

Internal Audit

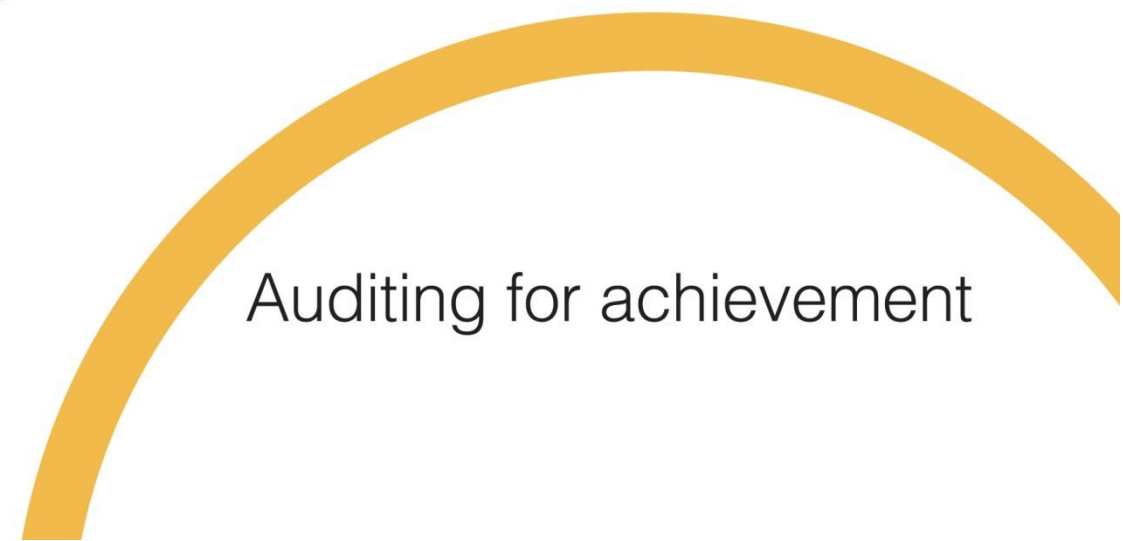
Progress Report 2022-23

South Hams Audit Committee

8 September 2022



Tony Rose
Head of Audit Partnership



Auditing for achievement

Introduction

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

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

The Internal Audit plan for 2022-23 was presented and approved by the Audit Committee in March 2022. The following report and appendices set out the background to audit service provision and provides a position statement on the overall adequacy and effectiveness of the Authority's internal control environment.

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

Expectations of the Audit Committee from this progress report

Audit Committee members are requested to consider:

- the assurance statement within this report.
- the basis of our opinion and the completion of audit work against the plan.
- the revised audit plan provided.
- audit coverage and findings provided.
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Governance Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

Tony Rose
Head of Devon Audit Partnership

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Opinion Statement

Overall, based on work performed during 2022/23 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This opinion statement will support Members in their consideration for signing the Annual Governance Statement.

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews. An opinion on the adequacy of controls is provided to management as part of each audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified.

Implementation of action plans is the responsibility of management but may be reviewed during subsequent audits or as part of a follow-up process.

Directors and Senior Management are provided with details of Internal Audit's opinion for each audit review to assist them with compilation of their individual annual governance assurance statements at year end.

Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Executive Summary of Audit Results

Key Financial Systems

We have completed audits on Creditor (payments), Asset Investment Strategy and Housing Benefits, with no significant issues identified.

Risk Based Audits

We identify significant improvements have been made to Development Management, following our previous 2019/20 review.

We provide more detail below on work being undertaken to improve recommendation tracking to support management focus on implementing recommendations.

Appendix 1 of this report provides more detail on the audits delivered since the last Committee meeting with the overall assurance opinion and recommendations. Where a "substantial assurance" or "reasonable assurance" of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of "limited assurance" has been provided then issues were identified during the audit process that required attention. We have provided a summary of key issues reported that are being addressed by management. We are content that management are appropriately addressing these issues.

Counter Fraud Work

We are not aware of any reported fraud issues in the year to date. Management is aware that they can refer any suspected issues to our specialist counter fraud team.

