

Report to: **Audit Committee**
Date: **21 June 2018**
Title: **Internal Audit Annual Report 2017/18**
Portfolio Area: **Support Services – Cllr S Wright**
Wards Affected: **All**
Relevant Scrutiny Committee: Overview and Scrutiny Panel

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

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Recommendations:

It is RECOMMENDED that:

- 1. The Audit Committee approve that overall and based on work performed during 2017/18, 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; and**
- 2. Members approve the satisfactory performance and achievements of the Internal Audit Team during 2017/18.**

1. Executive summary

This report summarises the work undertaken by the Council's Internal Audit team during 2017/18, 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 2017/18 to 31st March 2018, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2017/18 annual internal audit plan, as approved by this Committee in March 2017, 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 2017/18 was presented to and approved by the Audit Committee in March 2017. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2017/18, 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 (PSIAS) 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.

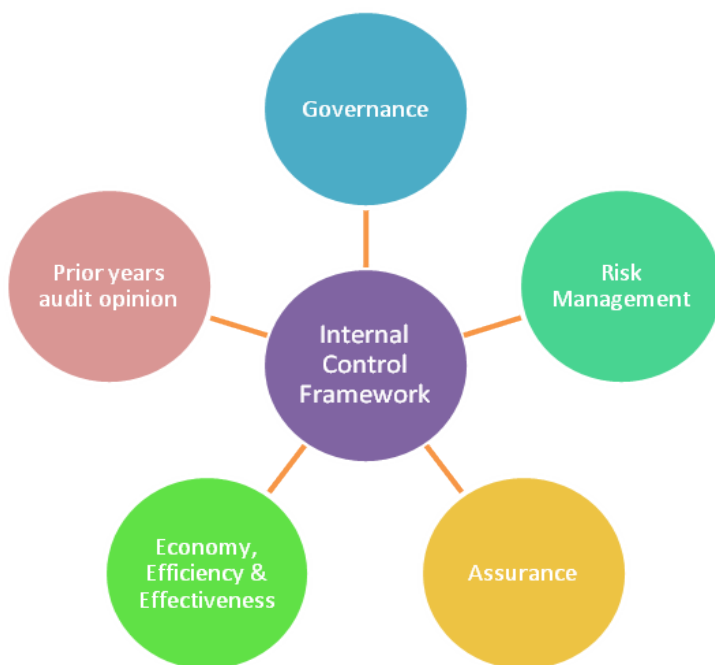
In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action 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 2017/18 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 2017/18, 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.
Significant Assurance	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 2017/18

As stated above we are, overall, able to provide significant assurance on the internal control framework. During the year, of the 26 audit assignments completed, 13 were given an audit opinion of "Good Standard", 11 "Improvements Required" and two received an audit opinion of "Fundamental Weaknesses" (please refer to appendix B for definitions of audit opinions).

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 2017/18 year.

Fundamental Weaknesses

Section 106 Agreements (previously reported)

At the time of our review there was a process in place for the recording and monitoring of Section 106 Agreements and the distribution of funds. The review found, due to a lack of resources, there are potential weaknesses in the Councils' arrangements for monitoring developer contributions which could lead to amounts that are due not being promptly identified. Issues raised during the audit were promptly acted on by officers and we did not find any control weaknesses within the recording or seeking payment process, once a S106 Agreement is entered onto the debtor system and an invoice is raised.

Reliance is placed on recording commitments and payments only when received or invoiced and, without the resources to monitor all obligations and "triggers", there could be a risk that transactions are not allocated in the correct accounting period.

Internal Audit are currently completing a follow up review and initial findings indicate progress has been made and improvements to the function are evident. The results of our follow up will be included in our 2018/19 Audit Plan Progress Report that will be presented to members at the next meeting of the Audit Committee.

Business Continuity (previously reported)

A follow-up of our 2015/16 review found little progress in the development of the Council's business continuity management arrangements which appeared to be due to a lack of resources. Issues included internal communications, especially in the event of the loss of ICT systems, the development and maintenance of service level Business Continuity Plans and the regular testing of these to ensure they remain fit for purpose. There were plans to address some of the issues in early 2018 and a series of events involving ICT and the winter weather tested the Council's ability to continue to provide services and highlighted areas where the council managed the scenarios well and other areas where lessons could be learnt.

Improvements Required

Development Control – Planning Enforcement (previously reported)

The Audit Opinion is due, in part, to the timing of the audit, when there had been a significant period of change with the introduction of the T18 working model, Civica APP and W2 systems at a time of significant backlog. It is recognised that systems, procedures and processes were of a good standard that, once fully embedded and service performance improved, the benefits would be realised. The implementation of the case management model within Development Management was new and the overall caseload and backlog meant the service was under pressure to undertake and conclude investigations in a timely manner. Council management recognised this and made additional resources available. Development of IT systems to provide effective management and customer information was also recognised.

ICT – Change Management (previously reported)

Although working procedures have routinely considered the change management process, these were at an early stage of being formalised and work in progress. Whilst procedures and responsibilities had been identified, the process had not been extended to all types of change and supported by software capable of recording and analysing change requests. Areas requiring improvements included the identifying of system owners, customer satisfaction, staff resources, recording of changes and the review of changes once implemented.

Internal Audit are currently completing a follow up review as part of the 2018/19 Audit Plan and initial findings indicate progress has been made and some improvements are evident. The results of our follow up will be included in our 2018/19 Audit Plan Progress Report that will be presented to members at the next meeting of the Audit Committee.

Health and Safety (previously reported)

Our follow-up of the original audit review found that considerable work had been undertaken by staff, under the guidance of the Health & Safety COP, with an initial review of health & safety arrangements across the Council having been completed and up to date risk assessments made for the majority of functions. Training modules had been created. The Audit Opinion remains as "Improvements Required" due to the number of recommendations which remained in progress. These included the continued promotion staff awareness of relevant policies and Codes of Practice, their individual responsibilities as well as the completion of outstanding risk assessment reviews.

As part of the 2018/19 Audit Plan, a further follow up review is being carried out and positive action has continued to take place. The results of our follow up will be included in our 2018/19 Audit Plan Progress Report that will be presented to members at the next meeting of the Audit Committee.

Coastal Work (previously reported)

Our review was able to confirm that all but one of the recommendations made in 2014/15 had been implemented and the remaining one, to conclude negotiations

between the District Council and Dart Harbour Navigation Authority regarding the management of Dartmouth Southern Embankment and charges for the use of associated infrastructure. A number of additional recommendations were made that included the drawing up of a planned programme of coastal asset repairs, a single coastal asset database and ensuring licences for the use of maritime structures owned by the Council are reviewed and renewed on a timely basis.

Travel and Subsistence (previously reported)

Whilst there had been some improvements to processes for the submission and payment of claims, there remained no formal controls in place to ensure the accuracy of claims and whether they were in line with policy although staff are required to declare the accuracy of their claims. Some of this was due to issues with the software used which didn't allow staff processing claims to view them in detail. The sample checking of travel claims did start but then stopped due to staff vacancies and plans were to re-instate this. In addition, the Council has continued to remind staff of the need to submit receipts with any claim.

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.

Creditors – see App B

The Councils have appropriate and effective controls in place over the payment of Creditors however there is room for improvement in areas such as amendments to standing data, the identification of duplicate payments and the use of purchasing cards.

Debtors – see App B

Limited staff resources and other work pressures has meant that a number of recommendations made as a result of our 2016/17 review of the Councils' debtors system, remain outstanding. These include the review of duplicate accounts, suppression of recovery action, the review of broken payment arrangements and the writing off of aged debt.

Capital Expenditure and Receipts – See App B

Controls over project approvals and associated budgets are generally in place and operating, with regular reporting to members on project progress and spend. However, our audit noted there had not been a review of Council owned assets for some years and the lack of standard project management methodology although it is understood that the latter is being addressed by the Council’s Project Specialist recruited during the year.

Depots and Stores – See App B

Our review found that action has been taken to improve security of depots and support efforts to further strengthen security to prevent losses. There needs to be further work on systems and controls to deliver the asset repairs and maintenance operation, in particular with the Concerto stores system so that transactions are auditable, operatives integrity is protected, there is better reporting and sharing of data.

The 2017/18 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 2017/18. 15 applications for exemptions to Contract / Financial Procedure Rules have been received, all but one were accepted.

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 struggled to find the resource to complete the review of the data matches received as part of the 2016/17 exercise. 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.

Authority	Total Matches	Outstanding Matches	Total “Recommended” Matches	“Recommended” Matches Outstanding
South Hams				
Benefits	394	283	21	3
Payroll	25	17	9	2
Payments	850	834	59	57

Irregularities

There are no irregularities to report.

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 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 – 2017/18

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

Local performance indicator	2017/18 Target	2017/18 Actual
Percentage of audit plan commenced	95%	95%
Percentage of audit plan completed	95%	89%
Actual audit days as a percentage of planned	95%	97%*
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100% **
Draft reports issued within target days	90%	89%
Average level of sickness	2%	12.5%***
Outturn within budget	Yes	Yes

* In addition to the planned work, 35 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work. An initial allocation of 20 days had been made in the 2017/18 Audit Plan.

** During the period we issue client survey forms with our final report and from these and verbal feedback that we receive, 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 54 days in the period 1st April 2017 to 31st March 2018.

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 2017/18 as approved by the Audit Committee on 23 March 2017.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/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	
COMMERCIAL SERVICES										
Depots & Stores (S.Hams)	10	■	■	■	■			■		Summary in Appendix B below
Salcombe Harbour (S.Hams)	10	-	-	-	-	-	-	-	-	Not started due to staff sickness
Dartmouth Lower Ferry (S.Hams)	8	■								Fieldwork complete, Report being reviewed.
Environmental Services - Coastal Work (S.Hams)	8	■	■	■	■			■		Summary presented to Audit Committee in January 2018
Commercial Waste Follow-Up (S.Hams)	4	■	■	■	■			■		Previously Improvements Required Summary presented to Audit Committee in January 2018
Household Waste Follow-Up (S.Hams)	4	■	■	■	■			■		Previously Improvements Required Summary presented to Audit Committee in January 2018
Recycling Waste Follow-Up (S.Hams)	4	■	■	■	■			■		Previously Improvements Required Summary presented to Audit Committee in January 2018
Health & Safety Follow-Up	3	■	■	■	■			■		Previously Improvements Required, however overall "direction of travel" is very positive. Summary presented to Audit Committee in January 2018

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	
Grounds Maintenance Follow-Up	3	■	■	■	■		■			Previously Improvements Required Summary presented to Audit Committee in September 2017.
Markets	8	-	-	-	-	-	-	-	-	Requirement for audit review re-considered.
Commercial Services	62									
CUSTOMER FIRST										
Asset Management	5	-	-	-	-	-	-	-	-	Deferred to 2018/19
Planning (Applications)	15	■								Commenced in March 18, rolling into 18/19
Customer First	20									
STRATEGY & COMMISSIONING										
Contract Management – Leisure Contract Waste Contract (W.Devon)	20	■	-	-	-	-	-	-	-	Audit presence during the procurement phase of the Frontline Waste Services contract continuing into 2018/19
Administration of Member Expenses	6	-	-	-	-	-	-	-	-	Deferred to 2018/19 due to staff sickness
Partnerships & Partnership Management	10	■	■	■	■		■			Summary presented to Audit Committee in January 2018

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	
Performance Management (KPI's & data quality)	20	-	-	-	-	-	-	-	-	Deferred to 2018/19
Risk Management Follow-Up	15	-	-	-	-	-	-	-	-	Deferred to 2018/19
Safeguarding (S11 self-assessment)	5	■	■	■	■	-	■	-	-	Summary presented to Audit Committee in January 2018
Strategy and Commissioning	76									
SUPPORT SERVICES										
ICT Audit - Access Management	25	■	■	■	■		■			Summary presented to Audit Committee in January 2018
ICT Audit - Change Management		■	■	■	■			■		Summary presented to Audit Committee in January 2018
ICT Audit Health Check		■	■	■	■		■			Summary presented to Audit Committee in January 2018
Corporate Information Management (DPA/FOI Frameworks)	10	-	-	-	-	-	-	-	-	Not started due to staff sickness
Business Continuity Follow-Up - Emergency Planning - Business Continuity	5	■	■	■	■		■			Original opinion of Improvements Required Summary presented to Audit Committee in January 2018
									■	Original opinion of Fundamental Weaknesses Summary presented to Audit Committee in January 2018

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	
Capital Expenditure & Receipts	15	■	■	■	■			■		Summary in Appendix B below
Cash Collection	3	-	-	-	-	-	-	-	-	Deferred to 2018/10 as low risk
Recharging	10	-	-	-	-	-	-	-	-	Elements Incorporated within the review of Main Accounting System
Travel & Subsistence	18	■	■	■	■			■		Original opinion of Improvements Required but the "direction of travel" is upwards. Summary presented to Audit Committee in January 2018
Support Services	72									
OTHER ESSENTIAL ITEMS										
Audit Management including:- - Audit planning, - Monitoring & reporting, - Audit Committee	28	■	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented in June 2017, Audit Charter and Strategy presented in September 2017 and Progress Reports presented in September 2017 and January 2018.
Annual Governance Statement	2	■	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2017 Audit Committee under separate cover
Exemptions from Financial Regulations	5	■	-	-	-	-	-	-	-	17 applications received and processed in 2017/18, 15 accepted. One deemed not to require exemption and one refused on the basis of not being urgent and market testing should take place.

Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	20	■	-	-	-	-	-	-	-	35 days spent on claims in 2017/18
Contingency & Advice	20	■	-	-	-	-	-	-	-	
OTHER ESSENTIAL ITEMS	75									
Total Days	430									

Summary of Audit Opinions given in 2017/18

Audit Opinion	
High Standard	0
Good Standard	13
Improvements Required	11
Fundamental Weaknesses	2

Planned Audit 2017/18 – Final Reports

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers since the last Progress Report presented to Audit Committee in January 2018.

In all cases (unless stated) an action plan has been agreed to address these issues. Note that the responses to the recommendations made were given at a point in time and in some cases will have been subsequently actioned. Such action will not normally be confirmed by Internal Audit until such time as a Follow-Up review is carried out or, in the case of Key Financial Systems, the next annual review is undertaken.

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 2017/18 – Final Reports

Subject	Audit Findings	Management Response
<p>Main Accounting System</p>	<p>Audit Opinion - Good Standard</p> <p>Conclusions The required level of controls are largely in place over the management and administration of the main accounting system and budgetary control.</p> <p>There is acknowledgement that the Finance COP experienced staffing pressures over the previous twelve months due to staff turnover. In addition, the role of Section 151 Officer and Finance COP Lead was split to allow a distinction between strategic and day to day operations. The Deputy Section 151 Officer is now Finance COP Lead. It was noted that work was already under way to improve controls in some key areas, including completion of reconciliations, as well as the commencement of a longer term project to introduce self-service for budget holders.</p> <p>The main issues where action can be taken to further strengthen controls remain similar to last year, the most significant of which are:</p> <ol style="list-style-type: none"> 1. Ensuring that reconciliations of all feeder systems, suspense and control accounts, including the bank account, are undertaken on a timely basis, that they are fully documented, are reviewed by a second officer and that these actions are evidenced. Sufficient cover should be in place to prevent a single point of failure; 2. Work should continue on allowing budget holders to self-serve, including the planned implementation of additional Civica Financials budgeting modules and training for budget holders; 3. Ensure that all users of the Civica Financials systems are made aware that the 'Rich Client' version will no longer be available from September 2018, and that sufficient training is provided to all users for the newer web-based version of the software. 	<ol style="list-style-type: none"> 1. Reconciliations are now completed on a monthly basis, with discrepancies being investigated. There is a record of who is responsible for which reconciliations. A review is being made of what work sits where and there may be some changes in responsibility, but these will all be recorded. Officers are required to sign and date reconciliations as they complete them. <p>Suspense and Control Account Reconciliations were to be signed off by a member of the Finance COP and have subsequently been brought up to date.</p> <p>All reconciliations involving feeder systems are now completed by officers independent of the related transaction processing. It will be ensured that this arrangement continues as part of the review of what work sits where.</p> <p>The bank reconciliations are independently reviewed by a member of the Finance COP.</p> <ol style="list-style-type: none"> 2. A new Accountant has been appointed, to commence in July 2018. One of their tasks will be to introduce self-service budget monitoring. This is a key target for the Finance COP Lead. <p>Members of ELT have been asked to inform the Finance COP Lead of training needs with respect to managing their budgets and the new officer is to provide this in conjunction with rolling out self-service.</p> <p>Before they leave, the Senior Specialist – Finance Business Partner will be asked to set out what work</p>

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Subject	Audit Findings	Management Response
		<p>remains to be completed to allow self-service to be fully delivered.</p> <p>3. Both the Support Service Case Management and Finance COP teams are already aware of the need to transfer to the web-based version of Civica Financials.</p> <p>After year end, this is to be a focus for the two teams, who will be provided with training. Drop in sessions will be arranged for other users outside of the two teams, to provide training specific to their needs.</p>
<p>Creditors</p>	<p>Audit Opinion – Improvements Required</p> <p>Conclusions Based on our work we can confirm that the Councils generally have appropriate and effective controls in place over the payment of creditors. However, we have made a number of recommendations to contribute to the strengthening of existing procedures, the most significant of which are:</p> <ol style="list-style-type: none"> 1. Controlling the amendment of permanent data, especially bank account changes; 2. Management of data that is no longer required or has been held beyond statutory required periods; 3. Identification and examination of actual or potential duplicate payments and the review of National Fraud data matches; 4. Ensuring that controls over the use of purchase cards are suitably robust and ensuring that transactions are supported by senior approval, supplier receipts and that, where appropriate, VAT is reclaimed; 5. User access and security including the removal of redundant users, ensuring access levels are appropriate and authorised limits appropriate; and 6. Performance data such as payments over £500 and speed of payment are published promptly. 	<ol style="list-style-type: none"> 1. Officers have previously been instructed to call creditors back using existing or independently obtained contact details, to confirm any requested changes to bank account details etc. However, a further reminder will be issued by email. 2. It is intended to review all data held to ensure compliance with the new data protection legislation. 3. For each payment run Case Managers are required to download all payments and sort them by amount, in order to identify any potential duplicates, but there is no comparison with other payment runs. <p>A report needs to be set up to help monitor for duplicate payments, possibly based on invoice number. Case Managers are instructed that these must be entered exactly as shown on the invoice, including spaces, lower/upper case etc, so this should provide a means of identifying duplicate invoices.</p> <p>The Case Managers will be asked to run an existing report to try and identify any duplicate payments made, in order that payments can be recovered where possible and appropriate.</p>

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Subject	Audit Findings	Management Response
		<p>Resource has been identified to review the NFI data matches, subject to training being provided to the two Case Managers concerned.</p> <p>4. Officers have reviewed all purchase cards and cancelled those no longer required and amended value limits where this was felt to be appropriate. The changes have been updated within the Lloyds bank website as well, to enforce the changes.</p> <p>The limits have been reduced for most depot staff with purchase cards, and for the remainder of users, the limits have been made more uniform.</p> <p>It would not be pragmatic to introduce authorisation of card purchases by a second officer prior to the purchase, but a sample of transactions will be reviewed as part of the monthly reconciliation to ensure that they are appropriate to the Councils' business needs.</p> <p>All card holders have been reminded of the importance of obtaining VAT invoices or receipts, as well as a VAT breakdown.</p> <p>5. Access rights to the Creditors system will be reviewed and arrangements made for leavers to be removed and access rights of remaining officers to be reviewed for appropriateness, particularly for those who have changed roles.</p> <p>Ordering and certifying officers, and associated authorisation limits, will be reviewed as part of the overall review of access rights.</p> <p>6. The officer previously responsible for publishing the data changed roles, which led to this task falling behind. Another Case Manager has been given responsibility and the published data has been brought up to date and should remain so in the future.</p>

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Subject	Audit Findings	Management Response
<p>Debtors</p>	<p>Audit Opinion – Improvements Required</p> <p>Conclusions Our review noted the creation of the Debt Recovery Unit on 1st October 2017 which is starting to have a positive impact. The review has identified that controls need strengthening in some areas and that in a number of instances action has not been taken to address the agreed recommendations within the previous year’s audit report. We understand that this has largely been due to limited staff resource and other work pressures at the time. In the case of recovery activity, the outcome of a trial using an external debt recovery company was awaited before implementing some recommendations, but it has now been decided to retain recovery in-house. Issues include:</p> <ol style="list-style-type: none"> 1. Attachment of documentary evidence when new accounts or periodical payments are set up; 2. Formal review of accounts to identify duplication; 3. Review of recovery suppressions; 4. Debt recovery strategy; 5. Recovery action process; 6. Review of broken arrangements to identify those accounts where customers have defaulted on agreed payment plans; 7. Additional means of recovery and enforcement, including the use of debt collection agencies; and 8. Consideration needs to be given as to how long aged or low value debts are pursued and at what point such action is no longer cost effective. 	<ol style="list-style-type: none"> 1. All officers who deal with debtors have been reminding of the requirement to attach evidence to debtor accounts to support all new accounts raised or amendments to existing accounts. 2. Issues have been caused in the past when services were responsible for raising their own invoices – if they couldn’t find a debtor account, they would set up a new one, resulting in a number of duplicate accounts. It is intended to review and cleanse the sundry debtors master file of all duplicate accounts, although this is a significant piece of work. 3. It will be investigated whether or not open-ended suppressions can be prevented. In the meantime, the relevant staff will be instructed that they must enter an end date for all suppressions. <p>The team have already been asked to use the reminder function to ensure that recovery suppressions are reviewed.</p> <p>An independent review of recovery suppressions will be introduced at an appropriate frequency.</p> <ol style="list-style-type: none"> 4. There is a strategy in place which is part of the debt recovery plan, but this is not written down. It will therefore be documented. 5. Since the re-organisation of Case Management there has been a period of training, setting up reports etc as part of the handover of responsibility for debtors to the Support Services Case Management Team Leader. <p>Within Support Services Case Management there are now more people trained in debt collection than prior to T18.</p> <p>A Support Services Case Manager is to start submitting on-line claims to the courts and to liaise</p>

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		<p>with bailiffs. Also telephone chasing has been more proactive and has proven to be quite successful and the range of recovery routes is being reviewed. The other main option is withdrawal of services and eviction of tenants from the Councils' own commercial premises.</p> <p>The Support Services Case Management Team Leader's team has retained responsibility for debtor reconciliations and will provide cover in the event of absence, so as not to lose continuity on debt recovery.</p> <p>6. The team will be instructed to set up reminders to ensure that they check that payments are being made as agreed. Any broken arrangements should also be identified by a monthly review of outstanding debts which is being introduced. It will investigate whether or not it is possible to produce a 'broken arrangements' report from the debtors system.</p> <p>7. The range of recovery routes will be reviewed, namely recovery letters, telephone calls, Money Claim Online process, court action and bailiffs</p> <p>8. A de minimus value will be agreed with the S151 Officer prior to batch write offs for outstanding debts up to this maximum amount, where it is uneconomical to pursue recovery of the debt for these low value debts.</p>
<p>Payroll</p>	<p>Audit Opinion - Good Standard</p> <p>Conclusions Whilst the payroll is generally managed in the same way as in previous years, there have continued to be some changes during recent months to create further efficiencies, including:</p> <ul style="list-style-type: none"> • A continued move towards holding all documentation electronically rather than in paper format, with forms such as those for starters and leavers now being accepted electronically; 	<ul style="list-style-type: none"> • Reconciliations are now completed on a monthly basis, with discrepancies being investigated. • Officers are required to sign and date reconciliations as they complete them. • The reconciliations are available for the Finance COP to review • The "Tick List" within the "Monthly Tick Sheet" spreadsheet for each authority will be updated to

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	<ul style="list-style-type: none"> • Use of W2 to process much of the monthly pay run and to hold documentation relating to adjustments to individual employees' pay etc; • More efficient bulk uploading of data into the payroll system; and • Plans for personal information of starters (e.g. bank details, National Insurance number) to be entered by employees via the self-serve module. <p>The current arrangements for delivering the payroll are functioning adequately, with suitable key controls in the majority of areas, but there remains scope to enhance the reliability of the current software, which would then allow yet more efficiencies to be gained, and to improve controls over some processes. These include:</p> <ul style="list-style-type: none"> • Evidencing working practice by ensuring that there is a record of who has made independent checks of calculations and reconciliations; • Performance monitoring of the payroll function to allow informed decisions to be made about the future of the service; 	<p>show which reports should be reviewed and who has done this.</p> <p>Whilst agreed in principle and the potential benefits acknowledged, performance monitoring of the payroll function is a low priority compared to monitoring other functions such as creditors and debt recovery, therefore no action is planned.</p>
<p>Council Tax</p>	<p>Audit Opinion – Improvements Required</p> <p>Conclusions 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"> • Completion of reconciliations; • Identification of new properties; • Single Persons Discount; • The suspense account; • Broken arrangements to pay; • Use of the bailiff; and • Debt recovery strategy. 	<ol style="list-style-type: none"> 1. Reconciliations are now up to date. <p>Additional Case Management staff are to be trained in the completion of these reconciliations, which will spread the workload and remove a potential single point of failure.</p> <ol style="list-style-type: none"> 2. The procedures for identifying and advising of new properties will be reviewed and additional resource allocated to the process if required. 3. Work has commenced on introducing processes which will allow reviews of reliefs and exemptions. <p>When the Experian software is next upgraded, the Councils will have access to functionality which allows identification of all individuals linked to a given address etc. The results will then provide the basis of further checks which will need to be made by an officer. The introduction of IEG4 and the implementation of the Northgate debt recovery modules should release resource to undertake these checks.</p>

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		<p>Student discounts are now to be applied for the length of the course, as annual confirmation of continued attendance is received from universities.</p> <p>All reliefs and exemptions will be reviewed in order to identify those which need to be prioritised for review.</p> <p>4. In future the revenues suspense accounts will be reviewed as part of monthly reconciliations work.</p> <p>5. Two recovery modules have been purchased from Northgate:</p> <ul style="list-style-type: none"> a. Enforcement Activity Manager – this automatically moves cases from one recovery stage to the next, right through to court. b. SPA Manager – this automatically identifies if a special arrangement to pay (SPA) has been broken and generates a letter giving notice that if the SPA is not brought up to date then recovery will be moved on to the next stage. This is done automatically if payment is not forthcoming. <p>The modules have yet to be implemented and there is a need to create template letters for each stage within each module, but this is a high priority project after annual billing has been completed.</p> <p>6. The issues raised are to be actioned as part of the end to end review of debt recovery processes. Monthly performance reports are received from the current enforcement agents which are being monitored.</p> <p>7. The writing off of debt has been considered as part of the end to end review of debt recovery processes.</p>

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<p>Business Rates</p>	<p>Audit Opinion - Improvements Required</p> <p>Conclusions 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.</p>	<p>See Council Tax above</p>
<p>Treasury Management</p>	<p>Audit Opinion – Good Standard</p> <p>Conclusions Based on our work we can confirm that the Councils are adhering to legislative requirements and have appropriate and effective controls in place over the day to day treasury management operations.</p> <p>We noted a small number of relatively minor issues and we have made recommendations accordingly, including:</p> <ol style="list-style-type: none"> 1. Exceptionally, due to oversight from staff changes, the 2016/17 Treasury Management Annual Report was not taken to Members in a timely manner, as required by the CIPFA Code of Practice and these figures were late in being reported to Members; 2. The Fidelity Guarantee may not cover all those officers who can authorise CHAPS payments for treasury management; and 3. Although we are advised that there are only two companies offering treasury management advice to local authorities, the appointed provider should be appointed in line with Contract Procedure Rules. 	<ol style="list-style-type: none"> 1. The need to take an annual report to members has been included on the Executive Forward Plan and the necessary indicators have been reported retrospectively. 2. The matter will be discussed and the need for consultation highlighted with those officers responsible for managing the insurance policies. 3. Most Devon authorities use the same treasury management advisors for consistency and due to known quality of service. It is noted that the value of the contract only just exceeded the 2017/18 procurement threshold and in 2018/19 the contract value will be below the procurement threshold due to the threshold being increased to reflect inflationary increases over a number of years.
<p>Stores and Depots</p>	<p>Audit Opinion – Improvements Required</p> <p>Conclusions Security - Our testing has highlighted that there has been some actions taken by officers to improve the security of the depots and we would support management in future efforts to further strengthen security to prevent loss from internal or external sources.</p> <p>Stores - Following examination of the new Concerto stores system and related integrated works ordering process, allowing for the early stage of development, we have again identified that there is a need to invest further in the systems and controls required to operate the asset repairs and maintenance operation,</p>	<p>Stores</p> <p>We are aware of the limitations of the system and the potential inefficiencies this will contribute to. We will discuss this further with the software supplier to come to agreement on how this work and system improvements can progress.</p> <p>We are aware that reliance is placed on limited individuals to update the software and the potential points of failure and we will try and reduce this in the future.</p>

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	<p>specifically;</p> <ol style="list-style-type: none"> 1. A stores system that is auditable to specific deliveries, issues, costs and adjustments; 2. A system that protects the operatives who are responsible for the stores and allows clear separation of duties; 3. A clear reporting structure to identify stock use, efficiencies and exceptions such as higher than expected issues; 4. A more integrated approach with the current financial systems to share data across systems, such as ordering, deliveries, invoicing and recharging to eliminate duplication of effort and manual input. <p>Fuel Stock - The fuel system in operation does provide suitable reported data to enable reconciliation of the fuel costs and usage, by period and asset. However, there are a number of minor issues, relating to accurate recording of deliveries, independent checking of stock and accuracy of data collected for refuelling that if resolved would further enhance the procedures in place.</p> <p>General Controls - Following a broad review of the depot storage of assets we have recommended that additional measures are taken to improve the potential risk to officers and stock in areas such as:</p> <ol style="list-style-type: none"> 5. The safe retention and storage of gas cylinders; 6. A review of use and safety of the delivery bay and forklift; 7. The security of portable assets and related storage of goods in external areas of the depot; and 8. Overall security of the depots, including the perimeter, and potential installation of CCTV to deter future thefts. 	<p>We have reviewed and updated the officer time and costing to provide a more accurate rate for internal and external work completed.</p> <p>We will also ensure that the stock records and work of the stores officer is subject to independent monitoring and review on a regular basis.</p> <p>General Controls</p> <p>It is agreed that gas cylinders will be removed and storage will be either stopped in the future or a suitable secure area maintained.</p> <p>Plans are to be undertaken to revise the loading/storage area, which will include a review of the current flooring requirements. This will improve the space and operation of the stores.</p> <p>Asset records for the stores are now completed and will be actioned in the future.</p> <p>A review has been undertaken of the depots and plans put in place to improve the security. This will involve additional secure fencing and other improvements.</p> <p>It is not currently planned to install CCTV as this is not a major deterrent and often does not provide suitable evidence.</p>
<p>Capital Expenditure and Receipts</p>	<p>Audit Opinion – Improvements Required</p> <p>Conclusions Controls over the approval of those projects, and their associated budgets, included within the capital programme for each authority, are generally in place and operating. Regular reports are taken to members to provide an update on expenditure against budgets and progress of individual projects.</p> <p>However, there are some aspects where there is room to strengthen controls over the delivery of capital projects and asset disposals, the key issues being:</p>	<ol style="list-style-type: none"> 1. The outcome of the Project Specialist’s development of a corporate project management process will be awaited. Based on this, standard requirements for project management documents to be completed for capital schemes of all sizes will be set out. <p>Smartsheets have been considered, but are felt to be too complex for the requirements of SHDC and WDBC. The simpler approach of the templates used by the Project Specialist and the Specialist –</p>

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	<ol style="list-style-type: none"> 1. Standard project management methodology, including risk assessments, project performance and post-project reviews; 2. Reviews of all SHDC and WDBC-owned assets, to identify those which it may be beneficial to sell or to transfer ownership of to another organisation. 	<p>Engineering being preferred.</p> <p>Internal project training would be beneficial for all members of the Assets COP and possibly formal training for the Senior Specialists.</p> <p>Informal project performance monitoring is undertaken at project meetings and team meetings. However, a more formal approach will be considered as part of the project management methodology and training</p> <p>Post-project reviews are carried out for larger projects, but not necessarily for smaller ones. Many capital projects completed by the Councils are bespoke and unlikely to be repeated and professional experience has shown that there is limited benefit in completing post-project reviews in these cases.</p> <p>They will continue to be carried out for individual projects where there is a perceived value.</p> <p>Also, a post-project review will be introduced, to consider the overall outcome of each annual capital programme.</p> <ol style="list-style-type: none"> 2. The Council is carrying out a Strategic Asset Review across both Councils to identify a number of potential Council-owned, asset development and investment opportunities within both Councils. The opportunities identified are being presented to Members in June 2018 to request approval for some preliminary expenditure in order to prepare detailed business cases for each of the opportunities identified, for Members' future considerations. <p>Assets which could potentially be sold are identified on an ad hoc basis, particularly where they are close to other assets which are being reviewed or worked on.</p>

Planned Audit 2017/18 – Work Complete (No Audit Report)

Subject	Comments
Waste Collection and Front Line Services Procurement	<p>Internal Audit have provided support and challenge to the project team established to oversee the</p> <p>Audit have attended regular Project Team meetings, present at the receipt and opening of Outline Solutions from bidders as well as the subsequent moderation of evaluators scores. In addition, Audit took part in “dialogue sessions” with bidders which form part of the “Competitive Dialogue” procurement process. Audit will continue its role during the rest of the procurement until the award of the contract later in 2018/19.</p>
System of Internal Control (SIC), and Annual Governance Statement (AGS)	<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 2016-17 financial year. The S151 Officer presented the 2016-17 AGS to the Audit Committee on 20 July 2017 with the draft accounts.</p>
Exemptions to Financial Procedure Rules	<p>12 applications for Contract / Financial Procedure Rules were received during 2017/18, all were accepted with the exception of one where it was deemed that an exemption was not required.</p>