

Internal Audit

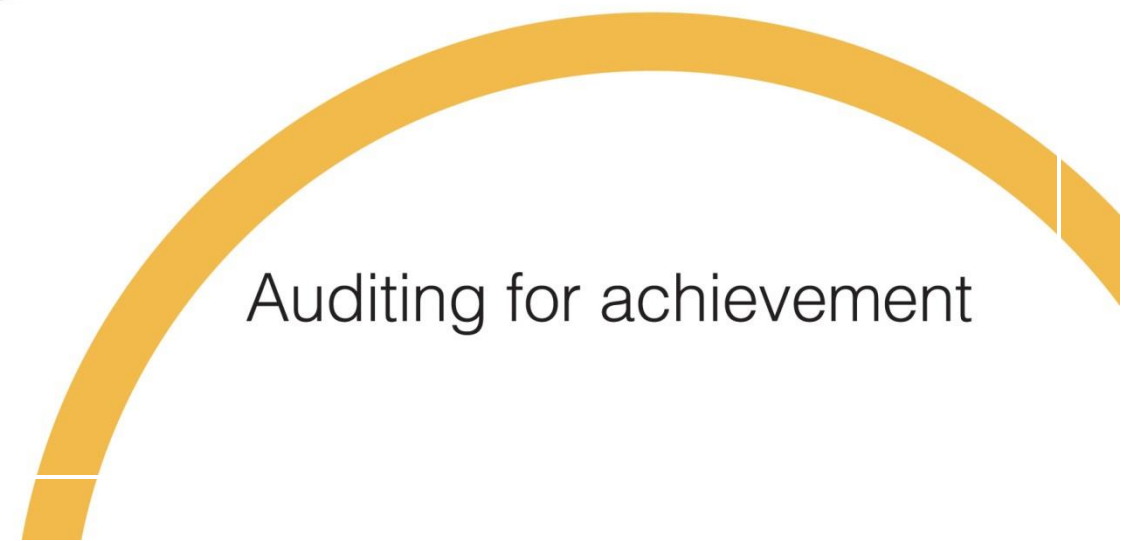
Progress Report 2022-23

South Hams Audit & Governance Committee

24 November 2022



Tony Rose
Head of Audit Partnership



Auditing for achievement

Introduction

The Audit and Governance 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 and Governance 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 and Governance 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 Audit and 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 provide a Substantial Assurance on Treasury Management, and a Reasonable Assurance on management of Payroll during 2021/22 using the TeamSpirit software. We have also started this year's Payroll audit on the new system. We also provide a Substantial Assurance related to post payment assurance of Covid 19 - Business Grants.

Risk Based Audits

We provide a report on Climate Change (Reasonable). We also provide a Substantial Assurance on Contract Management of the Leisure Centres.

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

Recent assessments state that there is an epidemic of fraud cases. Fraud now account for 40% of all crimes; it is anticipated that this will further increase by 25% in the coming years ([see Fraud and the Justice System](#)). The government has responded with formation of the Public Sector Fraud Authority. Given this landscape, it is important for councils to have effective measures to reduce the risk and impact of fraud.

We plan to undertake Fraud Risk Assessment in most of the District Councils we support in the next few months including South Hams and West Devon. We intend to present the results to Audit Committee.

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

We understand that management continues to review audit recommendations made by internal audit since April 2020 to confirm that they are implemented or work taking place to implement them. In undertaking audits, we continue to find audit recommendations (some High Priority) from previous audits that have not been progressed.

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.

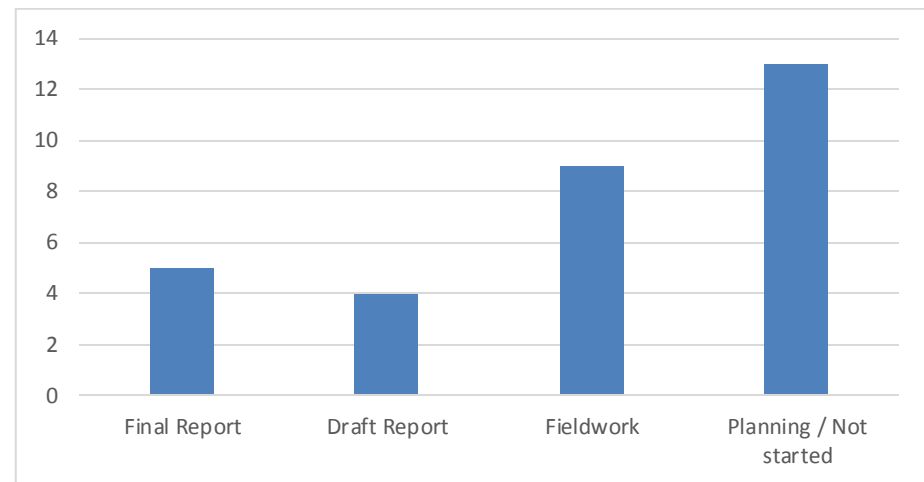
Audit Coverage and Performance Against Plan

We have almost completed all the audits from the 2021-22 audit plan. 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. We anticipate this work may

shortly complete. In addition, the LAG / LEAF work is expected to continue into 2023. We estimate this means we are short of more than 65 days from this financial year. We are subsequently using additional DAP resource to support audit plan delivery. Part of this resource is undertaking a comprehensive Cyber Security audit provided by One West (a DAP strategic partner), and other audits supported by the DAP team such as a risk management review.

Chart: Delivery of the 2022-23 audit plan



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>Covid 19 - Business Grants Post-Scheme Assurance</p> <p>Substantial Assurance</p>	<p>The process for distributing grants has been hugely successful: between March 2020 and March 2022, across all schemes, SHDC paid approximately 16,600 grants with a total value of almost £86m, whilst WDBC paid over 6,000 grants with a total value of £33.5m.</p> <p>The small number of grants subsequently identified by post-payment checks as being non-compliant or paid in error demonstrates the success of the comprehensive range of manual and automated pre-payment checks in place. At £142k, they made up just 0.1% of the total value of grants paid.</p> <p>We confirm that all these cases of suspected fraud or error have been investigated and recovery sought as appropriate. Where possible, overpayments were recovered from future grants due to the applicant, otherwise a debtor's invoice was raised. At the time of our review the majority of the £142k had been recovered. There is £52.2k outstanding (0.04% of the total grant payments), one third of which are being repaid in instalments by the recipients.</p> <p>The Councils' robust approach to accepting and processing grant applications, has also minimised the occurrence of fraud. At the time of writing, there were seventeen cases of suspected fraud, with grants having been paid in only three instances (total value £25k), and all were being investigated. Post-payment checks continue to be made by officers and so may highlight additional cases.</p> <p>We did not agree any High recommendations.</p>
<p>Treasury Management</p> <p>Substantial Assurance</p>	<p>The Councils are adhering to legislative and regulatory requirements and have appropriate and effective controls in place over treasury management operations. The Councils continue to follow a cautious investment strategy, the investment priorities being the security of capital, the liquidity of investments and yield.</p> <p>Interest rates and actual returns were low (0.07% for both Councils in 2021/22) reflecting the low interest environment: rates will inevitably be much greater for 2022/23. Appropriate expert advice was obtained on investments, and there was a good process to record and administer individual investments. Investments are made only in institutions on their approved lending list, which is regularly</p>

reviewed based on credit agency and market information.

Use is also made of the Public Works Load Board; at the end of 2021/22 this constituted 17 loans (£14.38m) for South Hams, and 30 loans (£27.73m) for West Devon, most are to fund leisure investment loans to Fusion, and to fund projects. We understand no loans are likely from the PWLB this year.

There is appropriate segregation of duties related to system administration and raising and approval of CHAPS payments and investment made through the Sungard portal.

We did not agree any High recommendations.

Contract Management – Leisure

Substantial Assurance

Based on the systems and processes provided, we confirm the Councils are effectively undertaking their duties with regard to managing the leisure facilities through the DBOM Contract. In the last couple of years, this has included effective financial and risk assessment of the viability of the contractor to ensure leisure services could continue, at best value for money.

Attendance and membership levels have improved and are at near pre-pandemic levels improving future financial viability. Centre participation across all 6 leisure centres in South Hams and West Devon has increased since re-opening from c19,500 to c62,000 in January 2022. When compared to January 2020 of c64,000 this represents a 97% usage rate close to pre-Covid levels. The councils are effectively monitoring contractor performance to ensure it continues to deliver as per the contract. There is also active review of the financial viability of the contractor.

We make some recommendations and restate some that have not been implemented from our last audit in 2018/19 (including the two High Recommendations stated below).

The agreed High recommendations related to:

1. Business Continuity - Identifying options if the current operator cannot continue to deliver the service (although an options appraisal was undertaken in Sept 20).
2. Obtain a copy of all building warranties and contracts for work completed by Fusion.

Dartmouth Lower Ferry (21/22 audit plan)

Ferry Management have undertaken further steps to improve processes and utilise the eHarbour system. Further improvements are still needed to the eHarbour software to enable further controls and reduction in officer involvement. Existing system procedures and controls need to be further modified and improved to ensure that processes can continue to operate at or above the current standards.

We have also found that the current ferry software system, although providing a good basis for the recording of ferry transactions, cannot produce reports which would provide complete management

Reasonable Assurance

information. Banking can now be independently verified to the eHarbour system and bank reconciliations, but the system would be further improved with the introduction of functionality such as the ability to input adjustments direct to the system.

Predominately only one officer undertakes the reconciliation of income and banking, although sometimes officer may be present in the office, and there is now the ability to agree banking direct to the Bank Report on eHarbours. Re the Fidelity Guarantee Cover, insurers usually expect dual control and independent validation to be in operation to reduce the risk of loss of money or property sustained as a direct result of acts of fraud, theft or dishonesty by an employee. We have suggested additional controls such as that two officers are always present and evidence the banking.

We also made recommendations to improve functionality, and reconciliation of the system, such as improvement of the eHarbour management reports.

The High recommendations agreed related to:

1. Involvement of two officers in the counting and reconciliation of cash and banking.
2. Reconciliation of the income report from the ferry eHarbour system and the General Ledger.
3. Amend eHarbour to produce a record of the transactions made in error that are put onto it.
4. Produce and review the information produced from the eHarbour system on the Saver Travel Pass income sold and used by individuals.
5. Introduce clear procedures for the operation of the eHarbour system and communicate to staff.

Climate Change

Reasonable Assurance

The Councils have made progress to reduce their carbon emissions. For example:

- Significant reductions in commuting and business mileage due to continued remote working practices.
- Some of the light vehicle fleet have been replaced with electric equivalents; work is underway to continue this rollout.
- Funding allocated for solar panel installation across the leisure centres (£500k for the four SHDC centres and £300k for the two WDBC centres).
- £0.25m across SHWD for decarbonisation planning at the six Leisure Centres from Public Sector Low Carbon Skills Fund.

Projects to support the net zero target across the wider community are also underway:

- Installation of electric vehicle charging points at several Council-owned public car parks; and
- Continued allocation of £900k (SHDC) and £600k (WDBC) in Green Homes Grants to allow

eligible households to deliver energy saving measures.

However, the councils do not have an agreed baseline of carbon emissions over successive years meaning it is not possible to confirm emissions are reducing. There has also been no detailed scoping of the many projects in the Action Plans so that understanding is limited of the funding required to deliver them.

We did not agree any High Recommendations.

We made several Medium recommendations including: to ensure a clear baseline of emissions; to develop the Actions Plans to reach Net Zero; to create an Adaptation Plan; and maintain a risk and opportunities register.

Payroll (21/22 plan)

Reasonable Assurance

The 2021/22 arrangements for delivery of the payroll function have been operated as effectively as possible, within the limitations of the TeamSpirit software. Despite the continued need to undertake some manual calculations, it has not led to errors in the payroll as there were appropriate checks and controls for data input and manual calculations. Payments to staff appear to have been made accurately, with very few overpayments and advances of pay required due to errors.

We have repeated two minor recommendations from last year, as we were unable to confirm they had been implemented due to the unavailability of Payroll staff who were involved in the testing and implementation of the new payroll system.

We maintained some oversight of this latter piece of work, seeking assurance that shortcomings within the TeamSpirit system were not being duplicated in the new payroll system i-Trent, that is now used by the councils.

We did not agree any High Recommendations.

Appendix 2 – Progress on the audit plan

2021/22 Audits

Audit	Business Area	Assurance Opinion	Comments
Dartmouth Lower Ferry	Place & Enterprise	Reasonable	See summary in Appendix A
Payroll	KFS	Reasonable	See summary in Appendix A
Change Control – Business Processes		Tbc	Report being drafted
Salcombe Harbour	Place & Enterprise	Tbc	Report being drafted

2022/23 Audits

Audit	Business Area	Assurance Opinion	Comments
Final Report issued / Work Completed			
Development Management - Section 106 Arrangements	Customer Service & Delivery	Reasonable Assurance	Summary provided in previous meeting.
Climate Change	Governance & Assurance	Reasonable Assurance	See summary in Appendix A
Covid19 - Business Grants Post-Scheme Assurance 2022/23	Place & Enterprise	Substantial Assurance	See summary in Appendix A
Treasury Management	KFS	Substantial Assurance	See summary in Appendix A
Contract Management - Leisure	Governance & Assurance	Substantial Assurance	See summary in Appendix A

Audit	Business Area	Comments
Draft Report		
Building Maintenance - Works Scheduling Follow Up	Customer Service & Delivery	Draft issued 13 June. Work being prioritised to obtain management agreement to the report.
Corporate Strategy and Performance Management	Governance & Assurance	Draft issued 16 September 2022. Work now being undertaken with management to finalise the report.
Procurement - compliance with financial procedures and tender limits	Governance & Assurance	Draft issued 15 November 2022
Health and Wellbeing	Customer Service & Delivery	Draft Report issued 19 October 2022
Fieldwork		
Risk Management	Governance & Assurance	To be undertaken in November 2022.
Corporate Information Management	Governance & Assurance	To be undertaken in November 2022
Capital Expenditure	Place & Enterprise	
ICT Cyber Security	Customer Service & Delivery	
Payroll	KFS	Work started 4 Nov 22
Grants LAG LEAF 2022/23	Other items	Ongoing work to validate this grant.
Contingency, Advice & Emerging Risks	Other items	Ongoing
National Fraud Initiative	Other items	Ongoing
Exemptions from Financial Regulations	Other items	Ongoing
Planning / Not Yet Started		
Main Accounting System	KFS	Indicative start Q4
Creditor (Payments)	KFS	Indicative start Q3

Debtors (Income Collection)	KFS	Indicative start Q3
Business Rates	KFS	Indicative start Q3
Council Tax	KFS	Indicative start Q3
Housing Benefits	KFS	Indicative start Q3
Regeneration and Investment Strategy	Place & Enterprise	Indicative start Q4
Locality Officers	Customer Service & Delivery	Indicative start Q3
Partnership Funding Arrangements	Customer Service & Delivery	Indicative start Q3
Project Management	Governance & Assurance	Indicative start Q4
Future IT Project	Governance & Assurance	Indicative start Q2
VAT Arrangements	Governance & Assurance	Indicative start Q3
Business Continuity / ICT Business Continuity	Governance & Assurance	Indicative start Q3

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 .