

Report to: **Audit Committee**  
Date: **7 January 2016**  
Title: **Update on Progress on the 2015-16 Internal Audit Plan**  
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 progress made against the 2015/16 internal audit plan, and any key issues arising are noted.

**1. Executive summary**

- 1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2015/16 to the 6 November 2015, by:
  - Providing a summary of the main issues raised by completed individual audits; and
  - Showing the progress made by Internal Audit against the 2015/16 annual internal audit plan, as approved by this Committee in April 2015.

## **2. Background**

The Audit Committee, under its Terms of Reference contained in South Hams Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

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

The Internal Audit plan for 2015/16 was presented to and approved by the Audit Committee in March 2015. Overall, good progress has been made against the 2015/16 audit plan. Progress in the period up to 31 August 2015 has included the finalisation of work carried out in 2014/15 and in completing assignments in accordance with timescales agreed with management.

## **3. Outcomes/outputs**

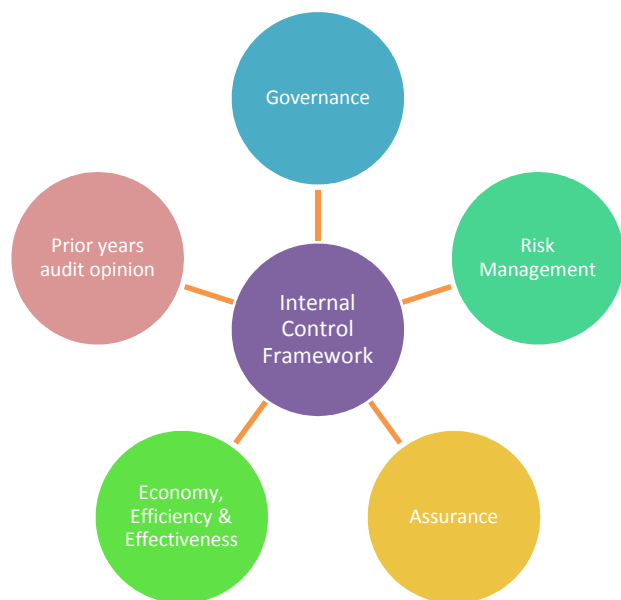
The Public Sector Internal Audit Standards require the Head of Internal Audit to provide a report providing an opinion that can be used by the organisation to inform its governance statement.

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. All final audit reports include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

**Overall, based on work performed during 2015/16 and our experience from the current year progress and 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:



<b>Full Assurance</b>	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
<b>Significant Assurance</b>	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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.

The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the internal control framework.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up process.

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

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

**Appendix C** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

**Non Compliance with Contract or Financial Procedure Rules** - there are no significant issues to bring to the attention of the Committee so far this year. Three applications for Contract / Financial Procedure Rules have been received in the year to date, all 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 (The National Fraud Initiative - NFI) every two years and the Council are in the process of concluding its review of the data matches that were received as part of the 2014/15 exercise. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single persons discounts and creditor payments.

**Irregularities** - During 15/16, Internal Audit have provided advice and support to an investigation into alleged misappropriation of Council assets. The matter is now in the hands of the Police.

#### **4. Options available and consideration of risk**

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

#### **5. Proposed Way Forward**

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

## 6. Implications

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

## **Supporting Information**

### **Appendices:**

There are no separate appendices to this report.

### **Background Papers:**

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

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

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



**APPENDIX B**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion (final reports only)				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
T18 Transformation	10									
Leisure Centres	10	■								
Marketing & Tourism	2	■	■	■	■		■			Summary in App B below.
Household Waste Collection	7									
Trade Waste	5	■								
Recycling	5	■	■					■		Draft report issued 6.11.2015
Grounds Maintenance	5	■	■	■	■		■			Summary in App B below.
Dartmouth Lower Ferry	8									
Street Scene - Car & Boat Parking	8	■								
Salcombe Harbour	8	■								
Housing Advice	5	■	■	■	■		■			Combined report issued, summary in App B below.
Homelessness	5	■	■	■	■		■			
Building Regulations	7									
Development Control (Enforcement)	10									At the request of management, review deferred to 2016/17.
Corporate Governance Annual Governance Statement (AGS)	6	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2015 Audit Committee under separate cover.
Corporate Governance (inc Gifts & Hospitality)	5									
Culture & Ethics	6									
Coastal Communities Fund Accountable Body		■								Unplanned work – time to come from contingency - estimate 7 days based on 2014/15 work.





## Planned Audit 2015/16 – Final Reports

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

### Definitions of Audit Assurance Opinion Levels

#### High Standard

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

#### Good Standard

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

#### Improvements Required

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

#### Fundamental Weaknesses Identified

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

## Planned Audit 2015/16 – Final Reports

Subject	Audit Findings	Management Response
<b>VAT</b>	<p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p><b>Conclusions</b> There are a small number of areas where action could be taken to strengthen those controls already in place. These include ensuring that:</p> <ul style="list-style-type: none"> <li>• There is sufficient experienced cover in the absence of the VAT Accountant;</li> <li>• The Partial Exemption calculation for each authority is calculated on a regular basis;</li> <li>• Officers provide valid VAT invoices for payments made by purchase card to allow VAT to be recovered; and</li> <li>• Bad debts are written off on a timely basis, allowing any output tax to be recovered.</li> </ul>	<p>The Council has recently recruited to a Level 6 Specialist Accountant post and arrangements will be put in place for training in VAT for this postholder, so that they are able to provide sufficient cover.</p> <p>The Level 5 Specialist Accountant has recently attended a course on the Partial Exemption calculation and regular calculations will be undertaken.</p> <p>The Level 5 Specialist Accountant will address this issue with staff to ensure VAT invoices are received.</p> <p>The Level 5 Specialist Accountant will address this issue to ensure bad debts are written off on a timely basis, allowing output tax to be recovered.</p>
<b>Procurement</b>	<p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p>	

	<p><b>Conclusions</b>          We are aware that the Corporate Procurement Officer has recently taken a report to the Executive Director, making recommendations as to the future direction of the procurement function, at both a strategic and an operation level and it is acknowledged that that report addresses a number of issues raised in our audit report.</p> <p>Recommendations include the need to ensure that:</p> <ul style="list-style-type: none"> <li>• The electronic tendering system is used as an end to end audit trail of procurement activity, as well as a tool to monitor contracts, with consideration given to the benefits of purchasing the contracts management module;</li> <li>• The contracts register is brought up to date;</li> <li>• Planned training is delivered to officers with responsibility for awarding contracts;</li> <li>• A contract review is initiated to ensure that any services currently being supplied by a contractor who has not been engaged via the correct process are procured in line with Contract Procedure Rules and legislative requirements and any risks are mitigated;</li> <li>• The Councils' Corporate Procurement Strategy which is currently being worked on by the Devon Districts Procurement Group is updated.</li> </ul>	<p>Target is to roll the tendering system out for the start of the new financial year 16-17.</p> <p>The Corporate Procurement Officer has confirmed that work is underway to update the Contracts Register.</p> <p>Courses have been delivered in 4th quarter 2015 and more will be planned in during 2016 and ongoing thereafter.</p> <p>Support Services will review and prioritise based on duration and value of these contracts and the services they are delivering. The target for the completion of this exercise is end of Q1 16/17.</p> <p>The Corporate Procurement Strategy has been completed and is currently being adopted and implemented by the Councils.</p>
<p><b>Marketing &amp; Tourism (Client)</b></p>	<p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p><b>Conclusions</b>          In former years the Council employed a small team to promote tourism in the area</p>	<p>The Estates Team will be reviewing the lease within the</p>

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	<p>and operated tourist information centres in the main towns. However some years ago it ceased to deliver these functions as an efficiency saving. The Council now has minimal income and expenditure related to marketing and tourism services, the small sums involved being linked to the lease of the Engine House, Dartmouth, to the town's Tourist Information Company.</p> <p>Only one minor recommendation was made regarding the review rent charged.</p>	<p>next 6 months and will establish an appropriate market rent at the time of the lease renewal.</p>
<p><b>Grounds Maintenance</b></p>	<p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p><b>Conclusions</b></p> <p>The team work in partnership with other organisations, such as Kingsbridge in Bloom and Dartmouth Green Partnerships, an approach that has worked well, with Kingsbridge and Dartmouth having won a range of awards and trophies in recent years for their floral and horticultural displays.</p> <p>Some recommendations were made around the costing of works to ensure that the service can evidence that charges are consistent and cover the Council's costs and, that works invoices are raised in a timely manner.</p>	<p>Charging is to be reviewed as part of the 2016/17 GM work plan.</p> <p>The timely raising of invoices will be prioritised when the L4 specialist is in post, to ensure that financial procedures are complied with in future.</p>
<p><b>Homelessness and Housing Advice</b></p>	<p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p><b>Conclusions</b></p> <p>We have concluded that the Housing Advice team strive to ensure that the Homelessness legislation is adhered to, for both the Council and the homeless applicants. The service delivers robust housing advice and is steadily increasing the instances of households where their homelessness was prevented by a move to private rented accommodation.</p> <p>There have been a number of recent changes in the service area, including staff and a move to a single property management system and our report reminded</p>	

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	<p>management of the need to ensure;</p> <ul style="list-style-type: none"><li>• That income is reconciled between the housing system and the general ledger;</li><li>• That officers continue to have the relevant Disclosure and Barring Service checks;</li><li>• That everyone is aware of the safeguarding and lone working arrangements; and</li><li>• That there is a clear data retention process and all records include relevant data protection statements.</li></ul>	<p>Agreed, we will discuss this with the accountant and ensure that the systems are reconciled. Agreed this will be checked for officers working within the section.</p> <p>Agreed, this is something that we will review and ensure that officers are aware of the guidance and that they have had appropriate training.</p> <p>Agreed, this needs to be considered for the service and forms updated as appropriate.</p>
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## Planned Audit 2015/16 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2014/15 financial year. The S151 Officer presented the 2014/15 AGS to the Audit Committee on 30 July 2015 with the draft accounts.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>Three applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>