

Report to: **Audit Committee**
Date: **22 September 2016**
Title: **UPDATE ON PROGRESS ON THE 2016-17
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 **01803 861375**
Robert.hutchins@swdevon.gov.uk **01392 383000**

RECOMMENDATION

It is RECOMMENDED that the progress made against the 2016/17 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 2016/17 to the 25 August 2016, by:
 - Showing the progress made by Internal Audit against the 2016/17 annual internal audit plan, as approved by this Committee in March 2016; and
 - Highlighting revisions to the 2016/17 internal audit plan.

2. Background

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

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2016/17 was presented to and approved by the Audit Committee in March 2016. Progress in the period up to 25 August 2016 has included completion of work carried forward from 2015/16 but progress against the 2016/17 has plan has been limited due to sickness absence totalling 28 days (apportioned SHDC 22 days, WDBC 6 days) in the year to date.

In addition, the Council, in association with several partner organisations receive funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m to the Greater Dartmoor Local Enterprise Action Fund (LEAF). The Council as the Accountable Body is responsible for the legal and financial management of the grants awarded to the programmes. Each project is required to submit a grant claim on a quarterly or monthly frequency to draw down funding. It is estimated that 60 days will be needed in 2016/17 to audit the claims with 17 days have been spent to date on this work. The Council is able claim funding against officer time spent on administering the LAG and the LEAF and this will be used to provide some backfill as this work is not resourced within the 2016/17 audit plan.

In response to the reduction in available days the audit plan has been reviewed and adjusted in consultation with the Finance Community of Practice Lead (S151 Officer) and agreed by the Senior Leadership Team. The proposed changes are detailed in the table below.

| Audit | Plan Days 2016/17 | Plan Days Update | Comment |
|------------------|--------------------------|-------------------------|---|
| VAT | 10 | 0 | VAT specialist to be engaged to look at VAT treatment for capital / grant programmes. |
| Capital Receipts | 5 | 0 | No receipts from sale of assets in year to date, Right to Buy Clawback reviewed in 2014/15 (good standard) and capital expenditure through Disabled Facilities Grant is |

| | | | |
|-------------------|-----------|----------|---|
| | | | subject to a separate review. |
| Elections | 8 | 3 | Focus will be on election payroll and will be incorporated into the main payroll system review. |
| Member Allowances | 4 | 0 | Defer to 2017/18 |
| Total | 27 | 3 | Net Reduction of 24 days |

3. Outcomes/outputs

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

All final audit reports include an action plan which identifies responsible officers, and target dates to any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Overall, and based on work performed to date during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2016/17 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

Appendix B 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 - there are no significant issues to bring to the attention of the Committee so far this year. Five applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (The National Fraud Initiative - NFI) every two years. For the 2016/17 exercise data has to be submitted from a range of Council systems including Creditors, Payroll, Housing Benefits and Insurance week commencing 3 October. The datasets are required to be uploaded to the NFI secure website from 10 October with subsequent matching reports expected back from the NFI Team at the end of January 2017.

The NFI requires Council Tax and Electoral Register data to be submitted annually for the council tax single person discount matching. The deadline for submission of these data sets is not until 28 February 2017 as the next electoral registers for England are not due to be published until 1 December 2016.

Irregularities

There are no irregularities to report.

4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

5. Proposed Way Forward

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

6. Implications

| Implications | Relevant to proposals Y/N | Details and proposed measures to address |
|------------------|---------------------------|--|
| Legal/Governance | Y | <p>The Accounts and Audit Regulations 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 | There are no specific equality and diversity issues arising from this report. |
| Safeguarding | N | There are no specific safeguarding issues arising from this report. |
| Community Safety, Crime and Disorder | N | There are no specific community safety, crime and disorder issues arising from this report. |
| Health, Safety and Wellbeing | N | There are no specific health, safety and wellbeing issues arising from this report. |
| Other implications | N | There are no other specific implications arising from this report. |

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

Annual Internal Audit Plan 2016/17 as approved by the Audit Committee on 24 March 2016.

Appendix A

| 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 | |
| Housing Standards – disabled facilities grants & loans | 15 | ■ | ■ | | | | | ■ | | |
| Development Control – enforcement | 8 | | | | | | | | | |
| Development Controls – planning applications | 8 | | | | | | | | | |
| Planning Policy –Section 106 Agreements | 7 | | | | | | | | | |
| Grants –Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG) | 0 | ■ | | | | | | | | 17 days spent on claims to date. Estimate further 43 days required – totalling 60 days in all. |
| Follow Up of Previous Year's Audits | 10 | ■ | - | - | - | - | - | - | - | |
| Contingency (Unplanned) & Advice | 20 | - | - | - | - | - | - | - | - | |
| Audit Management, including <ul style="list-style-type: none"> • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit | 18 | - | - | - | - | - | - | - | - | Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 30 June 2016. |
| Other Systems & Audit Work) | 261 | | | | | | | | | |
| Total Revised Days | 321 | | | | | | | | | Previously 345 days |

Planned Audit 2016/17 – Final Reports

As at the 25 August 2016, no final reports have been issued in respect of 2016/17. Reports finalised in the current year in respect of the 2015/16 audit plan were reported to the Audit Committee at the end of June.

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 2016/17 – Work Complete (No Audit Report)

| Subject | Comments |
|--|---|
| System of Internal Control (SIC), and Annual Governance Statement (AGS) | <p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2015/16 financial year. The S151 Officer presented the 2015/16 AGS to the Audit Committee on 30 June 2016.</p> |
| Exemptions to Financial Procedure Rules | <p>Five applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p> |