

Report to: **Audit Committee**  
Date: **24 September 2015**  
Title: **UPDATE ON PROGRESS ON THE 2015/16  
INTERNAL AUDIT PLAN**  
Portfolio Area: **Support Services – Cllr S Wright**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny Panel

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

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

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**Recommendations:**

**It is recommended that the progress made against the 2015/16 internal audit plan, and any key issues arising are noted.**

**1. Executive summary**

- 1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2015/16 to the 31 August 2015, by:
  - Providing a summary of the main issues raised by completed individual audits; and
  - Showing the progress made by Internal Audit against the 2015/16 annual internal audit plan, as approved by this Committee in April 2015.

**2. Background**

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

The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

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

### **3. Outcomes/outputs**

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

In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Overall, and based on work performed to date during 2015/16 and that of our experience from previous years' audits, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework.

- 3.1 The 2015/16 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.
- 3.2 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.
- 3.3 **Appendix C** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

#### 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

This is considered on an audit by audit basis.

#### 6. Implications

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

and Disorder		
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

#### **Background Papers:**

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

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

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

**APPENDIX B**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
MAS & Budgetary Control	6									
Banking Arrangements (see cash collection below)	5	■	■	■	■			■		Combined report including cash collection - Summary in App B below.
Creditor Payments	10									
Payroll	10									
Council Tax	10									
Business Rates (NNDR)	10									
Benefits Payments	10									
Treasury Management	5									
<b>Main Financial Systems</b>	<b>66</b>									
Cash Collection (see banking above)	5	■	■	■	■			■		Combined report including cash collection - Summary in App B below.
VAT	10	■	■				■			Draft report issued 28.08.2015
Procurement and Contract Management	10	■	■					■		Draft report issued 17.07.2015
ICT Service Operation	26									
Internet Monitoring	4	■	■	■	■			■		Issued as a combined report – summary in App B below.
Email Monitoring	4	■	■	■	■			■		
Performance Management - PIs	10									
Performance Management –Data Quality	5									
Risk Management	15									

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Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion (final reports only)				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
T18 Transformation Programme	10									
Leisure Centres	10									
Marketing & Tourism	2	■	■				■			Draft report issued 13.08.15
Household Waste Collection	7									
Trade Waste	5									
Recycling	5	■								
Grounds Maintenance	5	■	■				■			
Dartmouth Lower Ferry	8									
Street Scene - Car & Boat Parking	8									
Salcombe Harbour	8									
Housing Advice	5	■	■				■			Combined draft report issued 14.07.2015
Homelessness	5	■	■				■			
Building Regulations	7									
Development Control (Enforcement)	10									
Corporate Governance Annual Governance Statement (AGS)	6									Review of the Code of Corporate Governance presented to June 2015 Audit Committee under separate cover.
Corporate Governance (inc Gifts & Hospitality)	5									
Culture & Ethics	6									
Coastal Communities Fund Accountable Body		■								Unplanned work – time to come from contingency - estimate 7 days based on 2014/15 work..

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Grants –Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)		■								50 days unplanned work - audit time to be recharged to project to provide.
Counter Fraud Work	10	■								
Advice to Information Compliance & Other Groups	5									
Complaints	5	■								
Business Continuity / Emergency Planning	5									
Follow Up of Previous Year's Audits	10	■				-	-	-	-	
Contingency (Unplanned) & Advice	20	-	-	-	-	-	-	-	-	
Audit Management, including • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit	18	■	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report represented Audit Committee on 25 June 2015.
<b>Other Systems &amp; Audit Work)</b>										
<b>Overall Total</b>	<b>345</b>									

## Planned Audit 2015/16 – Final Reports

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

### Definitions of Audit Assurance Opinion Levels

#### High Standard

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

#### Good Standard

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

#### Improvements Required

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

#### Fundamental Weaknesses Identified

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



## Planned Audit 2015/16 – Final Reports

Subject	Audit Findings	Management Response
<p><b>Cash Collection (inc banking arrangements)</b></p>	<p><b>Audit Opinion</b></p> <p><b>Improvements Required</b> - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p> <p><b>Conclusions</b></p> <p>Cash and cheque receipts are processed promptly and can be trailed through both the cash-receipting system and the main accounting system. Bankings are made on a regular basis and the bank reconciliation provides confirmation that monies recorded in the cash-receipting system are credited to the Councils' bank accounts.</p> <p>There are however some areas where controls could be strengthened. The key issues highlighted are:</p> <ol style="list-style-type: none"> <li>1. The use of generic logins and/or shared tills;</li> <li>2. The forwarding of cheques to departments without a record being maintained of details; and</li> <li>3. The need to ensure that the Councils' bank suspense accounts are regularly reviewed and cleared.</li> </ol>	<ol style="list-style-type: none"> <li>1. This has been reviewed. There is only one area - SH Reception using a generic log-in, all other users have individual log-ins. The one generic log-in will be replaced by end of September. With regards to shared tills, this does not present a high risk at any of the sites, as the floats are checked daily and individual cash-ups are balanced daily.</li> <li>2. Cheques received in the post at KP are now sent direct to SH for processing through the cash office. We are working towards all cheques being processed in this way.</li> <li>3. A revised process has been instigated. A specific day each month has been put aside to sign off the clearance of suspense accounts that sit within the Service Processing Team.</li> </ol>

<p><b>Internet and Email Use</b></p>	<p><b>Audit Opinion</b></p> <p><b>Good Standard</b> - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p><b>Conclusions</b></p> <p>The software in use by the Council is able to block undesirable email, websites and files and from testing undertaken. We are pleased to be able to report that the majority of internet access is conducted within the guidelines adopted by the Council.</p> <p>Some areas where controls could be further enhanced are detailed below:</p> <ul style="list-style-type: none"> <li>• Updated policies regarding email and internet use have not been issued to staff and users are not regularly reminded of the policies key issues;</li> <li>• A system is not in place to update the internet and email software to the latest supplier release and place assurance that the software has been tested to expected criteria or in line with Council policies; and</li> <li>• There is no formal plan for the review of internet or email use across the Councils.</li> </ul>	<p>The Council received its security compliance with the Cabinet Office's code of connection for 2015-16.</p> <p>The team will be reviewing change control and release management processes before the end of 2015, utilising the new IT support desk software to provide additional assurance.</p>
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## Planned Audit 2015/16 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2014/15 financial year. The S151 Officer presented the 2014/15 AGS to the Audit Committee on 30 July 2015 with the draft accounts.</p>
<b>Exemptions to Financial Procedure Rules</b>	None to date.