

Internal Audit

Annual Internal Audit Report
2020/21

Torrige District Council
Audit and Governance
Committee

April 2021



Auditing for achievement

Contents

INTRODUCTION	3
BASIS FOR OPINION	5
INTERNAL AUDIT COVERAGE AND RESULTS	6
FRAUD PREVENTION AND DETECTION	8
SERVICE DELIVERY - DEVON AUDIT PARTNERSHIP - PROFESSIONALISM AND QUALITY	9
CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)	9
CUSTOMER SERVICE EXCELLENCE	9
AUDIT AUTHORITY	10
THE CONSEQUENCES OF CHANGE AND RISK	11
APPENDIX 1 - ANNUAL GOVERNANCE FRAMEWORK ASSURANCE	12
APPENDIX 2 - PERFORMANCE INDICATORS	13
APPENDIX 3 - COMPARISON OF AUDIT OPINIONS	14
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APPENDIX 4 - CUSTOMER FEEDBACK RESULTS 2020/21	15

Devon Audit Partnership <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>	Confidentiality and Disclosure Clause <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>
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Introduction

The Audit and Governance Committee, under its Terms of Reference contained in Torridge District 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 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 Public Sector Internal Audit Standards also requires 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.

The following report and appendices set out the background to audit service provision; summarises our work undertaken in 2020/21 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

Context for 2020/21. The Internal Audit Strategy and Plan for 2020/21 was due to be presented and approved by the Audit and Governance Committee in March 2020, however due to the Covid-19 pandemic this meeting was cancelled. The plan and strategy are shown on the Torridge website, and so have been available for comment and consideration by members. Delivery against the plan has further been affected by the pandemic; during 2020/21 officer time has quite rightly been focused on front line service delivery and supporting the wider community in dealing with Covid-19. As a consequence, some audits have been deferred to a future year. We have still been able to complete most of our audits and have also drawn from our work in previous years to enable an annual audit opinion to be provided. The audit work that has been completed in 2020/21 has mainly been achieved via remote working, and we are most appreciative of the support provided by Torridge officers in enabling us to complete this work effectively and efficiently.

Expectations of the Audit and Governance Committee from this annual report

Audit & 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 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.

Robert Hutchins Head of Devon Audit Partnership

ASSURANCE STATEMENT

Overall, based on work performed during 2020/21 and our experience from previous years audit, Internal Audit is able to provide “Reasonable assurance” (see below) on the adequacy and effectiveness of the Authority’s internal control framework.

However, the Covid19 crisis has placed considerable pressures on all local authorities, and this is true of Torridge. Many emergency actions taken by the Council during 2020/21 have had to be made quickly. As a consequence, system and control design of such decisions may not have been subject to the normal level of control. In our work we have sought to confirm that key controls continue to operate effectively to mitigate this risk.

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. 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 2020/21 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 2020/21.

Substantial Assurance. A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable Assurance. There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited Assurance. Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No Assurance. Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.

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 2020/21, core financial and administrative systems were reviewed by Internal Audit through specific reviews. We also reviewed practices related to the Covid-19 response (e.g. Grant payments) and have concluded that the Council’s overall internal control framework operated effectively during 2020/21.

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 as it responded to the Covid pandemic, in particular providing assurance over the arrangements to prevent and detect fraudulent Covid support payments.

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, 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.

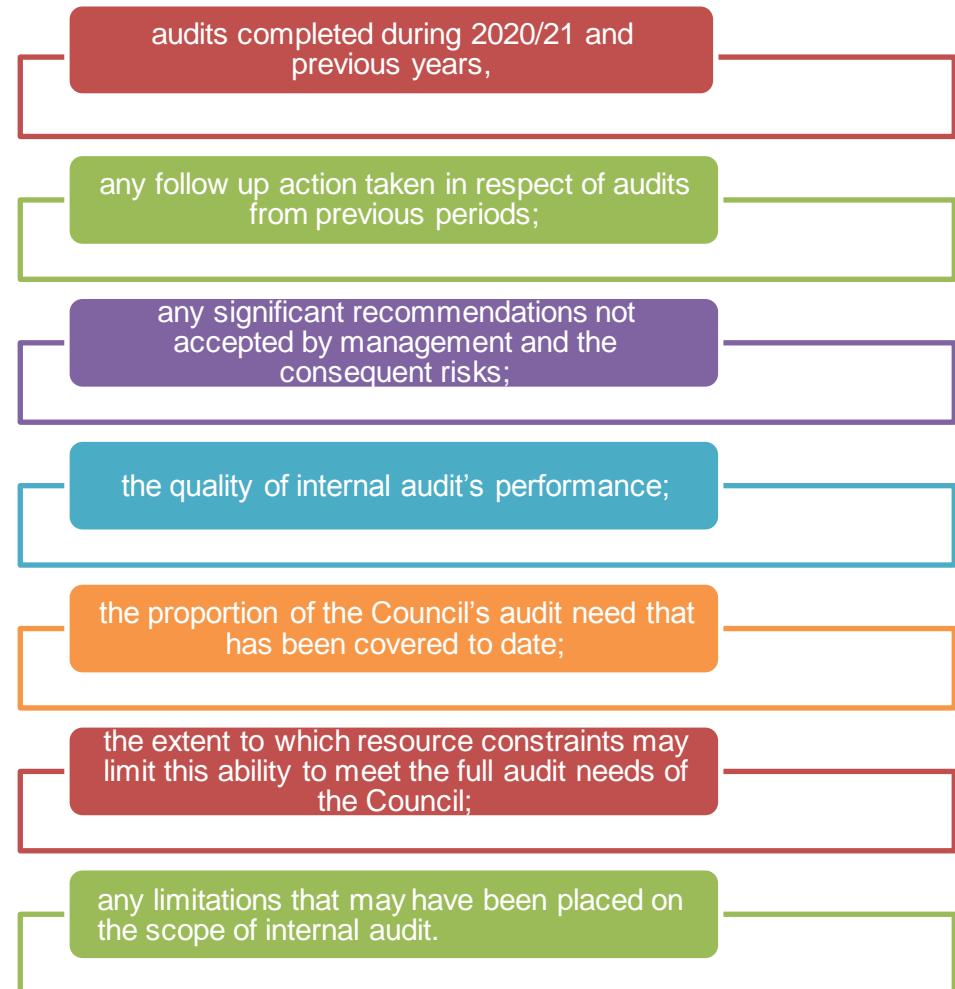
This report: -

- compares the work carried out with the work that was planned through risk assessment;
- 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.

CIPFA, the body that advises on professional internal audit standards, recognises that the impact of Covid-19 and the capacity of the organisation to respond will have varied as a result of a number of factors (please see [link](#)). CIPFA recognises that, alongside direct internal audit work, the HIA (Head of Internal Audit) can also place reliance on other assurance providers. Factors that we are required to consider when providing our opinion include:

- the changing risks and impacts on the organisation itself
- whether key governance, risk management and internal control arrangements have deteriorated or been maintained
- changes to the resource base of internal audit
- demands on internal audit for any advisory or non-audit support
- operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs.

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



Internal audit coverage and results

In our opinion, and based upon our audit work completed during the 2020/21 financial year and in previous years, we consider that adequate controls are in place to control operations at the council and provide “**Reasonable Assurance**” on the adequacy and effectiveness of the Authority’s internal control framework. All of our audit reports this year have provided a Substantial or Reasonable Assurance. Given the impact of the Covid-19 emergency, this is a good outcome for the Council.

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). (please see key on following page).

Opinion	Audit
Substantial Assurance	Council Tax, Councillor Community Grants, Creditors, Ethics and Values, Housing Benefits, Income, Main Accounting System, Safeguarding, VAT
Reasonable Assurance	Covid-19 Grant Payments, Equality and Diversity (draft), National Non-Domestic Rates (NNDR), Procurement, Risk Management, Environmental Protection
Limited Assurance	None
No Assurance	None

Work in progress as at April 2021 – ICT – Remote Working Arrangements

Deferral of Work. Due to the Covid-19 pandemic and the need for front line staff to concentrate on service delivery, the following audits were deferred with management agreement to a later period, mainly 2021/22:- Payroll, CCTV / Community Safety, Licensing (inc Taxi Licences and local licences) Development Management, Recruitment and Selection and Retention, Project Delivery.

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.

Other Sources of assurance

During the year other sources of assurance will be gained. During 2020/21 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. Lendology CIC (formerly Wessex Housing) Accounts are audited annually by Francis Clarke. As the scheme is managed in partnership with other councils in the Devon area, Lendology is regularly audited by the South West Audit Partnership (SWAP) (in order to share audit costs with other council areas. An audit was undertaken in 2020/21 and the audit report issued in November 2020 provided an assurance rating of Substantial.

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 2020/21 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 2020/21 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 2020. 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 2020.

Customer Service Excellence

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

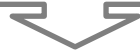
During the Covid-19 period we scaled back our requests for customer feedback but expect to fully resurrect our feedback process in 2021/22. However, we have issued client survey forms for some of our reports, and the results of the surveys returned were very good and again very positive. The overall result is very pleasing, with near 94% 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.

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.

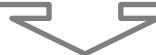
An annual plan, setting out expected audit priorities is risk assessed and agreed with senior management annually.



Regulatory Role

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

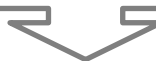
- **The Accounts and Audit Regulations 2015**, which state at section 5(1) "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or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

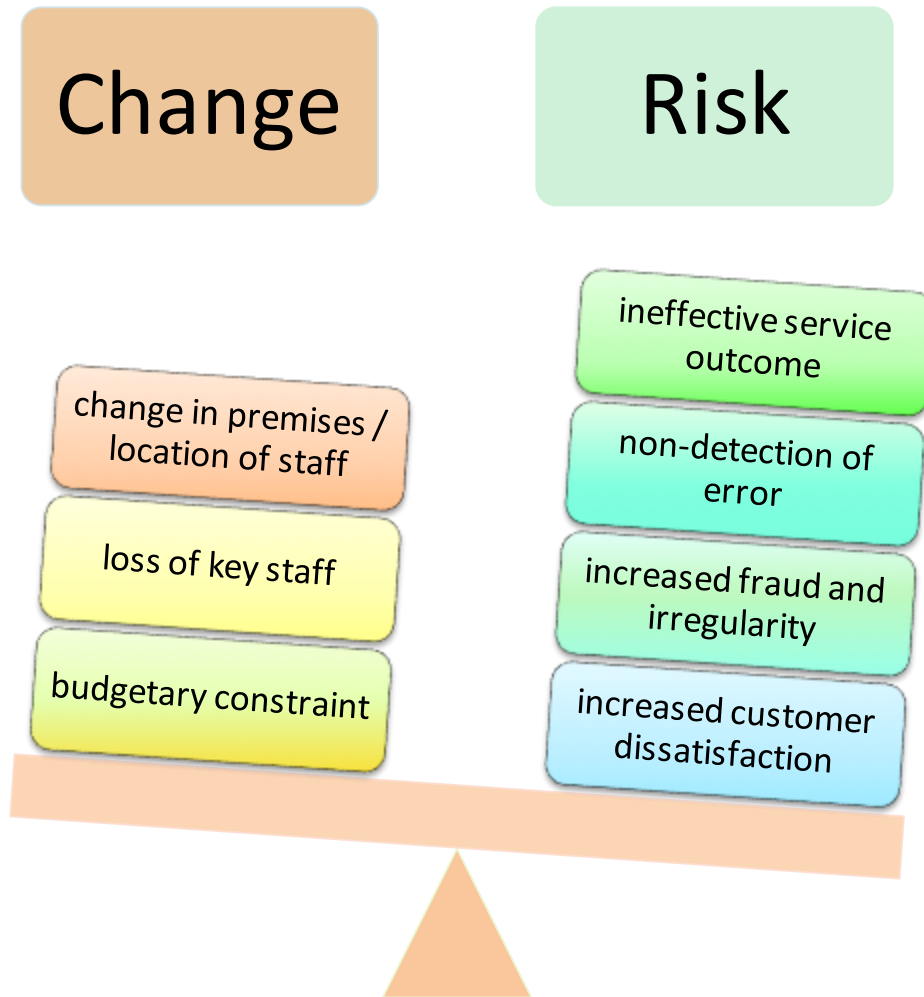
Devon Audit Partnership works to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards. The Partnership was independently assessed in by Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit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



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

Appendix 1 - Annual Governance Framework Assurance

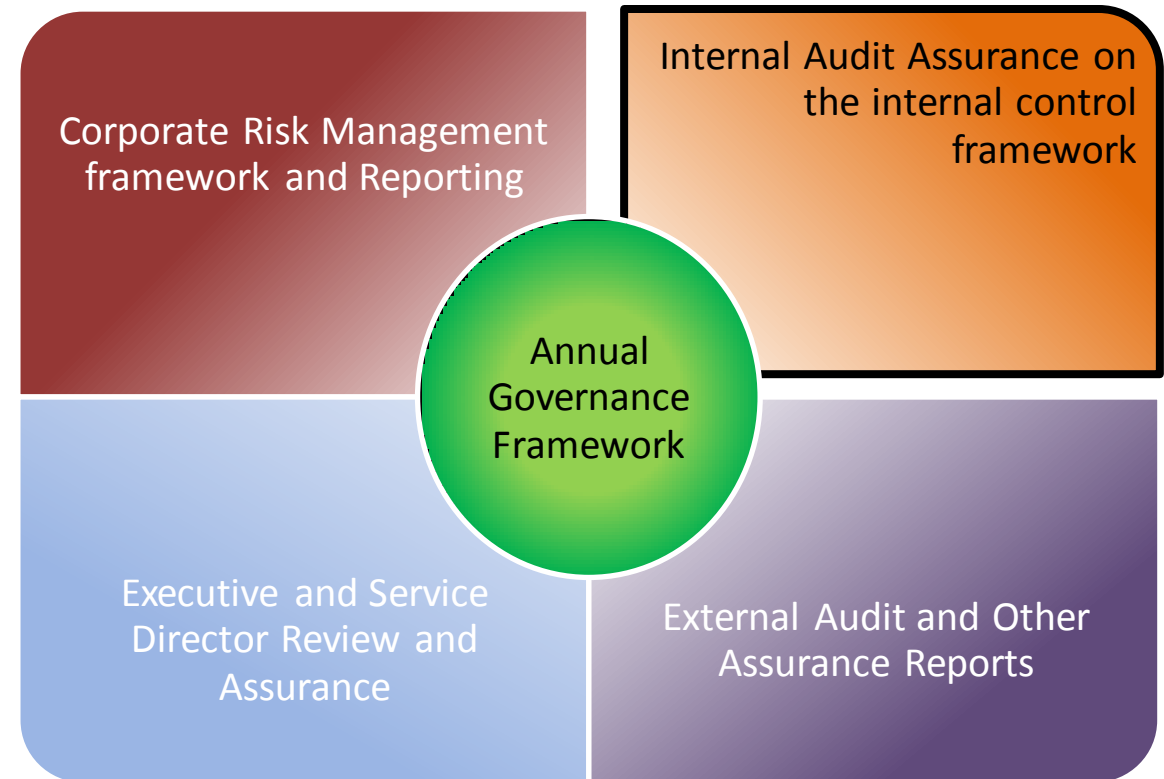
The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

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>2020/21</i>	<i>2020/21</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	Actual
Percentage of Key System Audits completed	100%	88%	100%	87.5%	100%	100%	100%
Percentage of Other System Audits completed	70%	54%	83%	91.6%	92%	93%	80%
Actual Audit Days as percentage of planned	90%	67%	90.9%	93.2	100%	97%	95%
Productive Audit Time	65%	64%	65%	68.3%	71.5%	83%	84%
Customer Satisfaction – percentage satisfied/very satisfied	90%	94% *	90.9%	92.3%	91%	9	9.5
Average number of days to produce draft internal audit reports	43 days	32	25 days	26 days	25 days	22 days	35 days
Average number of days to produce final internal audit reports	70 days	47	65 days	43 days	48 days	38 days	56 days
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes	Yes

* The figure of 94% shown represents customer feedback from the wider DAP partnership, rather than specifically relating to work completed at Torridge District Council.

Appendix 3 - Comparison of Audit Opinions by Audit

Comparison of Audit Opinions 2020/21 (alpha order)									
Audit	Overall opinion at time of report publication	Risk Opinions at time of Audit							
Covid 19 Grant Assurance	Substantial								
Council Tax	Substantial								
Councillor Community Grants	Substantial								
Creditors	Substantial								
Environmental Protection	Reasonable								
Ethics and Values	Substantial								
Equity and Diversity	Reasonable								
Housing Benefits	Substantial								
Income	Substantial								
Main Accounting System	Substantial								
National Non-Domestic Rates	Reasonable								
Procurement	Reasonable								
Risk Management	Reasonable								
Safeguarding	Substantial								
VAT	Substantial								

Assurance
Substantial Assurance
Reasonable Assurance
Limited Assurance
No Assurance

Appendix 4 - Customer Feedback Results 2020/21

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.

Due to the additional demands placed on staff during the Covid pandemic we decided not to issue detailed client feedback forms for 2020/21; however we show below the results from wider customer feedback across Devon Audit Partnership. Whilst this does not allow detailed analysis across Torridge work, it does provide an indication of the areas where the team have performed well, and those areas where we can still improve. We trust that we will be able to obtain a greater level of feedback in 2021/22.

