

Internal Audit

Audit Progress Report 2020-21

North Devon District Council  
Governance Committee

January 2021

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Head of Audit Partnership



Auditing for achievement

## Introduction

The Governance Committee, under its Terms of Reference contained in North Devon 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 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 2020-21 was presented and approved by the Governance Committee in March 2020. 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 Governance Committee from this progress report

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 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.

**Robert Hutchins**  
**Head of Devon Audit Partnership**

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## Opinion Statement

**We are completing work against the agreed internal audit plan to support provision of an opinion on the overall control environment. Assurances opinions assessed to date indicate that we are likely to provide a Reasonable Assurance opinion 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.

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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

### Core Key Financial Audits

We have provided a “Substantial” Assurance for Income Collection, and a ‘Reasonable Assurance’ opinions for all other completed audit work to date. Car Parks, and Housing Benefits are currently in fieldwork status. The remaining two core audits will be undertaken in Quarter 4.

### Risk Based Audit

We have agreed a joint audit report for North and Mid Devon relating to Building Control providing a Reasonable Assurance.

We are currently completing audits on Covid-19 safe staff operations, and on the Leisure Centre. At this time, we do not report anything of significant concern, but we will provide an update in the coming committee meeting.

Work next quarter will include important reviews of Cyber Security, and Climate Change. We will also be following up on actions from the previous Business Continuity audit.

A table showing the audit opinions delivered to date is set out below.

Audits delivered this year	Assurance Opinion	Recommendations			
		H	M	L	O
Main Accounting System	Reasonable	1	2		
Income Collection	Substantial	2	2		
Creditors	Reasonable		3		
Building Control	Reasonable	3	2	1	1
New Leisure Centre	Reasonable proposed		2	3	3

### Counter Fraud Work

We have agreed the counter fraud work we will undertake, including reviewing the Counter Fraud Strategy and Plan to ensure that there is suitable focus on the significant areas where fraud might be committed, and providing access to a training package.

## Assurance Mapping

Based on our audit results, we will be updating the assurance map in early January and will present a new version for Audit Committee at the March 2021 meeting.

## Value Added

It is important that the internal audit service seeks to "add value" whenever it can and we believe 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 to ensure we provide real time assurance, such as on Safe staff operations during this emergency.

## Audit Coverage and Performance Against Plan

Work is progressing at pace to complete the revised audit plan. Four of the core audits are complete, two are in fieldwork and the remaining two key financial systems will be undertaken before the year end. During December we also took forward two audits, to provide important assurance on Safe Staff Operations during Covid-19, and also on the Leisure Centre which is a significant Council project. We consider we are in a good position to complete the revised audit plan.

Appendix 1 to this report provides a summary of the audits in progress / undertaken to date, along with our assurance opinion. 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.

**Key performance indicators** on progress against audit recommendations is monitored and managed by the Authority. We are due to undertake a formal review of recommendations in Quarter Four of recommendations to confirm that they have been effectively implemented.

## Revision of the Audit Plan

The impact of Covid-19 on work delivery required adjustments to the Council audit plan. We have discussed changes with Council management. The agreed revised plan is at Appendix 2.

The result is that we agreed to defer some non-core audits into 2021-22. These are shown in yellow. That said, as the plan is flexible, we also added an audit on Safe Staff Operations during Covid-19 using the contingency days. In terms of audit days, we still expect to deliver the bulk of the original plan. This will still allow us to provide an overall assurance report. *We welcome Governance Committee comments and questions to the revisions.*

## Planning for 2021-22 Audit Plan

We have started to prepare an audit plan for 2021-22. This will be discussed with management before being submitted to Audit Committee for review and approval.

## Fraud Prevention and Detection

There have been no reported issues in the year to date. Management are aware that they can refer any suspected issues to our counter fraud team. We have agreed terms of reference for our work this year which includes review of the Counter Fraud Strategy and Plan.

**Customer Satisfaction** – satisfaction returns specific to NDDC have yet to be received this year though in general for DAP, survey returns score 98% satisfaction year to date.

## Appendix 1 – Summary of audit reports and findings for 2020-21

### Risk Assessment Key

Spar – Local Authority Risk Register score Impact x Likelihood = Total & Level  
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management  
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available

### Direction of Travel Assurance Key

Green – action plan agreed with client for delivery over an appropriate timescale;  
 Amber – agreement of action plan delayed or we are aware progress is hindered;  
 Red – action plan not agreed or we are aware progress on key risks is not being made.  
 \* report recently issued, assurance progress is of managers feedback at debrief meeting.

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low		Direction of Travel Assurance	
<b>Core - Key Financial Systems</b>						
<b>Main Accounting System</b> Risk / ANA: ANA –High Pentana n/a	Reasonable Assurance  Status: <b>Final</b>	<p>We identified no significant control weaknesses in our testing, though we noted risk related to segregation of duties as some staff can raise and post journals. Management has decided to accept this small risk as necessary for business operations given the small size of the team.</p> <p>In relations to business continuity, which is heightened at the current time, there is an increase in exposure where system release updates have not been implemented on the Main Accounting system for more than a year. Management has agreed to include updates on their system plan, and to bring the system up to date next year.</p> <p>The third recommendation relates to regular review of access rights to the system to ensure only current staff members have access. This will now be checked on a quarterly basis.</p>	1	2	-	
<b>Income Collection</b> Risk / ANA: ANA - Medium Pentana n/a	Substantial Assurance  Status: <b>Final</b>	<p>Internal cash collection procedures are robust and secure as is the transfer of monies from NDC staff to external cash collection operatives contracted to transfer council monies to banking. A contract exists to support collection of income from NDC offices to contractor premises and the subsequent allocation of the credit to the NDC bank account. The Customer Services team consists of long-standing members of staff fully conversant with their duties and responsibilities.</p> <p>The first High Recommendation relates to the Customer Services Team taking card payments over the telephone from members of the public. This is considered not compliant with the Payment Card Industry Data Security Standard which is designed to reduce the risk of making payments. Management has accepted that work to become compliant with the Payment Card Industry Standard will be prioritized.</p>	2	2	-	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		The second High Recommendation relates to ensuring that daily post opening operations be undertaken by at least two staff members to reduce the risk to staff from any allegations received regarding cash or other payment types contained in envelopes received.				
<b>Creditors System</b> Risk / ANA: Medium Pentana n/a	Reasonable Assurance  Status: <b>Final</b>	The control framework related to creditors is generally effective, with appropriate checks on new suppliers and on creditor payments made by BACS. Payments are being made promptly, and there are checks to prevent duplicate payments.  We made four recommendations to improve controls: <ul style="list-style-type: none"> <li>• Further work to reduce the number of purchases made without an approved purchase order;</li> <li>• Improving segregation of duties on the system to reduce the risk of individuals circumventing system controls and ensuring they align with delegations;</li> <li>• Review creditors with long outstanding credit balances (those owing the council money);</li> <li>• Removing creditors with long outstanding balances from the system where there is no likelihood they will be used again.</li> </ul>	-	4	-	
<b>Risk Based Reviews</b>						
<b>NMD Building Control</b> Risk / ANA: ANA – Low, Client request Pentana n/a	Reasonable Assurance  Status: <b>Final</b>	The NMD Building Control Partnership continues to develop and operate effectively. The Quality Management System framework appears to be working well, is supported by documentary evidence and has been certified by an independent UKAS accredited body. Local accreditation by an external assessment is expected soon. NMD Building Control have a good awareness of the Hackitt Inquiry and the proposed changes likely to affect them. Being a member of the LABC and the certification in the ISO9001 enables NMD Building Control to keep up to date with legislation, impending changes and the impact of these on their service. NMD Building Control has obtained qualifications outlined by the LABC to demonstrate their competency which is believed to be part of the proposal of the Hackitt review.  The high recommendations related to: <ul style="list-style-type: none"> <li>• Holding quarterly partnership meetings between NMD Building Control, North Devon and Mid Devon to review delivery and performance (these are now</li> </ul>	3	2	1	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		<p>being held).</p> <ul style="list-style-type: none"> <li>Ensuring that risks related to NMD Building Control are escalated and held on North Devon (and Mid Devon) Council risk registers where appropriate.</li> <li>Considering risk related to the impending changes to the Building Safety Bill.</li> </ul>				
<b>New Tarka Leisure Centre</b> Risk / ANA: ANA – Low, Client request	Indicative - Reasonable Assurance	<p>A draft report has been provided to management. We consider there are effective controls to monitor delivery of the build of the leisure centre, and the risks associated with it. There are a range of experts involved in monitoring delivery, including the Councils Parks and Leisure Team, the project manager (Currie and Brown), and UK Sport representatives. The comprehensive Design, Build, Operate and Maintain arrangements detailed in the contract are designed to reduce the level of risk to the Council.</p> <p>Improvement opportunities in the control environment include:</p> <ul style="list-style-type: none"> <li>Enhancing the Projects risk register to more clearly detail out the mitigating actions for each risk, and to include “Opportunities”;</li> <li>More systematic stakeholder engagement supported by creation of a communications plan;</li> <li>Obtaining additional assurance from the contractors that there will not be shortages of materials that delay the build programme (3<sup>rd</sup> party resilience).</li> </ul>	-	2	3	
<b>Safe staff operations during the C-19 emergency</b>	TBC	We are undertaking a quick piece of work to review how council staff are being supported during the Covid-19 emergency. This includes how risks are identified and actions mitigated. As part of the review we have issued a survey to staff to get their views on how well they are being supported. The review will also consider approaches from other councils including Mid Devon, to help identify good practice that could be adopted.				
<b>Coming Audit Reviews</b>	We have the following work in fieldwork currently: <ul style="list-style-type: none"> <li>Safe Operations for staff during Covid-19.</li> <li>Car Parks.</li> <li>Housing Benefits.</li> <li>Counter Fraud support.</li> </ul>					

Risk Area / Audit Entity	Audit Report			
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low	Direction of Travel Assurance
	<p>We are planning the following work to be undertaken before year end:</p> <ul style="list-style-type: none"> <li>• Council Tax.</li> <li>• Payroll.</li> <li>• Cyber Security.</li> <li>• Climate Change.</li> <li>• Follow up of Business Continuity audit.</li> <li>• Governance Arrangements.</li> <li>• Information Governance.</li> </ul>			

## Appendix 2 – Revised Audit Plan for 2020-21

Audit/Task	Original days	Revised days	Go ahead or defer
<b>Core Audits</b>	<b>73</b>	<b>73</b>	
Council Tax/NNDR	10	10	YES
Income and Cash Collection	4	4	COMPLETED
Main Accounting System	12	12	COMPLETED
Housing Benefits	15	15	IN FIELDWORK
Creditors	10	10	COMPLETED
Payroll -incl off payroll working /use of consultants	14	14	YES
Car Parks	8	8	IN FIELDWORK
<b>Risk Based Audits</b>	<b>108</b>	<b>69</b>	
Health and Safety	7	0	See Covid-19 Assurance audit
Cyber Security	22	22	YES
Building Control	0	0	COMPLETED - joint report provided for ND /MD
Leisure Contract	5	5	REPORTING
Members Allowances	5	0	DEFER TO 21/22
Customer Service Centre	8	0	DEFER TO 21/22
Regeneration	8	0	DEFER TO 21/22
<b>Assurance Work</b>			
Risk Management	10	10	COMPLETED
Climate Change	10	10	YES
Governance Arrangements	5	5	YES
Information Governance	5	5	YES
Fraud, Bribery and Ethics	7	7	YES
Transformation	8	0	DEFER TO 2021/22
Crematorium	3	0	DEFER TO 2021/22
Audit Follow-up (key reviews from last year)	5	5	Follow up of previous recommendations - not incl BCP
<b>CORPORATE GOVERNANCE</b>	<b>32</b>	<b>22</b>	
Annual Report, Progress Reports, Annual Planning	22	22	YES
Consultancy/Contingency	10	0	Days used for Safe Staff C-19 operations below.
<b>Additional Chargeable Work - Fraud and Irregs</b>	<b>5</b>	<b>15</b>	
Follow-up of the Business Continuity Plan	5	5	YES
Safe staff C-19 operations	0	10	FIELDWORK - new audit to provide assurance on staff safety.
<b>TOTAL AUDIT - DAYS</b>	<b>218</b>	<b>179</b>	

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## **Devon Audit Partnership**

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon & 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](mailto:robert.hutchins@devonaudit.gov.uk) .