Recommendation Tracking

It is important that audit recommendations are monitored to completion to avoid the council tacitly accepting risk. Recent audits have identified some High and Medium recommendations that were not implemented. Progress to introduce recommendation tracking has been delayed as the council concentrated on C-19 emergency measures. However, management have agreed to review all audit management recommendations since April 2020, to confirm if they have been implemented or remain open. We will then work with the council to introduce a system to support ongoing monitoring and reporting on recommendations.

Value Added

It is important that the internal audit service seeks to "add value" whenever it can. We consider internal audit activity has added value to the organisation and its stakeholders by:

- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Adjusting the audit plan when needed to provide real time assurance.
- Comparing and contrasting controls across the different Devon Councils that we support.

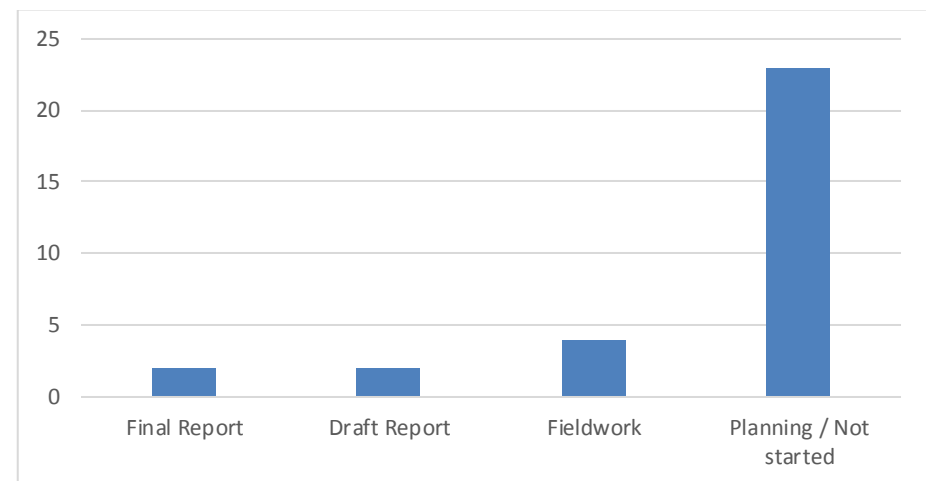
Audit Coverage and Performance Against Plan

We continue work to complete the 2021-22 audit plan. We have provided final reports for three of these audits, two others are issued in draft, and we will be issuing reports for the remaining two audits shortly. Appendix 2 provides detail on these audits, as well as detail on the 2022-23 audit plan.

Progress to deliver the 2022-23 plan has been impacted by continued diversion of one of the two core auditors to administer the

Covid Business Grants for the council. In addition, the LAG / LEAF work is expected to continue into 2023. We anticipate this means we are short of more than 65 days from this financial year. We have subsequently asked for additional compensatory resource to support audit plan delivery. We propose that part of this resource go towards paying for a Cyber Security audit provided by One West (a DAP strategic partner).

Chart: Delivery of the 2022-23 audit plan



Internal Audit Charter and Strategy

At this meeting we have provided an updated Audit Charter and Strategy for agreement by the Audit Committee as a separate agenda item.

Customer Satisfaction

We have had no recent satisfaction returns. We will be placing emphasis on obtaining feedback for current audits.

Appendix 1 – Summary of audit reports and findings for 2021-22

Audit / Assurance Opinion	Summary, risk exposure and management actions
<p>Assets Investment Strategy 2021/22 From 2021/22 audit plan</p> <p>Substantial Assurance</p>	<p>Each Council has a detailed Investment Strategy in place, to guide officers and members when taking decisions regarding potential investment property acquisitions. The Strategies provide detail on the potential risks that might arise along with mitigation action such as the due diligence required. Maximum thresholds for investment in assets are set out, being £60m for SHDC and £50m for WDBC. To date, SHDC has purchased one property, whilst WDBC has purchased four. Officers are considering other opportunities in accordance with the Investment Strategies presented to members in March 2022. A monitoring report for the Investment properties is presented to the Audit Committee on a periodic basis.</p> <p>We confirm that the decision to undertake due diligence work with respect to the solar farms opportunity, and to appoint consultants to do this, were made in line with the governance arrangements set out in the respective Councils' Strategies.</p> <p>We agreed a High priority recommendation relating to compliance with procurement regulations for consultants involved with projects.</p>
<p>Creditor (Payments) (From 2021/22 plan)</p> <p>Reasonable Assurance</p>	<p>Effective controls are in place to manage the payment of creditors, with most payments made accurately and on a timely basis. A series of input checks ensure that invoices are accurate and paid correctly. Invoices are paid promptly i.e., within 30 days, and in line with specific creditor payment terms. The integrated Financial Management System, of which the creditors' module is a part, includes an electronic ordering facility that commits the related expenditure within the general ledger when an order is placed. The system requires the order to be authorised before being issued to a supplier, reducing the risk that purchases are made without approval.</p> <p>We restated a small number of recommendations from our 2020/21 audit which remain outstanding, specifically those outside the control of the Central Invoicing Team.</p> <p>We agreed two High priority recommendations relating to procurement of agricultural planning advice, and publication and management of planning notices.</p>

<p>Development Management / Control S106</p> <p>Reasonable Assurance</p>	<p>There have been considerable improvements in procedures since our previous review in 2019/20. The Councils have effective arrangements to record and monitor all S106 agreements. These support requests for contributions at the appropriate trigger points and spending of funds within agreed timeframes.</p> <p>There is good communication between those officers involved in drawing up the S106 agreements, those recording and monitoring them and those who co-ordinate use of the funds for approved purposes. Regular reporting takes place, including to members and the public. Members are also actively encouraged to engage with their town or parish councils to facilitate the expenditure of S106 contributions.</p> <p>On 31 March 2022, SHDC held £5.63m and WDBC £1.32m of general S106 contributions. In addition, SHDC held £0.13m of S106 contributions specifically for the Sherford development. A report to members in September 2021 predicted half the S106 funds held would be utilised by the end of 2022/23.</p> <p>There is potential to improve the efficiency of the recording, monitoring, and reporting of S106 obligations. The key to achieving this would be the use of software better suited to the purpose, rather than Smartsheets. We raised a recommendation in respect of this in our 2019/20 report, but it has not been implemented due to delays in selecting replacement software for the wider planning service, only some including a dedicated S106 module. We have repeated the recommendation, as well as the need to back up the Smartsheets, this being overlooked due to a change in responsibilities.</p> <p>We did not make any High recommendations.</p>
<p>Housing Benefits (From 2021/22 audit plan)</p> <p>Reasonable Assurance</p>	<p>The Housing Benefit team continually strive to improve processes and procedures, in all areas of claims processing, wherever possible. This includes voluntarily taking part in DWP trials as well as reviewing internal ways of working. Real Time Information (RTI) is received from the DWP and HMRC, which helps identify inaccurate data provided by claimants, failure to advise of changes and potential fraud on a timelier basis and reducing the number and value of housing benefit overpayments.</p> <p>Where a customer has received an overpayment, this will be recovered from on-going entitlement if the customer is still in receipt of benefits or, if eligibility has ceased, a debtor's invoice will be raised. There are procedures to guide recovery once an invoice is raised. However, during 2021/22 recovery action was limited as staff were diverted to administering business grants and other financial support during the Covid-19 crisis.</p>

The use of on-line benefit claim forms, workflow processes within the electronic document management system and other automation, has allowed the Benefits service to continue to make more efficient use of staff resources.

There are areas where action may be taken to strengthen existing controls or gain efficiencies. The most important relate to re-commencement of procedures which have been suspended or reduced due to work pressures created by the Covid pandemic i.e., quality checks.

Some recommendations from our report have been included in the Improvement Plan created from the recent Revenue and Benefits Service Review.

