

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	13 June 2013
REPORT TITLE	INTERNAL AUDIT – ANNUAL REPORT and OPINION ON THE ADEQUACY OF INTERNAL CONTROL 2012/13
Report of	Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to summarise and inform members of the principal activities of the Internal Audit section of Finance & Audit during 2012/13, by:

- Showing the progress made by the section against the 2012/13 audit plan reviewed by members in April 2012;
- Providing an Opinion on the adequacy of the Council's control environment;
- Outlining any significant findings and the action taken by managers to address the recommendations; and
- Providing a summary of the main issues raised by individual audits.

The report links with the separate report to this Committee on the Effectiveness of the System of Internal Audit, and the three previous quarterly reports for 2012/13 on progress against the audit plan.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

It is recommended that the Audit Committee note this report and the Chief Internal Auditor's Opinion on the Adequacy of Internal Control.

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1. BACKGROUND

- 1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2012 (Minute reference A.36/11) and cover:

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 2012/13 and was approved by the Audit Committee in April 2012 (Minute reference A.36/11 refers) and covers:

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

Annual Governance Statement (AGS)

- 1.3 As part of the system required to allow the AGS to be signed by the most senior member and officer of the Council, reviewed by the Audit Committee (separate report to the Audit Committee of 18th July 2013) and approved by the Council, the head of internal audit must include an opinion of the adequacy and effectiveness of the control environment.
- 1.4 Details of any weaknesses that qualify this opinion and issues relevant to the preparation of the AGS must also be disclosed.
- 1.5 An annual Review of the Effectiveness of the System of Internal Audit must also support this Opinion. The Effectiveness of the System of Internal Audit has been reviewed and reported to this Committee under separate cover. The satisfactory result provides assurance for the Chief Internal Auditor's Opinion.

Chief Internal Auditor's Opinion on the Adequacy of Internal Control

- 1. The Chief Internal Auditor has concluded that the Council's overall control environment is adequate and effective for the purposes of the 2012/13 Annual Governance Statement.***
- 2. This opinion is based on the work done and opinions as set out in Appendix A, further details of which are included in Appendices B, C, and D of this report.***
- Appendix A shows that of 39 reports issued carrying an Opinion: **2** were graded **Excellent**; **29 Good**, **8 Fair** and **0 Poor**.

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2012/13

Audit Plan 2012/13

- 2.1 The 2012/13 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2012 (A.37/11 refers).

Local and National Risk Based Amendments to the Plan

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 There was one minor amendment to the 2012/13 audit plan, with an extra 5 days used at West Devon (recharged accordingly) instead of the service provided to Dartmouth Town Council.
- 2.4 As reflected in the report to this Committee on the effectiveness of the system of internal audit, 99% of the overall audit plan (100% at West Devon, 99% South Hams) has been completed, with only Risk Management carried forward to the 2013/14 audit plan (April 2013 Audit Committee).

Progress against the Plan

- 2.5 The 2012/13 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.
- 2.6 **Appendix B** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.
- 2.7 **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.

Other Related Reviews

- 2.8 **Appendix D** provides a summary of other related work carried out by Grant Thornton on behalf of the Council, and which contributes to the assurance provided to the Council in the areas reviewed: Employment Tax (PAYE) and Value Added Tax (VAT).

Non Compliance with Contract or Financial Procedure Rules

2.9 There are no significant issues to bring to the attention of the Committee for 2012/13.

Fraud, Corruption or Bribery and Whistle Blowing

2.10 No actual, suspected or allegations of fraud, corruption or bribery have been identified during 2012/13, outside of benefit fraud. The Council informed the Audit Commission in their annual fraud survey that for 2012/13 there were 24 cases of benefit fraud. Four of these cases were prosecuted.

2.11 We are unaware of any whistle blowing reports in 2012/13.

3. LEGAL IMPLICATIONS

3.1 Statutory Powers: **Accounts and Audit Regulations 2003, 2006, 2011**

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications follow this table :

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2011
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
Appendices attached:	Appendix A: Audit Plan 2012/13 – Final Position Exempt Appendix B: Planned Audit 2012/13 – Final Reports: Summary of Results Exempt Appendix C: Unplanned Audit 2012/13 Exempt Appendix D: Summary of Grant Thornton PAYE & VAT audits.

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 of 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 places reliance upon the work of internal audit, resulting in no 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.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Chief Internal Auditor
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.	Chief Internal Auditor

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 gaining no assurance from the work of internal audit, resulting in 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.	Chief Internal Auditor
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.	2	2	4	↔	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.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2012/13 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	■	■	■	■		■			Summary to Audit Committee - June 2013
Creditor Payments	11	■	■	■	■		■			Summary to Audit Committee - June 2013
Payroll	10	■	■	■	■		■			Summary to Audit Committee - June 2013
Council Tax	14	■	■	■	■			■		Summary to Audit Committee - April 2013
Business Rates (NDR)	12	■	■	■	■			■		Summary to Audit Committee - April 2013
Benefits	20	■	■	■	■		■			Summary to Audit Committee - June 2013
Debtors	10	■	■	■	■		■			Summary to Audit Committee - June 2013
Treasury Management	7	■	■	■	■	■				Summary to Audit Committee - June 2013
Capital Expenditure	8	■	■	■	■		■			Summary to Audit Committee - June 2013
Fundamental Systems	105									
Salcombe Harbour	10	■	■	■	■		■			Summary to Audit Committee - April 2013
Dartmouth Lower Ferry	9	■	■	■	■		■			Summary to Audit Committee - January 2013
Street Scene - Car and Boat Parking	9	■					■			Summary to Audit Committee - June 2013
Private Sector Housing Renewal	8	■	■	■	■		■			Summary to Audit Committee - January 2013
Data Quality & Performance Indicators	5	■	■	■	■			■		Summary to Audit Committee - April 2013
Email Monitoring	4	■	■	■	■		■			Summary to Audit Committee - January 2013
Internet Monitoring	4	■	■	■	■		■			Summary to Audit Committee - January 2013
Computer Audit	26	-	-	-	-	-	-	-	-	See detailed table at the end of this Appendix.
Grants - RDPE Rural Community LAGs	50	63 days used	-	-	-	-	-	-	-	120 Project claims audited; plus 49 Management & Admin invoices.

Progress Against the 2012/13 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	
Follow Up of Previous Year's Audits	10	5 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	55	57 days used	-	-	-	-	-	-	-	
Corporate Governance	8	■	■	■	■	-	-	-	-	Presented to June 2013 Audit Committee under separate cover.
Exemptions to Contract or Financial Procedure Rules	5	2.5 days used	-	-	-	-	-	-	-	12 Exemption applications received and processed April 2012 to March 2013.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■		■			AGS recommended to the Council for approval following report to the Audit Committee - July 2012. AGS published September 2012. Audit report summary to Audit Committee - September 2012
Risk Management / Business Continuity	5	C/Fwd	-	-	-	-	-	-	-	Carried forward to 2013/14 plan, Quarter 1.
West Devon Borough Council	95 + 5	121 days used	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee ##
<i>Dartmouth Town Council</i>	<i>5 - 5</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>Arrangement ended by Town Council.</i>
Other Essential	307									
Community Parks and Open Spaces	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Building Maintenance	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Print Room	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Health and Safety at Work	9	■	■				■			Summary to Audit Committee - June 2013
Pannier Markets	9	■	■	■	■			■		Summary to Audit Committee - January 2013
Insurance	9	■	■	■	■			■		Summary to Audit Committee - April 2013
Complaints System	5	■	■	■	■			■		Summary to Audit Committee - September 2012
Building Control	5	■	■	■	■		■			Summary to Audit Committee - January 2013
Capital Receipts & Grants	5	■	■	■	■		■			Summary to Audit Committee - April 2013

Progress Against the 2012/13 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	
Inventories	3	■	■	■	■		■			Summary to Audit Committee - April 2013
Procurement	10	■	■	■	■		■			Summary to Audit Committee - June 2013
Schemes with Other Organisations	9	■	■	■	■		■			Summary to Audit Committee - January 2013
Land Charges including Street Naming	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Major Developments (including Sherford)	6	■	■				■			Summary to Audit Committee - January 2013
Advice to Information Compliance/Other Groups	3	2 days used	-	-	-	-	-	-	-	
Asset Management	7	■	■				■			Summary to Audit Committee - June 2013
Corporate Management Cost Centre	6	■	■	■	■	■				Summary to Audit Committee - January 2013
Shared Services	5	■	■	■	■		■			Summary to Audit Committee - January 2013 13.9 days used also includes 2015 Project Management; visit to Vale of White Horse D.C. and drafting Financial Procedure Rules.
Other	127									
Audit Administration	20	15 days used	-	-	-	-	-	-	-	
Audit Management, including Audit Planning	20	17 days used	-	-	-	-	-	-	-	
Audit Monitoring against the Plan, including Reports to Management and Audit Committee	15	13 days used	-	-	-	-	-	-	-	
Training	10	9.5 days used	-	-	-	-	-	-	-	
Miscellaneous e.g. Financial Procedure Rules	5	2 days used	-	-	-	-	-	-	-	
Overheads - total	70	56.5 days used								
Overall Total	601									

Progress Against the 2012/13 Internal Audit Plan

APPENDIX A

Included above:										
Installation & Healthcheck	7	■	■	■	■		■			Summary to Audit Committee - June 2013
Departmental IT/Cost Effectiveness	7	■	■	■	■		■			Summary to Audit Committee - June 2013
Project Management and Systems Development	8	■	■	■	■		■			Summary to Audit Committee - June 2013
Other Reviews	4	-	-	-	-	-	-	-	-	Planned as advice re 2015 Transformation Programme – used for part of 9 day secondment to new Website Project.
Computer Audit	26									

Planned Audit 2011/12 and 2012/13 – Final Reports Issued

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.**

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.

