

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>28<sup>th</sup> April 2015</b>
<b>REPORT TITLE</b>	<b>Internal Audit – Progress against the 2014/15 Plan</b>
<b>Report of</b>	<b>Head of Devon Audit Partnership</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**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 31<sup>st</sup> March 2015, by:

- 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:**

That the Audit Committee considers the progress made against the 2014/15 internal audit plan, and make any relevant recommendations to Council.

**Officer contact:**

For further information concerning this report, please contact:

Robert Hutchins Head of Devon Audit Partnership 01803 861375  
[robert.hutchins@swdevon.gov.uk](mailto:robert.hutchins@swdevon.gov.uk)

Lisa Buckle, S.151 Officer 01822 813644: [Lisa.Buckle@swdevon.gov.uk](mailto:Lisa.Buckle@swdevon.gov.uk)

**1. BACKGROUND**

- 1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference \*AC 40 refers) 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 \*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 relating to officers within the combined internal audit team equates to 10 days in the period April 2014 to 31<sup>st</sup> March 2015; this roughly equates to 2 days of sickness for West Devon Borough Council (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 We have previously reported that the Council became aware of a potential fraud involving Council Tax refunds. No other fraudulent activity has been reported to us or come to our attention.

### Internal Audit Performance Indicators

2.8 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.

2.9.1 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%)
<b>Audits as at the 31st March 2015 at various stages of completion from 2014/15 revised audit plan and their 2013/14 equivalents.</b>			
WDBC	95%	94%	Considered to be "on target"

### Internal Audit – Shared Service

2.10 The following has been achieved so far 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. The staff have become familiar with the system, and formal training will be provided in April.

### **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:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	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.
<b>Appendices attached:</b>	<b>Appendix A:</b> Audit Plan 2014/15 <b>Appendix B:</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	■	■							Audit fieldwork commenced
Creditor Payments	2	■	■					■		See commentary below
Payroll	5	■	■	■	■			■		See commentary below
Council Tax	6	■	■	■	■			■		Summary to Audit Committee – March 2015
Business Rates (NDR)	6	■	■	■	■			■		Summary to Audit Committee – March 2015
Benefits	7	■	■	■	■			■		See commentary below
Housing Benefit Debtors	2	■	■	■	■			■		See commentary below
Treasury Management	2	■	■	■	■		■			Draft report issued 13 Feb 2015
<b>Main Financial Systems</b>	<b>34</b>									
<b>Recruitment</b>	<b>0</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>x</b>	<b>X</b>	<b>X</b>	<b>x</b>	<b>Was 2 days. Removed from Plan.</b>
Community Safety and Emergency Planning	2	■	■	■	■		■			Summary to Audit Committee - September 2014
Private Sector Housing Renewal	4	■	■	■	■		■			Summary to Audit Committee – March 2015
Car Parking	4	■	■				■			Draft report issued 27 Feb 2015
<b>Capital Expenditure &amp; Receipts</b>	<b>0</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>x</b>	<b>X</b>	<b>x</b>	<b>x</b>	<b>Was 4 days. Removed from Plan.</b>
ICT / Computer Audit	3	■								Audit fieldwork commenced
Local Welfare Support	2	■								
Use of Internet and Email	3	■	■	■	■		■			Summary to Audit Committee - September 2014
Development Control	4	■								Audit fieldwork commenced
Data Quality incl. PIs	5	■	■	■	■		■			See commentary below

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	
Risk Management	3	■								Audit fieldwork commenced
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	■	■	■	■		■			Summary to Audit Committee – March 2015
Sustainability	4	■	■	■	■		■			Summary to Audit Committee - September 2014
T18 Transformation Programme	5	4 days used								
Specific Counter Fraud Work	3	■	■							Draft report issued 13/11/14
Follow Up of Previous Year's Audits	5	5 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	5	5 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"> <li>• Audit Commission fraud survey;</li> <li>• Letters to Grant Thornton;</li> <li>• Advice on new Temporary Accommodation Charging Policy;</li> <li>• T18 various;</li> <li>• Counter fraud publicity;</li> <li>• Additional individual internet and e-mail monitoring as requested my managers.</li> </ul>
<b>Other Systems &amp; Audit Work (Revised)</b>	<b>62</b>									



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	
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	8 days used	-	-	-	-	-	-	-	Preparing monitoring reports and presenting to committee. Audit plan for 2015/16.
<b>Total (Revised)</b>	<b>16</b>									
<b>Overall Total (Revised)</b>	<b>112</b>									

## 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

Subject	Audit Findings	Management Response
Creditors	<p><b>Audit Opinion – WDBC &amp; SHDC</b> Fair</p> <p><b>Conclusions</b> Our conclusion is that the creditors system is fulfilling the purpose for which it is intended. Invoices presented to the Council are being processed and paid.</p> <p>However there are some areas where 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. The main issues were;</p> <ul style="list-style-type: none"> <li>• Ensuring that the scanning of invoices using Kofax is operating correctly;</li> <li>• A number of the invoices we sampled had had orders raised after the invoice was received, reducing the financial control of purchases and possible duplication of payments; and</li> <li>• Controlling amendments to creditors masterfiles.</li> </ul>	
Payroll	<p><b>Audit Opinion – WDBC &amp; SHDC</b> Fair</p> <p><b>Conclusions</b> 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 during the audit that will improve the controls over the operation of the</p>	

	<p>service.</p> <p>The key issues identified were:</p> <ol style="list-style-type: none"> <li>1. Access to the payroll system should be restricted to current authorised staff and all previous users disabled;</li> <li>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;</li> <li>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</li> <li>4. Due to pressures on staff the reconciliation of the payroll control accounts have not been regularly maintained; these should be promptly completed;</li> </ol>	<ol style="list-style-type: none"> <li>1. An audit of personnel with access to the system will be completed by end of April 2015.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol>
--	---	--

<p><b>Benefits</b></p>	<p><b>Audit Opinion</b></p> <p><i>Fair</i></p> <p><b>Conclusions</b></p> <p>We were able to confirm that some of the agreed actions to our recommendations in the 2013/14 audit reports have been implemented. However there remain a number of outstanding issues, which we are advised by managers are either due to limited staff resource, or because the outcome of the T18 programme is awaited as this will lead to some significant changes in staffing structure and responsibilities.</p> <p>In addition, 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 are:</p> <ul style="list-style-type: none"> <li>• Users access to the system needs to be reviewed, particularly in light of a number of staffing restructures that mean leavers and officers changing services still have access; and</li> <li>• 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.</li> </ul> <p>Our recommendations are made with regard to future changes under the T18 model and the impact on service delivery.</p> <p>Some of the recommendations made in the separate 2014/15 audit of Housing Benefit Debtors may also impact on the management of benefit claims.</p>	<p>Agreed. The access rights will be reviewed and updated. A regular review will be made in future.</p> <p>Agreed. The benefits payment process is still being mapped. Work has had to be put on hold due to annual billing but is to be recommenced as soon as possible.</p>
------------------------	--	---

<p><b>Housing Benefits Debtors</b></p>	<p><b>Audit Opinion</b> Fair</p> <p><b>Conclusions</b></p> <p>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.</p> <p>However, we are advised by managers that the effectiveness of procedures is hampered by the restricted functionality of the housing benefit debtors system.</p> <p>This is combined with the knowledge that the number of overpayments identified has increased as a result of information received via the HMRC RTI programme, and is likely to further increase in the future if the Council takes part in the DWP Fraud and Error Reduction Incentive Scheme (FERIS) as planned.</p> <p>We have identified a number of areas where changes to procedures could potentially lead to improved levels of debt recovery, the most significant of which are:</p> <ul style="list-style-type: none"> <li>• Consideration should be given to bringing in additional resource to assist in the recovery of benefit overpayment debt; and</li> <li>• It should be ensured that procedures are determined to allow recovery to be actioned at legal stage now that the Councils' Legal team are no longer responsible for this task.</li> </ul>	<p>Agreed. A business case for additional resource is currently being prepared by the Benefits Manager.</p> <p>In the future, the additional resource which is to be requested, would be expected to have experience of progressing recovery to court, including by using external agencies, as well as recovering overpayments through County Court Judgements, Attachments of Earnings etc.</p>
--	---	---

<p><b>Data Quality including Performance Indicators</b></p>	<p><b>Audit Opinion</b></p> <p><b><i>Good</i></b></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><b>Conclusions</b></p> <p>We confirmed that procedures are in place to allow the Councils to collect data for the suite of performance indicators at each authority, and to report the results to senior managers and Members.</p> <p>There is also a process to address those indicators where performance is failing.</p> <p>Whilst the Councils do have a Data Quality Assurance Strategy in place, there is no monitoring to ensure that it is complied with. We also noted that the Strategy does not provide detailed guidance on data sharing.</p> <p>We highlighted a small number of issues relating to specific performance indicators that we tested, which will contribute to the controls over data quality and the accuracy of data reported.</p>	
---	---	--

Subject	Audit Findings	Management Response
<p><b>Shared Services</b></p>	<p><b>Audit Opinion</b> Good</p> <p><b>Conclusions</b> 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"> <li>• 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;</li> <li>• A policy for the recharging of ICT is to be further developed to ensure that existing arrangements are robust.</li> </ul>	<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
<b>Compliance Review of the Code of Corporate Governance</b>	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.
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	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 <sup>nd</sup> 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.
<b>Exemptions to Financial Procedure Rules</b>	As and when required