

Report to: **Audit Committee**
Date: **21 September 2017**
Title: **Update on Progress on the 2017-18 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 2017/18 internal audit plan, and any key issues arising are approved.

1. Executive summary

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2017/18 to 24 August 2017, by:

- Showing the progress made by Internal Audit against the 2017/18 annual internal audit plan, as approved by this Committee in March 2017;
- Highlighting any revisions to the 2017/18 internal audit plan; and

- Providing an update on the Council's review of its approach to pursuing debtors, as requested by this Committee at its March 2017 meeting. In addition, latest available outstanding debt figures are provided.

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 2017/18 was presented to and approved by the Audit Committee in March 2017. Progress in the period up to 24 August 2017 has been in line with expectations and included completion of work carried forward from 2016/17. There has been slight impact due to sickness absence totalling 9 days (apportioned SHDC 7 days, WDBC 2 days) in the year to date.

In addition, the Council, in association with several partner organisations receive funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m to the Greater Dartmoor Local Enterprise Action Fund (LEAF). The Council as the Accountable Body is responsible for the legal and financial management of the grants awarded to the programmes. Each project is required to submit a grant claim on a quarterly or monthly frequency to draw down funding. 20 days were allocated to this work for the year in the 2017/18 Audit Plan. However, 16 days have been spent to date and on that basis it is estimated that another 20 days, on top of that allocated in the plan, may be required for the rest of the financial year.

In response to the reduction in available days it is proposed that, in consultation with the Section 151 Officer, the audit plan will be reviewed and adjusted where deemed appropriate and/or the purchase of additional audit days to cover the shortfall. Any amendments will be agreed by the Senior Leadership Team. It should be noted that the Council is able claim funding against officer time spent on administering the LAG and the LEAF and this can be used to provide some backfill to cover the estimated additional 20 days required.

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 2017/18, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2017/18 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the position for each audit as at 24 August 2017.

Appendix B 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 so far this year. 11 applications for exemptions to Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

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, 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 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</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 |


Planned Audit 2017/18 – Final Reports

As at 24 August 2017, four final reports have been issued in respect of 2017/18 work. Reports finalised in the current year in respect of the 2016/17 audit plan which were not reported to the Audit Committee at the end of June are also included below.

| Subject | Audit Findings | Management Response |
|---|--|--|
| <p>2016/17 Audit Plan</p> | | |
| <p>Main Accounting System (inc budgetary control)</p> | <p>Audit Opinion – Good Standard</p> <p>Conclusions</p> <p>Our Audit Opinion remains unchanged from last year but some controls have been improved and significant work was underway to provide a robust system plan to tackle these issues for 2016/17 year end and the new financial year, 2017/18.</p> <p>The Councils are aware of the opportunities to improve, such as investment in self-serve, development of budget holder’s knowledge and increasing the automated use of financial systems.</p> <p>The main issues, at both authorities, where action can be taken to further strengthen controls include:</p> <ul style="list-style-type: none"> ■ Ensuring reconciliations of control accounts, including the bank, continue to be undertaken but on a more timely basis, that they are fully documented, reviewed by a second officer and that these actions are evidenced. Consideration should be given to ensuring there is sufficient cover to prevent a single point of failure; ■ Whilst work has progressed on developing the budget monitoring and reporting of the financial systems, due to factors such as the loss of staff and the coding project, delayed loading of budgets and balances brought forward and restructuring, there is the risk that budget holders are not provided with sufficient tools to adequately monitor their service. | <p>The Councils went live with a new ledger coding structure in 2016/17, this has had an impact on the capacity of the team to progress other work such as “self-serve”. The Finance Team also lost key staff prior to the year end such as the Deputy 151 Officer and temporary agency resources were brought in to backfill.</p> <p>Plans are in place, for this financial year, to further develop ‘self-serve’ for services but it will depend on developing this within Support Services and specifically the Accountants first before rolling out to customers. We will develop a plan over the coming year.</p> <p>A process is in place to ensure reconciliations are regularly reviewed to confirm their accuracy. Additional training has been given to officers to ensure that they are competent in completing the reconciliations.</p> <p>Management will ensure that there are sufficient resources to complete all of the reconciliations in a timely manner in the future and provide the necessary resilience.</p> <p>The Deputy Section 151 Officer vacancy has been recruited to and this will strengthen arrangements going forward.</p> |