Planned Audit 2011/12 – Final Reports Issued

September 2012 Audit Committee

Print Room Issued 26.07.2012 **Good**

Community Parks and Open Spaces Issued 30.07.2012 **Good**

Building Maintenance Issued 02.08.2012 **Good**

Complaints and Compliments System Issued 09.08.2012 **Fair (0 high priority recommendations)**

Land Charges including Street Naming Issued 13.08.2012 **Good**

Planned Audit 2012/13 – Final Reports Issued (continued)

September 2012 Audit Committee (continued)

System of Internal Control and Annual Governance Statement Issued 13.08.2012 **Good**

January 2013 Audit Committee

Major Developments - Sherford Issued 06.09.2012 **Good**

Schemes with Other Organisations Issued 27.09.2012 **Good**

Shared Services Issued 04.10.2012 **Good**

Use of Internet and Email Issued 09.10.2012 **Good**

Corporate Management Cost Centre Issued 11.10.2012 **Excellent**

Pannier Markets Issued 12.10.2012 **Fair**

Travel and Subsistence (Follow Up) Issued 26.09.2012 **Good**

Building Control Issued 30.10.2012 **Good**

Leisure Client (Follow Up) Issued 08.10.2012 **Fair**

Payroll (Follow Up) Issued 26.09.2012 **Good**

Dartmouth Lower Ferry Issued 30.10.2012 **Good**

Private Sector Housing Renewal Issued 22.10.2012 **Good**

April 2013 Audit Committee

Salcombe Harbour Issued 12.12.2012 **Good**

Insurance Issued 13.12.2012 **Fair**

Data Quality and Performance Indicators Issued 13.12.2012 **Fair**

Capital Receipts and Grants Issued 22.01.2013 **Good**

Inventories Issued 23.01.2013 **Fair**

Non Domestic Rates (NDR) Issued 30.01.2013 **Fair**

Council Tax Issued 26.02.2013 **Fair**

Planned Audit 2012/13 – Final Reports Issued (continued)

June 2013 Audit Committee

Subject	Audit Findings	Management Response
<p>Payroll Issued 08.03.2013</p>	<p>Good The Payroll section is able to meet its objectives in providing accurate payments to staff in a timely manner. The key issues identified are:</p> <ul style="list-style-type: none"> • Changes to pay and grading following pay and grading reviews are submitted to the relevant Strategic Director for approval but no formal record of this was held; • The Head of Corporate Services should consider the recommendations made in the Grant Thornton Employment Taxes Review report and make prompt amendments where appropriate 	<p>Agreed, although confirmation is sought from the Strategic Director this will be supported by written confirmation.</p> <p>The Personnel Manager and Payroll Officer are working on the issues raised in the report and liaising with the Council's Chief Internal Auditor.</p>
<p>Treasury Management Issued 27.03.2013</p>	<p>Excellent Our conclusion regarding the Treasury Management system is that controls are in place and operating over daily investments. All the investments that we sampled were in line with the Treasury Management policy and strategy.</p>	<p>Three minor issues were raised and an appropriate action plan agreed.</p>
<p>Health and Safety Issued 02.04.2013</p>	<p>Good Following the introduction of shared working between the two Councils, officers are working to provide a more unified set of procedures and policies for Health and Safety, However there are still a number of areas this could be improved, including:</p> <ul style="list-style-type: none"> • A process or recording inspections, certificates and requirements for examination of health and safety and risk in one central location or system; • An updated joint record of guidance, procedures and policies shared across both authorities; • A central employee protection register or policy. 	<p>Agreed, a process of including these records on Concerto, a central database of asset information, is underway.</p> <p>Agreed this is an area that needs updating. A number of policies and guidance are in draft and awaiting final approval and will be published on the intranet. Agreed, this is something the Council needs to consider and put into operation across all services.</p>

Planned Audit 2012/13 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Benefits Issued 19.03.2013</p>	<p>Good The benefits system ensures that the right people are paid the right amount of benefit at the right time. However, there remain some outstanding issues that will further strengthen the controls over the management of Benefits, the most significant of which are:</p> <ul style="list-style-type: none"> • Claims are currently reviewed when a data match under the NFI or HBMS schemes give a result, or if a Benefits Assessor has cause to look at a claim and finds that it has not been reviewed for some time. There is no formal programme of review encompassing all claims; • Several instances of One Strike Loss of Benefit Notifications for Benefit fraud were found to have not been actioned; and • There are several areas in the management of fraud investigations where procedures could be strengthened, including introducing a procedure manual, reviewing work by the Fraud Team Leader, plus a number of administrative matters. <p>The recommendations have been made with regard for the changes to the benefits system which will be introduced from April 2013. However the issues raised remain applicable despite these changes.</p>	<p>The reporting tools on the Benefits software will be investigated with a view to producing a report which lists those claims where there has been no action or change of circumstances for twelve months and sending review forms out to these claimants.</p> <p>The Benefits Team Manager will ensure that procedures allow for One and Two Strike sanctions received from DWP to be actioned promptly</p> <p>Agreed, this includes a SHDC fraud hotline leading to an answer phone is to be publicised on the website, which Fraud staff can also dial into. An anonymous reporting form is also to be published, which will be returned directly to SHDC.</p>
<p>Main Accounting and Budgetary Control Issued 30.04.2013</p>	<p>Good There are no major issues to report relating to the main accounting system or budgetary control. However, a small number of minor issues were identified where controls could be improved, including: ensuring that access rights to the General Ledger remain appropriate and are promptly removed for leavers.</p>	<p>The Acting Head of Finance & Audit (MT) will arrange for access to be removed for those officers who no longer work for the Council, although the risk is mitigated by removal by ICT of the wider log in.</p>

Planned Audit 2012/13 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Capital Expenditure Issued 18.04.2013</p>	<p>Good The system for controlling capital expenditure is in place and operating satisfactorily. The key issues identified during the audit are:</p> <ul style="list-style-type: none"> • Relatively minor issues and reminders relating to construction project management, documentation and audit trails; • For one specific project, the need for either the Member approval to be revised as certain additional costs have been added that did not feature in the approval, or, the additional costs charged to the appropriate revenue budgets; and • For one area of capital expenditure, the approval had been exceeded but the position recovered through the intervention of the Capital Accountant. The service would benefit from reviewing the way it maintains its monitoring spreadsheets. 	<p>A summary checklist will be introduced, for use with each project, to readily demonstrate the actions taken at key stages. The Capital Expenditure is within the approval made by members and relates to the purchase of the software. The revenue credits have been transferred out of the capital code to the relevant revenue ledger codes.</p> <p>The spreadsheets have been reviewed to avoid a repeat of the situation.</p>
<p>Procurement Issued 24.04.2013</p>	<p>Good The systems in place for controlling and managing procurement are generally satisfactory. Contract Procedure Rules are in place to promote good procurement practice and public accountability and to deter corruption. A procurement strategy is in place, with template documents covering most basic stages of procurement, allowing officers to adapt these to individual tenders. There are also standard terms and conditions to be used with contracts. The documents are labelled as SHDC, but are in fact available to both SHDC and WDBC for use. However many of these documents are now aged and are due for review.</p>	<p>The present Corporate Procurement Officer had already intended to address many of the issues raised, but due to the short time in post has not yet had opportunity to action them. Therefore many of the audit recommendations support actions already planned.</p>

Planned Audit 2012/13 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>ICT – Department/Cost Effectiveness Issued 30.04.2013</p>	<p>Good We were able to confirm that controls are in place and operating over procurement, financial management and outsourcing.</p> <p>There is no ICT Strategy in place. However we are aware that a strategy was drafted in late 2012 and presented to the Assets Programme Board as part of the Transformation 2015 programme. Senior managers in liaison with the Head of ICT & Customer Services decided that it was not effective to produce a final version of the ICT Strategy as it would almost certainly be superseded by the outcome of the service reviews planned to take place across the Councils in September 2013. Instead a series of key principles in relation to ICT purchases, as well as procedures for managing new ICT projects, were agreed.</p>	<p>Internal Audit are making no further recommendation in relation to this matter as both senior managers and member representatives were involved in the decision which is recorded in the Shared Services Joint Steering Group minutes.</p>
<p>Debtors Issued 07.05.2013</p>	<p>Good Controls remain in place to limit the level of outstanding debt held by the Council.</p> <p>However, there are areas where further work can be undertaken which include:</p> <ul style="list-style-type: none"> • Ensuring departments raise their own debt promptly and reducing the duplication and possible delays in getting Corporate Finance to raise them on their behalf; • Updating the process and procedures in regard to recovery which is to include a more shared approach with West Devon Borough Council; • As part of the above review, a possible joint procurement of external Bailiff/Debt Collection services. 	<p>We have identified this as an area that needs to be raised with Assets and a meeting is planned in May.</p> <p>The level of recovery has significantly improved with the introduction of a dedicated Sundry Debt Officer.</p> <p>The whole process of recovery is to be considered as part of the service review planned in the coming months.</p>

Planned Audit 2012/13 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Creditors Issued 07.05.2013</p>	<p>Good Our conclusion is that the creditors system is fulfilling the purpose for which it is intended. Invoices presented to the creditors section have been promptly processed and input for payment.</p> <p>The main issues raised included:</p> <ul style="list-style-type: none"> • The use of the electronic ordering system to process payment request vouchers (white vouchers) is now possible following a recent software upgrade and should be rolled out across the Council; and • Electronic payment methods are used these are not always supported by a valid invoice and VAT appropriately recovered. 	<p>As identified below there is currently an issue in ensuring that all electronic vouchers are supported by electronic records. This process will be reviewed, along with others, as part of the alignment of Financial Service procedures and processes across South Hams and West Devon Councils. The current procedure of using white payment vouchers remains adequate until this review has been completed.</p> <p>Agreed, this is something we have identified with services and again will be reviewed as part of the alignment of processes with West Devon Borough Council.</p>
<p>ICT – Project Management Issued 23.05.2013</p>	<p>Good We have concluded that there are sufficient controls in place to manage projects and these are operating satisfactorily.</p> <p>A small number of minor recommendations were made mainly relating to the standard of the some of the evidence available in specific decisions including post project reviews.</p>	<p>Action plan agreed.</p>

Planned Audit 2012/13 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>Street Scene – Car Parks Issued 09.05.2013</p>	<p>Good Improvements to systems continue to be made and indeed many of last year's recommendations were implemented. However it was not possible to implement all recommendations due to other work pressures caused by the introduction of a shared Street Scene service across South Hams and West Devon. Some of the other issues raised are out of the control of Street Scene staff and lie with other services, or indeed members. There are some areas where further improvements could be implemented which will add to the progress made, the most significant of which the most significant is seeking a further review of the range of car park permits and weekly tickets available to the public.</p>	<p>We are currently reviewing all of the street scene charges, which will include parking permits, and a member task and finish group is planned later in the year.</p>
<p>Asset Management Issued 23.05.2013</p>	<p>Good The 2015 Transformation Programme - Strategic Asset Review is one of the key projects for the Council. The project has been operated using the Prince 2 methodology (an acronym for PROjects IN Controlled Environments), with regular reports to an Assets Programme Board on achievements and progress being made. At this stage, therefore, it has not been appropriate to update the 2010 Asset Strategy document, some of which has now been superseded or is out of date. Other findings included:</p> <ul style="list-style-type: none"> The need to continue the progress being made by the current Head of Assets and the Council's solicitor in the negotiation of management agreements for the Dartmouth Embankment with Dart Harbour (DHNA). 	<p>An Asset Management Strategy document will be drafted as part of the implementation stage of the Strategic Assets Review. The document will be aligned with West Devon where possible but some specific areas may not be the same</p> <p>Negotiations are continuing with DHNA in a positive atmosphere.</p>

Planned Audit 2012/13 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p>ICT - Installation and Healthcheck Issued 15.05.2013</p>	<p>Good</p> <p>The ICT Service has been at the forefront for many years in ensuring that Council services are able to operate effectively and at the same time limiting the risk. However, there are still some areas where due to organisational changes, further actions are required:</p> <ul style="list-style-type: none"> • A number of key policies and strategies need to be formally approved and issued to all staff, these include: <ul style="list-style-type: none"> • A Joint ICT Security Policy; • The formal issue of and joint Acceptable Use Agreements; • User agreement on portable media; • Social Networking; and • The shared ICT Business Continuity Plan. • The Council has implemented compensating controls over the management of payments card verification values it stores from recording telephone calls, as per the Payment Card Industry Data Security Standard (PCI DSS). However, we have highlighted the need to ensure that these controls are activated at all times and consideration is given to eliminating the storage of this data in the future. 	<p>Agreed, we are involved in a joint working group with Devon wide authorities to produce a standard collection of ICT policies. These are expected later in the year and will include individual modules that will link to an overarching policy. This will be presented to all staff when they are available.</p> <p>The individual modules will replace the existing Acceptable Use Agreements and which will link to an overarching policy. These are expected later in the year and will include individual modules, which will replace the existing user agreements, and will link to an overarching policy. Social Media Guidelines have now been issued and approved by the Strategic Management Team. Training has been undertaken with members and the guidelines will be issued to staff shortly.</p> <p>We will maintain our current plan and continue to highlight to the Strategic Management Team any significant risks to both Councils.</p> <p>It is felt that the level of risk is minimised following the controls we have in place. There is minimal risk of the loss or misuse of the data held. Access to the data has been recently reviewed to ensure controls are in place.</p> <p>It is currently too costly and not in line with the long term goals to invest in a system that removes the recording of the data.</p>

Planned Audit 2012/13 – Work Complete (No Audit Report)

Subject	Comments
Exemptions to Financial Procedure Rules	See table at Appendix A.
RDPE Rural Communities – Local Action Groups (LAGs)	See table at Appendix A. Audit of project funding claims on behalf of Council who act as Accountable Body
System of Internal Control (SIC), and Annual Governance Statement (AGS)	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2012 Audit Committee. The Committee recommended approval of the AGS to the Council. The AGS will be published in September 2012.
Update of Anti Money Laundering Policy	Revised joint Anti Money Laundering Policy presented to the Audit Committee to recommend approval by the Council. Following the Council approval, the document and supporting guidance has been published on the Council's Intranet and targeted training commenced.
Financial Procedure Rules	Update and alignment of a joint draft document completed and with the Monitoring Officer and S.151 Officer for review.
Code of Corporate Governance – Compliance Review 2012/13	Presented to the Audit Committee June 2013 under separate cover.

Planned Audit 2012/13 – Follow Up with 2012/13 Audits

September 2012 Audit Committee

Land Charges and Street Naming - 2007/08. Mainly implemented.
 Customer Complaints – 2008/09. Mainly implemented.
 Building Maintenance – 2009/10. Mainly implemented.
 Print Room – 2006/07. Mainly implemented.
 Community Park and Open Spaces – 2008/09. Mainly implemented.

January 2013 Audit Committee

Private Sector Housing Renewal – 2011/12. Implemented.
 Building Control 2009/10 Follow Up – 2010/11. Mainly implemented.
 Pannier Markets – 2005/06. Mainly implemented.
 Email Monitoring – 2011/12. Implemented.
 Internet Monitoring – 2011/12. Implemented.
 Shared Services – 2011/12. Progress being made on all issues raised.
 Partnership Schemes – 2008/09. Mainly implemented.
 Sherford – 2009/10. Implemented.

April 2013 Audit Committee

Council Tax – 2011/12. Some implementation.
 Non Domestic Rates (NDR) – 2011/12. Some implementation.
 Inventories – 2006/07. Mainly implemented.
 Capital Receipts and Grants – 2008/09. Implemented.
 Data Quality and Performance Indicators – 2011/12. Some implementation.
 Insurance - 2007/08. Mainly implemented.
 Salcombe Harbour – 2011/12. Mainly implemented.

Planned Audit 2012/13 – Follow Up with 2012/13 Audits (continued)

June 2013 Audit Committee

Subject	Comments
ICT – Project Management – 2009/10	Mainly implemented. 1/4 issues repeated.
Asset Management – 2008/09	Mainly implemented. 1/12 issues repeated being the management of Dartmouth Embankment.
ICT Installation and Healthcheck – 2011/12	Some implementation. 10/18 issues repeated mainly in the area of policies being developed on a Devon wide basis.
Street Scene: Car Parks – 2011/12	Mainly implemented. 2/12 issues repeated although agreed action being progressed.
Creditors – 2011/12	Mainly implemented. 2/8 issues repeated relating to the electronic use of payment requests (known as white vouchers).
Debtors – 2011/12	Some implementation. 6/11 issues repeated but to be covered in impending service review.
ICT Department/Cost Effectiveness – 2009/10	Implemented.
Main Accounting and Budgetary Control – 2011/12	Mainly implemented. 3/6 issues repeated but covered by impending service review.
Procurement – 2008/09	Mainly implemented. 3/7 issues updated.
Capital Expenditure – 2011/12	Mainly implemented. 2/5 issues repeated, one of which is as a reminder only as risk accepted by managers.
Benefits – 2011/12	Mainly implemented. 8/21 issues repeated.
Health and Safety – 2005/06	Mainly implemented. 5/12 issues updated.
Treasury Management – 2011/12	Mainly implemented. 3/6 issues repeated but covered by impending service review.
Payroll – 2011/12	Some implementation. 4/7 issues repeated, several of which are outside of the control of the section but repeated as a reminder.

Planned Audit 2012/13 – Follow Up of Previous Audits by Written Confirmation

Subject	Comments
ICT Installation and Network Security – 2011/12	Reminder sent 02.01.2013. Follow up with annual audit.
ICT Change Control – 2011/12	Reminder sent 20.12.2012. Follow up with annual audit.
Street Scene/Car Parking – 2011/12	Reminder sent 28.11.2012. Follow up with annual audit.
Housing Benefits – 2011/12	Follow up with annual audit.
Creditors - 2011/12	Memo sent and revised implantation date agreed for one recommendation. Further follow up with annual audit.
Main Accounting System and Budgetary Control – 2011/12	Memo sent as reminder. To annual audit.
Non Domestic Rates – 2010/11	Memo sent as reminder. Cleared with annual audit.
Council Tax – 2010/11	Memo sent as reminder. Cleared with annual audit.

Planned Audit 2012/13 – Follow Up of Previous Audits by Written Confirmation (continued)

Subject	Comments
Stores – 2011/12	Followed up with linked Building Maintenance audit 2012/13.
Elections – 2011/12	Memo sent as reminder as not all agreed implantation dates past, further memo sent 30th November 2012.
Private Sector Housing Renewals – 2011/12	Memo sent as reminder. Cleared with annual audit.
Treasury Management – 2011/12	Memo sent and discussed and taken to annual audit.
Payroll – 2011/12	Discussions held with the relevant officers and a follow up report issued view revised action plan. Opinion remains unchanged.
Dartmouth Ferry – 2011/12	Memo sent and discussed and taken to annual audit.
Leisure Client – 2011/12	Discussions held with the relevant officers and a follow up report issued view revised action plan. Opinion remains unchanged.
HR Recruitment – 2011/12	Follow up carried out with Payroll.
Travel and Subsistence – 2011/12	Discussions held with the relevant officers and a follow up report issued view revised action plan. Opinion remains unchanged.
Data Quality and Performance Indicators – 2011/12	Memo sent 30 th April 2012. No reply by 30 th May 2012 so discussed progress on revised performance monitoring and timing of 2011/12 audit. Cleared with annual audit.
Recycling – 2011/12	Memo sent but part reply only received. Meeting arranged.
Cash Collection – 2011/12	Memo sent but part reply only received. Meeting arranged.
Public Conveniences – 2011/12	Memo sent but part reply only received. Meeting arranged.

Unplanned Audit – 2012/13

General

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 contingency line of the audit plan.</p>	<ul style="list-style-type: none"> • General procurement and disposal rules advice; • General ICT issues; • General Finance issues; • Document retention enquiries; • Additional individual internet and e-mail monitoring as requested my managers; • Future of local audit consultation submission to Local Government Futures; • Salcombe Harbour/Creek Boat Park – advice; • Audit Commission fraud survey; • Dartmouth Embankment – advice; • Leisure issues – advice; • Dartmouth regatta – advice; • Room and refreshment booking process; • NFI and Fighting Fraud Locally checklists and report to the Audit Committee; • Additional testing of 2011/12 transactions around year end cut off, on behalf of the Audit Commission; • Assistance to Grant Thornton tax audits – PAYE and VAT; • Assistance re HMRC inspection; • Advice re matters relating to Totnes Pavilions; • Contribution to a review of the future of the aging Housing Rent software; • Secondment to New Website Project (5 of the 9 days); • Review of potential new ferry management software; • Numerous minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies.

Grant Thornton **APPENDIX D**
Employment Taxes Review
Compliance and Process review for South Hams District Council
23 November 2012

Background and Scope

We have been engaged to undertake a high level review of the expenses and benefits systems and procedures to identify any compliance failures or weaknesses that has resulted or may have resulted in a reporting failure or an underpayment of employment taxes.

We have also been engaged to recommend where appropriate on how processes can be improved to ensure that the highest standard of compliance is maintained.

Our review therefore focuses on identifying whether the Council's internal systems and procedures ensure that it fulfils its compliance obligations. In order to achieve this we have;

issued an employment tax compliance questionnaire to various members of staff within the payroll, Human Resources and Finance teams based in South Hams which enabled us to focus on particular issues identified,

- met with payroll staff, to understand existing processes for identifying and allocating expenses/benefits, and how this information is then extracted for reporting purposes (i.e. on forms P11D), and
- reviewed various documents provided by the client.

Documents Provided to Us

We considered the following documents and information when producing our report:

- responses to employment taxes questionnaire and discussions with staff members;
- home working policy;
- policy detailing procedures for claiming travel between home and work and between workplaces;
- external report completed into employee business mileage claims;
- HMRC correspondence relating to employee business mileage claims;
- expense claim form;
- sick pay policy;
- travel and subsistence policy, including mileage rates dated 31 March 2011;
- employment contract;
- template compromise agreement;
- draft relocation allowance policy;
- relocation allowance claim form;
- compromise agreement;
- expenses claim form;
- P11D dispensation and dispensation correspondence;
- a sample of essential car users P11D calculations;
- fleet mileage odometer readings for 2012/13

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- internal audit report dated 26 September 2012
- letter confirming the arrangement between the Council and a small number of self employed people or their agents.

We have set out the findings of our report below. We have split these into three areas, compliance issues, process improvements and communication.

Compliance

Based on the work completed it is clear that the employees who work within payroll and Human Resources have a good understanding of the tax treatment of many of the items paid by the Council.

Landline telephone and broadband bills

We understand that home telephone line rental is paid for a small number of employees, rather than a second home line provided. A percentage of broadband fees have also been paid. These payments have not historically been taxed via the payroll or included as a benefit in kind. Line rental for a personal telephone line is taxable so a potential underpayment of PAYE/NIC has arisen. The Council has taxed these payments from 1 September 2012.

Processes

While the Council has policies and processes in place concerning employment taxes compliance, we have set out below possible improvements that can be made to existing processes to ensure that a high standard of compliance continues to be achieved.

P11D process

An additional review of completed P11Ds needs to take place by someone other than the individual who prepares them. This will reduce the risk that errors occur. It may also be worth the Council seeing if a P11D dispensation update is required. This is likely to be the case if any payments made are not covered by the old P11D dispensation. We understand from our meeting of 8 October 2012 that the Council intends to implement this recommendation.

Employment status process

The Council's current process for engaging individuals on a self-employed basis states that employment status must be considered and a document exists which sets out questions and other matters to be considered in the determination of employment status. While currently only a few self-employed individuals are used by the Council we recommend that the improvements outlined in this report are made to the current process

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This will ensure that decisions made are consistent and documented. This process should also enable the Council to monitor the engagement to establish if it changes into one of employment over time.

For one individual, it appears from the information provided that she/he may be an agency worker but this is not clear. We recommend that the Council establish the exact working arrangements so they can establish if they need to consider the employment status or the implications of the new agency regulations.

Termination payments process

Initially the use of compromise agreements was common at the Council; however, this is not the case now. Despite this we would recommend that a policy is produced to ensure that the correct questions are asked to enable the correct tax treatment to be applied to any payments made to employees leaving. It is worth noting that when looking at the tax treatment of any payments made to individuals leaving each case needs to be looked at in isolation and each individual element of payment needs to be reviewed to establish if it is taxable or not.