The agreed High recommendations related to:

- Correct application of annual Council Tax upratings.
- Reintroduction of quality checks for Benefits Assessors work.
- Implementation of proposals for more efficient or alternative Housing Benefit Overpayment recovery methods.
- Monitoring of the performance of the enforcement contract.

Appendix 2 – Progression of audit plan

2021/22 Audits

Audit	Business Area	Audit Stage	Assurance Opinion	Comments
Housing Benefits 21/22	KFS	Final Report	Reasonable	See summary in Appendix A
Creditor (Payments)	KFS	Final Report	Reasonable	See summary in Appendix A
Asset Investment Strategy	KFS	Final Report	Substantial	See summary in Appendix A
Dartmouth Lower Ferry	Place & Enterprise	Draft report issued	Tbc	Draft report provided 7 June.
Payroll	KFS	Draft report issued	Tbc	Draft report provided 11 Aug.
Change Control – Business Processes		Report being drafted	Tbc	
Salcombe Harbour	Place & Enterprise	Report being drafted	Tbc	

2022/23 Audits

Audit	Business Area	Audit Stage	Assurance Opinion	Comments
Completed				
Development Management - Section 106 Arrangements	Customer Service & Delivery	Final Report	Reasonable Assurance	See summary in Appendix A
Annual Governance Statement	Other items	Final Report		Annual report completed.
Draft Report				
Building Maintenance - Works Scheduling Follow Up	Customer Service & Delivery	Draft Report		Draft issued 13 June 22, waiting for Senior Management Team review.
Covid 19 - Business Grants Post-Scheme Assurance	Place & Enterprise	Draft Report		Draft issued 2 Aug 22.

Audit	Business Area	Audit Stage	Assurance Opinion	Comments
Fieldwork				
Contract Management - Leisure	Governance & Assurance	Fieldwork		Draft report expected Mid Sep 22
Corporate Strategy and Performance Management	Governance & Assurance	Fieldwork		Draft report expected Mid / late Sep 22
Climate Change	Governance & Assurance	Fieldwork		Draft report expected w/c 22 Aug 22
Grants LAG LEAF 2022/23	Other items	Fieldwork		Ongoing work to validate this grant.
Planning / Not Yet Started				
Main Accounting System	KFS	Not yet started		Indicative start Q4
Payroll	KFS	Not yet started		Indicative start Q3
Creditor (Payments)	KFS	Not yet started		Indicative start Q3
Debtors (Income Collection)	KFS	Not yet started		Indicative start Q2
Business Rates	KFS	Not yet started		Indicative start Q3
Council Tax	KFS	Not yet started		Indicative start Q3
Housing Benefits	KFS	Not yet started		Indicative start Q3
Treasury Management	KFS	Not yet started		Indicative start Q2
Capital Expenditure	Place & Enterprise	Not yet started		Indicative start Q2
Regeneration and Investment Strategy	Place & Enterprise	Not yet started		Indicative start Q4
ICT / Cyber Audit	Customer Service & Delivery	Planning		Indicative start Q3

Locality Officers	Customer Service & Delivery	Not yet started		Indicative start Q3
Partnership Funding Arrangements	Customer Service & Delivery	Not yet started		Indicative start Q3
Health and Wellbeing	Customer Service & Delivery	Not yet started		Indicative start Q3
Project Management	Governance & Assurance	Not yet started		Indicative start Q4
Procurement – compliance with financial procedures and tender limits	Governance & Assurance	Not yet started		Indicative start Q3
Risk Management Review	Governance & Assurance	Not yet started		Indicative start Q4
Future IT Project	Governance & Assurance	Not yet started		Indicative start Q2
Corporate Information Management 22/23	Governance & Assurance	Planning		Indicative start Q3
VAT Arrangements	Governance & Assurance	Not yet started		Indicative start Q3
Business Continuity / ICT Business Continuity	Governance & Assurance	Not yet started		Indicative start Q3
Exemptions from Financial Regulations	Other items	Ongoing		NA
National Fraud Initiative	Other items	NA		NA
Contingency, Advice & Emerging Risks	Other items	NA	N/A	NA

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, North Devon, Mid Devon and Torridge councils. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk .