

Report to: **Audit Committee**  
Date: **12 January 2017**  
Title: **Update on Progress on the 2016-17 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**

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

---

#### **RECOMMENDATION**

**It is RECOMMENDED that the progress made against the 2016/17 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 2016/17 to the 1 December 2016 by:
  - Providing a summary of the main issues raised by completed individual audits; and
  - Showing the progress made by Internal Audit against the 2016/17 annual internal audit plan, as approved by this Committee in March 2016.

## **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 2016/17 was presented to and approved by the Audit Committee in March 2016. Progress in the period up to 1 December 2016 has included completion of work carried forward from 2015/16 but progress against the 2016/17 plan has been limited due to LEAF and LAG grant work and sickness.

In the June Audit Committee, there was some discussion relating to the Development Control (Enforcement) audit which had been deferred due to the Development Management Service Peer Review. I am pleased to report that it has been agreed that funding which the Council is able to claim against officer time spent on administering the LAG and the LEAF will be used to provide a resource to carry out the work on Development Control and a strategic review of Risk Management.

## **3. Outcomes/outputs**

In carrying out systems and other reviews, Internal Audit assess 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 any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Overall, and based on work performed to date during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2016/17 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

**Appendix B** summarises work undertaken where no audit report is issued.

**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. Eleven 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. For the 2016/17 exercise data has been extracted from a range of Council systems including Creditors, Payroll, Housing Benefits and Insurance and uploaded to the NFI secure web application where they will be matched against other local authority data sets. The subsequent matching reports are expected back from the NFI Team at the end of January 2017.

The NFI requires Council Tax and Electoral Register data to be submitted annually for the council tax single person discount matching. The deadline for submission of these data sets is not until 28 February 2017 as the electoral registers for England are not published until 1 December 2016.

## **Irregularities**

There are no irregularities to report.

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

No alternative option 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	<p>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.</p>

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 2016/17 as approved by the Audit Committee on 24 March 2016.



## Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Contract Management	8									
Counter Fraud Work	10	■								
Exemptions from Financial Regulations	3	■								
Community Parks & Open Spaces	6	■	■	■	■		■			
Culture & Heritage	5									
Leisure Centre Client	6									
Health & Safety	8	■	■	■	■			■		
Pollution Control	5	■	■	■	■		■			
Street Cleaning	6	■	■	■	■		■			
Dartmouth Lower Ferry	7	■								
Street Scene - Car & Boat Parking	8	■								
Salcombe Harbour	7	■								
Housing Standards – disabled facilities grants & loans	15	■	■	■	■			■		
Development Control – enforcement	8									
Development Controls – planning applications	8									
Planning Policy –Section 106 Agreements	7									
Grants –Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	0	■								26 days spent on claims to date. Estimate further 34 days required – totalling 60 days in all.

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Follow Up of Previous Year's Audits	10	■	-	-	-	-	-	-	-	
Contingency (Unplanned) & Advice	20	-	-	-	-	-	-	-	-	
Audit Management, including <ul style="list-style-type: none"> <li>• Audit Planning</li> <li>• Partnership audit Management</li> <li>• Monitoring against the plan</li> <li>• Reports to management and audit</li> </ul>	18	-	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 30 June 2016.
<b>Other Systems &amp; Audit Work</b>	<b>261</b>									

Changes Agreed by the Audit Committee in September 2016										
VAT	0									Removed from plan, previously 10 days external VAT Specialist to be engaged.
Member Allowances	0									Deferred to 2017/18, previously 4 days
Capital Receipts	0									Removed from plan, previously 5 days
Elections	3									Reduced by 5 days, previously 8 days. The 3 days are to be used to review the Election Payroll and have been incorporated into the Payroll audit.
<b>Total Revised Days</b>	<b>321</b>									<b>Previously 345 days</b>

## **Planned Audit 2016/17 – Final Reports**

The table below provides 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 2016/17 – Final Reports**

Subject	Audit Findings	Management Response
<p><b>Creditors</b></p>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b> Assurance can be provided that based on our work on the Creditors payments system, controls are operating to a good standard. In delivering our work we look to identify opportunities where existing procedures could be further strengthened and have made some recommendations relating to:-</p> <ul style="list-style-type: none"> <li>• The timely raising of orders and payment of invoices;</li> <li>• Opportunities to review payment runs to identify actual or potential duplicate payments and related NFI data matching;</li> <li>• Reconciling of the system; and</li> <li>• Review of purchasing card processes and procedures, including the opportunity to reclaim the VAT.</li> </ul>	<p>The Acting Support Services Case Management Manager (RD) has agreed to action the points raised in the report and is already undertaking action to address those highlighted.</p>
<p><b>Treasury Management</b></p>	<p><b>Audit Opinion – High Standard</b></p> <p><b>Conclusions</b> 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>At the time this review was being undertaken, insurance renewals were being agreed with the Councils' insurer. This provided the ideal opportunity for guidance to be sought from the insurer that the level of Fidelity Guarantee* cover for each authority remains at an appropriate value.</p> <p><i>*A Fidelity Guarantee provides insurance cover against theft or dishonesty by employees.</i></p>	

Subject	Audit Findings	Management Response
<p><b>Stores (stock control &amp; security)</b></p>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b>  In response to audit recommendations, actions have already been taken to improve the security of the depots and plans are underway to further update the systems and processes.</p> <p>Management are confident that the introduction of the new Concerto software system will deliver improved system functionality and enable more robust controls to be put in place relating to the management and administration of stock and equipment. Consideration will also be given to the use of barcoding, handheld devices and direct purchases to enhance the service and improve efficiency.</p> <p>The service is also in the process of procuring a new fuel system which will also strengthen controls regarding the management and issue of fuel.</p>	<p>Controls are now in place to improve the security at the depots.</p> <p>The new stock control system is due to be implemented in the next couple of months.</p> <p>A procurement process is underway to obtain a new fuel management system.</p>
<p><b>Community Parks &amp; Open Spaces</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b>  In general the Council has appropriate and effective controls in place over the management and maintenance of Community Parks and Open Spaces. To contribute to the ongoing strengthening of existing procedures and in support of the service in its drive to be more commercial management have agreed to:-</p> <ul style="list-style-type: none"> <li>• Review the most efficient mechanism for the delivery of the Grounds Maintenance service across both authorities, including considering whether more effective software is available to help manage all aspects of the service;</li> <li>• Ensure that there is just one master list of sites;</li> <li>• Consider if the software currently used for managing faults reported in playgrounds is sufficiently effective in supporting processes and procedures so that faults continue to be addressed on a timely basis;</li> <li>• Ensure that a recharge is made for all grounds maintenance carried out on behalf of other organisations; and</li> <li>• Review the current arrangement to inspect, maintain and insure play areas owned by parish councils for a notional fee which does not cover the Council's costs.</li> </ul>	<ul style="list-style-type: none"> <li>• The fee for play parks inspections is to be included in the fees and charges report for January Overview and Scrutiny Panel to consider.</li> </ul>

Subject	Audit Findings	Management Response
<p><b>Health &amp; Safety</b></p>	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b>  With the launch of T18 the Executive Directors commissioned an initial status review and gap analysis of the Council's Health and Safety Management system. This review provides independent confirmation that the Environmental Health COP Lead has identified areas within the current arrangements which could be strengthened and has developed an action plan to guide the review and delivery of those tasks most needed to ensure compliance with health and safety legislation and best practice.</p> <p>Our recommendations support the work of the COP Lead and highlight some additional considerations to ensure that the Councils are meeting legislative requirements for health and safety by ensuring that:-</p> <ul style="list-style-type: none"> <li>• Procedures are in place to require managers to complete regular risk assessments, as well as reviewing the risk assessment methodology from time to time;</li> <li>• Safe Systems of Work in are place at all locations; and</li> <li>• When publishing the revised Health and Safety Policy and associated Safety Codes, make sure that all staff are aware of them and understand their personal responsibilities.</li> </ul> <p>Once the action plan is fully implemented and embedded, the system should be operating to a good standard.</p>	<p>The recently revised policy has been communicated to Senior Managers and:-</p> <ul style="list-style-type: none"> <li>• A communication policy and plan has been drawn up to roll out to all staff (which will include staff briefings; bulletin and Friday flash);</li> <li>• Health and safety will form part of the induction for new staff and an e-learning module is to be developed;</li> <li>• A corporate H &amp; S training matrix will be drawn up to document training provision across the Councils;</li> <li>• H &amp; S software is in the process of being procured which will allow effective management of all aspects of H &amp; S, including procedures, data storage, data sharing, reviews and performance management;</li> <li>• Risk assessment provision has been reviewed and workplace managers advised of the requirement to carry out risk assessments and the implementation of safe working practices.</li> </ul>

Subject	Audit Findings	Management Response
<p><b>Pollution Control</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b>  Our review considered the statutory duties of the Council with regards to Pollution Control and sought evidence that these were being met. We also examined income transactions relating to the recharging of customers for private water sampling and contaminated land enquiries and subsistence charges made to companies carrying out permitted processes.</p> <p>Based on the work undertaken, controls appear to be appropriate and effective and implementation of the recommendations below will serve to further strengthen existing procedures.</p> <ul style="list-style-type: none"> <li>• Ensure that the Air Quality Strategy is fit for purpose and that regular Air Quality Progress Reports are published;</li> <li>• Consider increasing the administration fee charged for Private Water Sample collection; and</li> <li>• Ensure that the register of Permitted Processes installations is up to date.</li> </ul>	<ul style="list-style-type: none"> <li>• The Air Quality Strategy will be reviewed and updated as necessary;</li> <li>• The administration fee will be reviewed for 2017/18;</li> <li>• The register will be maintained on an ongoing basis.</li> </ul>
<p><b>Street Cleaning</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b>  We found minimal evidence of formal complaints about street cleaning, although a small number have been received over the past eighteen months regarding issues such as fly tipping that may impact on the perception of street cleanliness.</p> <p>The number of phone calls received since 2014 have increased but the majority of these calls were to advise that an area needs cleaning. Such contacts escalated after Devon County Council ceased to carry out weed spraying of public areas as a budget saving. Now, where possible weed treatment work is integrated into a co-ordinated programme with the District or Borough Councils' highway sweeping.</p> <p>Although these contacts are not classed as formal complaints unless the customer requests that they are treated as such, the Operational Manager for Waste is planning to analyse these customer contacts to identify if there are any specific issues which could be addressed by a change in working practices or procedures. It should be noted that several compliments were also identified during the course of the audit review.</p>	

Subject	Audit Findings	Management Response
<b>Street Cleaning (continued)</b>	Our report has highlighted that whilst procedures for dealing with corporate complaints are in place they do not extend to those complaints made directly to members. It is accepted the members need to be made aware of how the complaints they receive directly should be treated in the future.	
<b>Housing Standards – disabled facilities grants &amp; loans</b>	<p><b>Audit Opinion - Improvements Required</b></p> <p><b>Conclusions</b> Controls over the administration of grants and loans for Private Sector Housing Renewal (PSHR) are in place and operating, but the following recommendations which will contribute to the strengthening of these.</p> <ul style="list-style-type: none"> <li>• Confirm that the 2012 PSHR policy still meet objectives of the Councils' Homes Delivery Plans;</li> <li>• Ensure that audit trails of applications and all supporting evidence are complete;</li> <li>• Review security of sensitive information which is required to be shared with third parties, such as Occupational Therapists;</li> <li>• Ensure staff are provided with appropriate guidance to process applications for discretionary loans and that appropriate controls are in place to allow these to be managed efficiently in conjunction with the relevant partner organisation.</li> </ul>	<ul style="list-style-type: none"> <li>• Since the T18 restructure there has been a lack of resource and expertise in the PSHR area. This has now been rectified with the appointment of a Level 4 Specialist into the lead PSHR role.</li> <li>• Additional staff resource is also enabling applications for mandatory grants to be processed more efficiently;</li> <li>• Missing documentation was mainly due to officer understanding of new software. Although documents were held, they weren't stored correctly and so were inaccessible. Training is being provided to rectify this.</li> <li>• The use of technological solutions will allow information to be shared securely with third parties.</li> <li>• Controls over discretionary loans are in the process of being reviewed to ensure effective use of the funds available.</li> </ul>

## Planned Audit 2016/17 – Work Complete (No Audit Report)

Subject	Comments
<p><b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b></p>	<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 2015/16 financial year. The S151 Officer presented the 2015/16 AGS to the Audit Committee on 30 June 2016.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>Eleven applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>