Construction Industry Scheme (CIS)

Currently the Council is a deemed contractor within CIS. If the Council has spent less than £1m in each of the last 3 years then the Council may be able to deregister. Deregistering would reduce the compliance burden and reduce the risk of the Council being charged penalties. As such, we recommend that the Council review their construction expenditure to see if they are in a position to deregister. When considering the possibility of de-registration, we recommend that the value of future construction projects are considered as it is unlikely to be beneficial for the Council to deregister if an obligation to re-register will arise in the near future.

Mileage claims

Whilst the current process of reviewing mileage claims is reasonably strong the process could be further strengthened by putting a process in place to review the claims made by employees identifying which journeys are taxable and which are not. This should include occasional reviews of the claims. This would enable any erroneous claims to be identified and provide support to HMRC, if required, that claims are being monitored.

Based on the findings of the external report and the discussions with HMRC it is possible that historic mileage payments for journeys between South Hams and West Devon for certain employees have not been taxed correctly. The Council has reviewed this issue but considers that due to the prompt professional advice sought that it is unlikely that any underpayment of tax has arisen.

Vans and Cars

Initially the report recommended:

Internal Audit Annual Report 2012/13

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The Council should consider re-issuing annual declarations to each employee provided with a van or car confirming that they are aware that they are expressly banned from making private use of the van/ car and that they agree not to do so. In the absence of detailed information consideration should be given to collecting information for a sample of drivers for the next few months in order to establish if private use is made of the vehicles.

However, after further work was completed HMRC have been informed that the Council do have processes in place to monitor the use of vehicles. Whether the correct amount of tax has been paid on these journeys remains an outstanding point within HMRC's current review.

Communication

As with most organisations communication is key. The importance of providing timely information to payroll will greatly increase as of 2013 when Real Time Information (RTI) applies. When RTI applies you will have to provide information to HMRC every pay run and as such it is important that this information is accurate.

We therefore recommend that prior to the introduction of RTI a process is put in place detailing how all information is provided to payroll. This should inform all relevant employees (including managers etc) of their responsibilities and the possible consequences of delaying providing information to payroll.

Processes have been put in place which include a submission using the payroll software to the HMRC via the 'Government Gateway' and changes to the BACs process.

Grant Thornton
Value Added Tax (VAT) Review 2011 and 2012
3rd December 2012

APPENDIX D

Scope

This report has been drafted in accordance with our contract with SHDC dated 14 May 2012. The periods under review are 1 April 2010 to 31 March 2011, and 1 April 2011 to 31 March 2012. In carrying out the review we have:

- Examined a sample of the monthly VAT returns and a selection of associated working papers across the period;
- Reviewed the partial exemption and de minimis calculations;
- Considered correspondence on VAT with HMRC;
- Examined the VAT position of outsourcing contracts existing between SHDC and third parties;
- Reviewed the procedures and risk management controls in place relating to VAT in the Local Authority; and
- Reviewed a sample selection of income codes and expenditure codes.

Our findings are based upon the information provided at our meeting of 18 October 2012, and the information provided by Acting Chief Accountant and VAT Officer.

Key Findings and Recommendations

SHDC's VAT systems were found to be excellent. Please note that our comments are the exception.

VAT return preparation

SHDC is registered for VAT and submits monthly VAT returns. SHDC aims to submit its returns prior to the end of the month following the submission deadline, and has not submitted or paid a return late in the last several years.

SHDC is normally in a repayment position each month, recovering between £30,000 - £50,000 of VAT each month, however occasionally it is required to pay VAT. For example in August 2012 a payment of £60,170.31 was payable to HMRC.

We recommend that

- staff are trained to provide cover in the event of key employees involved in the VAT return (notably the VAT Officer and Acting Chief Accountant) being absent or unavailable to prepare or check the return. We understand that a new member of staff is being trained in the completion of VAT returns.
- further checks are carried out where the VAT return figures fall outside the normal range of VAT recoverable. High value transactions that distort the VAT returns should be reviewed to ensure that the correct VAT treatment is being applied.
- the use of manual transfers of figures to/from spreadsheets in the production of VAT returns is minimised where possible to reduce the risk of transposition errors.

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Value Added Tax (VAT) Review 2011 and 2012
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- the VAT liability of significant charges/recharges of costs between SHDC and West Devon Borough Council is examined to ensure that these are properly subject to VAT.
- We recommend that a procedure is put in place to allow SHDC to verify figures for the VAT return provided by third parties.

Partial exemption position

SHDC has completed its partial exemption calculations for 2010/2011 and 2011/2012. At 2.37% and 1.52% respectively these are well below the 5% de-minimis limit.

SHDC should continue to monitor its partial exemption position at the start of each financial year, in particular to consider any capital projects that could give rise to significant levels of exempt input VAT.

The recommendations were discussed with the Grant Thornton auditor and the Council's VAT Officer is implementing the actions agreed.