

Agenda for Audit and Governance Committee Thursday, 25th July, 2019, 2.30 pm

Members of Audit and Governance Committee

Councillors: S Hawkins (Chairman), G Pratt (Vice-Chairman),
D Barrow, F Caygill, S Chamberlain, S Gazzard, P Hayward,
M Rixson, P Twiss and C Wright

Venue: Council Chamber, Blackdown House

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(or group number 01395 517546)

Tuesday, 16 July 2019



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1 Public speaking

Information on [public speaking](#) is available online

2 Minutes of the previous meeting (Pages 4 - 7)

Minutes for 21 March 2019

3 Apologies

4 Declarations on interest

Guidance is available online to Councillors and co-opted members on making [declarations of interest](#)

5 Matters of urgency

Information on [matters of urgency](#) is available online

6 Confidential/exempt item(s)

To agree any items to be dealt with after the public (including the Press) have been excluded. There are no items which officers recommend should be dealt with in this way.

Matters for Decision

7 Statement of Accounts 2018/19 (Pages 8 - 9)

Grant Thornton UK LLP the Council's appointed external auditors have not completed their audit to meet the 31 July deadline due to a lack of staff resources and have as yet not issued an audit opinion on the Accounts. The Accounts will be presented back to Committee for approval once this work is complete, it is envisaged approval will be sought at the Committee's September meeting.

8 2018/19 Statement of Accounts - Assessment of Going Concern status (Pages 10 - 14)

A key underlying assumption in preparing the Council's financial statements is that of "going concern". An authority's financial statements should be prepared on a going concern basis i.e. the accounts should be prepared on the assumption the functions of the authority will continue in operational existence for the foreseeable future. This report sets out the Council's Strategic Lead Finance assessment as the Council's Section 151 officer of the Council's Going Concern status.

9 Internal Audit Plan 2018-19 Outturn Report (Pages 15 - 28)

The Audit and Governance Committee agreed the 2018-19 Internal Audit Plan at its March 2018 meeting. This report is to provide an update on the outturn position of the 2018/19 Internal Audit Plan.

10 Internal Audit Annual Opinion Report 2018-19 (Pages 29 - 42)

This report provides Internal Audits overall opinion on the systems of internal control at East Devon District Council. The Audit and Governance Committee agreed the 2018/19 Internal Audit Plan at its March 2018 meeting.

11 Internal Audit Plan Progress July 2019 (2019/20) (Pages 43 - 55)

The Audit and Governance Committee agreed the 2019-20 Internal Audit Plan at its March 2019 meeting. This report is to provide an update on the 2019/20 Internal Audit Plan as at end of June 2019.

12 Full Risk Review May/June 2019 (Pages 56 - 58)

Risk information for the 2019/20 financial year is supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This follows the full review of risks by responsible officers during May/June 2019.

13 RIPA update

At the meeting of 18th January 2018, Members agreed to receive an update on RIPA activity throughout the year. The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.

14 Audit and Governance Forward Plan (Pages 59 - 60)

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If you are recording the meeting, you are asked to act in a reasonable manner and not disrupt the conduct of meetings for example by using intrusive lighting, flash photography or asking people to repeat statements for the benefit of the recording. You may not make an oral commentary during the meeting. The Chairman has the power to control public recording and/or reporting so it does not disrupt the meeting.

Members of the public exercising their right to speak during Public Question Time will be recorded.

[Decision making and equalities](#)

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EAST DEVON DISTRICT COUNCIL**Minutes of the meeting of Audit and Governance Committee held at Axe Room, Blackdown House on 21 March 2019****Attendance list at end of document**

The meeting started at 2.30 pm and ended at 3.50 pm

48 Public speaking

There were no members of the public wishing to speak.

49 Minutes of the previous meeting

The minutes of the Audit and Governance Committee meeting held on 31 January 2019 were confirmed and signed as a true record.

Members discussed the presentations on Northamptonshire County Council and Commercial Property made before the meeting of the last Committee and requested that these be circulated to all members of the Committee.

Members were disappointed that no mention had been made in the minutes of the concern highlighted in the Internal Audit report at the last meeting regarding the £270M anticipated shortfall in CIL income against the projects that were proposed. It was noted that the risk was not being able to delivering the projects on the list.

RESOLVED that an update be provided to a future meeting of the Committee on the potential CIL deficit of £270M and ways in which this could be overcome and risk mitigated.

50 Declarations of interest

There were no declarations of interest made.

51 EDDC Accounting Policies for adoption

The Strategic Lead – Finance advised the Committee that it was good practice for the Audit and Governance Committee to approve the Accounting Policies to be adopted in advance of the preparation of the Accounts. The report reminded Members of the accelerated timetable for completion of the 2018/19 Annual Statement of Accounts.

RESOLVED:

that the Accounting Policies for the 2018/19 Statement of Accounts be agreed.

52 Annual Audit Plan and Charter 2019/20 - SWAP

As a key element of its Governance arrangements the Council has a partnership arrangement with South West Audit Partnership to deliver an annual internal audit plan. The Executive Director for SWAP, together with the Council's S151 Officer and in consultation with the Senior Management Team had produced an Audit Plan for 2019/20 that required the approval of the Committee.

RESOLVED:

1. that the Internal Audit Plan for 2019-20 (Appendix 1 to the report), be approved;
2. that the Internal Audit Charter (Appendix 2 to the report) be approved.

53 **Audit Committee update - Grant Thornton**

Sam Harding from Grant Thornton provided the Committee with a report on progress in delivering their responsibilities as the external auditors.

RESOLVED:

that the content of the Progress report be noted.

54 **Strata ICT Audit 2017/18 - DAP**

The Devon Audit Partnership (DAP) had been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils and are the appointed internal auditors for Strata Services Solutions. Strata Service Solutions has three founding partners; East Devon District Council, Exeter City Council and Teignbridge District Council (the Partners) and provide ICT services for these three authorities.

Strata now offered the Partners greater opportunities in delivering affordable services in the short and medium term. The report predominantly focused on the operational baseline upon which Strata deliver ICT services to the Partners and the security afforded to their computerised information assets. It also summarised the ongoing progress made in respect of Strata's ability to fulfil the third principle object and assist the Partners in delivering transformational change to the Partners.

It was noted that Strata's principle objectives were to:

- Reduce Risk;
- Reduce cost;
- Increase Capability to change.

During discussions the following points were noted:

- In discussing business continuity planning the Councils should specify the business requirements we need rather than let Strata do so;
- Need for Strata to provide an end-to-end business solution;
- Concern expressed that Strata still did not identify Councillors as customers in the same way as officers;
- Strata provided an appropriate level of security for the needs of EDDC and that there were a number of layers of security in place;
- Concern expressed about the quality and user friendliness of the Council's website.

Craig Moodie from DAP was thanked for his informative and interesting report and it was hoped that similar audit reports would be made to future meetings of the Committee.

RESOLVED:

that the DAP internal audit report be noted.

55 **Strata Annual Assurance - DAP**

The statement of assurance was provided by the Devon Audit Partnership, the provider of Internal Audit Services to Strata Service Solutions for audits in relation to the 2017-18 internal audit plan.

This statement was compiled to meet the assurance needs of The Partners, as the interested bodies for the provision of ICT services. This assurance statement consisted of the following elements:

- Overall Assurance Statement;
- Governance:
- ICT Service operations.

RESOLVED:

that the DAP annual assurance report be noted.

56 **RIPA update - Strategic Lead Governance & Licensing**

At the meeting of 18th January 2018, Members agreed to receive an update on RIPA activity throughout the year. The RIPA Senior Responsible Officer advised that there had been no requests for RIPA authorisation since the last committee.

57 **Audit and Governance Forward Plan**

Members noted the contents of the Committee Forward Plan for 2019/20.

Items to be considered at the July 2019 committee included:

- External Audit Report 2018/19
- Statement of Accounts 2018/19 including Governance Statement
- Letter of Representation
- Review of Internal Audit Charter
- Annual Report inc. Quarter 4
- Internal Audit Activity – Quarter 1 2019/20
- Audit Committee update
- Risk Management Review
- RIPA update

RESOLVED:

that the Forward Plan be noted.

The Chairman Councillor Mark Williamson, wished to express his sincere thanks to Simon Davey, Amanda Coombes, the external and internal auditors and all members who had assisted with the committee over the term of his Chairmanship.

M Williamson (Chairman)
J Dyson (Vice-Chairman)
S Grundy
S Hall
R Longhurst

Officers in attendance:

Simon Davey, Strategic Lead Finance
Chris Lane, Democratic Services Officer

Alastair Woodland, Assistant Director SWAP
Georgina Teale, Senior Auditor SWAP
Sam Harding, Engagement Manager Grant Thornton
Craig Moodie, Devon Audit Partnership

Councillor apologies:

S Gazzard
J Humphreys
B Ingham
C Nicholas

Chairman

Date:



Report to:	Audit and Governance Committee
Date of Meeting:	25 July 2019
Public Document:	Yes
Exemption:	None
Review date for release	None

Subject: **Statement of Accounts 2018/19**

Purpose of report: The Council's Statement of Accounts for 2018/19 is linked below to this covering report.

Grant Thornton UK LLP the Council's appointed external auditors have not completed their audit to meet the 31 July deadline due to a lack of staff resources and have as yet not issued an audit opinion on the Accounts.

The Accounts will be presented back to Committee for approval once this work is complete, it is envisaged approval will be sought at the Committee's September meeting.

Recommendation: **To note the position on publishing the 2018/19 Statement of Accounts and audit opinion**

Reason for recommendation: Without the completion of the Statement of Accounts audit the Committee are unable to approve the 2018/19 Accounts at this stage, the opportunity is being taken to present the Accounts for members understanding and questioning.

Officer: Simon Davey, Strategic Lead Finance (CFO/S151)

Financial implications: There are no direct financial implications

Legal implications: There are no direct legal implications

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: • [Link to draft Statement of Accounts 2018/19](#)

Link to Council Plan:

1. Publication and Approval of the 2018/19 Statement of Accounts

- 1.1 The Council complied with the Accounts and Audit (England) Regulations 2015 requirement for the responsible financial officer (Strategic Lead Finance) by no later than 31st May immediately following the end of a year, to sign and date the statement of accounts and certify that it presents a true and fair view of the financial position of the

body at the end of the year to which it relates and of that body's income and expenditure for that year.

- 1.2 The draft Accounts were then published and open to public inspection from 1 June to 12 July, no objection to the Accounts have been raised.
- 1.3 The next requirement is for a member meeting, in our case the Audit and Governance Committee, to consider the Statement of Accounts and approve them. They are then signed and dated by the Chair of the Committee and reconfirmed by the responsible financial officer.
- 1.4 In considering the Accounts, the Audit and Governance Committee would have a report from the External Auditor reporting on the work undertaken on significant risk areas, the financial statements and the control environment in place to support the production of timely and accurate financial statements. An Accounts opinion and Value for Money Arrangements opinion would be presented as part of the External Audit Report.
- 1.5 The Statement of Accounts together with any audit certificate or opinion are required to be published on the Council's website no later than 31st July.
- 1.6 Grant Thornton LLP UK, the Council's appointed external auditors, have notified us that due to a lack of staff resources they will not be able to complete this work by the 31st July. We are not alone in this position but it is extremely disappointing and the Council is in correspondence with Public Sector Audit Appointments (PSAA) who tendered and manage the audit contracts. PSAA have made it clear to us that the reason for delay will be highlighted to Government and blame will not be placed on the Authority.
- 1.7 The regulations state that where an audit of accounts has not been concluded before the 31st July an authority must publish as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this. This published statement for us will state that the delay in publication is outside the control of the Council as the Auditor is unable to meet the 31st July deadline to complete the audit due to inadequate staff resources.
- 1.8 The next meeting of the Audit and Governance Committee is on 26 September 2019 when it is envisaged the Auditors report and Opinions can be presented. It is right that it is only with this information that the Committee can be asked to approve the Accounts and the Chair to sign them. The Accounts are however being presented on this agenda for the Committees awareness and to take any questions relating to them from members.



Report to: **Audit and Governance Committee**

Date of Meeting: 25 July 2019

Public Document: Yes

Exemption: None

Review date for release None

Subject: **2018/19 Statement of Accounts - Assessment of Going Concern status**

Purpose of report: A key underlying assumption in preparing the Council's financial statements (reported in the Statement of Accounts) is that of "going concern". An authority's financial statements should be prepared on a going concern basis i.e. the accounts should be prepared on the assumption the functions of the authority will continue in operational existence for the foreseeable future.

This report sets out the Council's Strategic Lead Finance assessment as the Council's Section 151 officer of the Council's Going Concern status.

Recommendation: **To note the Strategic Lead Finance (Section 151 Officer) assessment of the Council's Going Concern status.**

Reason for recommendation: A key underlying assumption in preparing the Council's financial statements is that of "going concern". This report gives that assessment by the Council's Section 151 Officer in support of presenting the Accounts for approval.

Officer: Strategic Lead Finance
Simon Davey sdavey@eastdevon.gov.uk

Financial implications: No direct financial implications

Legal implications: There are no direct legal implications

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:
Link to Council Plan:

1. Background

- 1.1 The concept of a "going concern" assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Code of Practice for Local Authority Accounting and is made because local authorities carry out functions essential to the

local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are that alternative arrangements would be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

- 1.2 Where the assessment determines the “going concern” status is not proven, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.
- 1.3 Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, external auditors continue to place a greater emphasis on local authorities undertaking an assessment of the going concern basis on which they prepare their financial statements. In response this report sets out the position for EDDC.

2. Assessment

- 2.1 The main factors which underpin this assessment, considered in more detail below, are:
 - The Council's current financial position;
 - The Council's projected financial position;
 - The Council's balance sheet;
 - The Council's cash flow;
 - The Council's governance arrangements;
 - The regulatory and control environment applicable to the Council as a local authority.
- 2.2 The provisions in the 2018/19 Code of Practice section 3.4 (Presentation of Financial Statements) on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.
- 2.3 The requirements to use the going concern basis of accounting mean that authorities do not apply paragraph 25 of IAS 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. However, this reporting requirement is separate from the need for local authorities to report on the impact of financial pressures in the Narrative Report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.

2.4 The Council's Current Financial Position – Revenue Resources

A net underspend for 2018/19 of £0.416m was reported to Cabinet on 5th June 2019, full details of variations can be found in that report. The areas of overspend contained within the variations have been assessed as having no material impact on the Council finances going forward.

As at the 31 March 2019 the Council held revenue reserves of £8.7m earmarked for specific purposes. As at the 31 March 2019 the Council also held a General Fund Balance of £3.9m. A review of the risks to balances is carried out on a regular basis to determine the adequate level of reserves, the latest position was reviewed in June 2019 when the General Fund Balance was agreed to be between £3m to £3.8m. The balance currently being held is slightly above this limit to mitigate a minor use of the General Fund Balance agreed for 2019/20.

For 2019/20 the Council set a budget which requires £0.261m to be met from the General Fund Balance, of which £0.080m was for a one off item for District Elections. Transformation savings were included within the budget of £0.409m, delivery of which will be monitored through the normal budget monitoring processes.

The Council's Housing Revenue Account set to achieve a budgeted surplus of £1.413m in 2018/19, the actual position was a surplus of £1.187m. The variations of overspend have been considered and do not give material concern going forward. The position was reported to Cabinet in June 2019. The HRA Balance remains healthy and within the adopted range at £3.1m (range being £2.1m to £3.1m), earmarked reserves are in place and capital funds to deliver priority plans (set out in Cabinet report). The HRA has a 30 year approved Business Plan which is showing as affordable with the required estimated resources available to meet the Plan.

2.5 The Council's Projected Financial Position – Revenue Resources

The Council Financial Strategy and Medium Term Financial Plan model shows funding gaps going forward with a significant gap of £2.1m for 2020/21 rising to £2.7m over the term of the new Council (2023/24) and continuing to rise if no action is taken to £4.163m in 2028/29.

The Council's Transformation Strategy identify savings/increased income to bridge this funding gap. The latest position was presented to the Council's Budget Working Party (BWP) on 26th June 2019 which identified actions to bridge the gap for the period of the new Council, being subject to members' endorsement of those proposals. The BWP recommended to Cabinet to adopt this actions and to request the Chief Executive to progress the necessary actions. Cabinet meet 10th July 2019 to consider this recommendation.

2.6 The Council's Current and Projected Financial Position – Capital Resources

Details of the capital investment for 2018/19 was reported to Cabinet on 5th June 2019. The net spend was £16.932m compared to a revised budget of £21.511m, an underspend of £4.579m. The Council has kept within the prudential indicator adopted and borrowing limits, the future capital projections have been factored into the revenue projections within the MTFP.

2.7 The Council's Balance Sheet as at 31 March 2019

The authority's net assets amounted to £231m and Usable Reserves sit at £30.8m.

2.8 The Council's Cash Flow

The Council maintains short and long term cash flow projections, and manages its cash, investments and borrowing in line with the Council approved Treasury Management Strategy. As at the 31 March 2019 the Council has long term borrowing commitments of £85m and held £29m in investments and £7.8m in Cash and Cash Equivalents.

2.9 The Council's Governance Arrangements

The Annual Governance Statement has been reviewed taking into account external and internal audit reviews, completion of assurance statements by the Strategic Management Team. This Statement includes a detailed review of the effectiveness of the Council's governance arrangements. Whilst it is not possible to provide absolute assurance the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness. This Statement was reviewed by the Chief Executive, Internal Audit manager, Monitoring Officer, S151 Officer and the previous Chair and Vice Chair of Audit & Governance before the final version was produced.

2.10 The External Regulatory and Control Environment

As a principal local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for the Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by the external auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

2.11 Material Uncertainties

The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Council's ability to continue as a going concern. At the time of writing this assessment there is no material uncertainties to respond to.

2.12 Conclusion of the S151 Officer

It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that the Council remains a "going concern", and the Council's accounts for 2018/19 have appropriately been prepared on this basis.

This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.



Report to: **Audit and Governance Committee**
Date of Meeting: 25 July 2019
Public Document: Yes
Exemption: None
Review date for release None

Agenda item: 9

Subject: **Internal Audit Plan 2018-19 Outturn Report**

Purpose of report: The Audit and Governance Committee agreed the 2018-19 Internal Audit Plan at its March 2018 meeting. This report is to provide an update on the outturn position of the 2018/19 Internal Audit Plan.

Recommendation: To note the content of the Internal Audit Progress Report

Reason for recommendation: The Committee are required to review the progress of the audit plan.

Officer: Alastair Woodland, Assistant Director, SWAP.

Financial implications: There are no direct financial implications identified.

Legal implications: The legal framework is reflected in the report. While there are no direct legal implications arising, ensuring Key Actions are carried out will reduce risk to the Council which in turn will reduce the chance of failures or challenges occurring.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: [Approved Internal Audit Plan 2018/19 – Audit and Governance Meeting March 2018](#)

[Internal Audit Plan Progress Report January 2019](#)

Link to Council Plan: Continuously improving to be an outstanding council.



East Devon District Council

Report of Internal Audit Activity

Outturn Report 2018-19

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<p>The contacts at SWAP in connection with this report are:</p>	<p>➡ Role of Internal Audit</p>	<p>Page 1</p>
<p>David Hill Chief Executive Tel: 01935 848 540 David.hill@SWAPaudit.co.uk</p>	<p>➡ Internal Audit Work Programme</p>	<p>Page 2 - 3</p>
<p>Ian Baker Executive Director Tel: 01935 848 540 Ian.baker@SWAPaudit.co.uk</p>	<p>➡ SWAP Performance</p>	<p>Page 4</p>
<p>Alastair Woodland Assistant Director Tel: 07872500675 Alastair.woodland@SWAPaudit.co.uk</p>	<p>➡ Approved Changes to the Audit Plan</p>	<p>Page 5</p>
	<p>➡ Appendices:</p> <p>Appendix A – Internal Audit Definitions</p> <p>Appendix B – Internal Audit Work Plan 2019/20</p> <p>Appendix C – Summary of Key Audit Findings</p>	<p>Page 6, 7</p> <p>Page 8 - 10</p> <p>Page 11</p>

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter, and for the 2018-19 Audit Plan year the Charter was approved by the Audit and Governance Committee at its meeting in March 2018.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2019. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Plan Progress 2018/19

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

The following table summarises Audits finalised since the last committee update in January 2019.

Audit Area	Quarter	Status	Opinion
2018/19 Audit Plan			
Main Accounting	3	Final	Reasonable
Economic Development	3	Final	Reasonable
Recycling and Refuse Contract - Suez	3	Final	Advisory
Council Tax and NNDR	3	Final	Substantial
Project Management	3	Final	Reasonable
Declaration of Personal and Business Interests	3	Final	Reasonable
Relocation Project Advisory	4	Final	Advisory
Homelessness	4	Final	Substantial
Asset Management plan	4	Final	Advisory
Property Services	4	Final	Reasonable
Lone Working	4	Final	Reasonable
Budgetary Control	4	Final	Substantial



Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme Contd.

Partial Assurance Audits (See Appendix C)

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. As members can note from the list above, there are no adverse audit opinions that I need to bring to your attention since the last update in January 2019.

Corporate Risks (See Appendix C)

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention.

No Corporate Risks have been identified.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2019/20 (as at 15 July 2019) were as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started	100%
<u>Quality of Audit Work</u> Customer Satisfaction Questionnaire	99%

Plan Progress 2018/19

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time.



Approved Changes to the Audit Plan 2019-20

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to East Devon District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

There are no Audit Plan changes to the 2018-19 Audit Plan that I need to make members aware of.



At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None
- Non-Opinion/Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 1: Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Governance, Fraud and Corruption	Data Protection Breaches (New)	1	Complete	Advisory	0	0	0	0	
Governance, Fraud and Corruption	Safer Recruitment	1	Complete	Substantial	1	0	0	1	
Operational	Business Rates Maximisation	1	Complete	Substantial	0	0	0	0	
Governance, Fraud and Corruption	Right to Buy Fraud	1	Complete	Substantial	0	0	0	0	
Operational	Other Funding	1	Complete	Reasonable	1	0	1	0	
Healthy Organisation	Risk Management	2	Complete	Reasonable	3	0	3	0	
Governance, Fraud and Corruption	General Data Protection Regulations (GDPR)	2	Complete	Partial	4	1	3	0	
Healthy Organisation	Transformation Strategy	2	Complete	Reasonable	3	0	3	0	
Operational	Licensing	2	Complete	Reasonable	1	0	1	0	
Operational	Car Parking Benchmarking	2	Complete	Advisory	0	0	0	0	
Operational	Housing Maintenance Invoicing (New)	2	Complete	Partial	4	1	1	2	
Operational	Car Parking – Civil Enforcement	2	Complete	Substantial	0	0	0	0	
Key Controls	Payroll	3	Complete	Substantial	0	0	0	0	



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Key Controls	Housing Rents	3	Complete	Reasonable	6	0	2	4	
Key Controls	Main Accounting	3	Complete	Reasonable	7	0	1	6	
Operational	Economic Development	3	Complete	Reasonable	2	0	2	0	
Key Controls	Council Tax and NNDR	3	Complete	Substantial	2	0	0	2	
Healthy Organisation	Project Management	3	Complete	Reasonable	4	0	3	1	
Governance, Fraud and Corruption	Recycling and Refuse Contract - Suez	3	Complete	Advisory	0	0	0	0	
Governance, Fraud and Corruption	Declaration of Personal and Business Interests	3	Complete	Reasonable	2	0	1	1	
Operational	Homelessness	4	Complete	Substantial	2	0	1	1	
Governance, Fraud and Corruption	Relocation Project Advisory	4	Complete	Advisory	0	0	0	0	
Operational	Asset Management plan	4	Complete	Advisory	1	0	1	0	
Operational	Property Services	4	Complete	Reasonable	2	0	0	2	
Operational	Lone Working	4	Complete	Reasonable	3	0	3	0	
Healthy Organisation	Budgetary Control	4	Complete	Substantial	1	0	0	1	
DROPPED/REMOVED									
Healthy Organisation	Transparency	2	Removed	Time used for Data Protection Breaches					

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
ICT	IT Audits	1,2,3,4	Removed	Time allocated to Housing Payments, Suez and relocation project. Some additional time yet to be allocated.					

There are no significant additional audit findings I need to bring to your attention since the January 2019 update.



Report to: **Audit and Governance Committee**

Date of Meeting: 25 July 2019

Public Document: Yes

Exemption: None

Review date for release None

Agenda item: **10**

Subject: **Internal Audit Annual Opinion Report 2018-19**

Purpose of report: This report provides Internal Audits overall opinion on the systems of internal control at East Devon District Council.

The Audit and Governance Committee agreed the 2018/19 Internal Audit Plan at its March 2018 meeting.

Recommendation: To note the content of the Internal Audit Annual Report and Opinion

Reason for recommendation: This report summarises the work of the Internal Audit Services for 2018/19 and provides an overall positive assurance opinion on the Council's framework of risk management, governance and internal control based upon the internal audit work undertaken during the year.

Officer: Alastair Woodland, Assistant Director, SWAP.

Financial implications: There are no direct financial implications identified.

Legal implications: There are direct financial implications detailed in this report.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: [Approved Internal Audit Plan 2018/19 – Audit and Governance Meeting March 2018](#)

Link to Council Plan: Continuously improving to be an outstanding council.

East Devon District Council

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit (SWAP Assistant Director) should provide a written annual opinion report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Summary

To ensure the effectiveness of an organisation's risk management framework, the board and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.



Background

The Internal Audit service for East Devon District Council is provided by SWAP Internal Audit Services. The Team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of our work against the 2018/19 Internal Audit Plan. The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defence Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

Internal Audit Annual Opinion 2018/19

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within East Devon District Council. Internal Audit has not reviewed all risks and assurances relating to East Devon District Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success—to knowingly take risk rather than be unwittingly exposed to it.

In the revised 2018/19 audit plan for East Devon District Council there were 26 reviews to be delivered. In agreement with management, and previously reported to this Committee, some reviews were ‘exchanged’ or ‘removed’ as the need to respond to new and emerging risks was identified. Change can be seen from **Appendix B**.

All audits have been completed to final report stage. Of these, at final report stage, it is encouraging to report that eight (31%) were substantial assurance and eleven (42%) were reasonable assurance. There were two (8%) Partial Assurance audits awarded during the year and I am encouraged by the management response and readiness to accept and address the matters raised in audit reports.

Internal Audit Annual Opinion 2018/19

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion Continued

When forming this 'opinion' the following sources of information have been taken into account:

- Completed audits (during the year 2018/19) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regs.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

I have considered the balance of audit work in 2018/19 and the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. Although we have offered 'Reasonable Assurance' we recognise that some tough decisions will need to be made in the near future around how the funding gap will be bridged, which could have an impact on the Internal Control Environment.

It is worth noting that East Devon District Council's IT Support Services is provided through STRATA, for which East Devon District Council is a partner organisation. STRATA also provides IT Support Services to Exeter City Council and Teignbridge District Council. The Devon Audit Partnership (DAP) provides Internal Audit services to STRATA and therefore Members will need assurance from DAP on how well IT Control Environment is operating. An update was provided by DAP in March 2019 to Committee members.

Summary of Audit Work 2018/19

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the financial year. In total, 26 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 26 reviews in the revised 2018/19 audit plan, they are broken down as follows:

Type of audit	2018-19 original plan	2018-19 revised plan
Operational Audits	9	11
Governance, Fraud & Corruption	4	7
Information Systems	1	0
Key Control	3	4
Healthy Organisation	5	4
Follow-up	0	0
TOTAL	22	26

As would be expected some audits were 'exchanged' or 'removed' due to the need to respond to changes and emerging risks that arise during the year. There was a single line entry for IT Audits, which as Devon Audit Partnership (DAP) provide coverage over STRATA, was removed and replaced with non-IT audits. Members need to ensure they get appropriate assurance from DAP around the IT Control Environment.

In addition to the 2018/19 annual Audit Plan, we have also undertaken a number of benchmarking and comparison pieces of work during the year that are summarised in the 'added value' section of this report.

Summary of Audit Work 2018/19

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.



Significant Corporate Risks & Partial Assurance Audits

We provide a definition of the three Risk Levels applied within audit reports under **Appendix A**. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

One significant Corporate risk was identified during the year. This will be followed up in 2019/20.

Review/Risk	Auditors Assessment
Housing Maintenance 'Financial loss due to late payments fees or fraud caused by overcharging of invoices.'	High

Summary of Partial Assurance Audits

The following audits received a Partial assurance opinion in respect of their control environments in 2018/19.

Audit Name	Priority Findings		
	1	2	3
General Data Protection Regulations (GDPR)*	1	3	0
Housing Maintenance Invoicing	1	1	2

*Did not receive 'High' corporate risk assessment due to limited scope of this particular review.

Summary of Audit Work 2018/19

SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- No Assurance

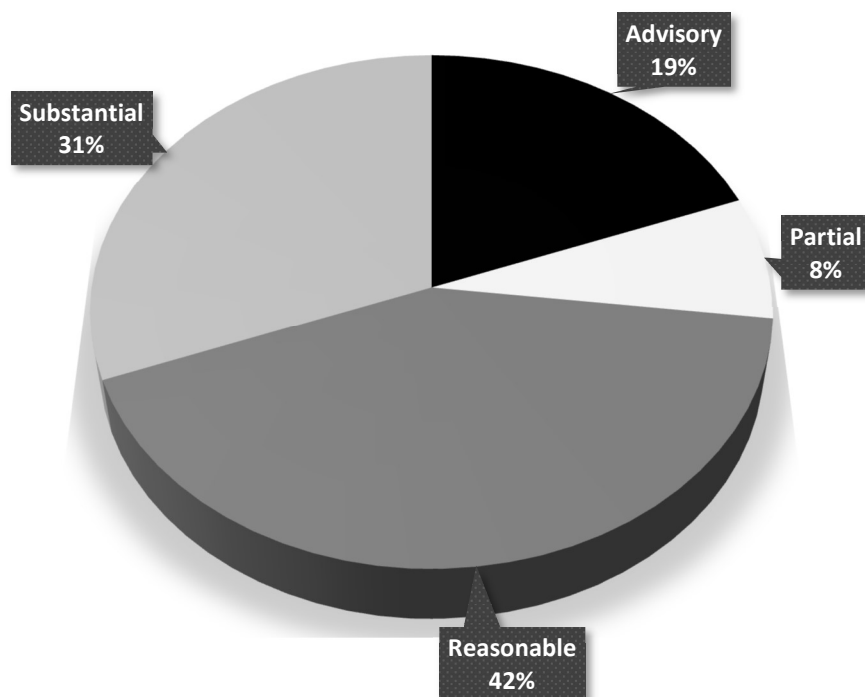
We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern or risk.



Summary of Audit Opinion

A breakdown of the Audit Opinions for the 2018/19 Audits is summarised below. Definitions for each assurance category can be found in [Appendix A](#).

Audit Opinion Summary



Summary of Audit Work 2018/19

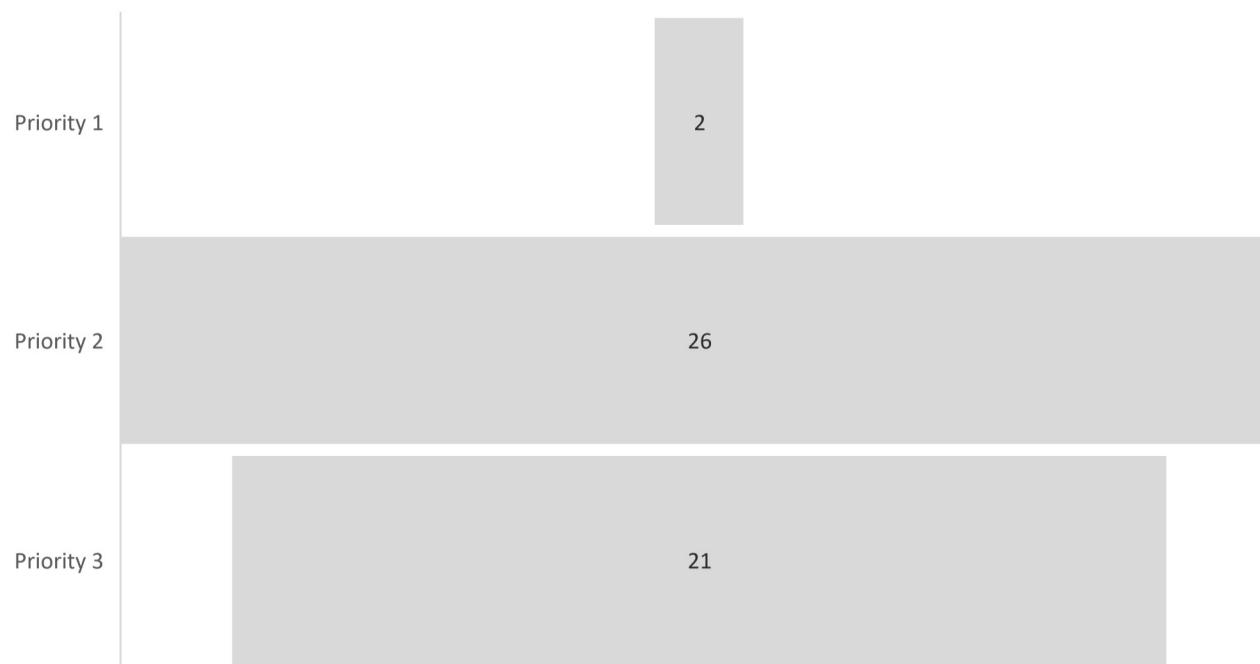
SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action



Priority Actions

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 1 recommendations being more important than priority 3. All recommendations as currently contained in **Appendix B** are summarised below.



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where EDDC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies.
- **An Internal Audit View** – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- **Car Parking Benchmarking** – We compared car parking charges, payment options, parking permits, alternative uses for car parks, development/sale of car parks and Enforcement across Partners to understand how EDDC compared and whether there were any areas of improvement.

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value Continued

- **Electoral Registration** – Comparison across five partners to identify any areas in which the effectiveness and efficiency of the processes could be improved.
- **Business Rate Maximisation** – comparison of efforts to maximise business rate collection across our partners.
- **Other Funding** – comparison on ways our Partners are seeking ways of supplementing the General Fund with grants and other funding.
- **B&B VAT Charges** – A comparison was made on how Councils manage the change in VAT rules for B&B stays over 28 days.
- **Risk Management Policy Comparison** – A review to compare the contents and coverage of various risk management policies amongst SWAP Partners, including risk identification, analysis and assessment criteria and roles and responsibilities.
- **Data Protection Policy Comparison** – A review to compare the content and coverage of the various data protection policies amongst SWAP partners.
- **Procurement** - a questionnaire was sent to all our partner sites to ascertain the approach taken to Procurement and Contract Management.

The Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both their Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2018/19 year are as follows;

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion Fieldwork Completed awaiting report In progress	100%
<u>Quality of Audit Work</u> *Customer Satisfaction Questionnaire	99%

*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

SWAP has been independently assessed and found to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the external assessment, a Quality Assessment Improvement Plan (QAIP) was produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement. We will be undertaking our next External Quality Assessment in 2019.

And finally, just like any other company and East Devon District Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	In relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲ ★ ★ ★	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advice – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

- Priority 1 Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2 Important findings that need to be resolved by management.
- Priority 3 Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of Senior Management and the Audit Committee.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Governance, Fraud and Corruption	Data Protection Breaches (New)	1	Complete	Advisory	0	0	0	0	
Governance, Fraud and Corruption	Safer Recruitment	1	Complete	Substantial	1	0	0	1	
Operational	Business Rates Maximisation	1	Complete	Substantial	0	0	0	0	
Governance, Fraud and Corruption	Right to Buy Fraud	1	Complete	Substantial	0	0	0	0	
Operational	Other Funding	1	Complete	Reasonable	1	0	1	0	
Healthy Organisation	Risk Management	2	Complete	Reasonable	3	0	3	0	
Governance, Fraud and Corruption	General Data Protection Regulations (GDPR)	2	Complete	Partial	4	1	3	0	
Healthy Organisation	Transformation Strategy	2	Complete	Reasonable	3	0	3	0	
Operational	Licensing	2	Complete	Reasonable	1	0	1	0	
Operational	Car Parking Benchmarking	2	Complete	Advisory	0	0	0	0	
Operational	Housing Maintenance Invoicing (New)	2	Complete	Partial	4	1	1	2	
Operational	Car Parking – Civil Enforcement	2	Complete	Substantial	0	0	0	0	
Key Controls	Payroll	3	Complete	Substantial	0	0	0	0	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Key Controls	Housing Rents	3	Complete	Reasonable	6	0	2	4	
Key Controls	Main Accounting	3	Complete	Reasonable	7	0	1	6	
Operational	Economic Development	3	Complete	Reasonable	2	0	2	0	
Key Controls	Council Tax and NNDR	3	Complete	Substantial	2	0	0	2	
Healthy Organisation	Project Management	3	Complete	Reasonable	4	0	3	1	
Governance, Fraud and Corruption	Recycling and Refuse Contract - Suez	3	Complete	Advisory	0	0	0	0	
Governance, Fraud and Corruption	Declaration of Personal and Business Interests	3	Complete	Reasonable	2	0	1	1	
Operational	Homelessness	4	Complete	Substantial	2	0	1	1	
Governance, Fraud and Corruption	Relocation Project Advisory	4	Complete	Advisory	0	0	0	0	
Operational	Asset Management plan	4	Complete	Advisory	1	0	1	0	
Operational	Property Services	4	Complete	Reasonable	2	0	0	2	
Operational	Lone Working	4	Complete	Reasonable	3	0	3	0	
Healthy Organisation	Budgetary Control	4	Complete	Substantial	1	0	0	1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
DROPPED/REMOVED									
Healthy Organisation	Transparency	2	Removed	Time used for Data Protection Breaches					
ICT	IT Audits	1,2,3,4	Removed	Time allocated to Housing Payments, Suez and relocation project. Some additional time yet to be allocated.					



Report to: **Audit and Governance Committee**

Date of Meeting: 25 July 2019

Public Document: Yes

Exemption: None

Review date for release None

Agenda item: 11

Subject: **Internal Audit Plan Progress July 2019 (2019/20)**

Purpose of report: The Audit and Governance Committee agreed the 2019-20 Internal Audit Plan at its March 2019 meeting. This report is to provide an update on the 2019/20 Internal Audit Plan as at end of June 2019.

Recommendation: To note the content of the Internal Audit Progress Report

Reason for recommendation: The Committee are required to review the progress of the audit plan.

Officer: Alastair Woodland, Assistant Director, SWAP.

Financial implications: There are no direct financial implications identified.

Legal implications: The legal framework is reflected in the report. While there are no direct legal implications arising, ensuring Key Actions are carried out will reduce risk to the Council which in turn will reduce the chance of failures or challenges occurring.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information: [Approved Internal Audit Plan 2019/20 – Audit and Governance Meeting March 2019](#)

Link to Council Plan: Continuously improving to be an outstanding council.



East Devon District Council

Report of Internal Audit Activity

Plan Progress 2019/20 as at end June 2019

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Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the East Devon District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 21 March 2019.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2019. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Plan Progress 2019/20

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

The following table summarised Audits finalised during 2019/20:

Audit Area	Quarter	Status	Opinion
2019/20			
Mandate Fraud	Q1	Final	Advisory

Partial Assurance Audits (See Appendix C)

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. There are no ‘Partial Assurance’ or ‘No Assurance’ reviews that I need to bring to your attention.



Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme Contd.

Corporate Risks (See Appendix C)

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

No Corporate Risks have been identified.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for East Devon District Council for the 2019/20 (as at 8 July 2019) were as follows:

Performance Target	Target Year end	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started	>90%	21% 21% 58%
<u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>95%	None Received to date
<u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%	Reported Year end



Plan Progress 2019/20

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time.



Approved Changes to the Audit Plan 2019-20

The audit plan for 2019/20 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to East Devon District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

The following changes have been made to the 2019/20 Audit Plan since it was approved in March 2019:

- Tree Management has been pushed back to quarter 4 and the Impact of Universal Credit review brought forward to quarter 1. This was to accommodate the Systems Thinking review being undertaken in quarter 1 that would have an impact on the Tree Teams available time.
- Special investigation 1 – We were asked to undertake a review relating to a suspected fraud. Time has been taken from the follow up contingency.
- Special Investigation 2 – A member of the public raised a concern around a conflict on interest in a decision made by the Authority. Time has been taken from the follow up contingency.



At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None
- Non-Opinion/Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 1: Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Special Investigation	Special Investigation 1	1	Final	Advisory	2	0	1	1	Further details can be discussed in Private Session.
DRAFT									
Operational Audits	Development Control	1	Draft	Reasonable					
Operational Audit	Corporate - Fire Safety Council Owned Dwellings	1	Review						
Key Controls	Debtors	1	Review						
IN PROGRESS									
Operational Audit	Impact of Universal Credit	1	In Progress						
Special Investigation	Special Investigation 2	1	In Progress						Further details can be discussed in Private Session.
Follow up	Housing Invoice Maintenance	1	In Progress						
Governance, Fraud and Corruption	Corporate Health and Safety	2	In Progress						



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Governance, Fraud and Corruption	Reserves Management	2	In Progress						
NOT STARTED									
Governance, Fraud, Corruption	Commercial Property Investment (Framework)	2	Not started						
Governance, Fraud, Corruption	Members Declaration of Interest (Moderngov)	2	Not started						
Key Controls	Treasury Management	3	Not Started						
Key Controls	Housing Benefit	3	Not Started						
Governance, Fraud, Corruption	Business Continuity	3	Not started						
Transformation	Transformation Strategy	3	Not Started						
Operational Audit	Tree Management	4	Not Started						
Governance, Fraud, Corruption	Relocation – Benefits Realisation	4	Not Started						
Governance, Fraud, Corruption	Information Governance (GDPR)	4	Not Started						
Operational Audits	Integrated Asset Maintenance Contract	4	Not Started						

Further details on the Special Investigations 1 & 2 can be provided during a Private Session.





Report to: **Audit and Governance Committee**
Date of Meeting: 25 July 2019
Public Document: Yes
Exemption: None
Review date for release None

Agenda item: 12

Subject: **Full Risk Review May/June 2019**

Purpose of report: Risk information for the 2019/20 financial year is supplied to allow the Audit and Governance Committee to monitor the risk status of Strategic and Operational Risks. This follows the full review of risks by responsible officers during May/June 2019

Recommendation: **That the Audit and Governance Committee considers the current status of risks following the full risk review undertaken in May/June 2019.**

Reason for recommendation: To ensure that the Risk Management Policy and Guidance is being followed and all risks are being monitored and control actions implemented.

