable recovery of overpayments to be actioned effectively, although the level of debt when compared to December 2014 has reduced by £71k.</p> | <p>Some of the recommendations will be addressed through our transformation and the increased capacity our staff will have with the introduction of an online form.</p> <p>We have reorganised tasks and divided them differently so there is adequate separation of duties.</p> <p>We have already put resource in place to address overpayments, and changed our processes to reduce occurrences of overpayment.</p> <p>COP Lead for Housing, Revenues and Benefits (IB)</p> |



|   |  |  |
|---|--|--|
| <p><b>Treasury Management</b></p>                           | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>Treasury management was found to be well controlled and in adherence to legislative requirements. Investments are in line with the approved investment strategy and the Accountants regularly monitor the expected return forecast from the Council's investments.</p>   |  |
| <p><b>ICT Incident &amp; Problem Management (Draft)</b></p> | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>Operational processes for the Support Services Contact Centre are generally of a "Good Standard" with Sunrise appropriately utilised to assist with the administering of incident calls. Moving forward it is important that they reduce the number of reactive and minor incidents that are deal with so that they can be more proactive and deliver the service that customers and the Council require.</p> <p>Service improvements could be realised by:</p> <ul style="list-style-type: none"> <li>• Ensuring that officers, members and third parties working for the Council are aware and comply with the authorities policies and procedures, including security, use of equipment and data;</li> <li>• Embedding the use of Sunrise self-service tools, the dashboard and the knowledge database to reduce the level of first line incidents and free-up ICT staff to enable them to add value to their service delivery;</li> <li>• Use of performance and incident information recorded by Sunrise to target key areas for improvement, plan for future changes and identify potential issues before they occur.</li> </ul> |  |

|  |   |  |
|--|---|--|
| <p><b>Risk Management (Draft)</b></p>      | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>Risk management involves five main processes:</p> <ul style="list-style-type: none"> <li>• Risk Identification- Identify the key risks;</li> <li>• Risk Analysis - Assess the likelihood and potential impact of risks;</li> <li>• Management and Risk Control - Identify existing and proposed controls;</li> <li>• Risk Funding - Assess the cost benefit of the controls; and</li> <li>• Risk Monitoring and Review - Develop action plans to improve the risk profile.</li> </ul> <p>The Councils' Risk Management Strategy addresses each of these aspects to ensure that it meets the overall objectives of loss minimisation. The key objectives of the Strategy and how these will be achieved are set out in the Risk Management Policy. The Risk Management Strategy enables risks and losses to be managed and controlled, thus allowing funds and resources to be used in the most efficient manner.</p> <p>Ten of the higher scoring risks recorded within the Corporate Risk Tables were reviewed and assurance can be provided that for each, mitigating actions were identified and being implemented. Some recommendations were made to further strengthen existing controls, mainly relating to the review and publication of policies and procedures.</p> <p>Risk management update reports should be presented to the Audit Committee on a six monthly basis. This is now the responsibility of the Business Development Group Manager and following a lull in reporting during 2015 as a result of staff changes, reporting recommenced in March 2016.</p> |  |
| <p><b>T18 Transformation Programme</b></p> | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>The Councils have received national recognition for the innovation and success of the T18 Programme:</p>  | <p>We continue to actively manage risk with regard to implementation of T18.</p> |

**APPENDIX B**

|  |  |   |
|--|--|---|
|  | <ul style="list-style-type: none"> <li>• The receipt of £700k Transformation Challenge Funding from DCLG;</li> <li>• The award of 'Council of the Year' at the annual iESE awards;</li> <li>• An iESE 'Gold Award' for 'transforming through people', in recognition of the recent changes made to the way the Councils work; and</li> <li>• Certificate of Excellence for 'Working Together' for work with the region wide Better Business for All Partnership.</li> </ul> <p>The Programme is currently under budget and is projected to achieve both the predicted savings and all the planned deliverables. The majority of the Programme has been delivered to timetable. It is acknowledged that there have been delays in achieving some milestones. These have largely been due to unforeseen delays in the implementation of some aspects of the technology workstream and limited staff resource at some critical points.</p>  | <p>Pressure continues to be applied to the contractor in respect of the technology workstream and mitigating actions have been put into place where solutions have not been available on time.</p> <p>A number of transitional resources have been appointed to support the ongoing transformation with further resources being brought in as required to reduce the impact on the Councils during this phase.</p> <p>Executive Director (SH)</p> |
| <p><b>Household Waste Collection</b></p> | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b></p> <p>Whilst in the main, we found the controls in place over the day to day management of the household waste collection service and contract to be effective, there were a small number of areas we were unable to establish the controls in place as key officers were unavailable to answer some queries due to work on the Waste Review. The recommendations made will contribute to the strengthening of the control framework:</p> <ul style="list-style-type: none"> <li>• Ensure that all tender documentation is retained centrally so that compliance with procurement procedures can be demonstrated even if the officers responsible for the procurement are no longer employed by the Council;</li> <li>• Review controls over items which are sold to the public;</li> <li>• Review postage charged to the public and the fees for the collection of bulky waste to ensure that they cover the Councils' costs;</li> <li>• Review 'tipping away' fees charged by the Councils to DCC and vice versa, to ensure that they remain appropriate and cover the relevant authority's costs.</li> </ul> |   |

|                           |  |  |
|---------------------------|--|--|
| <p><b>Trade Waste</b></p> | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>There are seventeen dedicated Commercial Waste rounds covering the district, serviced by two Commercial Waste vehicles with each contracting property and bin mapped using GPS technology. The charging structure for the service was reviewed for 2015/16 and some changes made to maintain the viability of the service. Controls and compliance with Council procedures could be strengthened and further consideration given to delivering the most cost-effective service, including:</p> <ul style="list-style-type: none"> <li>• Ensuring that all expenditure is incurred in line with Financial and Contract Procedure Rules;</li> <li>• Introducing a separation of duties over the entry of bin lift data and sack sales, the raising of invoices and reconciliation of the waste management system to the Debtors system;</li> <li>• Reviewing the methodology for charging out centralised costs such as transport and staff;</li> <li>• Making best use of technology to allow efficient administration of the service;</li> <li>• Reviewing the current model for service delivery and considering alternatives.</li> </ul> |  |
| <p><b>Recycling</b></p>   | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>Councils within Devon work to the Devon Waste Management Strategy, which has been produced in partnership with Devon County Council and the Environment Agency. The Strategy, which is regularly reviewed, aims to comply with the</p>   |  |

|  |   |   |
|--|---|---|
|  | <p>requirements of the EU Landfill Directive, including the meeting of targets to divert biodegradable municipal waste away from landfill. Whilst SHDC has sound arrangements in place for the collection of recyclable materials from households, with more than 50% of household waste being re-used, recycled or composted, some areas were identified where the “back office” processes and procedures could be strengthened, including:</p> <ul style="list-style-type: none"> <li>• Ensuring that all expenditure is incurred in line with Financial and Contract Procedure Rules;</li> <li>• Retaining evidence of procurement so that it is available in the absence of those staff who carried out the exercise; and</li> <li>• Providing relevant staff with sufficient training to avoid financial errors which require retrospective correction.</li> </ul>   |   |
| <p><b>Dartmouth Lower Ferry</b></p>      | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b></p> <p>The current ferry system, although providing a good basis for the recording of ferry transactions, cannot produce reports which provide complete management information without varying degrees of additional manual input. Functionality of the system needs to be reviewed to capture efficiencies and ensure that the data is complete and not vulnerable to manipulation. In the interim, two people should record and evidence the reconciliation of income received followed by regular checks by an independent officer.</p> <p>The ferry now uses a tag system that holds crossings paid in advance by customers and a reconciliation procedure needs to be developed to track the payments received and crossings made.</p> | <p>The current ferry financial system is not considered to be fit for purpose and is not user friendly. A major review of DLF is currently underway, including consideration of tariffs and shift patterns. The DLF management team have also to go through the T18 process in the coming months. It is planned to address the ferry financial system once these two exercises have been completed and when the new ferry management structure is in place.</p> <p>Operations Manager Environmental Services (CA)</p> |
| <p><b>Street Scene – Car Parking</b></p> | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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>   |   |

**APPENDIX B**

|                                |  |   |
|--------------------------------|--|---|
|                                | <p><b>Conclusions</b><br/>The popularity of cashless parking continues to rise and the authority's accounting of income from this source was confirmed as accurate. Parking permit transactions are processed accurately and payments promptly received.</p> <p>However, although the process of issuing permits has been engineered into the W2 workflow system there remain a number of administrative processes required to issue a permit and it has been recommended that the variety of different permits available and the process of issue are reviewed and rationalised. This will support the streamlining of procedures, realise efficiencies for the service and in turn, will deliver a more consistent customer experience.</p>  | <p>The Executive Member for Commercial Services has agreed that a Task &amp; Finish Group be set up in autumn 2016 to review the SHDC parking permits. Updating of the Street Scene software, Sidem, is also being considered, to allow virtual rather than paper permits to be issued. It is anticipated that virtual permits could be issued much more efficiently. They would be checked by Civil Enforcement Officers in much the same way as for car parking fees paid by mobile phone. However, in order to allow virtual permits to be issued, the number of permit types needs first to be reduced.</p> <p>Operations Manager Environmental Services (CA)</p> |
| <p><b>Salcombe Harbour</b></p> | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>Testing of the eHarbour system confirmed that income due has been appropriately entered on the daily batch reports and brought to account and officers are competent in the use of the system.</p> <p>The eHarbour system is separate from the Council's financial systems and this means that additional manual input is required to process all of the daily transactions. Some action has been undertaken to streamline the process and carry out transactions electronically.</p> <p>Our review highlighted the importance of maintaining a separation of duties, although it is acknowledged that this will not be possible in all instances.</p> | <p>We are continuing to work with the eHarbour software developers and also with SHDC ICT to investigate how the systems can be further integrated in order to reduce nugatory duplication and also remove a potential source of error.</p> <p>Unfortunately it is often not practical to properly separate the duties because of the small number of staff, but it is conducted whenever practicable.</p> <p>Salcombe Harbour Master (AP)</p>  |
| <p><b>Counter Fraud</b></p>    | <p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - 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><b>Conclusions</b><br/>Overall the controls for minimising fraud and corruption within the Councils are</p>   |   |

**APPENDIX B**

|   |  |  |
|---|--|--|
|   | <p>operating to good standards. The Council regularly submits reports to the Audit Committee and keep members informed of any issues and risks.</p> <p>The Council does has a good track record of minimising risk and the potential for fraud but we have highlighted that some service areas have struggled to find the resource needed to complete the review of the data matches received from the last NFI exercise.</p>  |  |
| <p><b>Complaints</b></p>                        | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b><br/>The Complaints system provides a provides a basic framework for managing complaints and those we reviewed appeared in general to have been responded to satisfactorily. However there are some areas where improvements could be made including:</p> <ul style="list-style-type: none"> <li>• Review of Complaints policy to ensure it includes all relevant recommendations of the Local Government Ombudsman;</li> <li>• Use of a Complaints system for more effective management;</li> <li>• Ensuring all staff involved in administering complaints have received adequate training and provided with guidance;</li> <li>• Ensuring that the Complaints system allows reporting and meaningful analysis of complaints received;</li> <li>• Ensuring that 'lessons learned' from complaints are recorded and action taken to address issues identified; and</li> <li>• Consider the benefits of recording suggestions and analysing both these and compliments to identify trends.</li> </ul> | <ul style="list-style-type: none"> <li>• A revised joint Complaints Policy (and accompanying Vexatious Complaints policy) has been adopted by both Councils. This was developed using best practice, and input from previous complainants and was reviewed and endorsed by the Ombudsman;</li> <li>• The intranet and external websites have been updated accordingly with relevant guidance and templates;</li> <li>• 90 members of staff attended a Complaints Handling course run by the Ombudsman and these courses will continue to be run periodically for new staff;</li> <li>• W2 is live and now reflects the new Policy with a facility for monitoring and reporting on outcomes and consequent improvements. The internal guidance stresses the importance of recording the outcomes from each complaint;</li> <li>• Responsibility for responding to complaints lies with senior officers (ELT);</li> <li>• Training has been given to ELT and is being rolled out to other staff who are involved in complaints.</li> </ul> |
| <p><b>Business Continuity and Emergency</b></p> | <p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and</p>   |  |

|                        |   |  |
|------------------------|---|--|
| <p><b>Planning</b></p> | <p>procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b></p> <p>There are a number of actions required, common to both emergency planning and business continuity aspects, which would improve the organisations overall emergency preparedness. These include:</p> <ul style="list-style-type: none"> <li>• Confirming on-going responsibility for business continuity and emergency planning, both on a day-to-day basis, and in the event of an incident;</li> <li>• Bringing the Emergency Response Plan, the Business Continuity Plan and supporting documents up to date, as well as having arrangements in place for their regular review and validation;</li> <li>• Ensuring all relevant officers have received adequate training for the responsibilities they would be expected to undertake in the event of an emergency and that there is sufficient trained staff resource to provide cover for a longer term incident; and</li> <li>• Ensuring that adequate information and resources are in place to allow communications between staff in the event of an emergency, particularly to mitigate for the current reliance on ICT systems which may not be available in an emergency.</li> </ul> <p>Please note: From April 2016 DCC has been contracted to deliver an emergency planning and business continuity service to the Councils. We understand that the work plan agreed with DCC addresses many of the recommendations raised and that these are to be actioned by the end of 2016.</p> | <p>The Councils have recently entered into a partnership approach with Devon County Council and other Local Authorities to ensure a more efficient joined up delivery of the emergency planning and business continuity service across the Devon Region. An action plan is in place to ensure that key areas of concern such as updating key documents, identifying areas of responsibility and training of staff are addressed in a timely approach (by the end of 2016).</p> |
|------------------------|---|--|



## Planned Audit 2015/16 – Work Complete (No Audit Report)

| Subject  | Comments  |
|--|---|
| <b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b> | <p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2014/15 financial year. The S151 Officer presented the 2014/15 AGS to the Audit Committee on 30 July 2015 with the draft accounts.</p> |
| <b>Exemptions to Financial Procedure Rules</b>                                 | <p>Six applications for Contract / Financial Procedure Rules have been received in 2015/16, of which five were accepted and one was not necessary.</p>  |
| <b>Leisure Contract</b>  | <p>A “watching brief” has been maintained as the procurement exercise progresses, this will continue into 2016/17.</p>  |