

NAME OF COMMITTEE	Audit Committee
DATE	12 March 2015
REPORT TITLE	INTERNAL AUDIT – REVISION OF and PROGRESS AGAINST THE 2014/15 PLAN
Report of	Head of Devon Audit Partnership
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to inform Members of the principal activities and findings of the Council's Internal Audit team for 2014/15 to the end of January 2015, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2014/15 annual internal audit plan, as approved by this Committee in April 2014.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee notes the progress made against the 2014/15 internal audit plan, and the key issues arising.

Officer contact:

Robert Hutchins, Head of Devon Audit Partnership - 01803 861375

Email: Robert.Hutchins@swdevon.gov.uk

Lisa Buckle, S.151 Officer – 01803 861413

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. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2014/15

Audit Plan 2014/15

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

Local and National Risk Based Amendments to the Plan/T18 Transformation

- 2.2 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.
- 2.3 Previous reports have referred to the impact of the T18 Transformation programme and the reduction in internal audit resources available. The 2014/15 internal audit plan has been updated to reflect these changes.

Resources and Skills

- 2.4 Sickness to the 31 January 2015 is 2 days (2013/14 equivalent 4 days).
- 2.5 In 2014/15 to date, 8 days training has been provided to the audit team.

Progress against the Plan

- 2.6 The 2014/15 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.
- 2.7 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.

- 2.8 **Appendix C** 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.
- 2.9 **Appendix D** 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.

Non Compliance with Contract or Financial Procedure Rules

- 2.10 There are no significant issues to bring to the attention of the Committee so far this year.

Fraud, Corruption, Bribery and Whistle Blowing

- 2.11 No actual, suspected or allegations of fraud, corruption or bribery have been identified so far this year, and there are no known whistle blowing reports.

Performance Indicators

- 2.12 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2014/15.
- 2.13 Progress made against the plan is considered to be good; we remain confident that the key elements in the revised plan will be delivered by the end of March 2015.

3. LEGAL IMPLICATIONS

- 3.1 Statutory Powers: **Accounts and Audit Regulations 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:	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:	No specific crime and disorder issues arising from this report.
Background papers:	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.
Appendices attached:	<p>Appendix A: Audit Plan 2014/15 – Progress to 31st January 2015.</p> <p>Appendix B: Planned Audit 2014/15 – Final Reports: Detailed Items.</p> <p>Appendix C: Planned Audit 2014/15 – Summary of Results and Unplanned Audit 2014/15 – Summary of Results.</p>

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	■								30% completed.
Creditor Payments	11	■	■	■	■			■		
Payroll	10	■	■					■		Draft report issued 25/11/2014
Council Tax	14	■	■	■	■			■		
Business Rates (NDR)	12	■	■	■	■			■		
Benefits	15	■	■	■	■			■		See Appendix B
Benefits Debtors	5	■	■	■	■			■		See Appendix B
Debtors	10	■	■							Draft report issued 08/01/2015
Treasury Management	4	■	■				■			Draft report issued 16/02/2015
Capital Expenditure & Receipts	11	■	■	■	■		■			
Fundamental Systems	105									
Salcombe Harbour	10	■	■	■	■		■			See Appendix B
Dartmouth Lower Ferry	9	■	■	■	■			■		
Street Scene - Car and Boat Parking	9	■								50% completed.
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	22 days used	-	-	-	-	-	-	-	

Progress Against the 2014/15 Internal Audit Plan

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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	6 days used	-	-	-	-	-	-	-	Minute reference E.28/12 refers. 5 project and 5 management claims audited.
Follow Up of Previous Year's Audits	10	3 days used								
Contingency – advice guidance and other unplanned work	54	58 days used, of which 21 for T18.								Includes:- <ul style="list-style-type: none"> • Advice / guidance on new creditors system work • SH election duties • Support re Oct payroll issue
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	5	3 days used								12 Exemption applications received and processed to January 2015, of which 12 accepted.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Reports to the July and October 2014 Audit Committees for approval of the Annual Governance Statement.
Risk Management / Business Continuity	3									
West Devon Borough Council	112	-	-	-	-	-	-	-	-	Separately reported to WDBC, plan reduced by two audit engagements.
Other Essential (Revised)	301									
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									
Local Welfare Support	2									
Economic Development	5	■	■	■	■	■				
Advice to RM/ Information Compliance/Other Groups	3	0 days used	-	-	-	-	-	-	-	
Shared Services	5	■	■	■	■		■			
Sustainability	4	■	■	■	■		■			
T18 Transformation Programme	5	1.4 days used								
Counter Fraud Work	10	■	■	■	■		■			See Appendix B
Other (Revised)	83									

Computer audit (referred to above)										
Installation & Healthcheck	7	-								Planned for 4 th quarter
Computer & Network Management and Security	9	-								Planned for 4 th quarter
Change Control	7	-								Planned for 4 th quarter
Other Reviews including Internet Controls	3	-								Planned for 4 th quarter
Computer Audit	26									

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Overheads										
Audit Administration	15	14 days used	-	-	-	-	-	-	-	Includes team briefings, staff voice etc.
Audit Management, including <ul style="list-style-type: none"> • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit committee 	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
Total (Revised)	78	54 days used								
Overall Total (Revised)	567									From 630 days

RESOURCES AVAILABLE (Revised)		2014/15
		Days
Chief Internal Auditor	<i>From 234 days in the original plan</i>	117
Senior Auditor		261
Auditor		261
Partnership Audit Management	<i>New</i>	35
Sickness	<i>From -18 days in the original plan</i>	-15
Bank Holidays	<i>From -24 days in the original plan</i>	-21
Annual Leave	<i>From -84 days in the original plan</i>	-71
TOTAL RESOURCES AVAILABLE	<i>From 630 days in the original plan</i>	567

Planned Audit 2014/15 – 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 2014/15 – Final Reports Issued

March 2015 Audit Committee

Subject	Audit Findings	Management Response
<p>Benefits</p>	<p>Audit Opinion</p> <p><i>Fair</i></p> <p>Conclusions</p> <p>We were able to confirm that some of the agreed actions to our recommendations in the 2013/14 audit reports have been implemented. However there remain a number of outstanding issues, which we are advised by managers are either due to limited staff resource, or because the outcome of the T18 programme is awaited as this will lead to some significant changes in staffing structure and responsibilities.</p> <p>In addition, 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 are:</p> <ul style="list-style-type: none"> • Users access to the system needs to be reviewed, particularly in light of a number of staffing restructures that mean leavers and officers changing services still have access; 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. 	<p>Agreed. The access rights will be reviewed and updated. A regular review will be made in future.</p> <p>Agreed. The benefits payment process is still being mapped. Work has had to be put on hold due to annual billing but is to be recommenced as soon as possible.</p>

	<p>Our recommendations are made with regard to future changes under the T18 model and the impact on service delivery.</p> <p>Some of the recommendations made in the separate 2014/15 audit of Housing Benefit Debtors may also impact on the management of benefit claims.</p>	
<p>Housing Benefits Debtors</p>	<p>Audit Opinion</p> <p>Fair</p> <p>Conclusions</p> <p>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.</p> <p>However, we are advised by managers that the effectiveness of procedures is hampered by the restricted functionality of the housing benefit debtors system.</p> <p>This is combined with the knowledge that the number of overpayments identified has increased as a result of information received via the HMRC RTI programme, and is likely to further increase in the future if the Council takes part in the DWP Fraud and Error Reduction Incentive Scheme (FERIS) as planned.</p> <p>The level of combined SHDC benefit debt is in excess of £1M as at December 2014 and management are reminded of the need to reduce the level of rising debt</p> <p>We have identified a number of areas where changes to procedures could potentially lead to improved levels of debt recovery, the most significant of which are:</p>	

	<ul style="list-style-type: none"> • Consideration should be given to bringing in additional resource to assist in the recovery of benefit overpayment debt; and • It should be ensured that procedures are determined to allow recovery to be actioned at legal stage now that the Councils' Legal team are no longer responsible for this task. 	<p>Agreed. A business case for additional resource is currently being prepared by the Benefits Manager.</p> <p>In the future, the additional resource which is to be requested, would be expected to have experience of progressing recovery to court, including by using external agencies, as well as recovering overpayments through County Court Judgements, Attachments of Earnings etc.</p>
<p>Counter Fraud</p>	<p>Audit Opinion</p> <p><i>Good</i></p> <p>Conclusion</p> <p>The Council has had a good track record of minimising risk and the potential for fraud. We have highlighted some areas where this could be improved, these include;</p> <ul style="list-style-type: none"> • The Service Processing Admin Lead (SP) should ensure that a clear procedure is in place for all requested creditor bank account changes. This procedure should include guidance on verifying the authenticity of the change request received; and • Updating the Councils' websites to include updated reports and policies relating to fraud and corporate governance. This may also mean highlighting easier methods for reporting potential issues and frauds. 	<p>Agreed. Processes have been tightened and officers reminded of the importance of checking information through an independent source before making any changes.</p> <p>Agreed, these issues are to be reviewed in the new financial year and where required action will be taken to address the recommendations identified.</p>
<p>Salcombe Harbour</p>	<p>Audit Opinion</p> <p><i>Good</i></p>	

	<p>Conclusion</p> <p>The harbour encompasses a variety of systems and processes and its officers complete these to a noteworthy standard and where possible we have endeavoured to report issues to further improve the controls in place.</p> <p>We have raised some issues in the detailed appendices to the report; the most significant areas are as follows:</p> <ul style="list-style-type: none"> • We identified during testing a number of variances between the income expected and actual on the batch and bank reports. Although some of these were subsequently corrected it is not clear why these variances persist; • There is no formal control by the harbour staff or the harbour system to confirm that batch reports are produced for all transactions. There is the risk that missing batches may mean missing income; and • Full reconciliation of the harbour debtors to the Council financial systems has not been completed since the start of the year, partly due to the new harbour system and lack of resources within the Service Processing and Admin Group. 	<p>Batch reports have now been updated by software supplier to resolve issues and we will checks that report totals agree.</p> <p>Discussions have been undertaken with the software supplier to ensure that all batches are accounted for on the system.</p> <p>Agreed, due to other work pressures this has not been fully completed and will be done by year end.</p>

Planned Audit 2014/15 – Work Complete (No Audit Report)

Subject	Comments
Exemptions to Financial Procedure Rules	See table at Appendix A.
RDPE Rural Communities – LAGs; and Coastal Communities Fund	See table at Appendix A, SHDC is the ‘accountable body’. Auditing in line with the approach required by the funding body.

Unplanned Audit work – 2014/15

General

Description	Main Issues
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.	<ul style="list-style-type: none"> • General procurement and disposal rules advice; • General ICT issues; • General Finance issues; • Advice and review of updated finance software including ordering system and creditor payments; • Dartmouth Ferry – advice and assistance re new software; • T18 Transformation – various; • Advice re RDPE LAGs Accountable Body; • minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies.