



**SWAP**  
INTERNAL AUDIT SERVICES  
Assuring – Improving – Protecting

# East Devon District Council

## Report of Internal Audit Activity

### Annual Opinion Report For 2018/19

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

# Contents

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## Summary:

Purpose & Background

Page 1-2

Annual Opinion

Page 3-4



## Summary of Audit Work:

Internal Audit Work Programme

Page 5

Significant Corporate Risks & Partial Assurance Audits

Page 6

Summary of Audit Opinions 2018-19

Page 7

Priority Action Summary

Page 8



## Plan Performance:

Added Value

Page 9 -10

SWAP Performance

Page 11-12



## Appendices:

Appendix A – Audit Framework Definitions

Page 13-14

Appendix B – Summary of Work Plan

Page 15-17

## 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
<b>Housing Maintenance</b> '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

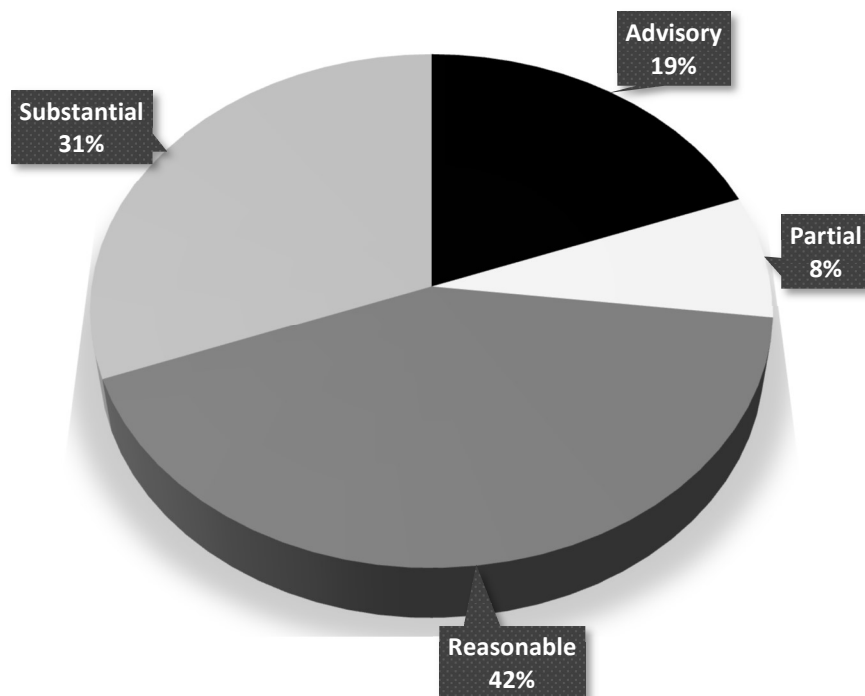
We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern or risk.



### 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

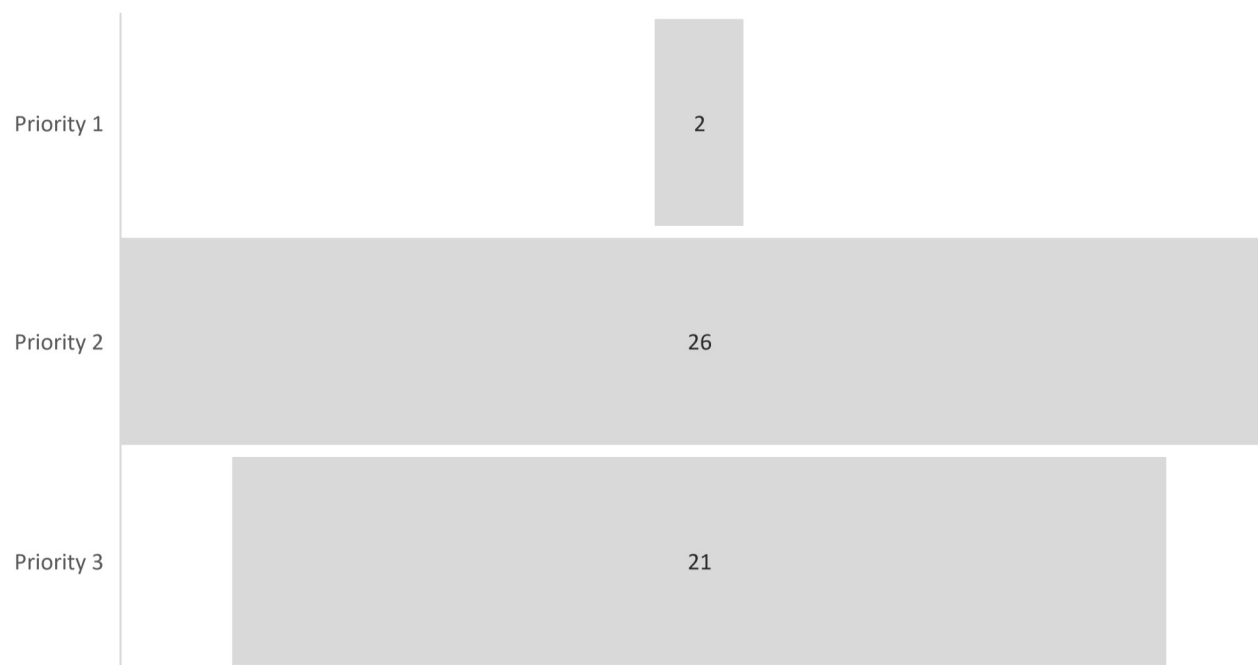
### SWAP Performance - Summary of Audit Recommendations by Priority

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.

## Plan Performance 2018/19

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
<b><u>Audit Plan – Percentage Progress</u></b> Final, Draft and Discussion Fieldwork Completed awaiting report In progress	100%
<b><u>Quality of Audit Work</u></b> *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

<b>Substantial</b>	▲ ★ ★ ★	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.
<b>Reasonable</b>	▲ ★ ★ ★	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.
<b>Partial</b>	▲ ★ ★ ★	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.
<b>No Assurance</b>	▲ ★ ★ ★	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.					