

Internal Audit

Annual Audit Report 2017/18

Torrige District Council  
Audit and Governance  
Committee

May 2018



Auditing for achievement

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<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon 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.</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 <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a> .</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 the Internal Audit Manager's annual report and opinion, and 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 (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 2017/18 was presented to and approved by the Audit and Governance Committee in April 2017. The following report and appendices set out the background to audit service provision; reviews work undertaken in 2017/18 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 2017/18 and our experience from previous years audit, Internal Audit is able to provide “significant assurance” (see below) on the adequacy and effectiveness of the Authority’s internal control framework.**

*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.

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

Senior Management have been provided with details of Internal Audit’s opinion on each audit review carried out in 2017/18 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 2017/18.

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.

**Significant Assurance** - Significant 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:**

<p><b>Internal Control Framework</b>                  The control environment comprises the Council’s policies, procedures and operational systems and processes in place to:</p> <ul style="list-style-type: none"> <li>• Establish and monitor the achievement of the Council’s objectives;</li> <li>• Facilitate policy and decision making;</li> <li>• Ensure the economical, effective and efficient use of resources;</li> <li>• Ensure compliance with established policies, procedures, laws and regulations;</li> <li>• Safeguard the Council’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.</li> </ul> <p>During 2017/18, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. creditors, payroll &amp; main accounting system) or generally in the reviews undertaken in respect of the services systems. The Council’s overall internal control framework operated effectively during 2017/18, and where internal audit work has highlighted instances of none or part compliance, none have had a material impact on the Authority’s affairs.</p>		
<p><b>Risk Management</b></p> <p>Risk management arrangements were reviewed and an assurance opinion of Satisfactory was provided.</p> <p>A number of recommendations are being enacted upon.</p>	<p><b>Governance Arrangements</b></p> <p>Our audit confirmed expected controls tested were working effectively. Improvements were agreed for</p> <ul style="list-style-type: none"> <li>• social media access and</li> <li>• learning from upheld complaints.</li> </ul>	<p><b>Economy Efficiency &amp; Effectiveness</b></p> <p>In our review of “Transforming Torridge” we made recommendations with regard to</p> <ul style="list-style-type: none"> <li>• risk identification &amp; management,</li> <li>• cost and time estimating and</li> <li>• ensuring all objectives are SMART.</li> </ul>

## Basis for Opinion

The Head 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 the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control.

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 2017/18 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 taken into account:

audits completed during 2017/18 and previous years,

any follow up action taken in respect of audits from previous periods;

any significant recommendations not accepted by management and the consequent risks;

the quality of internal audit's performance;

the proportion of the Council's audit need that has been covered to date;

the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;

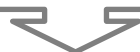
any limitations that may have been placed on the scope of internal audit.

## 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.

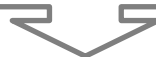
An annual plan, setting out expected audit priorities is risk assessed and agreed with senior management annually.



### Regulatory Role

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

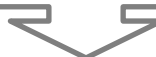
- **The Accounts and Audit (England) Regulations 2015**, which state at section 5(1) "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) 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 December 2016 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.

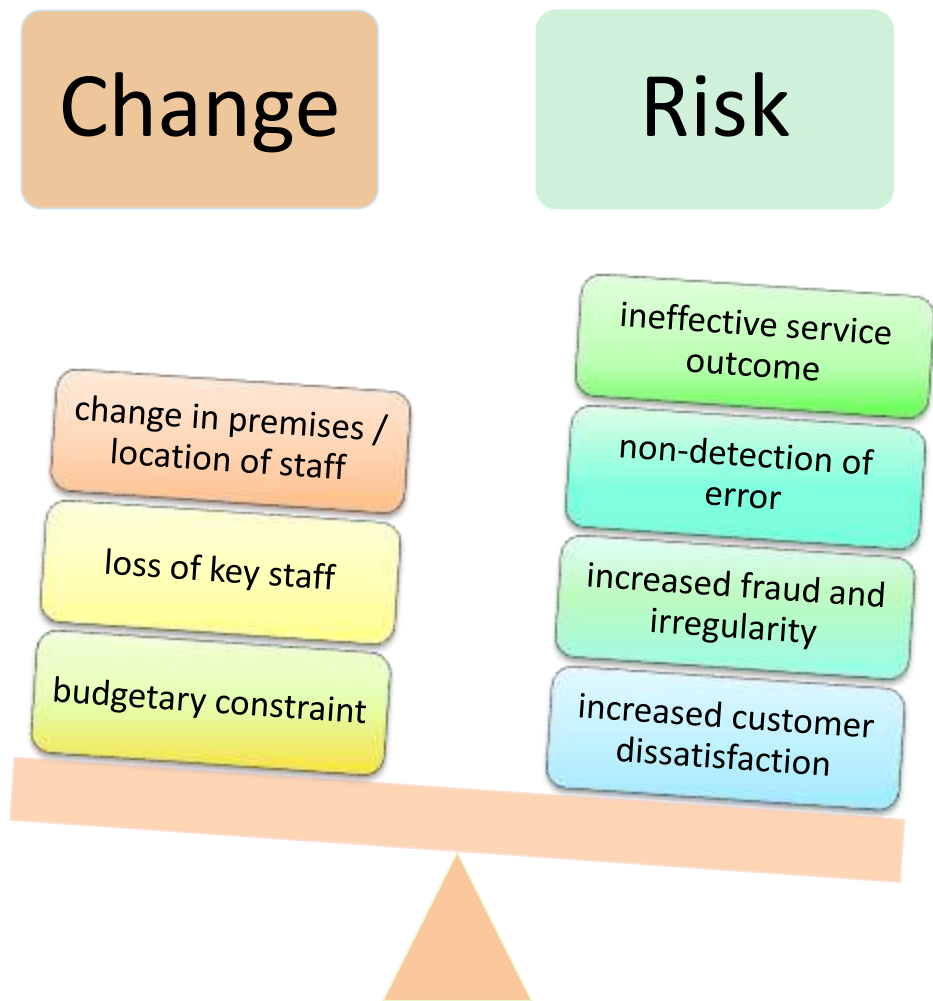
The Partnership has an internal Audit Manual that provides the method of work and works to and with the policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption 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. All public sector organisations are looking at how services can be transformed; what worked in the last decade may not meet new challenges. The use of, and dependency on, IT for service delivery will only increase further; this brings rewards but also carries its own risk.

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 2017/18 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
Good; which means minimal risk has been identified)	ICT Cyber Security Follow-Up; Governance; Debtors; Council Tax NNDR; Creditors; Treasury Management; Main Accounting; Payroll; Housing Benefits.
Satisfactory; (which means some risks have been identified)	Risk Management; Community Safety Partnership; Asset Management; Licensing; Transforming Torridge Programme; Cemeteries; Key Performance Indicators
Satisfactory / Marginal; which means a number of risks have been identified)	None
Marginal / Satisfactory; (which means significant changes are required to reduce risk)	Planning and Health & Safety
One audit was carried out by an external audit provider (SWAP). Substantial (which means the processes were adequately controlled and the controls in place operate effectively and risks are well managed)	Wessex Home Improvement Loans

For a limited number of reviews (3), Marginal / Satisfactory audit opinions have been reported. The detailed findings from our work have previously been presented to members of the Audit and Governance Committee, but a brief summary of the opinion and management response is provided below for information purposes.



## **Planning**

Internal Audit Opinion - The audit has found that five of the twelve controls tested were working effectively. Improvements can be made with regard to staffing resources and costs; timeliness and completeness of supporting records; timeliness of validation and decision making; improvements to interdepartmental communications, finalisation of the Local Plan and ensuring members are careful to observe impartiality during their involvement with planning cases.

Management Response Senior Solicitor - The planning team has recently embarked on a comprehensive programme of improvement covering all aspects of the service. Some significant changes have been made with very positive and measurable results, particularly in relation to process efficiencies, recruitment and retention, validation turnaround times and other important areas. As this audit includes a period of time before the improvement programme was introduced, the improved outcomes of the programme are not immediately obvious in this report. We are confident that future audits will show marked improvement in the key areas identified within the audit process

## **Health & Safety**

Internal Audit Opinion - The audit has found that four of the eight controls tested were working effectively. Improvements can be made with regard to ensuring sufficient resources are available to fulfil all requirements of the Council.

Management Response - Environmental Health & Community Safety Manager. Audit findings noted and accepted.

## Other Sources of assurance

During the year other sources of assurance will be gained. During 2017/18 these sources have included the following:-

1. Grant Thornton (production of annual accounts 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. ICT Change Management – situation report – prepared by DAP
7. GDPR readiness assessment

## 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 January 2017 results from data extracted in October 2016 were provided. These results have been reviewed by Internal Audit or the relevant department / team of the council and appropriate action has been taken.

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 2017/18 financial year Torridge issued 4 administrative penalties which were actioned by colleagues at the DWP.

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 2017/18 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). In December 2016 DAP welcomed Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service and his colleague Chris Wood, Audit Manager, who 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 2016.

### Customer Service Excellence

DAP has been successful in re-accreditation by G4S Assessment Services of the CSE standard during June 2017.

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

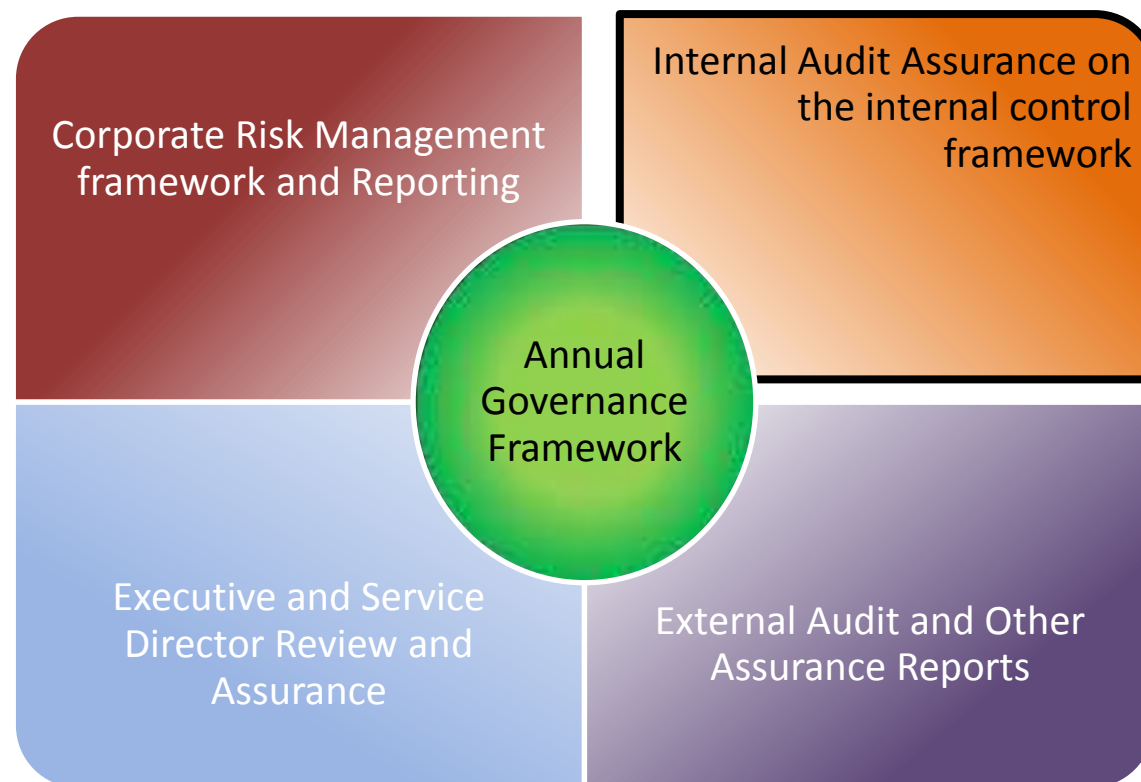
**The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.**

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>2017/18</i>	<i>2017/18</i>	<i>2016/17</i>	<i>2015/16</i>
	<b>Target</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
Percentage of Key System Audits completed	100%	100%	100%	100%
Percentage of Other System Audits completed	70%	92%	93%	80%
Actual Audit Days as percentage of planned	90%	100%	97%	95%
Productive Audit Time	65%	71.5%	83%	84%
Customer Satisfaction - average score out of 10	9	91%	9	9.5
Average number of days to produce draft internal audit reports	43 days	25	22 days	35 days
Average number of days to produce final internal audit reports	70 days	48	38 days	56 days
Out-turn within budget	Yes	Yes	Yes	Yes

## Appendix 3 – Comparison of Audit Opinions

### Internal Audit Reports 2017/18: Comparison of Audit Opinion

By Date

Audit	Percentage Green	Controls at time of audit																				Rating at time of audit	Completed at time of publication
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20		
Cyber Follow Up	100%	Green																				Good	Good
Asset Mgt	73%	Green								Yellow												Satisfactory	Satisfactory
Governance	78%	Green							Yellow													Satisfactory	Good
Community Safety	86%	Green						Red														Satisfactory	Satisfactory
Debtors	86%	Green						Yellow														Good	Good
Licensing	70%	Green															Yellow					Satisfactory	Satisfactory
Council Tax	86%	Green												Yellow								Good	Good
Transformation	60%	Green						Yellow														Satisfactory	Satisfactory
Planning	42%	Green					Yellow															Marginal/Satisfactory	Marginal/Satisfactory
NNDR	89%	Green								Yellow												Good	Good
Treasury	100%	Green																				Good	Good
Main Accounting	100%	Green																				Good	Good
Creditors	100%	Green																				Good	Good
IT User controls	75%	Green			Yellow															Satisfactory	Good		
Payroll	73%	Green								Yellow												Satisfactory	Good
Heath & Safety	50%	Green				Yellow			Red													Marginal/Satisfactory	Marginal/Satisfactory
KPIs	71%	Green					Yellow															Satisfactory	Satisfactory
Benefits	85%	Green												Yellow								Good	Good
Risk Management	63%	Green					Yellow															Satisfactory	Satisfactory
Cemeteries	78%	Green							Yellow													Satisfactory	Satisfactory

Undertaken by DAP

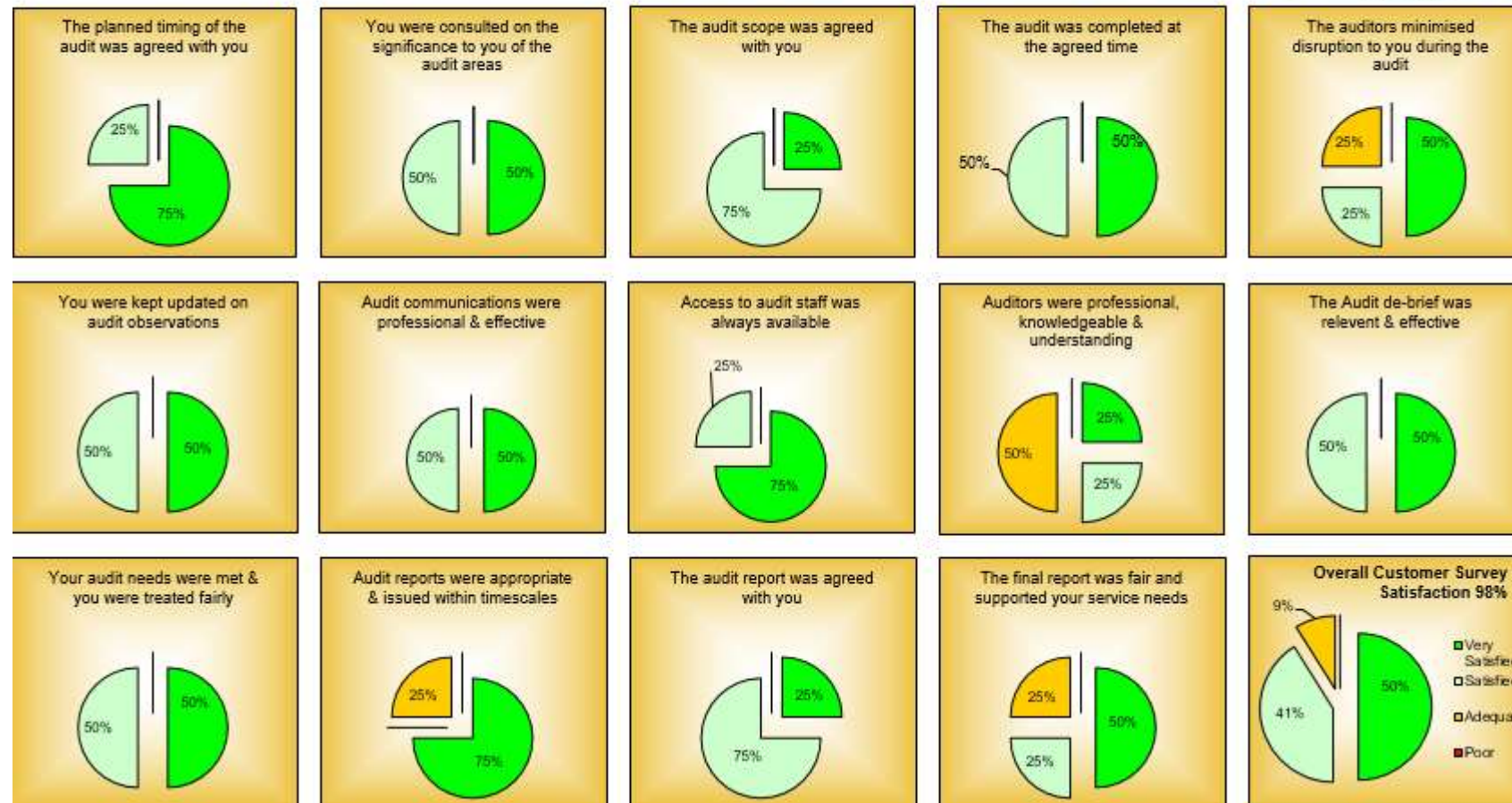
## Appendix 4 - Customer Feedback Results 2017/18

For each audit we issue a customer feedback form. For 2017/18, we trailed the use of the DAP process, which uses a form generated from the MKi audit management system. Unfortunately, only 4 feedback forms were received. Although the overall feedback was positive, the lack of responses does not provide enough information with which to identify if there are any issues in the service being provided. For 2018/19 it has been agreed that we will revert to the former "Torridge" process for collecting customer feedback.

The feedback scores received are shown below.

### Customer Survey Results April 2017 - March 2018

The charts below show a summary of 4 responses received.



## Additional comments provided by Auditees - 2017/18

Question	Comments:	Directorate	Audit Area	Entity
Do you have any other comments regarding our audit service and your customer experience?	Generally satisfied with the audits undertaken, they do highlight areas for improvement. Sometimes the tone of the audit findings can come across as a little adversarial in nature.	Corporate	Property and Procurement	Property
Which aspects of the audit process did you find particularly helpful or positive?	Highlighted weakness in leavers (ensuring IT accounts closed etc). Was pleasing that the liaison between Finance and HR in setting establishment budgets was recognised as adequate and sufficient.	Resources	Key Financial Systems	Payroll
Was the audit able to "add value" to you? If so, can you describe how?	Audit confirmed that existing procedures and practices were robust and no serious issue were present	Resources	Key Financial Systems	Payroll
Do you have any other comments regarding our audit service and your customer experience?	The audit was detailed and the auditor had a good comprehension of the payroll processes.	Resources	Key Financial Systems	Payroll
Which aspects of the audit process did you find particularly helpful or positive?	Gary got to grips with the subject matter and had done some background research on the area for the audit which was useful	Services	Partnerships	Partnerships