

Internal Audit

Audit Progress Report 2021-22

North Devon District Council  
Governance Committee

November 2021

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## 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 carry out an annual review of the effectiveness of their internal audit system and incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2021-22 was presented and approved by the Governance Committee in March 2021. 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**

<b>Contents</b>	Page
Introduction	1
Opinion Statement	2
Executive Summary Audit Results	2
Value Added	3
Audit Coverage & Progress Against Plan	3
Revision to the Audit Plan	3
<b>Appendices</b>	
1 – Summary of Audit Results	4

## Opinion Statement

**Overall, based on work performed during 2021/22 and our experience from the current year progress and previous years’ audit, the Head of Internal Audit’s Opinion is of “Reasonable Assurance” on the adequacy and effectiveness of the Authority’s internal control framework**

*This opinion statement will support Members in their consideration for signing the Annual Governance Statement.*

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

All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified.

Implementation of action plans is the responsibility of management but may be reviewed during subsequent audits or as part of a follow-up process.

Directors and Senior Management are provided with details of Internal Audit’s opinion for each audit review to assist them with compilation of their individual annual governance assurance statements at year end.

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
<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 Financial Audits

We provide a Substantial Assurance on Treasury Management, but a Limited Assurance opinion for Debt Management, with a significant increase in the amount of debt held over the four-year period. We reviewed management of some of the Government grants issued by NDC and confirm that these were managed and issued effectively.

### Risk Based Audit

We provide a Limited Opinion related to Climate Change, and a Reasonable Assurance on Procurement. Both audits have highlighted the need for more focus on delivery of strategic objectives, such as a strategy to meet its commitment to become carbon neutral, and delivery of the Procurement Strategy.

We also undertook a review of Governance in conjunction with the Councils own review as part of its creation of the Annual Governance Statement (AGS). We provide a Reasonable Assurance, with the recommendations included in the action plan for the AGS.

Appendix 1 to this report provides more detail on the audits delivered since the last Committee meeting with the overall assurance opinion and recommendations. Where a “substantial assurance” or “reasonable assurance” of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of “limited assurance” has been provided then issues were identified during the audit process that required attention. We have provided a summary of key issues reported that are being addressed by management. We are content that management are appropriately addressing these issues.

## Counter Fraud Work

We met with the Senior Management Team on the 27 September to discuss taking forward the Counter Fraud Policy and Strategy with more focused training and focused fraud assessments. We have started to engage with Heads of Service by encouraging them to consider where fraud risk might lie, and how it should be tested.

There have been no reported fraud issues in the year to date. Management is aware that they can refer any suspected issues to our counter fraud team.

## Risk Management

We met with the CORGI (Corporate Risk Management Group) on 8 September which was meeting to review the new Risk Management Framework and the Corporate Risk Register. We discussed good practice related to risk management and supported an exercise that considered the Corporate Risks related to the council's Corporate Plan priorities. We have also suggested amendments to the Risk Management Framework to make it more concise.

## Value Added

It is important that the internal audit service seeks to "add value" whenever it can. We consider internal audit activity has added value to the organisation and its stakeholders by:

- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Adjusting the audit plan when needed to provide real time assurance, such as on Safe staff operations during this emergency.
- Comparing and contrasting controls across the different Devon Councils that we support.

## Audit Coverage and Performance Against Plan

We have made good progress and are on track to deliver the 2021-22 audit plan. Currently, we expect to complete the audit plan in full.

**Key performance indicators** on progress against audit recommendations is monitored and managed by the Authority.

**Customer Satisfaction** – satisfaction returns specific to NDDC have yet to be received this year and we will be placing a priority of getting more feedback. In general, survey returns for DAP score 98% satisfaction year to date.

## Appendix 1 – Summary of audit reports and findings for 2021-22

### 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 Reviews</b>						
<b>Treasury Management</b>	Substantial Assurance	<p>The audit found a strong control framework with effective controls to mitigate the risks identified to enable us to provide a Substantial Assurance. As a result, we did not raise any recommendations.</p> <p>The requirement for officers to work from home due to Covid-19 has resulted in minor changes in the way the system works, but core controls continue to operate as required. The Council has current general fund reserves of £1.2m, (9.1% of net spending) which is within the figure suggested by Grant Thornton. The reserves are managed in accordance with the low-risk strategy endorsed by the Council.</p> <p>The Treasury Management function is administered daily by the Exchequer Manager, with oversight from the Head of Finance. There is an appropriate process and system controls to ensure that only officers with delegations can transfer monies to and from banks as per the Treasury Management Strategy.</p> <p>The overall Treasury Management strategy and approach are discussed and agreed with Members. In line with the CIPFA Code of Practice (the Code) the Head of Resources presents to Elected Members (via the Strategy and Resources Committee, the Policy Development Group and Full Council) three reports per annum.</p>	-	-	-	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
<b>Debtors</b>	Limited Assurance	<p>We identify there are strong controls related to management of the debtor system, such as access and management of transactions. However, analysis of debt owed to the council over the last four years indicates a significant increase in the amount of debt; from £560k in 2017/18, to £1.386m in 2020/21. This increase has been significant in the two years following 2017/18 (prior to the C-19 emergency) with a 26% and 28% year on year increase in the financial value of debtor invoices raised. There is an increase of £826k of debt outstanding in three years, with debt between '1 year - 6 years +' in age increasing by £526k.</p> <p>A significant proportion of the debt over one year relates to housing deposits which have increased from £185k to £472k between March 2018 and March 2021. In addition, there was a significant increase in other debt over one year in 2020/21 from £204k to £417k as council resource was diverted to focus on the C-19 emergency.</p> <p>The council needs to urgently prioritise debt recovery to prevent financial loss, as debt becomes harder to recover over time. It also needs to identify and communicate the increased specific risk related to Housing Deposits. Given the increase in debt, we provide a Limited Opinion.</p>	-	3	2	
<b>Management of Covid-19 grants (Small Business; and Retail, Hospitality and Leisure Grants)</b>	Reasonable Assurance	<p>NDC has successfully issued more than £45m grants over the period, using a systematic process to review eligibility and reduce risks of fraud and error. Staff from a range of service areas were initially drafted in to assist with the process. The requirement to support this activity has placed a great demand on council operations, and the individuals who were involved in this activity. The overall approach taken to the disbursement of these grants has enabled them to be processed quickly. Based on our work, and checks by the Council, indications are that the level of fraud in this area is low, although post payment checks continue.</p>	-	3	-	

Audit Report						
Risk Area / Audit Entity	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low		Direction of Travel Assurance	
<b>Risk Based Reviews</b>						
<b>Climate Change</b>	Limited Assurance	<p>The Council has made a clear commitment to support Climate Change action by its commitment to become carbon neutral by 2030. It has released a Corporate Priorities, Environmental Policy and Action Plan and is aware of opportunities to reduce the impact of carbon emissions. There is clear intention to meet and tackle the challenges of climate change, and outline governance arrangements are established and working to engage with and deliver local climate action objectives and actions.</p> <p>The pandemic has, as with many areas, hindered progress where senior officers, leadership and members have been focused on tackling these issues. During this time the Climate Action Team (CAT - subgroup of the Strategy and Resources Committee) has been meeting and considering intelligence reports, recommending priorities, and receiving monitoring information of some key activities. It is also clear that there is real interest in this group to get to grips with the challenges and make a difference where they have heavily supported the climate action week. Their wish to appoint a Sustainability and Climate Officer has recently come to fruition with a joint post (with Torridge District Council) being appointed to. It seems clear from our initial discussions that this will be a significant benefit to progress.</p> <p>Accepting that there is a clear outline governance framework to meet the overall objective, there are gaps in the framework and areas where effectiveness of process supporting progress are weak. We have highlighted positive arrangements and progress, together with challenges and 'even better if' opportunities in appendix A to the report.</p> <p>The priority areas from a governance perspective include:</p> <ul style="list-style-type: none"> <li>- Strategy - development of a climate change strategy – long-term out to 2030 and beyond and short-term translating current priorities (into deliverable action plans (showing where carbon is produced in services, what can be changed, and resources needed to deliver this). The overview plan should set out how carbon neutral will be achieved.</li> </ul>	6	-	-	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		<ul style="list-style-type: none"> <li>- Risk Management - clear identification of climate risk with links to related environmental on service risks in the corporate risk register. These must show mitigations through strategy, policy, projects, actions and business plans.</li> <li>- KPIs - establishing NDC's own targets, actions and KPIs from intelligence reports and Devon Climate Group, with supporting monitoring systems.</li> <li>- Performance – effective processes to support CAT's focus and monitoring of progress against core strategy and agreed action plans.</li> </ul>				
<b>Procurement</b>	Reasonable Assurance	<p>The Council has a good procurement framework to procure goods and services with an important emphasis on achieving good value for money. Most purchases are being made using the standard procurement procedures, supported using the Pro-contract system to manage the procurement process within the rules. It was evident that the procurement team was providing good support to business areas in the procurement process, despite the absence of the primary procurement expert on maternity leave. As a result of these factors, we provide an overall Reasonable Assurance, although we identify opportunities to ensure procurement activity is better geared to secure value for money within the regulations.</p> <p>The current proposal for the re-organisation of the council's organisation is that Procurement will be moved under the Head of Governance. We consider this a good move, especially if accompanied by increased focus on the resources they need to provide effective procurement support, and on their role to challenge procurement practices that result in additional risk or may not result in best value for money. For instance, we note that significantly larger numbers of exceptions (Waivers) are raised than we have observed in other authorities.</p>	-	7	1	
<b>Governance</b>	Reasonable Assurance	We are content that the Council meets the basic governance principles in the CIPFA framework. Our work has supported the council's own review of governance and we are content that the Annual Governance Statement fairly	-	12	5	

Risk Area / Audit Entity	Audit Report				
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low		Direction of Travel Assurance
		<p>reflects our joint findings. The report lists those recommendations and responses, although they will be separately tracked as AGS actions, rather than those from internal audit.</p> <p>We are confident that key governance elements have been maintained to a good level during the C-19 emergency despite changes to work practices caused by requirements such as to work from home and to hold virtual council meetings. For instance, council meetings have continued to be held virtually, are open to the public, and meeting notes and supporting papers are available for public view. Our ongoing audit work has provided assurance that key controls continue to operate as intended. We also undertook a specific review of Safe Staff operations to confirm a safe environment was being maintained for council staff and the public.</p> <p>Lack of capacity at senior management level has been a concern over the last year, with several senior manager posts vacant during the period. Senior management capacity is an issue that has been identified in previous Local Government Association reviews. It is now being addressed through the current governance re-organisation including the subsequent recruitment of senior managers for the new posts, to be completed by end of 2021. Creation of a new Head of Governance will help provide added emphasis on ensuring an effective governance and control framework is in place.</p> <p>We also identify opportunities to improve the amount of useful and accessible performance related information available to the public on the website, such as on annual performance reporting, and core performance indicators to explain more clearly what money was spent, what was delivered, and future priorities. We also identify that various parts of the website need review and updating to reflect current information.</p> <p>In November 2020 we provided a Reasonable Assurance for Risk Management as we considered that significant risks were being identified and escalated for review, and senior managers had a good awareness of risk. However, some audit recommendations have yet to be implemented, such as giving responsibility for the framework to the CORGI, updating the Risk Management Framework document, and reviewing and rationalising the</p>			

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		Corporate Risk Register. We are providing support to the Council in this area in the next few months.				

## Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, North Devon, Mid Devon and Torridge councils. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk)