

Report to: **Audit Committee**
Date: **20 June 2017**
Title: **Internal Audit Annual Report 2016/17**
Portfolio Area: **Support Services – Cllr C Edmonds**
Wards Affected: **All**
Relevant Scrutiny Committee: Overview and Scrutiny

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

Author: **Brenda Davis** Role: **Audit Managers**
Dominic Measures
Robert Hutchins **Head of Partnership**

Contact: Brenda.davis@swdevon.gov.uk
Dominic.measures@swdevon.gov.uk **01803 861375**
Robert.hutchins@swdevon.gov.uk **01392 383000**

Recommendations:

It is recommended that:

1. The Audit Committee note that overall and based on work performed during 2016/17, 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.
2. Members note the satisfactory performance and achievements of the Internal Audit Team during 2016/17.

1. Executive summary

This report summarises the work undertaken by the Council's Internal Audit team during 2016/17, 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 2016/17 to 31st March 2017, 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, 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 West Devon Borough 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 2016/17 was presented to and approved by the Audit Committee in March 2016. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2016/17, 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.

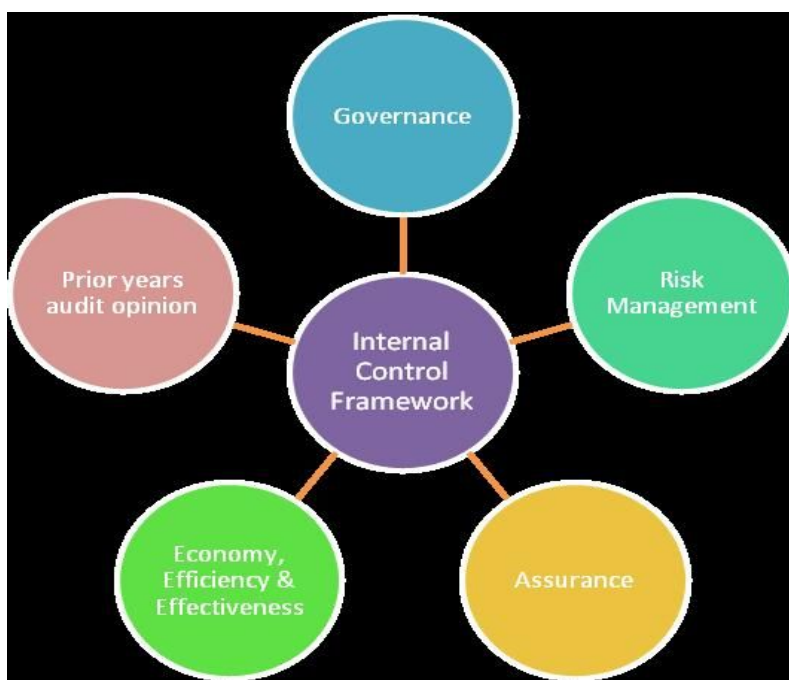
In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action 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 2016/17 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 2016/17, 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 2016/17

As stated above we are, overall, able to provide significant assurance on the internal control framework. During the year a number of audit assignments have been completed for which an audit opinion of "improvements required" has been provided (please refer to appendix B for definition of "improvements required").

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 2016/17 year.

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.

Benefits – see App B

Although some of the agreed actions from our 2015/16 audit report have been implemented there remain a number of outstanding issues, which management have advised are either due to limited staff resource or awaiting the results of the strategic debt review project and the trial period of using an external debt recovery company.

Quality checks and targeted reviews have been re-instated. Claimants are now able to submit claims electronically and this is showing signs of reducing the amount of manual intervention needed in processing some claims and has the potential to create some additional capacity.

Strategic Debt Review – see App B

Responsibility for debt recovery currently devolved across individual services. A virtual Debt Recovery Community Of Practice was established in December 2016, with membership from across those services, to better understand collectively each area's current levels of debt, remedies available to address it, staffing capacity and gaps in service.

With limited staff capacity for debt recovery having been identified as an issue, representatives from the Debt Recovery Community of Practice have met with an external debt recovery company, who offer debt recovery tailored to the needs of local authorities, amongst other services.

Arrangements have been made for a free diagnostic analysis to be completed of all outstanding debts. The diagnostic will be returned with commercial recommendations.

Health and Safety (previously reported) *

The audit review provided independent confirmation that the gap analysis undertaken by Environmental Health COP Lead had identified areas which could be strengthened and that an action plan was developed to ensure compliance with health and safety legislation and best practice. Our recommendations highlighted some additional considerations.

Subsequently, a communication policy has been drawn up, an e-learning module developed and risk assessments undertaken. Once the action plan is fully implemented and embedded, the system should be operating to a good standard

Housing Standards – Disabled Facilities Grants & Loans (previously reported) *

Controls over the administration of grants and loans for Private Sector Housing Renewal (PSHR) are in place, but recommendations were made which would contribute to the strengthening of these.

Subsequently, a Level 4 Specialist has been appointed into the lead PSHR role, training being provided to strengthen systems and the use of technological solutions will allow information to be shared securely with third parties. Controls over discretionary loans have been reviewed to ensure the effective use of available funds.

** Audit review not part of West Devon 2016/17 Audit Plan but included here for information purposes.*

The 2016/17 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 2016/17. 12 applications for exemptions to Contract / Financial Procedure Rules have been received, 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 (National Fraud Initiative – NFI) every two years. In October 2016, a number of data sets of information were provided to the Cabinet Office and a list of potential matches have now been received. This data is currently being reviewed by management and appropriate action is being taken. 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.

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 – 2016/17

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

Local performance indicator	2016/17	2016/17
	Target	Actual
Percentage of audit plan commenced	95%	100%
Percentage of audit plan completed	95%	91%
Actual audit days as a percentage of planned	95%	94%*
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100% **
Draft reports issued within target days	90%	100%
Average level of sickness	2%	11.8%***
Outturn within budget	Yes	Yes

* In addition to the planned work, 40 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work.

** During the period we issue client survey forms with our final report and 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 41 days in the period 1st April 2016 to 31st March 2017.

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 2016/17 as approved by the Audit Committee on 15 March 2016.

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

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	
Main Accounting System & Budgetary Control	4	■	■				■			
Creditor Payments	2	■	■	■	■		■			Summary to Audit Committee in January 2017
Payroll	4	■	■	■	■		■			Summary in App B below
Council Tax	4	■	■	■	■			■		Summary in App B below
Business Rates (NNDR)	4	■	■	■	■			■		Summary in App B below
Benefits Payments	5	■	■	■	■			■		Summary in App B below
Treasury Management	4	■	■	■	■	■				Summary to Audit Committee in January 2017
Main Financial Systems	27									
ICT Audit	6	■								Commenced at year end, rolling into 17/18.
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2016 Audit Committee under separate cover
Risk Management	5	■	■	■	■	-	-	-	-	Summary in App B below
Culture & Ethics	2	■	■	■	■		■			Summary in App B below

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	
Leisure Centre Client	2	-	-	-	-	-	-	-	-	Review of Leisure Contract deferred to 17/18 to enable contract to embed. Resources used on Strategic Debt Review.
Strategic Debt Review		■	■	■	■	-	-	-	-	Summary in App B below
Counter Fraud Work	4	-	-	-	-	-	-	-	-	Inc. supporting National Fraud Initiative (NFI) exercise
Street Cleaning	4	■	■	■	■		■			Summary to Audit Committee in January 2017
Public Convenience	3	-	-	-	-	-	-	-	-	Resources used for review of Section 106 agreements (see below)
Planning Policy –Section 106 Agreements		■								
Development Control – enforcement		■								
Development Controls – planning applications (Follow Up to Peer Review)	5	■	■			-	-	-	-	Review found good progress is being made to implement the recommendations from the Planning Improvement Peer Review.
Shared Services - recharging	2	-	-	-	-	-	-	-	-	Incorporated within the review of Main Accounting System
Performance Management - Pls & Data Quality	5	-	-	-	-	-	-	-	-	Resources used on Strategic Debt Review
T18 Project	4	-	-	-	-	-	-	-	-	T18 Audit deferred until September 17 to align to when a final report on the Programme is scheduled be reported to Members
Partnerships & Partnership Management	3	■	-	-	-	-	-	-	-	Deferred to 2017/18 and recently commenced

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	4	■	■	■	■	-	-	-	-	
Contingency (Unplanned) & Advice inc. Exemptions from Financial Regulations	6	-	-	-	-	-	-	-	-	12 Exemption applications received and processed in 2016/17, all of which accepted
Audit Management, including <ul style="list-style-type: none"> ■ Audit Planning ■ Partnership audit Management ■ Monitoring against the plan ■ Reports to management and audit 	10	-	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 30 June 2016.
Other Systems & Audit Work	67									

Previously Reported Changes to the Plan										
VAT	0									Removed from plan, previously 4 days external VAT Specialist to be engaged.
Member Allowances	0									Deferred to 2017/18, previously 2 days
Total Revised Days	94									Previously 100 days

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

Subject	Audit Findings	Management Response
<p>Payroll</p>	<p>Audit Opinion - Good Standard</p> <p>Conclusions Overall we have found the payroll system and process design to be adequate, providing suitable key controls.</p> <p>There have been on-going developments during 2016/17, which include:</p> <ul style="list-style-type: none"> ■ A move towards holding all documentation electronically, including accepting email submission of scanned documents such as overtime forms; and ■ The introduction of the self-serve module for the submission of travel and expenses claims. 	
<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"> ■ User's system access rights; ■ Identification of new properties; ■ Single Persons Discount; ■ The suspense account; ■ Broken arrangements to pay; ■ Use of the bailiff; and ■ Debt recovery strategy. 	<p>The outcome of the strategic debt review and the trial use of an external debt recovery company will help to determine future processes.</p> <p>Arrangements will be made for regular review and amendment of access rights.</p> <p>The Authority is examining the possible use of a Credit Reference Agency to help identify cases where Single Persons Discount may no longer apply.</p> <p>Responsibility for the review of the suspense account to be allocated to a specified officer.</p>
<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</p>	<p>See Council Tax above</p>

Subject	Audit Findings	Management Response
	<p>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>Benefits – Follow Up of 2015/16 review</p>	<p>Audit Opinion - Improvements Required</p> <p>Conclusions Whilst our Audit Opinion remains as Improvements Required we acknowledge that there have been improvements to the service. Whilst satisfactory progress has been made against several of the agreed recommendations, some actions remain to be completed. This is largely due to staff resources being limited for the following reasons:</p> <ul style="list-style-type: none"> ■ Period of staff absence; ■ Introduction of W2 system and ■ Transfer of documentation from the previous document imaging system to W2. <p>A full Housing Benefit audit review is planned for the beginning of Quarter 3, 2017.</p>	<p>The outcome of the strategic debt review and the trial use of an external debt recovery company will help to determine future processes.</p> <p>With the move to more customer self-serve and use of associated new technology, staff are able to focus more on processing claims accurately and promptly.</p> <p>Quality checks are undertaken and benefits processors' weekly activity is reviewed to ensure that performance is satisfactory.</p> <p>Revised processes have been put in place to help reduce the occurrence of overpayments. With greater use being made of technology, officer resource is now freed up to address claims more promptly, with claims being suspended as soon as any information is received which could have a detrimental effect on a claim.</p>
<p>Risk Management</p>	<p>Audit Opinion - Working</p> <p>Senior managers take the lead to apply risk management thoroughly across the organisation. They own and manage a register of key risks and set the risk appetite. A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework. Staff are aware of key risks and responsibilities. Risk with partners and suppliers is well managed across organisational boundaries. Appropriate resources in place to manage risk. Risk management processes used to support key business processes. Early warning indicators and lessons learned are reported. Critical services supported through continuity plans.</p> <p>Conclusions</p> <p>The Lead Members and senior officers are risk focused and consider risks to objectives as part of day to day corporate and service management.</p> <p>The new working model is starting to become embedded with a better understanding of roles, responsibilities and new ways of working. The model and emerging culture, with clear leadership and encouragement for well managed risk</p>	

Subject	Audit Findings	Management Response
	<p>taking, provides the right business environment to continue the rise in the Council's risk management maturity that will protect reputation, improve resilience, reduce unexpected losses, demonstrate good governance and better position the Council to meet its strategic objectives and priorities.</p>	
<p>Strategic Debt Review</p>	<p>Audit Opinion - Value Added This strategic review has looked holistically at debt recovery arrangements and identified opportunities to improve the ongoing collection processes.</p> <p>Conclusions Resources and procedures need to be considered and other issues addressed in order to maximise recovery rates and reduce current debt levels.</p> <p>Potential contributing factors include:</p> <ul style="list-style-type: none"> ■ Reduced staff resource; ■ The process for obtaining County Court Judgements for sundry debts has lapsed; ■ Less use of enforcement agents since the increase in fees that agents can levy on the customer. 	<p>Following the trial period of debt recovery by an external organisation, their effectiveness will be evaluated and an assessment made of their continued use versus the establishment of an in-house, centralised debt recovery team.</p> <p>A business case will then be presented to recommend the most cost-effective route.</p> <p>The findings, as well as consideration of whether or not any further parts of debt enforcement can be automated, will inform the Debt Recovery guidance to be produced.</p>
<p>Culture & Ethics</p>	<p>Audit Opinion - Good Standard</p> <p>Conclusions There has been regular and comprehensive communication from management, and members, setting the 'tone from the top', outlining to staff the direction and requirements of the Council. The Councils need to further develop and strengthen this by demonstrating a clear vision of the future for both Councils; this could be demonstrated by preparing a 'mission statement' to support the Councils' plans and provide a vision for both customers and staff.</p> <p>The Council's Annual Reports and Our Plans set out the objectives and expected outcomes for the Councils. These, together with Joint Local Plan, provide a useful summary of the key actions the Council is taking to improve life and the environment of the District.</p> <p>Good procedures were found in the following areas:</p> <ul style="list-style-type: none"> ■ The conduct of Members and officers; ■ The receiving and handling of complaints; ■ Response to the results of staff surveys 	

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

Subject	Comments
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 2015/16 financial year. The S151 Officer presented the 2015/16 AGS to the Audit Committee on 19 July 2016 with the draft accounts.</p>
Exemptions to Financial Procedure Rules	<p>12 applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>