Officer: Simon Davey, Strategic Lead - Finance
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 Joanne Avery, Management Information Officer
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 ext 2332

Financial implications: No direct financial implications

Legal implications: There are no direct legal implications

Equalities impact: Low Impact
 Failure to identify, assess, monitor, review and manage risks could impact negatively (i.e. financial, reputational, operationally) on the council.

Risk: High Risk
 Failure to identify, assess, monitor, review and manage risks could impact negatively (i.e. financial, reputational, operationally) on the council.

Links to background information:

- [Appendix A – Full list of Operational Risks May/June 2019](#)
- [Appendix B – Strategic Risks May/June 2019](#)

- [Appendix C – Explanations and definitions](#)

Link to Council Plan: Continuously improving to be an outstanding council

Report in full

1. As part of our corporate governance it is appropriate that we maintain and manage a risk register. The risk register allows us to highlight any risks to our organisation and set out how we are going to mitigate against their impact and likelihood.
2. Our risk management policy requires all risks identified by the council to be reviewed bi-annually. Through the month of May the risk owners were tasked with reviewing their risks in the SPAR system. The complete operational risk register is provided for the Committee to review at [Appendix A](#). This is listed by service area and includes all of the control actions. There are now 84 operational risks, all of which have been reviewed and re-scored in light of all mitigating actions being undertaken. All services were asked to highlight any new and emerging risks with no new risks being put forward at this review
3. In the operational risk register there are no risks currently scored as high.
4. The tables below set out the number of risks in each service by score.

Finance	High	Medium	Low
Risks by score		3	9

Economy	High	Medium	Low
Risks by score		9	6

Housing	High	Medium	Low
Risks by score		14	6

Environment	High	Medium	Low
Risks by score		9	4

Governance & Licensing	High	Medium	Low
Risks by score		8	6

Organisational Development	High	Medium	Low
Risks by score		1	9

5. As part of this review our strategic risks have also been reviewed by their owners and are now submitted for Committee's consideration.

There are 9 risks on the strategic register

- **Adequacy of financial resource planning to deliver the Council's priorities**
Insufficient financial resources to deliver Council priorities as a consequence of: a) Failure of financial forecasting, budgeting, monitoring and reporting system resulting in insufficient financial resources and inadequate reserves b) Failure to use resources available effectively c) Reduction in government funding
- **Risk: Adequate emergency planning and business continuity**
A failure to adequately plan for emergencies and understand what issues arise in planning for business continuity could lead to a major service failure.
- **Risk: Delivery of Growth Point**
Delivery of Growth Point – Failure to delivery planned housing and business growth, including a successful and vibrant new town.
- **Risk: Failure to adequately protect staff health and safety at work**
Failure to protect staff appropriately could lead to serious injury and will expose the Council to reputation, legal and financial risks
- **Risk: Failure to ensure that our corporate property portfolio is fully compliant with legal requirements.** A failure to ensure our property portfolio is fully compliant with all health and safety and other legal requirements could lead to serious injury or litigation.

- **Risk: Failure to ensure the Council's sustainability**
The failure to ensure that the Council is able to sustain its service provision in the long term and meet its priorities as set out in the Council Plan could lead to financial and reputation loss and impact on our communities.
- **Risk: Increased homelessness**
Failure to meet our statutory obligations for homelessness applications including securing suitable and cost effective temporary accommodation. Poor homelessness decisions risk legal challenge, reputational damage and disadvantage applicants.
- **Risk: Major disruption in continuity of computer and telecommunications services**
Major disruption in continuity of computer and telecommunications facilities to the detriment of service delivery including Cyber-attack
- **Risk: Office Relocation**
Not relocating would mean the continued high cost of management and maintenance of Knowle Offices. Increasing inefficiency of current accommodation and reducing capacity to deliver improving services, modern working practices and performance improvements. Challenged ability to maintain high quality services and projects in a time of reducing funding and resources.

These are all scored in in the medium range with none currently showing as high risk. More details for each risk can be seen in [Appendix B](#).

Strategic Risks	High	Medium	Low
<i>Risks by score</i>		7	2

Two of the strategic risks have been moved from the operational register to the strategic one to raise their profile and acknowledge the wider implications of the risk. They are:

- **Risk: Failure to adequately protect staff health and safety at work**
Failure to protect staff appropriately could lead to serious injury and will expose the Council to reputation, legal and financial risks
 - **Risk: Failure to ensure that our corporate property portfolio is fully compliant with legal requirements.** A failure to ensure our property portfolio is fully compliant with all health and safety and other legal requirements could lead to serious injury or litigation.
6. An explanation and definitions of these risks including the risk matrix can be found in [Appendix C](#).

Audit and Governance Committee**25 July 2019****Audit and Governance Committee****Forward Plan 2019/20**

Date of Committee	Report	Lead Officer
26 September 2019	<ul style="list-style-type: none"> • External Audit Report 2018/19 • Statement of Accounts 2018/19 including Governance Statement • Letter of Representation • Audit Committee update • Annual audit letter • Certification Report • RIPA update • Expenditure on consultants and agency staff 2018/19 • Internal Audit Activity – Quarter 2 2019/20 	Grant Thornton Strategic Lead Finance Strategic Lead Finance Grant Thornton Grant Thornton Grant Thornton Strategic Lead – Governance & Licensing Strategic Lead - Finance SWAP
28 November 2019	<ul style="list-style-type: none"> • Report on outcomes against the Corporate Counter Fraud and Compliance strategy • Partnership Register • RIPA update 	Service Lead Revenue & Benefits Management Information Officer Strategic Lead – Governance & Licensing

30 January 2020	<ul style="list-style-type: none"> • Internal Audit Activity – Quarter 3 2019/20 • Audit Committee update • Risk Management review – half year review • RIPA update 	SWAP Grant Thornton Management Information Officer Strategic Lead – Governance & Licensing
19 March 2020	<ul style="list-style-type: none"> • Annual Audit Plan 2020/21 • Review of Internal Audit Charter • Internal Audit Plan Progress • External Audit Plan • Audit Committee update • Accounting Policies Approval • RIPA update 	SWAP SWAP SWAP Grant Thornton Grant Thornton Financial Services Manager Strategic Lead – Governance & Licensing