

**SOUTH HAMS DISTRICT COUNCIL**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>25 June 2015</b>
<b>REPORT TITLE</b>	<b>INTERNAL AUDIT ANNUAL REPORT 2014/15</b>
<b>Report of</b>	<b>Head of Devon Audit Partnership</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

This report summarises the work undertaken by the Council's Internal Audit Team during 2014/15, 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) Regulation 2011.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2014/15 to the 31<sup>st</sup> March 2015, by:

- Providing a summary of the main issues raised by completed individual audits;
- Showing the progress made by the section against the 2014/15 annual audit plan, reviewed by this Committee in April 2014; and
- Providing an opinion on the adequacy of the Councils control environment.

**Financial implications:**

There are no direct financial implications, the internal audit costs for the year were as budgeted.

**RECOMMENDATIONS:**

**That the Audit Committee notes the internal audit opinion that the Council's systems contain a satisfactory level of internal control.**

**That members note the satisfactory performance and achievements of the Internal Audit Team during 2014/15**

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## **1. BACKGROUND**

1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference A.32/13) and covers:

Purpose, Authority and Responsibility;  
Independence;  
Audit Management;  
Scope of Internal Audit's Work;  
Audit Reporting; and  
Audit Committee.

1.2 The Audit Strategy was updated for 2014/15 and was approved by the Audit Committee in April 2014 (Minute reference A.32/13 refers). It covers:

Objectives and Outcomes;  
Opinion on Internal Control;  
Local and National Risk Issues;  
Provision of Internal Audit; and  
Resources and Skills.

## **2. Assurance Statement**

2.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

2.2 Final audit reports will, if applicable, include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review.

2.3 Details of Internal Audit's opinion on each audit review carried out in 2014/15 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 2014/15, and that of our experience from previous years audit, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework.**

### **3 Key Audit Findings 2014/15**

3.1 As stated above we are, overall, able to provide reasonable assurance on the internal control framework. During the year a number of audit assignments have been completed for which a “fair” audit opinion has been provided (please refer to appendix B for definition of “fair”).

3.2 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. The majority of findings have previously been reported at audit committee meetings during the 2014/15 year.

3.3 **Main Accounting System & Budgetary Control**  
We have downgraded our Audit Opinion from last year as some controls over the main accounting system and budgetary control have not been actioned on a timely basis throughout the year, although we are aware that efforts were underway to bring these up to date before the year end.

We understand that this is largely due to the resource pressures experienced by those officers operating the controls, due to a significant re-organisation of staff and responsibilities during the second half of 2014/15.

3.4 **Creditor Payments (previously reported)**  
Our conclusion was that the creditors system is fulfilling the purpose for which it is intended. Invoices presented to the Council are being processed and paid. However controls can be further improved to both receive the full benefit of a more automated system for processing invoices and to reduce the risk of incorrect payments being made.

3.5 **Payroll**  
The Payroll section is able to meet its objectives in providing accurate payments to staff in a timely manner. There were a number of issues identified where operational controls should be improved.

3.6 **Council Tax (previously reported)**  
The system is operating with generally satisfactory controls but there are still some areas where these can be improved, some relating to previously reported issues.

At the time of the audit management stated that tasks were not being completed due to other demands on staff resources. Managers need to ensure that key tasks are completed promptly and effectively.

3.7 **Business Rates (NDR) (previously reported)**  
The system is operating with generally satisfactory controls but there were some areas that required improvement including:-

- Limited separation of duties linked to the need to consider procedures for the timely and efficient review of long term suppressions;
- Management and review of the suspense account within the Council Tax system.

### 3.8 Benefits (previously reported)

Our work during 2014/15 has highlighted some other areas where the controls over the management of Benefits could be further strengthened, the most significant of which were:

- Users access to the system needs to be reviewed, particularly in light of a number of staffing restructures; and
- The Benefits Technical Team are already investigating ways to simplify the reconciliations for each benefits payments run. Current procedures, whilst not wrong, are complex and time-consuming and rely on the knowledge of a single officer should any discrepancies arise.

### 3.9 Benefits Debtors (previously reported)

We recognise that, in the majority of cases, action has been undertaken by officers to identify and to recover housing benefit debt in line with policy and procedures.

However, we are advised by managers that the effectiveness of procedures is hampered by the restricted functionality of the housing benefit debtors system.

### 3.10 Dartmouth Lower Ferry (previously reported)

The majority of the recommendations made in last year's internal audit report have been implemented, and controls have improved in many areas, but some weaknesses remain in spite of the best efforts of the ferry management and staff.

The service has introduced a new ferry system, using electronic cards, which will improve some of the system weaknesses but as the system is new it also has a number of teething issues that need to be developed before it can provide fully adequate controls.

### 3.11 Risk Management

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

### 3.12 Computer Audit

Generally, arrangements are in place to ensure that the Councils' IT services are delivered in a controlled environment, with procedures in place to manage access, system changes, loss of systems in the event of an emergency, assets etc. However with significant changes having taken place to the Councils' IT systems, working arrangements and staff

in recent months, many of these arrangements may no longer be appropriate or effective.

There are also some areas where further improvements could be implemented to strengthen the resilience of the ICT service and controls over associated systems.

- 3.13 Attached to this report are a number of appendices which provide further information with regards the work completed by internal audit in 2014./15:

**Appendix A** presents a summary of the audit work undertaken together with each audit opinion.

**Appendix B** provides a summary of the key findings from audit reports issued since the last audit committee (12 March 2015).

**Appendix C** provides a brief summary of unplanned work and the results from the work.

**Appendix D** provides a summary of feedback from auditees relating to audits carried out during the year.

#### **4. PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2014/15**

##### *Audit Plan 2014/15*

- 4.1 The 2014/15 audit plan was presented and accepted by the Audit Committee at their meeting of April 2014 (A.33/13 refers).

##### *Impact of Local and National Risks (including T18 Transformation)*

- 4.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated either through the contingency days or by changes to the plan, depending on the significance.

##### *Progress against the Plan*

- 4.3 Progress against the 2014/15 Internal Audit Plan is summarised at **Appendix A**. In summary, the key elements of the plan were completed.
- 4.4 The councils transformation programme (T18) had a direct impact on the internal audit team, with the resources available for internal audit reduced to 2.6 whole time equivalents (from 2.9).
- 4.5 To meet this challenge it was decided that two whole time equivalent auditors be retained in-house and the management supplied externally. After a competitive process it was determined that Devon Audit Partnership would provide the management role.
- 4.6 The changes resulted in a reduction in audit days available and this resulted in a small number of reviews in the original 2014/15 being removed from the plan; these areas will be considered in later years. The

subject areas removed have been previously reported, but included reviews of cemeteries and burials; grounds maintenance and drawing office.

#### Resourcing

- 4.7 Audit resources are affected by sickness and other unforeseen events. Sickness relating to officers within the combined internal audit team equates to 10 days in the period April 2014 to 31<sup>st</sup> March 2015.
- 4.8 It is important to ensure that the team has the right skills to enable them to perform audits effectively; in 2014/15 8 days training was been provided to the audit team.

#### Non Compliance with Contract or Financial Procedure Rules

- 4.9 There are no significant issues to bring to the attention of the Committee for 2014/15.

#### Fraud, Corruption, Bribery and Whistle Blowing

- 4.10 Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Audit Commission runs a national data matching exercise (National Fraud Initiative – NFI) every two years. In October 2014 a number of data sets of information were provided to the Audit Commission and a list of potential matches have now been received. This data is currently being reviewed by management and appropriate action is being taken.
- 4.11 The Council became aware of two potential frauds involving Council Tax refunds, one for each authority. The fraud related to a person paying their annual Council Tax for a new property, using a potentially fraudulent payment method, and then subsequently requesting a refund stating they had vacated the property. Revenue staff have been made aware of the issue and additional controls were agreed between Audit and Revenues to ensure similar cases are only refunded back using the original payment method.

#### Performance Indicators

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

Local performance indicator	2014/15 Target	2014/15 Actual
Percentage of audit plan commenced	95%	100%
Percentage of audit plan completed	95%	99%

Actual audit days as a percentage of planned	95%	98%
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%	1%
Outturn within budget	Yes	Yes

It is very pleasing to note that auditees considered that the team provided a good or excellent service. Further details of customer feedback can be found at Appendix D.

#### Internal Audit – Shared Service

4.13 The following has been achieved this financial year:

Working with Devon Audit Partnership (DAP)

- The MKi audit management system has been installed on the PC’s of the internal audit team. Staff are becoming familiar with the system and formal training was provided in April.

#### Conformance with Public Sector Internal Audit Standards (PSIAS)

4.14 The Internal Audit Team conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in the audit charter which was approved by the Audit Committee in April 2014. The Head of Devon Audit Partnership maintains a quality assessment process which includes review by audit managers of all audit work. Independent external assessment of Devon Audit Partnership (DAP) provides assurance of compliance against the Institute of Internal Auditors Quality Assessment & Public Sector Internal Audit Standards.

### **5. LEGAL IMPLICATIONS**

5.1 Statutory Powers: **Accounts and Audit Regulations 2011.**

### **6. FINANCIAL IMPLICATIONS**

6.1 None, within existing budgets.

### **7. RISK MANAGEMENT**

7.1 The risk management implications follow this table:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011.
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	CIPFA Local Government Application Note for the united Kingdom Public Sector internal Audit Standards 2013; CIPFA Code of Practice for Internal Audit in Local Government 2006; and SHDC 5-year Audit Plan 2010/11 to 2014/15.
<b>Appendices attached:</b>	<b>Appendix A:</b> Progress Against the 2014/15 Internal Audit Plan <b>Appendix B:</b> Audit Assignment Opinions 2014/15. <b>Appendix C:</b> Unplanned Audit Work 2014/15 – Summary of Results. <b>Appendix D</b> – Analysis of auditee feedback 2014/15



### STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity to Make the Best Use of Scarce Audit Resource	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor gains assurance from the work of internal audit. The result is no additional charges being requested to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Head of Devon Audit Partnership
2	Inappropriate Use of Scarce Audit Resource	The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Chief Internal Auditor on the System of Internal Control.	2	2	4	↔	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.	Head of Devon Audit Partnership

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Links with External Audit	The external auditor may gain no assurance from the work of internal audit, potentially resulting in requests for additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	2	2	4	↔	Regular liaison with the external auditor.  Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.  Regular monitoring of progress by the S.151 Officer and the Audit Committee.	Head of Devon Audit Partnership
4	Assurance for the Annual Governance Statement	The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	3	2	6	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee.  Audit approach adheres to the appropriate professional standards.  Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail, should significant resource issue arise.	Head of Devon Audit Partnership

Direction of travel symbols ↓ ↑ ↔

## Progress Against the 2014/15 Internal Audit Plan

## APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	13	■	■	■	■			■		See Appendix B
Creditor Payments	11	■	■	■	■			■		
Payroll	10	■	■	■	■			■		See Appendix B
Council Tax	14	■	■	■	■			■		
Business Rates (NDR)	12	■	■	■	■			■		
Benefits	15	■	■	■	■			■		
Benefits Debtors	5	■	■	■	■			■		
Debtors	10	■	■	■	■		■			
Treasury Management	4	■	■	■	■		■			
Capital Expenditure & Receipts	11	■	■	■	■		■			
<b>Fundamental Systems</b>	<b>105</b>									
Salcombe Harbour	10	■	■	■	■		■			
Dartmouth Lower Ferry	9	■	■	■	■			■		
Street Scene - Car and Boat Parking	9	■	■	■	■		■			
Private Sector Housing Renewal	8	■	■	■	■		■			
Data Quality & Performance Indicators	5	■	■	■	■		■			Strategy only.
Use of Email & Internet	10	■	■	■	■		■			
Computer Audit (see below)	26	-	-	-	-	-	-	-	-	
Grants - RDPE Rural Community LAGs	20	■			■					See below

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Coastal Communities Fund – Accountable Body	7	■	-	-	■	-	-	-	-	Minute reference E.28/12 refers. 5 project and 5 management claims audited.
Follow Up of Previous Year's Audits	10	■	-	-	■	-	-	-	-	
Contingency – advice guidance and other unplanned work	54	67 days used, of which 23 for T18.	-	-	-	-	-	-	-	Includes:- <ul style="list-style-type: none"> <li>• Advice / guidance on new creditors system work</li> <li>• SH election duties</li> <li>• Support re Oct payroll issue</li> </ul>
Corporate Governance	8	■								
Exemptions to Contract or Financial Procedure Rules	5	■	-	-	-	-	-	-	-	16 Exemption applications received and processed in 2014/15, of which 12 accepted.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■				-	-	-	-	Support to, and audit of, process Reports to the July and October 2014 Audit Committees for approval of the Annual Governance Statement.
Risk Management / Business Continuity	3	■	■					■		See below
<b>Other Essential (Revised)</b>	<b>189</b>									
Coast Protection	5	■	■	■	■			■		
Flood Defence and Land Drainage	6	■	■	■	■		■			
Environmental Initiatives including AONB	6	■	■	■	■		■			
Land and Investment Properties	7	■	■	■	■		■			
Democratic Representation including Members	6	■	■	■	■		■			
Community Safety	4	■	■	■	■	■				
Housing Standards	3	■	■	■	■		■			

## Progress Against the 2014/15 Internal Audit Plan

## APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Pest Control	1	■	■	■	■	■				
Beach Cleaning	6	■	■	■	■		■			
Non distributed costs including Redundancies	5	■								
Economic Development	5	■	■	■	■	■				
Advice to RM/ Information Compliance/Other Groups	3	-	-	-	-	-	-	-	-	
Shared Services	5	■	■	■	■		■			
Sustainability	4	■	■	■	■		■			
T18 Transformation Programme	5	■	■	■	■		■			See Appendix B
Counter Fraud Work	10	■	■	■	■		■			
<b>Other (Revised)</b>	<b>81</b>									

<b>Computer audit (referred to above)</b>										
Installation & Healthcheck	7	■	■					■		See Appendix B
Computer & Network Management and Security	9	■	■					■		See Appendix B
Change Control	7	■	■					■		See Appendix B
Other Reviews including Internet Controls	3	■	■					■		See Appendix B
<b>Computer Audit</b>	<b>26</b>									

**Progress Against the 2014/15 Internal Audit Plan**

**APPENDIX A**

<b>Overheads</b>											
Audit Administration	15	14 days used	-	-	-	-	-	-	-	-	Includes team briefings, staff voice etc.
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 committee</li> </ul>	46	31 days used	-	-	-	-	-	-	-	Includes attendance at Audit Committee.	
Training	12	8 days used	-	-	-	-	-	-	-	-	
Miscellaneous e.g. CPR, FPR etc.	5	1 days used	-	-	-	-	-	-	-	-	Update of CPR
<b>Total (Revised)</b>	<b>78</b>	54 days used									
<b>Overall Total (Revised)</b>	<b>453</b>										From 518 days

## Audit Assignment Opinions 2014/15

The following tables provide a summary of the **audit opinion** and main issues raised in the reports issued to managers since the last audit committee (March 2015).

### Opinion Definitions

#### **Excellent**

The areas reviewed were found to be well controlled; internal controls are in place and operating effectively. Risks against the achievement of objectives are well managed.

#### **Good**

The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.

#### **Fair**

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

#### **Poor**

Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

Subject	Audit Findings	Management Response
<p><b>Main Accounting System &amp; Budgetary Control</b> <b>(Final report)</b></p>	<p><b>Audit Opinion</b></p> <p><i>Fair</i></p> <p><b>Conclusions</b></p> <p>We have downgraded our Audit Opinion from last year as some controls over the main accounting system and budgetary control have not been actioned on a timely basis throughout the year, although we are aware that efforts were underway to bring these up to date before the year end.</p> <p>We understand that this is largely due to the resource pressures experienced by those officers operating the controls, due to a significant re-organisation of staff and responsibilities during the second half of 2014/15.</p> <p>We were able to confirm that the agreed actions to the 2013/14 internal audit reports have been implemented or are under way.</p> <p>The main issues where action can be taken to further strengthen controls include:</p> <ol style="list-style-type: none"> <li>1. The bank reconciliation - the balancing of the daily and cumulative reconciliation has fallen behind at both authorities;</li> <li>2. Ensuring that all reconciliations of control accounts are undertaken on a timely basis, that they are reviewed by a second officer and that these actions are evidenced;</li> <li>3. Ensuring that suspense accounts are regularly reviewed on a timely basis; &amp;</li> <li>4. Ensuring that user access rights to the main financial information system remain up to date and that leavers are removed promptly.</li> </ol>	<p>1. Bank Reconciliation - this was partly due to resource pressures and partly due to the fact that in 2014/15 both Councils changed their bank accounts to move to Lloyds Bank. There were complications with the uploading of bank files into the main accounting system which had a knock on impact on the bank reconciliation process.</p> <p>This has been rectified and in 2014/15 all bank reconciliations balanced to zero. Currently daily reconciliations are fully reconciled unless the automatic ICT downloads prevent this from happening.</p> <p>With effect from May 2015, the bank reconciliation process for both Councils has been aligned and are now carried out in the same way.</p> <p>2 &amp; 3. Control and Suspense Accounts - officers were aware of the issues and additional temporary resources were brought in to assist with this before the closedown of the 2014/15 Accounts. The second Monday of every month has been put aside to sign off the control accounts that sit within the Service Processing Team.</p> <p>4. User Access Rights - this has been discussed at the Support Services COP meeting and all leavers will be promptly removed from information taken from the leavers form.</p>



<p><b>Payroll</b> <b>(Final report)</b></p>	<p><b>Audit Opinion</b></p> <p><i>Fair</i></p> <p><b>Conclusions</b></p> <p>Some controls over the system were not in place at the time of the audit, although we are aware that efforts were underway to bring these up to date before the year end.</p> <p>We understand that this is largely due to the resource pressures experienced by those officers operating the controls, due to a significant re-organisation of staff during the second half of 2014/15.</p> <p>The main issues where action can be taken to further strengthen controls include:</p> <ol style="list-style-type: none"> <li>1. Access to the payroll system should be restricted to current authorised staff and all previous users disabled;</li> <li>2. Future processes, such as travel claims, are likely to be input to the payroll system directly by staff and a robust system of checks and control needs to be established to prevent error and fraud;</li> <li>3. An issue arose during the audit where errors in processing BACS payments meant that salary payments for October had to be processed individually. System procedures need to be improved to ensure that this and similar issues do not re-occur in the future; and</li> <li>4. Due to pressures on staff the reconciliation of the payroll control accounts have not been regularly maintained; these should be promptly completed.</li> </ol>	<ol style="list-style-type: none"> <li>1. An audit of personnel with access to the system will be completed by end of April 2015.</li> <li>2. Processes for staff, clarity on expectations and behaviours as well as the control processes are still to be completed prior to any roll-out. A review of the controls and management and reporting of these will be completed by SLT and reviewed by Audit prior to implementation.</li> <li>3. This was due to human error, this has been addressed by introducing an additional check by a second individual and the processing date has been changed to allow for extra time prior to processing and checking.</li> <li>4. This has now been rectified and the processes have been verified by one of the senior accountants. The reconciliation of the control accounts are now defined within the key tasks part of the responsibilities of the team and will be carried out monthly.</li> </ol>
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<p><b>Risk Management</b> <b>(Draft report)</b></p>	<p><b>Audit Opinion</b></p> <p><i>Fair</i></p> <p>There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.</p> <p>We have given this opinion based on the current system at the time of the audit and are aware that future changes to the system will further strengthen the control over the risks identified.</p> <p><b>Conclusions</b></p> <p>We have raised a number of recommendations that have been previously reported and we have identified that due to the significant changes undertaken by the Councils the overall commitment to managing current and emerging strategic and operational risks is in need of a fundamental review as monitoring and formal recording has declined.</p> <p>Indeed the formal Operational Risk Register within Covalent has been rendered inactive because it was not being used, with reliance placed on old Service Blueprint risk registers. The future of the Service Blueprints is also in doubt due to the fundamental changes occurring across services.</p> <p>The Corporate Risk Management Group, which provides a more detailed review of corporate risks and some operational risk, has not met for over 6 months and so has not fed issues into the risk management process.</p> <p>We have raised the need to have a more central method of recording and reporting on operational risks, including projects, and the need to update Covalent as a reporting tool.</p> <p>We have reported on issues, also identified in related 2014/15 audit reports, in relation to corporate business continuity planning and data protection and the risks these entail for the Councils.</p>	<ul style="list-style-type: none"> <li>• Consideration will be given to the Statutory Officers Panel picking up the areas that the Risk Management Group covered previously, to ensure coverage from a corporate overview perspective. Others can be invited along for that item for input (previously assisted by Insurance officers and H&amp;S officer) once identified where this lies.</li> </ul>
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	<p>The Councils Risk Management Strategy and Policy will need updating and new member, management and staff will need information and training on risk management.</p>	
<p><b>T18 Transformation Programme</b> <b>(Final report)</b></p>	<p><b>Audit Opinion</b></p> <p><b>Good</b></p> <p>The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p><b>Conclusions</b></p> <p>We have raised some issues in the detailed appendix to the report, the most significant areas being:</p> <ul style="list-style-type: none"> <li>• There have been significant changes in senior management at both councils; in light of these changes, and the significance of the T18 programme on service delivery, we consider there is a need to review project governance arrangements to ensure they meet expectations and are effective in practice;</li> <li>• This is an ambitious transition programme and the Executive Directors need to ensure that there is a robust plan and sufficient and appropriate resources to deliver the programme on target and within the agreed budgets;</li> <li>• Due to the requirement for delivery from a number of internal and external sources there is a need to ensure that the main technical contractor is able to deliver the agreed programme objectives to plan and that related third party contractors and the Council resources are in place;</li> <li>• The Councils are entering the second critical phase (1b) with a significant volume of redundancies and potential recruitment required; good financial planning will be required to identify and control the delivery of the programme and budgeted costs; and</li> <li>• The Council will need clear guidelines and controls on the processing and management of electronic data.</li> </ul>	<ul style="list-style-type: none"> <li>• Plans are in place to deliver the projects to agreed timescales. Resources are being monitored and managers are keeping SLT aware of requirements.</li> <li>• The Programme Board meet regularly to review the project and agree plans in conjunction with the Programme Delivery Groups. A programme is in place to identify the key projects to be delivered, their priority and ensure effective resources are in place.</li> <li>• Following phase 1b there has been an analysis undertaken of resources and this has been matched to the current programme plan.</li> <li>• The financial position is subject to close scrutiny and is reviewed at the Programme Board. The current budget shows an overall underspend with some small overspends in areas such as furniture and consultancy.</li> <li>• Good communication is now in place with the contractors and although there are some issues overall the delivery of work is to agreed timescales, within programme schedules and to agreed budgets.</li> <li>• We are working on at present to deliver to staff and members a clear policy and procedure for them to follow regarding the evaluation and use of data in the future.</li> </ul>

<p><b>ICT Audits</b> <b>(Draft report)</b> <b>Installation &amp; Healthcheck</b> <b>Computer &amp; Network Management and Security</b> <b>Change Control</b> <b>Other Reviews including Internet Controls</b></p>	<p><b>Audit Opinion</b></p> <p><i>Fair</i></p> <p>There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.</p> <p><b>Conclusions</b></p> <p>Generally, arrangements are in place to ensure that the Councils' IT services are delivered in a controlled environment, with procedures in place to manage access, system changes, loss of systems in the event of an emergency, assets etc.</p> <p>However with significant changes having taken place to the Councils' IT systems, working arrangements and staff in recent months, many of these arrangements may no longer be appropriate or effective.</p> <p>There are also some areas where further improvements could be implemented to strengthen the resilience of the ICT service and controls over associated systems, the most significant of which are:</p> <ul style="list-style-type: none"> <li>• The ICT Security Policy and associated documents need to be reviewed, updated, issued jointly across both authorities and brought to the attention of staff and members;</li> <li>• The ICT Business Continuity Plan needs to be reviewed and updated to account for the new systems and service delivery arrangements under T18. This needs to include the resilience of IT systems, the Councils websites and IT-specific disaster recovery arrangements;</li> <li>• The IT hardware and software inventory needs to be reviewed and updated, which we understand will be facilitated by the installation of more sophisticated service desk software during 2015/16;</li> <li>• Staff need to be made aware of their responsibilities under the Data Protection Act, including when storing or transmitting data electronically; &amp;</li> </ul>	<ul style="list-style-type: none"> <li>• Data Protection - a new Joint Policy has now been completed and Member training (FOI/Data</li> </ul>
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	<ul style="list-style-type: none"> <li>The need to ensure formal procedures are in place for the management of change controls, which again we understand will be facilitated by the installation of more sophisticated service desk software during 2015/16.</li> </ul>	<p>Protection) to be undertaken on 9 June for both Councils.</p>
<p><b>LAGS</b> <b>No report issued</b></p>	<p>South Hams District Council, in association with several partner organisations, submitted two bids to Defra for funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m being awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m being awarded to the Greater Dartmoor Local Enterprise Action Fund (LEAF).</p> <p>The Council is the agreed Accountable Body for both the LAG and the LEAF and therefore takes responsibility for the legal and financial management of the grants awarded to the programmes, overseeing the allocation and spend of the funding.</p> <p>The LAG and the LEAF each have a Steering Group which approves the allocation of the funding to a range of individual projects. Every project must submit a grant claim on a quarterly or monthly frequency to draw down funding.</p> <p>The Council is required to have arrangements in place to audit each grant claim submitted by the projects, to exacting standards set by Defra. This is to ensure that the projects are only claiming funding against eligible expenditure as approved by the Steering Groups.</p> <p>Our audit work also ensures that the Council has suitable arrangements in place to control the grants and to capture the necessary data to make the required returns.</p> <p>We are also required to compile quarterly 'Management &amp; Administration' claims, including detailed supporting evidence, which allow the Council to draw down funding against officer time spent on administering the LAG and the LEAF.</p>	

## Unplanned Audit Work 2014/15 – Summary of Results

Description	Main Issues
<p>Minor enquiries and issues investigated, including some planned work, which by its nature does not require a report. Resourced from the <b>contingency</b> line of the audit plan.</p>	<ul style="list-style-type: none"> <li>• General procurement and disposal rules advice;</li> <li>• General ICT issues;</li> <li>• General Finance issues;</li> <li>• Advice and review of updated finance software including ordering system and creditor payments;</li> <li>• Dartmouth Ferry – advice and assistance re new software;</li> <li>• T18 Transformation – various;</li> <li>• Advice re RDPE LAGs Accountable Body;</li> <li>• Minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies &amp; strategies.</li> </ul>

**APPENDIX D**

**Analysis of Auditee Feedback 2014/15**

Number of surveys returned = 7	<u>EXCELLENT</u>	<u>GOOD</u>	<u>ADEQUATE</u>	<u>POOR</u>	<u>NO RESPONSE</u>
<b>(A) AUDIT PLANNING</b>					
1. Consultation on audit coverage	4	3	0	0	0
<b>PERCENTAGE</b>	<b>57.1</b>	<b>42.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
2. Relevance of stated objectives	5	2	0	0	0
<b>PERCENTAGE</b>	<b>71.4</b>	<b>28.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
3. Fulfilment of scope and objectives	5	2	0	0	0
<b>PERCENTAGE</b>	<b>71.4</b>	<b>28.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>OVERALL PERCENTAGE (A)</b>	<b>66.7</b>	<b>33.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>(B) QUALITY OF AUDIT REPORT</b>					
1. Clarity of report	5	2	0	0	0
<b>PERCENTAGE</b>	<b>71.4</b>	<b>28.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
2. Accuracy of findings	7	0	0	0	0
<b>PERCENTAGE</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
3. Presentation of conclusions	5	2	0	0	0
<b>PERCENTAGE</b>	<b>71.4</b>	<b>28.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
4. Value of audit recommendations	4	3	0	0	0
<b>PERCENTAGE</b>	<b>57.1</b>	<b>42.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>OVERALL PERCENTAGE (B)</b>	<b>75.0</b>	<b>25.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>(C) COMMUNICATION</b>					
1. Feedback of findings during audit	7	0	0	0	0
<b>PERCENTAGE</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
2. Consultation by auditors	7	0	0	0	0
<b>PERCENTAGE</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
3. Helpfulness of auditors	7	0	0	0	0
<b>PERCENTAGE</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
4. Professionalism of audit team	7	0	0	0	0
<b>PERCENTAGE</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
5. Prompt delivery of the audit report	7	0	0	0	0
<b>PERCENTAGE</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>OVERALL PERCENTAGE (C)</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>PERCENTAGE OVERALL</b>	<b>83.3</b>	<b>16.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>