| Subject | Audit Findings | Management Response |
|---|--|---|
| | <p>There is a need to provide users, budget holders, accountants etc. with a greater ability to undertake tasks without the need for manual involvement and greater 'self-service'. This is being planned and developed and we would further endorse our support for the planned service changes.</p> | |
| <p>Development Control – Planning Enforcement</p> | <p>Audit Opinion – Improvements Required</p> <p>Conclusions</p> <p>The Audit Opinion above is due, in part, to the timing of the audit. There has 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 are of a good standard that, once fully embedded and service performance improved, the benefits will be realised.</p> <p>Delegation of discretionary powers to its Officers is formally set out and the skills and expertise of officers are known and utilised. Tasks are assigned to the appropriate level ensuring best use of resources available. It is recognised that the implementation of the case management model within Development Management is new, under continuous monitoring and refinement.</p> <p>In addition to the legislation that defines the Council's discretionary powers in relation to planning enforcement, Development Management have a Local Planning Enforcement Policy, this is recognised as best practice. To further strengthen Planning Enforcement arrangements, the development of a Local Enforcement Plan should be considered, to communicate how, as a Local Planning Authority, they will manage planning enforcement pro-actively. Setting out service standards and developing the information provided to public via the website will raise the profile of the service and communicate the pressures it faces, allowing customers to make better informed decisions that, in turn, could potentially reduce the level of contacts made.</p> <p>Planning enforcement is undertaken proportionately in accordance with legislation and best practice. Appropriate outcomes are achieved through effective negotiation reducing the need, where possible, to take formal enforcement action. However, the overall caseload and backlog has meant the service is under pressure to undertake and conclude investigations in a timely manner. This continues to put the reputation of the Council and confidence in the planning system at risk. Council management recognise this and have taken action by making additional resources available, the</p> | <p>The Council to develop and publish an Enforcement Plan in accordance with Paragraph 207 of the National Planning Policy Framework (NPPF), this will tie in with the Council's published Enforcement Policy.</p> <p>In conjunction with the Enforcement Plan, consideration will be given to implementing and communicating priority categories for unauthorised development that will provide customers with better information and understanding of the service.</p> <p>In a bid to bring consistency and improve record keeping, document types with clear referencing have now been set up along with standard action notes to provide an audit trail of checks and tasks completed. There is greater clarity as to what documents should be produced and filed in W2 and Civic APP.</p> <p>Realistic target response times are to be set and communicated through the Enforcement Plan.</p> <p>Consideration is being given to developing a suite of local performance indicators covering a range of service delivery issues.</p> <p>Reporting tools are being used to produce management information from APP and knowledge and skills in these tools is being utilised to develop and improve the suite of reports.</p> |

| Subject | Audit Findings | Management Response |
|--|--|---------------------|
| | <p>benefits of which had yet to be fully realised at the time of the audit At the time of the review, the IT systems used, Civica APP and W2, had not been sufficiently developed to provide effective management and or customer information. The use of complete planning enforcement data would further improve the quality and availability of appropriate level of management information to aid timely and effective decision making. Management should continue to develop, refine and fully utilise these systems. In addition performance management targets should be developed to provide focus and facilitate the analysis of work performance. This would enable the identification of trends, time taken on tasks and barriers that prevent the prompt resolution of cases. The findings should be used to implement continuous improvement in performance and service standards that will ensure high quality, timely investigations are conducted and prompt effective decisions taken.</p> <p>The Audit recommendations would, if considered, increase capacity within the team as well as improve management information, data quality, customer satisfaction and realise further efficiencies through better utilisation of resources.</p> | |
| <p>Development Controls – Planning Applications (Follow Up to Peer Review)</p> | <p>Audit Opinion – Good Progress</p> <p>Conclusions</p> <p>As at March 2017, of the 14 recommendations made:</p> <ul style="list-style-type: none"> ■ Two had been implemented; ■ Eight had been implemented with action ongoing; ■ Two had been partially implemented with action ongoing; ■ One had not yet been implemented but a plan of action was being considered; ■ One was no longer applicable. <p>The new website went live in March with an improved Planning search facility. Work was ongoing to develop the full functionality of Civica APP and W2.</p> <p>A suite of key performance indicators have been developed and are reported to South Hams Development Management Committee and West Devon's Planning and Licensing Committee on a monthly basis.</p> <p>There has been a clear drive to re-establish relationships and trust with Developers</p> | |

| Subject | Audit Findings | Management Response |
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| | <p>and Agents as well as strengthening engagement with, and improving the provision of Planning information and delivery of training to Town and Parish Councils.</p> <p>Site visit protocols have been reviewed and a new process introduced to improve the efficiency of decision making by speeding up the process. Through conducting appropriate and necessary site inspection in advance of the Development Management Committee process, it should prevent applications from being deferred to the next Committee date, reducing the impact on the time of all interested parties.</p> <p>At the time of our review in March 2017, there had been limited progress in reviewing the pre-application service, as resources were focussed on performance with regard to determining planning applications and delivery of the Joint Local Plan. However, it was recognised that sufficient consideration had been undertaken to make sure that this is looked at in a wider context to ensure the future pre-application process delivers a high quality service to customers as well as maximising cost/benefit opportunities and mitigating risk to the Councils.</p> | |
| <p>Planning Policy –Section 106 Agreements</p> | <p>Audit Opinion – Fundamental Weaknesses</p> <p>Conclusions</p> <p>Our testing has confirmed that there is 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.</p> <p>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.</p> <p>The Councils are in the process of appointing a new Section 106 officer role, within Support Services, whom it is envisaged will enable;</p> <p> Improvements to the central recording and reporting of S106 Agreements and the coordination with associated services. This could potentially mean</p> | <p>The Council is recruiting a specific Section 106 officer based within Support Services. Their role will be to evaluate the system of recording S106 agreements and managing the financial requirements. A process map will need to be constructed to identify the areas where improvements can be made and benefits to the procedure achieved. It is likely this role will be recruited in September and an enhancing system operating in the new year.</p> <p>The system of recording S106 transactions will be reviewed to determine the most efficient method and system to use. In the meantime, all current S106 agreements, including financial commitments, are now documented and recorded on a central register. This will be a role for the new officer to maintain.</p> <p>The new officer will investigate better methods of identifying when obligations have started and trigger points reached, utilising the systems and data already captured across the authorities.</p> |

Appendix A

| Subject | Audit Findings | Management Response |
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| | <p>improving the current system, and integrating with relevant supporting systems such as Land Charges, and/or embarking on a whole new system;</p> <ul style="list-style-type: none"> ■ Better identification and reporting of trigger points and the further improvement of officer monitoring and inspection of developments. This is fundamental to ensuring that monies are promptly received and recorded; and ■ Better understanding of the accounting principles; when the funds are expected, received and spent. <p>It is important to recognise that this audit took place prior to the closure of the 2016/17 accounts and the issues raised during the audit were promptly acted on by officers and we have not found 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.</p> | <p>Management support the idea of training for certain key officers involved in the processing of S106 funds to enable improved understanding of the financial requirements and how they will support the production of financial statements.</p> <p>Significant work was carried out by a small group within the Finance Team to ensure the correct cut off of Section 106 monies was reflected in the accounts. The accounts have since been audited by KPMG and they have not identified any issues with the accounting of Section 106 contributions.</p> |
| <p>2017/18 Audit Plan</p> | | |
| <p>Grounds Maintenance (Follow-up)</p> | <p>Original Audit Opinion - Improvements Required</p> <p>Updated Audit Opinion – Good Standard</p> <p>Conclusions</p> <p>Whilst a number of recommendations made in our original report had been actioned/implemented there were a number that had not.</p> <p>Those recommendation not yet implemented include:</p> <ul style="list-style-type: none"> ■ an accurate inventory to be maintained of all Grounds Maintenance equipment with a replacement value in excess of £100 ■ Ensuring that charges to customers are consistent and cover the Council's costs; and ■ Arranging for invoices to be raised to customers promptly and in line with Financial Procedure Rules. | <p>Efforts will be made to maintain an accurate inventory of equipment.</p> <p>Accountants are calculating standard charge out rates to be used for grounds maintenance and building maintenance works carried out for external customers. These will cover the Council's costs whilst allowing the Council to be more competitive when submitting quotes for work.</p> <p>Copies of the calculations and the basis of these will be retained.</p> <p>Invoices are now being assigned on a timely basis.</p> |
| <p>ICT Audit - Access Management</p> | <p>Audit Opinion – Good Standard</p> | <p>Repairs have been carried out to secure those rooms containing IT Hardware</p> |

| Subject | Audit Findings | Management Response |
|--|--|---|
| | <p>Conclusions</p> <p>We have identified areas where controls can be strengthened to support those already in place and to ensure that policies are put into practice, including:</p> <ul style="list-style-type: none"> ■ Procedures are put in place to manage the access rights of those officers moving post or changing responsibilities within the Councils; ■ Regular reviews are made of individual officers' access rights to ensure continued appropriateness; ■ Procedures are clarified to ensure that access rights of leavers are managed on a timely basis, from both the Councils' network and business systems; ■ Staff understand their responsibilities with regards Data Protection and undertake best practice to manage confidential data; and ■ Ensuring that rooms containing IT hardware are appropriately secured. | <p>Management will renew efforts to ensure all staff complete the Data Protection e-learning module. All staff will be required to complete annual refresher training on information management.</p> <p>A review of Active Directory Groups and membership will be undertaken. The Customer Support team are reliant on HR, team leaders or managers advising of leavers, and when notified, they promptly remove them from Active Directory. It will be confirmed that the process of disabling inactive accounts after 30 days is working correctly.</p> <p>An automated report is to be set up to list all Active Directory accounts which have been inactive for 30 days or more. The report will then be reviewed by the Customer Support team, in conjunction with information from HR to determine which accounts should be disabled.</p> <p>Procedures for “on- and off-boarding” (the adding and removing of staff from systems) are under review, including those tasks completed by the Customer Service Desk, who it is felt should remove leavers’ access from all systems, not just Active Directory.</p> <p>There are relatively few movers within the organisation and most would be taking on additional responsibilities rather than completely changing them. The key issue for movers is the sensitivity of data to which they have access. The majority of data held by the Councils is personal but not sensitive.</p> <p>As part of a check to ensure the Councils compliance for the GDPR, it has been identified that reviews of business system access need to be undertaken.</p> |
| <p>ICT Audit - Change Management</p> | <p>Audit Opinion - Improvements Required</p> | <p>ICT are currently working with the Customer Support team to create a suite of procedures which will make up</p> |

| Subject | Audit Findings | Management Response |
|---------|--|---|
| | <p>Conclusions</p> <p>Although working procedures have routinely considered the change management process within the Councils, these are at an early stage of being formalised and work in progress. Whilst procedures and responsibilities have been identified, the process has not yet been extended to all types of change and is not supported by software capable of recording and analysing change requests.</p> <p>Areas where improvements were identified include:</p> <ul style="list-style-type: none"> ■ Identification of System Business Owners/Users; ■ Business User Confirmation of Customer Satisfaction; ■ Staff Resource; ■ Recording of Changes; ■ Post-Implementation Review of Changes | <p>a library of change management models including standard pre-approved changes. ICT staff are aware of the library of change control procedures and on-going training is provided where necessary in these procedures. In addition, these will be communicated to relevant non-ICT staff, particularly business system owners. A quality assurance process will be embedded to ensure that any non-compliance with procedures is identified on a timely basis.</p> <p>ICT is to identify all appropriate individuals deemed to be owners/users of each business system.</p> <p>It is intended to create a revised survey which will be automatically issued by the service desk software using Survey Monkey to obtain confirmation of success and user acceptance.</p> <p>In a small team there is inevitably a trade-off between support given to changes, business as usual, other improvements etc. A judgement will be made on a case-by-case basis, based on probability, risk, impact etc. Skills transfer is an on-going activity.</p> <p>The existing current solution for recording change requests is to be retained based on a cost - benefits analysis of purchasing a new system. It would be resource intensive and costly to procure a new service desk system.</p> <p>Informal post-implementation reviews are already routinely carried out. However, the consideration of a post-implementation review will be included in the template for major changes. Emergency changes are rarely required, but the change management process does accommodate a post-implementation review. It is not proportionate to carry out post-implementation reviews of standard changes, which by definition are low risk, low impact, repeatable changes.</p> |

| Subject | Audit Findings | Management Response |
|-----------------------------------|---|---|
| <p>ICT Audit Health Check</p> | <p>Audit Opinion – Good Standard</p> <p>Conclusions</p> <p>For most of the sub-systems considered as part of this audit, controls were in place and operating. However, in two cases - asset management and contract management - controls were less developed and there was scope for these to be improved and strengthened.</p> <p>Some of the other issues raised have already been identified by the ICT Management and work is either under way or planned to implement improvements. For several of the areas reviewed, it had previously been assumed by ICT Management that the service desk software, Sunrise, which was procured and implemented by previous ICT managers, would be used to manage ICT assets, inventories, contracts, change management etc. Unfortunately the system has been found to fall some way short of expectations, to such a degree that it is not practical to use for many of the intended functions. It is therefore used mainly for incident management.</p> <p>Alternative solutions, mainly spreadsheets, are being used to manage assets, inventories, contracts etc. It is acknowledged that these are not ideal and other solutions are being explored.</p> <p>Key Findings The issues we wish to highlight include:</p> <ul style="list-style-type: none"> ■ Ensuring staff are fully aware of their responsibilities under the Data Protection Act and forthcoming General Data Protection Regulations (GDPR); ■ Implementing policies and procedures for the management and retention of data and documents; ■ The need for an accurate register of ICT assets to allow effective management; ■ The standardisation of ICT system documentation to allow systems to be correctly re-configured or restored; ■ The management of ICT contracts, particularly to identify those reaching their end date and which may require a procurement exercise if the service or system is to be continued; ■ Formalising procedures in the event of a potential cyberattack and loss of IT systems; ■ Confirming the on-going reliability of the backup system and consideration of | <ul style="list-style-type: none"> ■ All staff have been required to complete DPA training on Learning Pool in 2017 and this must be repeated annually, with the module being revised for 2018 to incorporate the GDPR. ■ The Information Governance Group have a remit which includes ensuring policies and procedures are in place to allow data to be managed in line with legislation. ■ An officer has already been tasked with implementing all the recommendations regarding asset registers as a key priority. The shortcomings of the current arrangements for asset management are to be reviewed and revised procedures drawn up, to include recording of equipment assigned to staff, asset tagging and disposal records. ■ ICT is currently reviewing documentation to ensure that it is written and stored in a structured way and is up to date. Consideration is being given to the use of a cloud-based storage solution for a range of ICT documentation. ■ The current ICT contracts database (spreadsheet based) has been updated and simplified to make it much more user-friendly. It provides accurate forecasting of annual spend committed to contracts and renewals, but there is no automation of events such as forecasting contract expiry. ■ IT system closedown procedures to be written for a range of scenarios that may be most likely to occur and/or present the highest risk to the Councils. A formal Cyber Incident Response Plan will be put in place at the earliest opportunity |

Appendix A

| Subject | Audit Findings | Management Response |
|----------------|--|----------------------------|
| | disaster recovery exercises; ■ Ensuring that adequate business continuity plans are in place; ■ Placing the potential loss of IT systems on the corporate Risk Register; and ■ Considering dedicated cyber insurance. | |

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 – 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 2016/17 financial year. The S151 Officer presented the 2016/17 AGS to the Audit Committee on 22 June 2017.</p> |
| Exemptions to Financial Procedure Rules | <p>11 applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p> |

South Hams Audit Committee - 21st September 2017

**Strategic Debt Review update to 31st August 2017
Recovery Strategy**

At the time of Internal Audit's original Strategic Debt Review audit report, it was anticipated that the Councils would take advantage of a trial period offered by a specialised debt recovery company, Agilisys, to determine their effectiveness in recovering all types of debt on behalf of the Councils.

Rather than paying a fixed fee, Agilisys would retain a percentage of each debt recovered, the percentage varying depending how easy or difficult the debt might be to recover. However, further analysis by staff revealed that the percentage retained, even on those debts deemed easier to recover, was found to be relatively high. This was also tempered by the fact that the Councils only retain approximately 9% of any Council Tax collected, the rest being passed largely to Devon County Council (DCC). Thus the situation would have arisen that, in some cases, Agilisys would retain a percentage fee larger than the 9% portion of Council Tax due to South Hams, who effectively would be bearing the cost of recovery on behalf of the County Council. The latter were approached but DCC were unable to make a contribution to the recovery costs when requested.

It has therefore been decided to create a centralised debt recovery team, which will be responsible for managing all types of debt across the two authorities from 1st October 2017. Those Case Managers who have, to date, been working in separate teams, have been brought together under the Revenues and Debt Recovery Case Management team, with a dedicated Team Leader, and will sit within Support Services.

The Support Services Case Management Manager (SP) has recently presented a Debt Recovery Action Plan to SLT which includes the above action as well as a number of others, for example:

- Creation of a centralised Debt Recovery Unit within Support Services by 1st October (as above);
- Recruitment of temporary staff resource for 3 months to actively pursue older debts;
- Enforce the withdrawal of services where appropriate, such as trade waste collections, early eviction from rented business properties;
- Apply interest charges on unpaid commercial debts;
- Use of Online Money Claims for legal action;
- Review all debt recovery procedures with a view to standardising these;
- Pro-active chasing of debt and full review of recovery procedures;
- Write off of unrecoverable debt;
- Introduce online direct debit collection of sundry debt;
- Data cleansing of the sundry debtors system;
- Produce guidelines for minimum acceptable payment arrangement and maximum time limits for arrangements, train customer service team to set up payment arrangements at first point of contact;
- Regular monitoring and chasing of broken arrangements;
- Improved use of Experian credit checking and recovery agents;

Sundry Debts

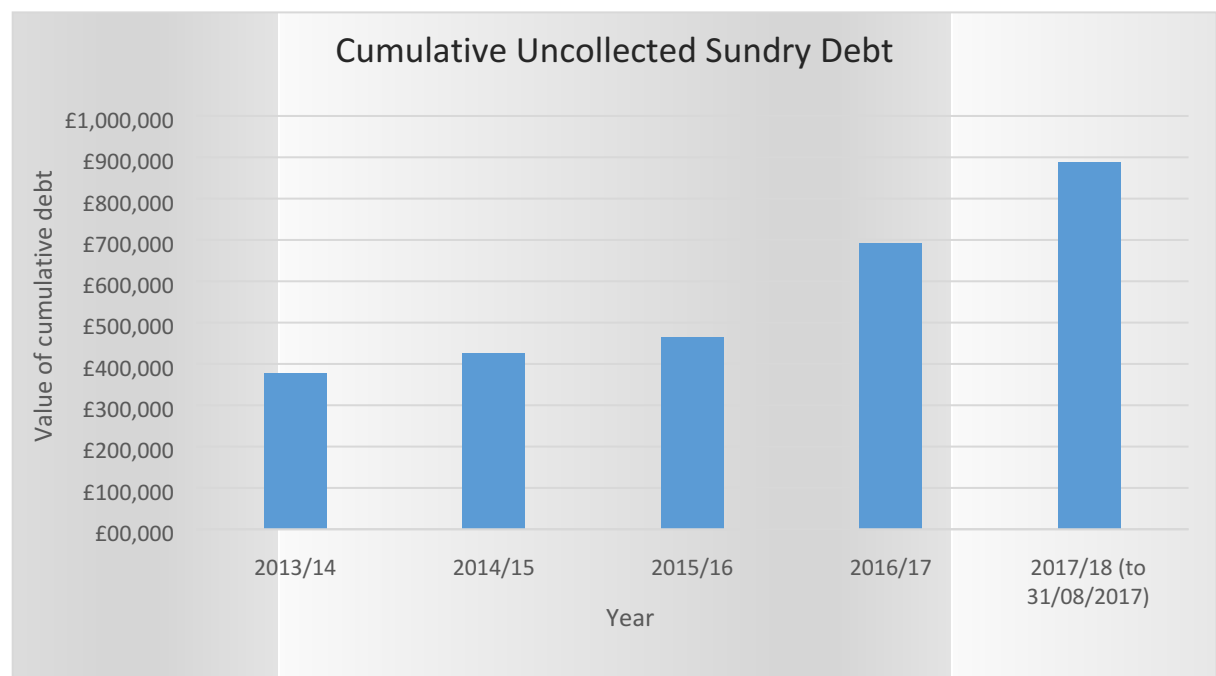
APPENDIX C

As shown in Table 1, the cumulative uncollected sundry debt for the authority has gradually increased year on year. The figures shown exclude any invoices less than thirty days old (recovery not commencing until this point) at 31st August 2017, but does include credits totalling -£27.7k owed by the Council to debtors.

The data can only represent the level of debt at any given point in time and so if a large invoice is raised or paid, then this can significantly alter the data.

The most significant overdue debts owed to SHDC as at 31st August 2017 are two for approximately £74k each, both S106 contributions, and £35k owed by an organisation in administration. There are several debts between £9k and £12k, the rest generally being for lesser sums.

Table 1: Uncollected Sundry Debt Values for South Hams at 31 August 2017

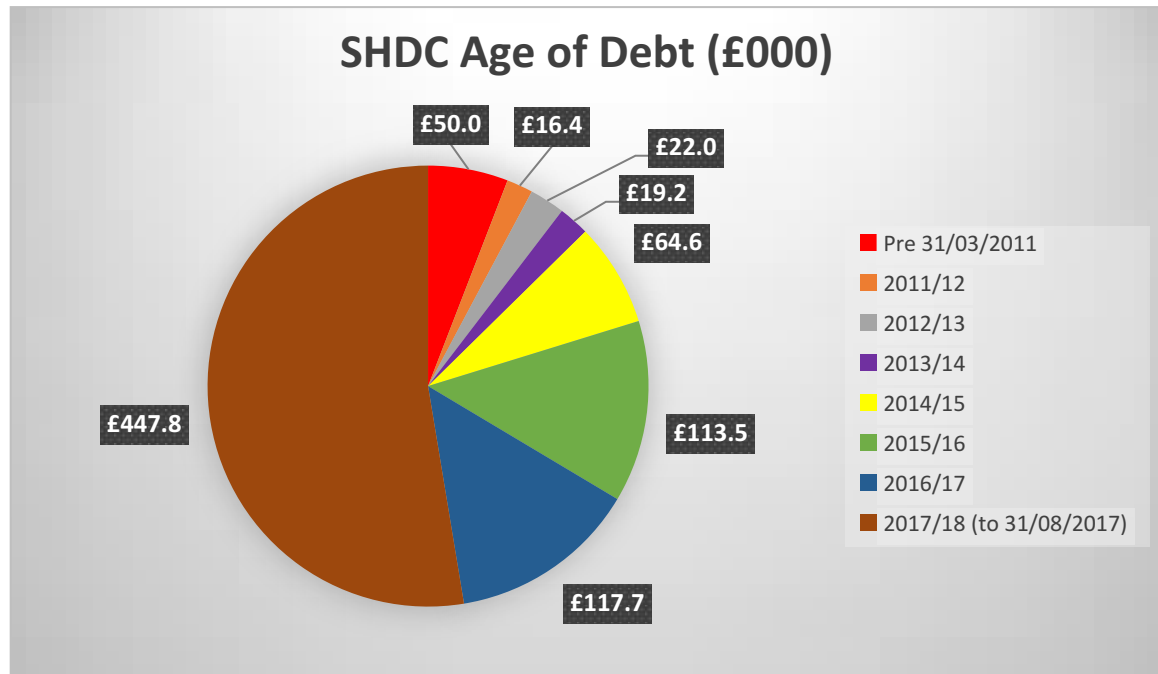


Source: *Sundry Debtor System Reports*

The increase in sundry debt levels is possibly due in part to an accumulation of aged and / or uncollectable debt which has not been written off. Since the latter part of 2016/17, resource has been focussed on attempting to recover large debts, as well as writing off those which are not recoverable, often because the debtor has entered into administration.

Table 2 shows the proportions of outstanding debt thirty days or more old at 31st August 2017. The figures are broken down by the year in which they were raised.

Table 2: South Hams District Council - Age of Debt Profile



Source: Sundry Debtor System Reports

The level of staff resource available to administer sundry debts had decreased between 2014 and 2016, from 2.5FTE to 0.5FTE. Coupled with the introduction of the Dartmouth BID, this, in effect, created insufficient resource for normal sundry debtor work. Some re-arrangement of resources, plus closure of the Dartmouth BID in September 2016, allowed some debt recovery work to be undertaken in late 2016/17, including targeted work to clear large debts.

We understand that more staff were also trained in active debt recovery, although resourcing has remained a significant issue.

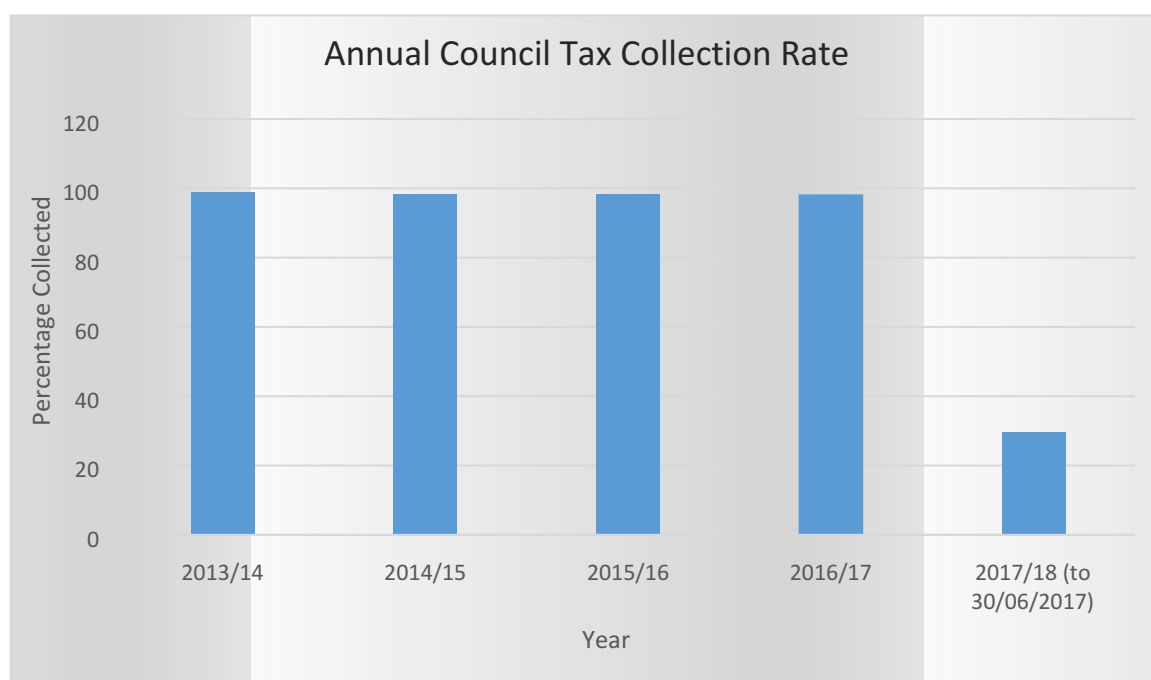
Council Tax

The Council Tax collection rate for the authority is shown in Table 3. Recovery rates as at the end of 2016/17 compare well to both the national and the shires averages of 97.2% and 98.1% respectively.

Between 2015/16 and 2016/17 the South Hams collection rate reduced by 0.05% compared to 2015/16. This is partly attributed to the fact that since 2015 a contribution to Council Tax is payable by those residents of working age who are in receipt of Council Tax Reduction and also there were delays in issuing the first bills of 2016/17 which will have had a knock on effect on instalment due dates. The delay in issuing the bills was due to the changes to the billing template required to reflect the Adult Social Care precept.

The most recent data available for 2017/18 at the time of writing is to 30th June 2017. At this point 29.7% of South Hams Council Tax has been collected against a target of 29.6%. The target collection rate is based on the actual collection rates for the equivalent month in the previous year.

Table 4: South Hams Annual Council Tax Collection Rate at 30 June 2017



Source: Covalent performance indicator data

The amount of staff resource available to recover unpaid Council Tax had reduced slightly since the organisational restructure.

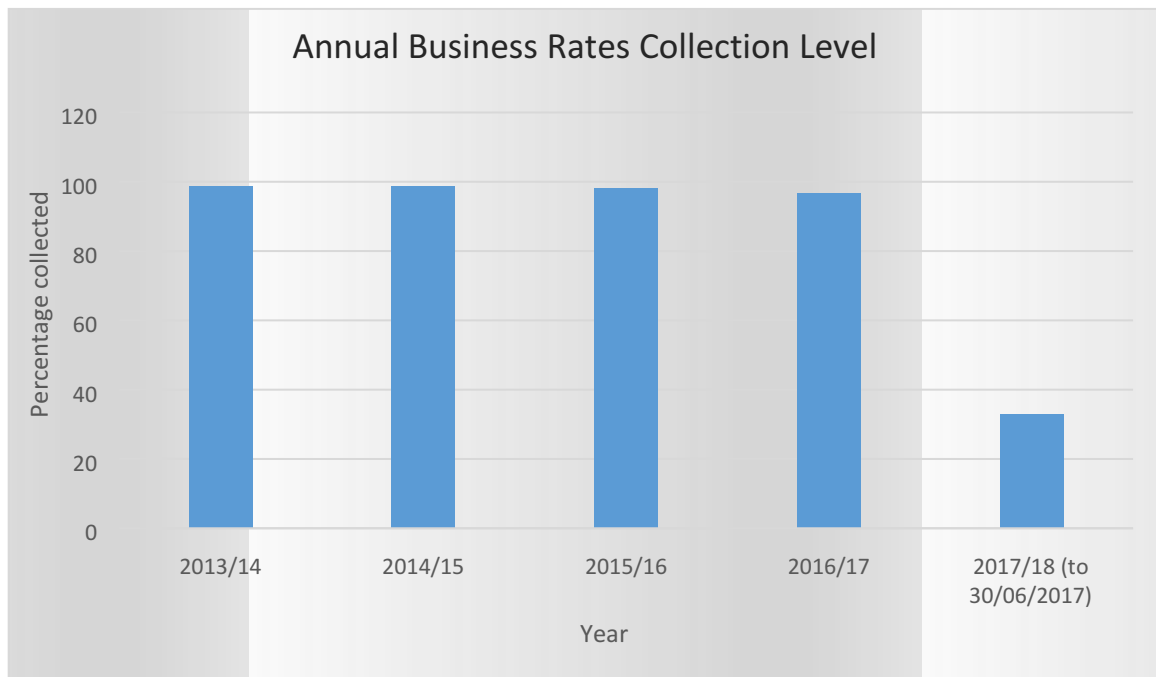
Business Rates

The Business Rates collection level for the authority is shown in Table 4. This was reasonable as at the end of 2016/17, falling only slightly under both the national and the shires averages of 98.2% and 98.4% respectively.

