

Internal Audit

Progress Report 2023-24

**North Devon Council -
Governance Committee**

11 March 2024

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Introduction

The Governance Committee, under its Terms of Reference contained in North Devon 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 2023-24 was presented and approved by the Governance Committee in March 2023. 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.

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1 – Summary of Audit Results

Overall, based on work performed during 2023/24 and our view of current council governance and control, the Head of Internal Audit’s Opinion is of “Reasonable Assurance” on the adequacy and effectiveness of the internal control framework.

Opinion Statement

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.

Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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

Risk Based Audits

We provide Reasonable Assurance reports on Harbour Management, Vehicle Maintenance, and Climate Change.

On Harbour Management we note the good control regime but suggest update of the Harbour Strategy, or the Harbour Plan to ensure a good focus on future opportunities.

We provide an assessment on the functioning of the new Vehicle Maintenance Contract to maintain the Waste and Recycling Vehicles.

We note in our Climate Change report the development of governance arrangements to manage Climate related activity but note the high challenge in meeting the Net Zero target.

We also provide a Limited Assurance report for the Building Control Partnership, which is shared with Mid Devon Council. A significant issue is recruiting Building Control Officers which is having a performance and finance impact on the organisation.

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

A Fraud Resilience Report is included as a separate agenda item for this meeting. We continue to support the good work being undertaken by management to produce Service specific fraud risk registers to enable consideration of controls to mitigate fraud and error risks.

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.

Devon County Council is funding an exercise to review the Council Tax Single Person Discounts claimed by individuals. North Devon will undertake this activity in April 2024.

Recruitment of Independent Members

We are supporting the process to recruit an independent member for this committee. The proposal is to be submitted to Full Council on 21 Feb 24.

Audit Coverage and Performance Against Plan

Currently, we expect to meet our performance target of 90% of audits completed by the time of our annual report.

We have agreed with management to defer audits on Food Safety, and Procurement while they recruit or obtain resource to support those areas.

We present our draft plan for 2024/25 as a separate agenda item in this meeting.

Key performance indicators

We report delivery against our performance indicators in our annual report. Progress to implement our audit recommendations are monitored and managed by the Authority.

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 the cost-of-living crisis.
- Comparing and contrasting controls across the different Devon Councils that we support.

Customer Satisfaction

The following details recent result of the satisfaction returns for our audits:

Audit	Marking
Council Tax	Very Satisfied
Debt Management	Very Satisfied
Performance Management	Very Satisfied
Cyber Security	Very Satisfied
Cemeteries	Very Satisfied
Equality and Diversity	Very Satisfied
Customer Service Centre	Satisfied
Parking Operations	Very Satisfied
Programme Management Office	Very Satisfied
Tarka Leisure Centre	Very Satisfied
Debtors	Very Satisfied
Safeguarding	Very Satisfied
Health and Safety	Satisfied

Appendix 1 – Summary of audit reports and findings for 2023-24

Audit and Assurance Opinion	Summary, risk exposure and agreed management actions.
<p>Harbour Management</p> <p>Reasonable Assurance</p> <p>Report in draft awaiting agreement</p>	<p>The Council operates a well organised and effective harbour service providing good value to its customers and enhancing the experience of visitors to the area. Experienced personnel are competent with systems of operation that help keep the public safe in a busy working harbour, while aiming to maximise revenue to the authority and help support the future development of the area. The harbour has operated with a deficit for several years averaging between £150-£200k on average. Going forward, we are told that the Harbour is aiming to cover its own costs in the mid to long term with the addition of the water sports hub and Sea School.</p> <p>The Harbour Board meet regularly and is made up by appropriately maritime-experienced independent members and NDC Councillors. Meetings are well recorded with consistent agenda items. Health and Safety risks are well defined and managed accordingly, with policies, plans and procedures readily accessible and reviewed regularly. ABPmer undertook the required three yearly audit of Port Marine Safety Code compliance in June/July of 2023 and found good compliance with the Code. The councils Health and Safety officer also undertakes audits every quarter, the results of which are reported to the Harbour Board in accordance with the Code.</p> <p>A Development Strategy for the Harbour was created in 2012 to cover the period up to 2026. It sets out the long-term development needs and opportunities of the harbour. The Strategy has been reviewed or updated significantly since that time. We have also seen a Business Plan created in November 2019 to cover the period 2020-23 but is now due to be updated or reissued.</p> <p>Commercial and community relationships have been developed and investment made in making the harbour infrastructure more practical, professional, and welcoming to tourism. Uniformity rules for advertising space has improved harbour aesthetics and enabled clear communication of pricing to businesses. There has been good focus on securing grants and other funding to improve harbour facilities and infrastructure, for instance significant funding from the Marine Maritime Organisation. Officers have excellent local knowledge which is beneficial in managing harbour operations and risks and taking advantage of opportunities.</p> <p>We understand a review of Key Performance Indicators is currently underway. Measures for other harbours include boats visiting/moored, length of stay/value, visitor numbers, their experience, and similar indicators but this may not appropriate for this harbour due to its location. The Harbour Board should consider how to best measure harbour activity and the user experience.</p> <p>We made three Medium and three Low Priority management actions.</p>

Vehicle Maintenance

Reasonable Assurance

Report in draft awaiting agreement

There is a good foundation for effective contract management. There is a dedicated contract manager, previously the workshop manager who therefore possesses good knowledge and experience of vehicle maintenance. The contract is detailed and provides good detail on the obligations of the council and SFS to conform to the requirements. The contract includes seven core Key Performance Indicators. We reviewed these but only the KPI on Fleet Availability appears reported. The latest figure for Fleet Availability (Oct 23) was 95.17% with use of spare vehicles, compared to the target of 95%. When we met with the SFS area manager he agreed to provide reports on these core KPIs. That said, the council should consider whether the KPIs are appropriate for effective monitoring of performance.

Provision for strategic meetings at Director level are detailed in the contract. The last Strategic meeting with the SFS Director was in April 2023. We understand that officers should be having quarterly meetings with the SFS Director and Customer Support Manager. The contract manager was meeting monthly with the SFS operations manager.

The council has continued to transition to a newer fleet of leased vehicles that should reduce cost of maintenance over time. Officers judge that the supplier is broadly delivering the requirement, however they have concerns whether all the benefits expected from the contract are being achieved. At some times since the contract start there have been points when low availability of vehicles has impacted on Waste and Recycling Operations. As it has been two years since introduction of the contract, it would be beneficial to take stock and consider whether a contract amendment or other intervention is needed to ensure the contract is achieving its intended goals.

The contract refers to profit sharing and opportunities to exploit resources and SFS knowledge and expertise. SFS have not been able to maintain permanent staff to work in the workshop. Since start of the contract, it has had five workshop managers, and the workshop has not had a full complement of workshop technicians. SFS told us that they have filled this gap by using their Mobile Engineer solution. This is an example where engaging a large contractor can reduce the impact of local shortages of people such as mechanic. That said, this has an impact on vehicle availability resulting in problems at various times for Waste and Recycling. It also prevents utilisation of the excess capacity of the workshop for profit sharing activities.

There was good visibility of the costs of the contract and its different elements i.e., lease hire, maintenance costs etc. The contract manager was appropriately involved in reviewing SFS invoices to confirm payments were correct. We asked the finance officer to compare the current and future contract costs against those previously paid for internal operations. Finance provided an assessment to us on current costs of the contract compared to those provided in the committee report of April 2021. The assessment was that the overall contract cost over the eight-year period is currently £1.7m above the predicted costs of the contract when it was taken out, and £2m above in house operations. A large part of the increase results from an unexpected 18.5% increase in vehicle costs which would still have occurred even if the operation remained in house. Ultimately the increased introduction of newer vehicles is expected to improve vehicle availability and reduce maintenance costs.

We have suggested five Medium Priority management actions.

Climate Change

There remains clarity on the commitment to the 2030 Net Zero Target and we understand that the Environment (and Climate related action) will remain as a corporate priority in the new Corporate Plan. The supporting policies and plans have evolved and been enhanced, such as the October 2023 Carbon, Environment and Biodiversity Plan. The

Reasonable Assurance

Report in draft awaiting agreement

governance arrangements have further developed since our last audit. Despite the impact of Local Elections on the occurrence of meetings, there is a structure to monitor delivery against the net zero target via the Climate Action Team which reports into the Strategy and Resources Committee.

The presence of the Climate Action Team (CAT) as an open group ensure that the broadest level of integration and engagement is achieved, bringing a more climate informed group to the Full Council Body. Awareness is a key tool for the Council and so providing training for Councillors and just as importantly council officers will be one of the keys to success. With an existing e-learning package there is opportunity to maximize awareness with very minimal distribution.

Monitoring of progress is also vital to providing support and challenge, with further information now available to Officers and Members since our last review. However, it is not linked in a way which helps form a view the bigger picture. The detailed information on the actions being taken or are planned, and related costs and expenditure is not easily available or held in several places. This does not allow a fully informed view of climate change in a simple format, nor support it as a golden thread running through the entirety of the Council governance structure. It also risks the specific activity on Climate Change not being recognised, for example bidding for over £1.1m of climate related funding for Ilfracombe Pool and the Landmark Theatre. That said, an Environmental Enhancement Activity Report has some detail and are taken to SMT, then Full Council via Strategy and Resources.

Reginal collaboration has continued and is another key aspect of the work to achieve Net Zero. The recently concluded work on a Devon Adaption Strategy provides the platform to review, design and implement climate adaptations for North Devon, alongside activity to achieve Net Zero. There are a multitude of impacts, many of which have been recognised in the Councils risk register, and in greater detail at individual project levels. As with the information on activity and spend, risk information is fundamental to informed decision making and is an area where collective reporting / cross reference of risks can improve the Councils Climate response activity.

As noted in the recent 2022/23 carbon footprint report there has been progress in reducing carbons produced from council operations since baselining the data in 2018/19. That said, it will be a large challenge to deliver Net Zero. Based on the rate of reduction in output between 2021/22 and 2022/23 of around 200t Co2, the remaining 3,300t would take over 15 years to achieve. This doesn't take account of offsetting which would reduce the figure.

In summary, progress has been made since our last review and all areas are now rated as either Reasonable or Substantial Assurance. Governance structures are in place and information is available, but the challenge is large. We have suggested the council consider how to provide a council wide fully informed picture of what is taking place, making Net Zero and adaption activity a golden thread running through the entirety of the Council.

We are currently agreeing management actions.

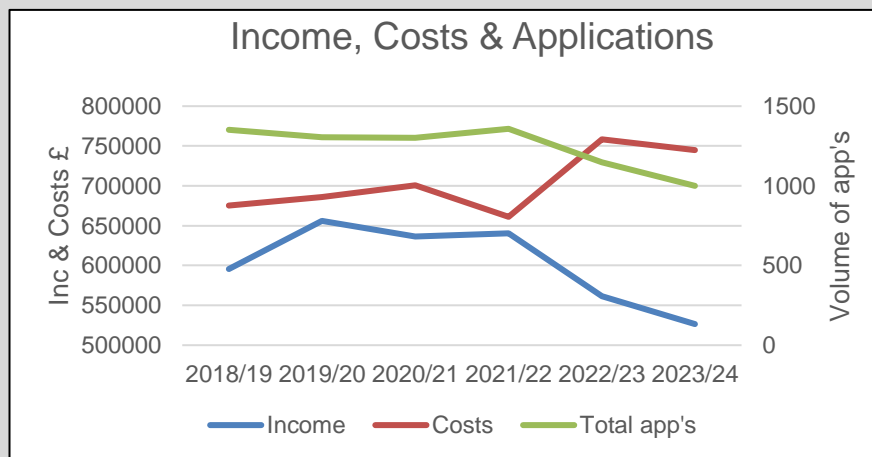
Building Control Partnership

A 'Limited' assurance opinion is provided given issues facing the Partnership in providing an effective and timely service and a significant reduction in income. There is significant risk related to longer-term sustainability, given current reserves have been used and ongoing problems in obtaining staff.

The Partnership lost eight officers and support staff following the regulatory changes announcement in 2022. Attempts to recruit have largely been unsuccessful necessitating a re-think of the career path available in the partnership. At the time

Limited Assurance

of our visit there were four vacant full-time posts. This is of particular concern at a time when regulatory change is taking place and competition from the private sector is intense. There is also a significant shortage of building control officers in the profession making recruitment very difficult. The service is not meeting its Service Level Agreement for application processing and has not covered its costs in the last year, eliminating its reserves, primarily due to the long-term use of agency staff covering vacant positions.



Key Performance Indicators show that market share has been lower than usual in the last year, which combined with the cost-of-living crisis has resulted in fewer applications and proportionately lower levels of income.

These issues may have had a reputational damage to NMDBC and customer confidence as well as increased direct cost to NDC and MDDC (for 2022/23 this was £122k and £73k, compared to £12k and £8k in 2021/22).

The Joint Committee who oversees the Partnership could have been more engaged in proactively managing the situation, but evidence suggests that more recent management has been more proactive.

The Head of the Partnership who took up post in April 2023 is working to stabilise the organisation and address current issues including team resources but will need significant support to address the situation. He issued a detailed report in October 2023 which highlighted the staffing, performance issues, costs, and resources. It also sets our Partnership Priorities going forward; these look appropriate to us. Despite the challenges previously mentioned we consider that the team has done remarkably well to continually provide the service throughout this challenging period.

Some processes are complex meaning that applications can only be processed efficiently by experienced staff, requiring additional quality checking and correction when input by current newer team members. This is resulting in longer processing times, inviting further competition for services in the private sector from Approved Inspectors (AIs). Customer satisfaction has not been regularly obtained, despite attempts to repair the Survey Monkey system. We consider a new system to obtain customer feedback should be initiated at the earliest opportunity.

Prices for building control services have already been reviewed this year and are competitive in the marketplace. This will require regular review since competition with AIs is intense. This is particularly visible in the Mid-Devon market which borders with Exeter (where AIs are prevalent) and have a strong appetite.

We agreed one High Priority, three Medium and 1 Low Priority management actions.