

NAME OF COMMITTEE	Audit Committee
DATE	24th February 2015
REPORT TITLE	Internal Audit – Revision of and Progress Against the 2014/15 Plan
Report of	Head of Devon Audit Partnership
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of 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 December 2014, by:

- Highlighting the need to revise the internal audit plan for 2014/15 to reflect the impact of the T18 Transformation Programme blueprinting;
- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2014/15 annual audit plan, reviewed by this Committee in April 2014.

Financial implications:

There are no direct financial implications of the monitoring of the Internal Audit Plan. The internal audit costs for the year are as budgeted.

RECOMMENDATIONS:

It is recommended that the Audit Committee considers the revision of the 2014/15 Internal Audit Plan and the progress made against it and makes any relevant recommendations to Council.

Officer contact:

For further information concerning this report, please contact:

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1. BACKGROUND

- 1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference *AC 40 refers) and cover:

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 *AC 40 refers) and covers:

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

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2014/15

Audit Plan 2014/15

- 2.1 The 2014/15 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2014 (minute reference AC 41 refers).

Local and National Risk Based Amendments to the Plan/T18 Transformation

- 2.2 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.

Resources and Skills

- 2.3 Sickness to the 31st December is 1 day (2013/14 equivalent 0 days).

Progress against the Plan

- 2.4 The 2014/15 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.
- 2.5 **Appendix B** provides a summary of the main issues raised for audits where a final audit report has been issued and action agreed.

Non Compliance with Contract or Financial Procedure Rules

- 2.6 There are no significant issues to bring to the attention of the Committee so far this year.

Fraud, Corruption, Bribery and Whistle Blowing

- 2.7 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.
- 2.8 The frauds were reported on the National Action Fraud website and correspondence has been received from The National Fraud Intelligence Bureau (NFIB) that there might be sufficient viable lines of enquiry for a possible police investigation.

Internal Audit Performance Indicators

- 2.9 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2014/15.
- 2.10 At this stage in the year, the key indicator 'Completion of 2014/15 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2013/14 combined audit plan.	95	100	As reported to the Audit Committee June 2014. (West Devon 100%)
Audits at the 31st December 2014 at various stages of completion from 2014/15 revised audit plan and their 2013/14 equivalents.			
WDBC	73%	70%	Considered to be "on target"

Internal Audit – Shared Service

- 2.11 The following has been achieved so far this financial year:

Shared service with West Devon

- Progress on the 2014/15 audit plan reported to the West Devon Audit Committee. A growing number of audits are being completed across the two sites at the same time e.g. recharging shared service costs.

Working with Devon Audit Partnership (DAP)

- The audit team attended a DAP development day in Exeter. The team were able to meet with colleagues from other audit teams and develop relationships to aid in skills sharing.

3. LEGAL IMPLICATIONS

3.1 Statutory Powers: Accounts and Audit Regulations 2011.

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 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:	There are 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:	There are 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; WDBC 5-year Audit Plan 2010/11 to 2015/16.
Appendices attached:	Appendix A: Audit Plan 2014/15 Appendix B: Planned Audit 2014/15 – Final Reports: Detailed Items

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. This will result in 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.	2	2	4	↔	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 ↓ ↑ ↔

West Devon Borough Council - Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
						Excell'nt	Good	Fair	Poor	
MAS & Budgetary Control	4									
Creditor Payments	2									
Payroll	5	■	■					■		Draft report issued November 2014
Council Tax	6	■	■	■	■			■		See commentary below
Business Rates (NDR)	6	■	■	■	■			■		See commentary below
Benefits	7	■	■					■		Draft report issued 8 Jan 2015
Housing Benefit Debtors	2	■	■					■		Draft report issued 8 Jan 2015
Treasury Management	2	■								Audit fieldwork commenced
Main Financial Systems	34									
Recruitment	0	X	X	X	X	x	X	X	x	Was 2 days. Removed from Plan.
Community Safety and Emergency Planning	2	■	■	■	■			■		Summary to Audit Committee - September 2014
Private Sector Housing Renewal	4	■	■	■	■			■		See commentary below
Car Parking	4	■								Audit fieldwork commenced
Capital Expenditure & Receipts	0	X	X	X	X	x	X	x	x	Was 4 days. Removed from Plan.
ICT / Computer Audit	3									
Local Welfare Support	2									
Use of Internet and Email	3	■	■	■	■			■		Summary to Audit Committee - September 2014
Development Control	4									
Data Quality incl. PIs	5	■								Strategy only.

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Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
Risk Management	3									
Corporate Governance System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Review of the Code of Corporate Governance presented to June 2014 Audit Committee under separate cover. Reports to the July and September 2014 Audit Committee for review and approval of the AGS.
Shared Services	5	■	■	■	■		■			See commentary below
Sustainability	4	■	■	■	■		■			Summary to Audit Committee - September 2014
T18 Transformation Programme	5	3 days used								
Specific Counter Fraud Work	3	■	■							Draft report issued 13/11/14
Follow Up of Previous Year's Audits	5	3 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	5	3 days used	-	-	-	-	-	-	-	Minor control and governance issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies. <ul style="list-style-type: none"> • Review and process of 3 applications for Exemption from Contract Procedure Rules (CPR); • Update of CPRs for June Audit Committee; • Audit Commission fraud survey; • Letters to Grant Thornton; • Advice on new Temporary Accommodation Charging Policy; • T18 various; • Counter fraud publicity; • Additional individual internet and e-mail monitoring as requested my managers.
Other Systems & Audit Work (Revised)	62									

West Devon Borough Council - Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
Management & Supervision	8	8 days used	-	-	-	-	-	-	-	Planning; Monitoring; Supervision; File Review; Preparing Reports for, and attending, the Audit Committee; Audit Committee workshop; Meetings with the Section 151 Officer; Meetings with the Section 151 and Monitoring Officers; Liaison with the external auditor; etc
External Management & Supervision	8	5 days used	-	-	-	-	-	-	-	Preparing monitoring reports and presenting to committee. Audit plan for 2015/16.
Total (Revised)	16									
Overall Total (Revised)	112									

Planned Audit 2014/15 – 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.

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.

Planned Audit 2014/15 – Final Reports (continued)

Subject	Audit Findings	Management Response
<p>Council Tax</p>	<p>Audit Opinion – WDBC & SHDC Fair</p> <p>Conclusions 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. Some tasks have not been completed as staff time has been required to support the T18 programme. Management need to ensure that key tasks are completed promptly and effectively. Action has recently commenced to resolve this by bringing in additional resource to address some areas (specifically recovery). We are aware that officers are constantly seeking to improve those parts of the system which it is within their control to do so.</p>	<p>The audit findings have been agreed in principle.</p> <p>However, there have been a number of changes to personnel working within the section and the opportunity to address some of the issues has been limited. Identified issues will be addressed, but some actions may be delayed until resources allow, and this may not be until after the annual billing for 2015.</p>
<p>Business Rates (Non Domestic Rates).</p>	<p>Audit Opinion – WDBC & SHDC Fair</p> <p>Conclusions 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. The main issues raised are around access and recovery and include:</p> <ul style="list-style-type: none"> • 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; 	<p>The audit findings are agreed.</p> <p>The issues regarding separation in duties will be considered when responsibilities are reassigned under the T18 programme</p> <p>We intend to include these reconciliations in the Monitoring Programme.</p>

Subject	Audit Findings	Management Response
<p>Private Sector Housing Renewal</p>	<p>Audit Opinion Good</p> <p>Conclusions Work is more or less complete in aligning processes and procedures for managing and administering mandatory and discretionary grants and loans across WDBC and SHDC. Officers continue to review opportunities to work more efficiently whilst still delivering a high quality service to customers.</p> <p>Our testing found that controls over the evaluation and payments of Disabled Facilities Grants and discretionary Private Sector Housing Renewal grants and loans are working satisfactorily, with an anti-fraud emphasis. We have concluded that there was no evidence of fraudulent grant applications within the sample reviewed.</p> <p>The level of completion, accuracy and review of files remains generally satisfactory, although we did identify a number of minor administrative errors at both Councils (for example, although expected financial checks had been completed, there was no evidence (in one instance) that this had been checked by a second officer).</p> <p>These minor errors appear to have arisen during a period when newly appointed officers in the BSU were learning procedures. Errors have reduced as the officers have gained greater experience, but we have reported them in order that senior officers can ensure that the misunderstanding of some processes does not persist.</p>	<p>The findings in the audit report have been agreed.</p> <p>Staff involved in the process have been verbally reminded of the need to adhere to procedures and guidance / training has been provided where required.</p>

Subject	Audit Findings	Management Response
<p>Shared Services</p>	<p>Audit Opinion Good</p> <p>Conclusions The recharging of salary and travel costs between the two authorities continues to be calculated correctly, with some non material errors. During 2013/14 WDBC recharged SHDC £932,000 and SHDC recharged WDBC £1.87m.</p> <p>Some errors for 2013/14 in the order of £9,000 were identified and reported to the relevant finance officers at both authorities, but these were not material and would not have a significant impact on the overall value of recharged costs. The errors have been corrected for 2014/15.</p> <p>We raised some issues in our report, the most significant areas being:</p> <ul style="list-style-type: none"> • Expanding further the analysis and sharing of expenditure for items such as agency staff, public transport, training, recruitment, continuing professional development, and other administration costs; • A policy for the recharging of ICT is to be further developed to ensure that existing arrangements are robust. 	<p>The findings in the Audit report have been Agreed</p> <p>All costs (including those referred to) will be considered to determine if they need to be included in re-charges and how costs will be shared.</p>

Planned Audit 2014/15 – Work Complete (No Audit Report)

Subject	Comments
Compliance Review of the Code of Corporate Governance	Member report setting out the work done to review the Council's compliance with its Code of Corporate Governance, in line with the CIPFA/SOLACE guidance, presented to the June 2014 Audit Committee. Issues raised are included in the Annual Governance Statement which was presented to the Audit Committee at the meeting of July 2014.
System of Internal Control (SIC), and Annual Governance Statement (AGS)	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2013 Audit Committee. The Council of the 22 nd July 2014 agreed to amend the constitution to allow the Audit Committee to approve the AGS on behalf of the Council. The AGS was published in September 2014, following an update to the Statement reported with this Audit Committee agenda.
Exemptions to Financial Procedure Rules	See table at Appendix A.

Planned Audit 2014/15 – Follow Up with 2014/15 Audits

September 2013 Audit Committee

Subject	Comments
Internet and Email Use – 2013/14	Mainly implemented. 2/10 recommendations repeated, the most significant of which concerns a revised policy on internet and email usage.

Planned Audit 2014/15 – Follow Up of 2013/14 Audits

Subject	Comments
Private Sector Housing Renewal	Confirmed implemented, and taken to annual audit July 2014.
Data Protection and Freedom of Information	Memo sent, no reply to date. Meeting to be arranged.
Use of Agency Staff	Memo sent, one reply to date. Meeting to be arranged with other officers.