The collection rate reduced from 2015/16 to 2016/17 by 1.35% for South Hams. This is attributed to several causes. A mid-year national revaluation of medical centres led to a significant number of over-payments having been made and a few large companies have paid their rates later than expected, including one with whom it has been agreed that the 2016/17 debt can be cleared in 2017/18.

The most recent data available for 2017/18 at the time of writing is to 30th June 2017. At this point 32.8% of South Hams Business Rates has been collected against a target of 28.4%. As for Council Tax, the target collection rates are based on the actual collection rates for the equivalent month in the previous year. Given that the collection rates were a little suppressed for 2016/17, it would be anticipated that, all things being equal, collection rates exceed targets in 2017/18.

Table 4: South Hams Annual Business Rates Collection Level at 30 June 2017



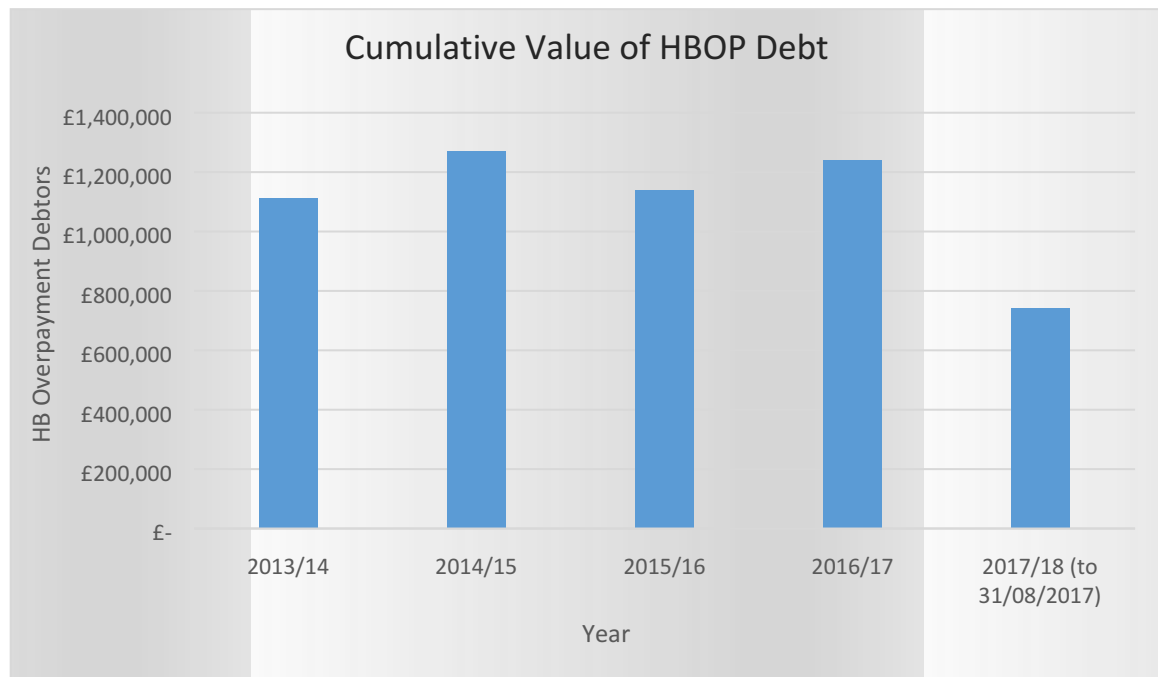
Source: Covalent performance indicator data

The same team responsible for Council Tax recovery have also been responsible for Business Rates recovery.

Housing Benefit Overpayments (HBOP)

Table 5 shows levels of HBOP debt since 2013/14 to the 31st August 2017. The reduction in HBOP debt from 2014/15 to 2015/16 may in large part be due to a significant number of write offs that were made in that period. We understand that HBOP debt levels may have increased in 2016/17 partly due to the use of RTI (real time information). This has identified unreported changes of circumstances which have resulted in overpayments.

Table 5: South Hams Housing Benefit Overpayments at 31 August 2017



Source: Accounts Closedown working papers and Benefits system reports

South Hams HBOP debt increased by 8.67% between 2015/16 and 2016/17,

The level of staff resource to recover HBOP debts increased from one part time officer during 2013/14 and 2014/15, to one full time officer since 2015/16, with an experienced officer being engaged since early 2016/17 to work solely on HBOP recovery.

This will have contributed to the decrease in HBOP during 2017/18.