

Internal Audit

Annual Internal Audit Report
2019/20

Torrige District Council
Audit and Governance
Committee

May 2020



Auditing for achievement

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Devon Audit Partnership	Confidentiality and Disclosure Clause
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Torridge, Plymouth, Torbay, Mid Devon, South Hams, West Devon & Devon County 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 & professional standards.</p> <p>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.</p>	<p>This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.</p> <p>This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.</p>

Introduction

The Audit and Governance Committee, under its Terms of Reference contained in Torridge Council's Constitution is required to consider Internal Audit's annual report and opinion; a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

The Accounts and Audit 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 Strategy and Plan for 2019/20 was presented to and approved by the Audit and Governance Committee in February 2019. The following report and appendices set out the background to audit service provision; reviews work undertaken in 2019/20 and provides an opinion on the overall adequacy and effectiveness of the Council'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 provides that opinion.

Expectations of the Audit Committee from this annual 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 scope and ability of audit to complete the audit work;
- 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 Senior Management, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework (see appendix 1) and satisfy themselves from this assurance for signing the Annual Governance Statement.

Assurance Statement

Overall, based on work performed during 2019/20 and our experience from previous years audit, Internal Audit is able to provide “substantial assurance” (see below) on the adequacy and effectiveness of the Authority’s internal control framework.

The Covid19 crisis has placed considerable pressures on all local authorities, and this is true of Torridge. Whilst we do not expect that the crisis has had a direct impact on the control environment operating in 2019/20, it should be noted that emergency actions taken during March may have resulted in changes to controls and operating practices which have not been the subject of our internal audit work and consideration.

This assurance statement will support Members in their consideration for signing the Annual Governance Statement see appendix 1.

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

Senior Management have been provided with details of Internal Audit’s opinion (set out in this report) on each audit review carried out in 2019/20 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be accompanying its published Statement of Accounts for 2019/20.

Full Assurance -Full assurance can be given that there is a sound system of internal control which is designed to meet the organisation’s objectives and that controls are being consistently applied in all the areas reviewed.

Substantial Assurance - Substantial assurance can be given that there is a generally sound system of internal control, designed to meet the organisation’s objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

Limited Assurance - Limited assurance can be given as weaknesses in the design, and/or inconsistent application of controls, put the achievement of the organisation’s objectives at risk in a number of the areas reviewed.

No Assurance -No assurance can be given as weaknesses in control, and/or consistent non-compliance with controls, could result/ has resulted in failure to achieve the organisation’s objectives in the areas reviewed.

This statement of opinion is underpinned by:

Internal Control Framework

The control environment comprises the Council’s policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council’s objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the Council’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During 2019/20, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. creditors, debtors, payroll, main accounting system) or generally in the reviews undertaken in respect of the services systems. We have concluded that the Council’s overall internal control framework operated effectively during 2019/20.

Risk Management

The Risk Management (RM) Strategy defines the process by which risks are identified, assessed, managed and controlled.

The Council uses this to recognise and plan to deal with the possibility of failing to achieve its corporate and service objectives. It identifies &, evaluates the impact and likelihood of event and identified action to control the risks effectively.

Governance Arrangements

We provided support to the Authority in the review of a possible data breach in the area of Housing.

Our report made a number of recommendations that will help avoid possible future events.

Economy Efficiency & Effectiveness

We aimed to provide support as the Council moved to the new payroll system (iTrent) drawing on our knowledge of similar implementations at other local authorities.

Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an assurance on the adequacy and effectiveness of its accounting records and its system of internal control. In giving our opinion, it should be noted that this assurance can never be absolute. The assurance level provided is based on our assessment of the control environment at the point of review, supported by a limited amount of sample testing

This report: -

- compares the work carried out with the work that was planned through risk assessment (see appendix 2);
- presents a summary of the audit work undertaken;
- includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and
- summarises the performance of the Internal Audit function against its performance measures and other criteria.

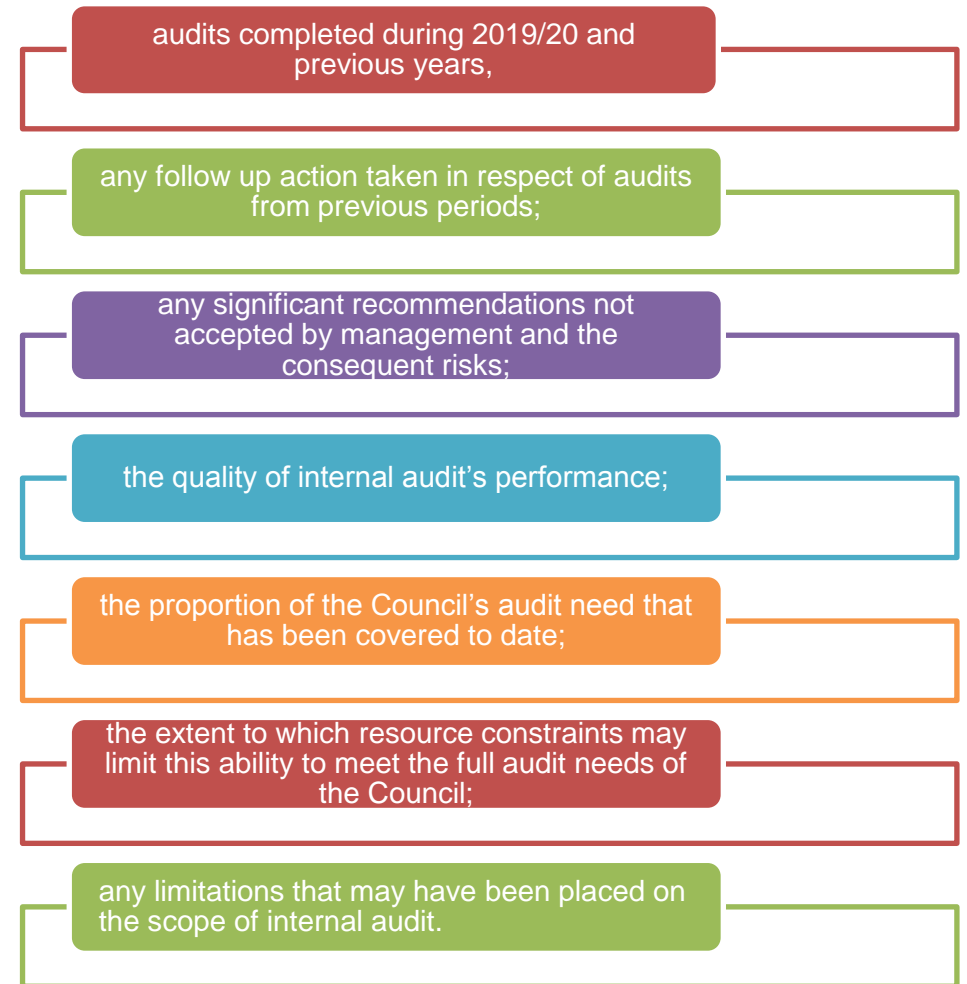
The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements; and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

The internal audit plan for 2019/20 was delivered via staff employed by Devon Audit Partnership. In 2017 Torridge joined the Partnership as a partner. The Partnership makes available a dedicated member of staff to deliver most audit assignments and to provide a consistent approach; the work of this officer is then supplemented by specialist auditors to meet specific audit needs.

The resources available have enabled the agreed plan to be delivered, with work being completed within expected timescales.

In assessing the level of assurance to be given the following have been considered:

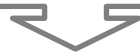


Audit Authority

Service Provision

The Internal Audit (IA) for Torridge Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Torridge, Devon, Torbay, Plymouth and Mid Devon councils constituted under section 20 of the Local Government Act 2000. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

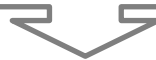
An annual plan, setting out expected audit priorities is risk assessed and agreed with senior management annually.



Regulatory Role

There are two principal pieces of legislation that impact upon internal audit in local authorities:

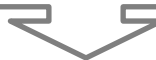
- **The Accounts and Audit Regulations 2015**, which state at section 5(1) "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance".
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.



Professional Guidelines

Devon Audit Partnership works to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards. The Partnership was independently assessed in by Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service and his colleague Chris Wood, Audit Manager; the Partnership was assessed as "conforming" to the standards.

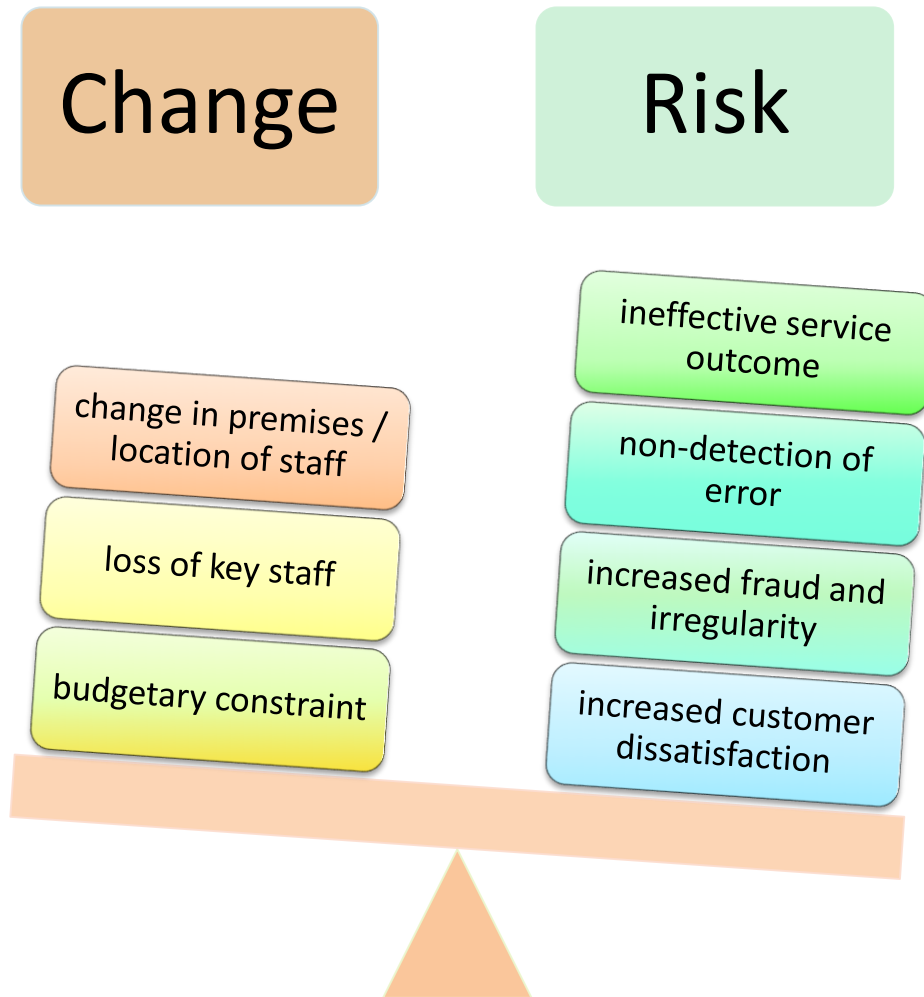
The Partnership has an internal Audit Manual that provides the method of work and works to and with the policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others



Audit Strategy

Internal Audit Strategy sets out how the service will be provided, and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the audit function.

The consequences of change and risk



Times are changing; the expectation of the public for services provided by the public sector has never been greater; yet the money that is available for these services is limited. The impact of Brexit is not yet fully known, and the finally agreed exit agreement will bring with it both opportunities and challenges that will need to be addressed.

There is a greater focus on information systems; the need to secure such systems from failure or outside influence has never been greater. The Data Protection Act 2018, also known as GDPR, has required organisations to review data management arrangements and make changes to manage the risk of data loss or breach.

The Internal Audit function has a key role in helping management fully understand their risks and in designing effective and efficient controls that mitigate these risks to an acceptance level; a consistent application of a quality internal audit opinion assists the organisation to develop alternative and new delivery solutions that will deliver the service required.

Our work during the year was been tailored to meet the changing requirements of the Authority throughout the year. All of the changes and risks within this graphic have been observed.

Internal audit coverage and results

In our opinion, and based upon our audit work completed during the 2019/20 financial year and in previous years, we consider that adequate controls are in place to control operations at the council and, as stated on page 2, Internal Audit is able to provide “**significant assurance**” on the adequacy and effectiveness of the Authority’s internal control framework.

Where weaknesses or areas for improvement have been identified management have generally agreed these findings and have either agreed the recommendations or accepted the associated risks. Where management actions have been agreed and as appropriate, we shall undertake follow up work to ensure that the identified risks have been mitigated.

We provide an assurance opinion for each piece of work. This assurance opinion is graded as follows (please also refer to appendix 3).

Opinion	Audit
High	Creditors, Main Accounting System, NNDR, Payroll
Good	Benefits, Council Tax, Debtors, Income, Treasury Management, Caddsdwn Business Support Centre, Councillor Community Grants, Emergency Planning, GDPR Compliance, Local Land Charges, Northam Burrows, Planning Enforcement, S106, Tree Preservation Orders, Risk Management.
Improvements Required	Harbour & Pilotage Service, Housing Options, Housing Renewals, Estates Management
Fundamental Weaknesses	None

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.

Other Sources of assurance

During the year other sources of assurance will be gained. During 2019/20 these sources have included the following: -

1. Grant Thornton (production of annual accounts letter etc.)
2. Local Government Ombudsman (annual letter)
3. North Devon Council (Crematorium arrangements)
4. ICT Security (external penetration testing)
5. Internal review of the effectiveness of the Audit and Governance Committee
6. Wessex Housing. Accounts are audited annually by Francis Clarke. As the scheme is managed in partnership with other councils in the Devon area, Wessex is regularly audited by the South West Audit partnership (in order to share audit costs with other council areas) This audit is due in October this year.

Fraud Prevention and Detection

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, regular reminders about anti-fraud and whistleblowing arrangements are provided to staff in the regular staff newsletter. The Audit Commission runs a national data matching exercise (National Fraud Initiative - NFI) every two years. In reviewing and investigating the most recent data matching cases, Council staff have been able to generate estimated savings in the region of £35,000.

Every case of alleged fraud or irregularity is thoroughly investigated, and action will be taken to address any concerns identified. The council will issue sanctions against those who commit fraud, although it should be noted that since the transfer of benefit payments to DWP, the need for Torridge to issue cautions has reduced. In the 2019/20 financial year Torridge did not issue any administrative penalties.

The Council also assist with request for data from the police, other local authorities and public sectors bodies who asked for information to assist in their own prevention and detection of fraud. Such requests relate to the release of data concerning the general public and are referred to as “section 29” requests.

Managing the Risk of Fraud and Corruption - Self Assessment

During 2015 CIPFA's Counter Fraud Centre issued a code of practice on managing the risk of fraud and corruption. The guidance emphasised the need for public service organisations to take responsibility to embed effective standards for countering fraud and corruption in their organisation. This supports good governance and demonstrates effective financial stewardship and strong public management.

Internal Audit undertook a self-assessment of the standards in place at Torridge Council against the code of practice. It was reported to the Audit and Governance committee that, by and large, effective and appropriate standards were in place. In some instances, these have since benefited from a refresh, although the good principles to prevent, detect and investigate instances of fraud and corruption were in place.

Internal Audit will continue to ensure that standards and practices are embedded and remain effective at deterring and preventing fraud.

Service Delivery - Devon Audit Partnership - Professionalism and Quality

The audit plan for 2019/20 has been delivered by the Devon Audit Partnership. The Partnership is expected to meet high standards of professionalism and quality, and in particular meet the requirements of the Public Sector Internal Audit standards. The following paragraphs are provided by Devon Audit Partnership.

Conformance with Public Sector Internal Audit Standards (PSIAS)

Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2017. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

Quality Assessment - the Head of Devon Audit Partnership maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme. External Assessment provides assurance that against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service and his colleague Chris Wood, Audit Manager, have completed an external validation of the Partnership.

Terry and Chris concluded that;

“It is our overall opinion that the Devon Audit Partnership **generally conforms** * to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

* Generally Conforms – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

Improvement Programme – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and a status report was reported to the DAP Management Board in October 2019.

Customer Service Excellence

DAP has been successful in re-accreditation by G4S Assessment Services of the CSE standard during June 2019.

During the period we issued client survey forms with our final reports. The results of the surveys returned are very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

Appendix 1 - Annual Governance Framework Assurance

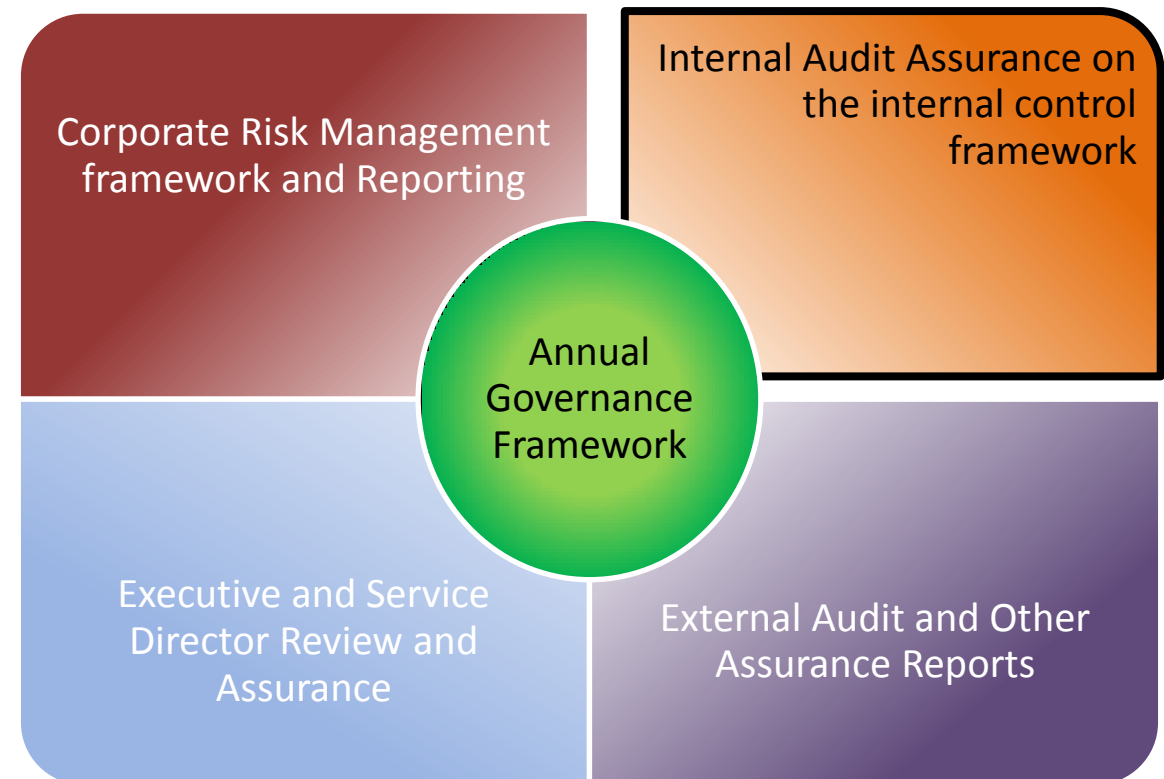
The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

The Annual Governance Statement (AGS) provides assurance that

- the Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should: -

- be prepared by senior management and signed by the Head of Paid Service and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that has been followed to ensure that the governance arrangements remain effective. This will include comment upon: -
 - The Authority;
 - Audit and Governance Committee;
 - Risk Management;
 - Internal Audit;
 - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance.



The AGS needs to be presented to, and approved by, the Audit and Governance Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by Risk Management arrangements, senior management and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.

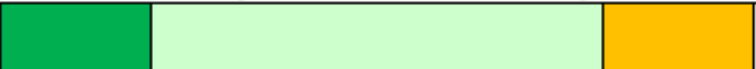










Appendix 2 - Performance Indicators

There are no national Performance Indicators in existence for Internal Audit, but the following Local Performance Indicators LPI's may be of interest.

<i>Local Performance Indicator (LPI)</i>	<i>2019/20</i>	<i>2019/20</i>	<i>2018/19</i>	<i>2017/18</i>	<i>2016/17</i>	<i>2015/16</i>
	Target	Actual	Actual	Actual	Actual	Actual
Percentage of Key System Audits completed	100%	100%	87.5% *	100%	100%	100%
Percentage of Other System Audits completed	70%	83%	91.6% **	92%	93%	80%
Actual Audit Days as percentage of planned	90%	90.9%	93.2 ***	100%	97%	95%
Productive Audit Time	65%	65%	68.3%	71.5%	83%	84%
Customer Satisfaction – percentage satisfied/very satisfied	90%	90.9%	92.3%	91%	9	9.5
Average number of days to produce draft internal audit reports	43 days	25 days	26 days	25 days	22 days	35 days
Average number of days to produce final internal audit reports	70 days	65 days	43 days	48 days	38 days	56 days
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes

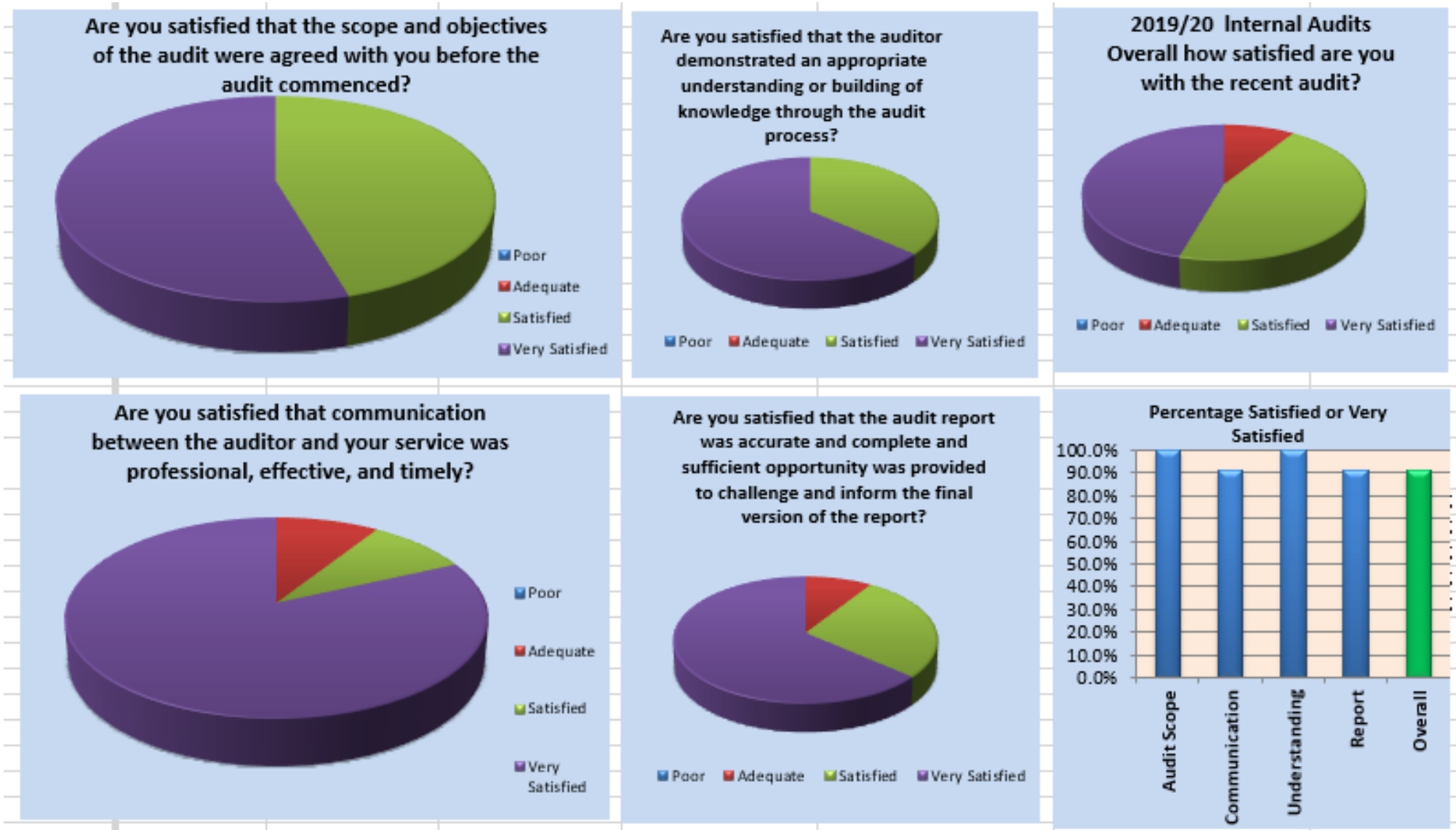
Appendix 3 - Comparison of Audit Opinions

Internal Audit Reports 2019/20: Comparison of Audit Opinion - page 1 of 2											
By Date											
Audit	Percentage High/Good	Risks Opinion at time of audit								Opinion at time of publication	
		1	2	3	4	5	6	7	8		
Income	50%	█	█								Good Standard
Emergency Planning	100%	█	█								Good Standard
Housing Options	60%	█	█	█	█						Improvements Required
Northern Burrows	80%	█	█	█	█	█					Good Standard
Debtors	100%	█	█	█	█						Good Standard
Harbours	50%	█	█	█	█	█	█				Improvements Required
Council Tax	100%	█	█	█	█	█	█	█	█		Good Standard
Estate Management	40%	█	█	█	█	█	█				Improvements Required
Tree Preservation	80%	█	█	█	█	█					Good Standard
Planning Enforcement	50%	█	█	█	█						Good Standard

Internal Audit Reports 2019/20: Comparison of Audit Opinion - page 2 of 2					
Section 106	80%				Good Standard
Creditors	100%				High Standard
Treasury	100%				Good Standard
Main Accounting	100%				High Standard
NNDR	100%				High Standard
Payroll	100%				High Standard
Benefits	100%				Good Standard
Rental Venues	100%				Good Standard
Land Charges	67%				Good Standard
Housing Renewals	25%				Improvements Required
Risk Management	100%				Good Standard

Appendix 4 - Customer Feedback Results 2019/20

For each audit we issue a customer feedback form. The results we receive help us shape our service; it helps to identify possible training needs for staff and helps us understand the areas of our process that are more challenging for the auditee.



Additional comments provided by Auditees - 2019/20

Was the audit able to add value to you and your business unit? If so how?	
Tree Protection orders	Yes, as we have undergone recent procedure changes, it was useful to understand any risk involved with these, and any further improvements that can be made.
S106	Yes, The audit conclusions has provided a focus for continued improvement
NNDR	Not really, but only because there isn't much to add with NNDR
Treasury TDC	Some small improvement in controls/checking procedure was suggested and has been implemented.
Payroll	Not particularly as it was a standard yearly audit which didn't highlight any system weaknesses...which is positive
HB & CTS	No. We had only recently finished with external audit, so the work was duplicated which is very time consuming due to queries & 'discussions'
Caddsdwn	It will assist in improving our systems
Which aspects of the audit process did you find particularly helpful or positive?	
Tree Protection Orders	General open discussions throughout the process and discussion on findings.
S106	Open dialogue between the numerous parties involved in the S106 process which has allowed a greater understanding of everyone's role in the process by the other parties.
NNDR	It was helpful that Nicky seemed to be aware of NNDR and its processes and understood how the system worked
Treasury TDC	General understanding of the treasury process, controls and risks associated, were all very positive.
Payroll	Good communication . Gary is very experienced in this work
Caddsdwn	Feedback and discussion with the auditor
Do you have any other comments regarding the audit service from DAP or any suggestions how the customer experience could be improved?	
Income	The initial audit report contained a red finding regarding whether the Council had a "valid" contract for its cash receipting services provided by Capita. Whilst officers intpretation of the contract status differed from the audit report in emphasis, the report did highlight some improvements in the procurement process which will be implemented in the future. Management appreciated the audit report finding being downgraded from Red