

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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Summary

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



Audit Opinion

The Accounts and Audit Regulations (England) 2011 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 should provide a written annual 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 actually 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.

A separate report has been presented to the Audit and Governance Committee to satisfy this requirement and Members are asked to note its content. The opinion provided in that report is Reasonable Assurance in respect of the areas reviewed during the year.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the South Somerset 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 Committee at its meeting on 24 March 2016.

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
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2015/16 and 2016/17 Plan.

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 pages 10 and 11 of this document.

In the period Quarter 4 and Quarter1 the following audits have been completed from the 2015/16 Audit Plan:

- Yeovil Innovation Centre (Reasonable Assurance)
- Key Income Stream Management (Substantial Assurance)
- Housing and Council Tax Benefit (Substantial Assurance)
- New Payroll System (Reasonable Assurance)
- Aged Debt Management (Reasonable Assurance)
- Property Services (Partial Assurance)
- Imprest Accounts (Reasonable Assurance)
- Ninesprings Café (Reasonable Assurance)
- Mobile and Remote Working _H&S (Reasonable Assurance)
- Corporate Procurement Cards (Reasonable Assurance)

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

The following Audits are in progress at the time of writing this report and a verbal update will be provided to the committee on these:

2015/16 Audit Plan

- Council Tax Collection (originally scheduled for Quarter 2) – Draft Report Stage
- S106 Discharge of Planning Obligations (originally scheduled for Quarter 2)
- Physical and Environmental Controls (originally scheduled for Quarter 3) – Discussion Document Stage
- Asset Register and Land Record Management (originally scheduled for Quarter 3).
- Risk Strategy & TEN Risk Management (originally scheduled for Quarter 4)

2016/17 Audit Plan

- Yeovil Cemetery & Crematorium Annual Accounts
- Boden Mill & Chard Regeneration Scheme Statement of Accounts

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. 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.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”.

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”.

As we complete our operational 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. Examples in Quarter 4/ Quarter 1 include the following:

SSDC is looking at options on how to govern the Crematorium function. SWAP Provided a summary of how other authorities manage their crematorium functions, e.g. by integrating it into the general budget or by having a separate body.

SWAP provided a comparison of Systems for Expense/Travel Claims from our Partners to share with SSDC.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

SWAP Performance - Summary of Audit Opinions

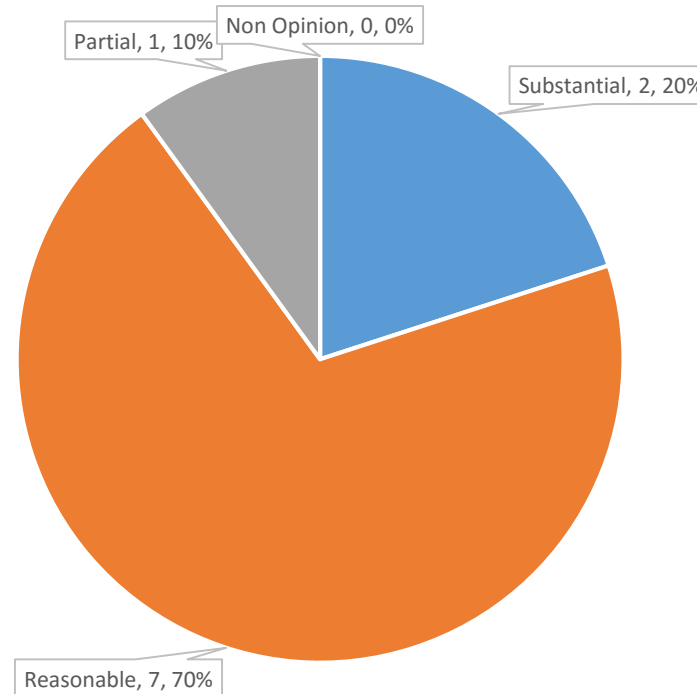
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- None
- Non Opinion



Summary of Control Assurance

Control Assurance by Category
(for 2015/16 work completed in Qtr 4 and Qtr 1)



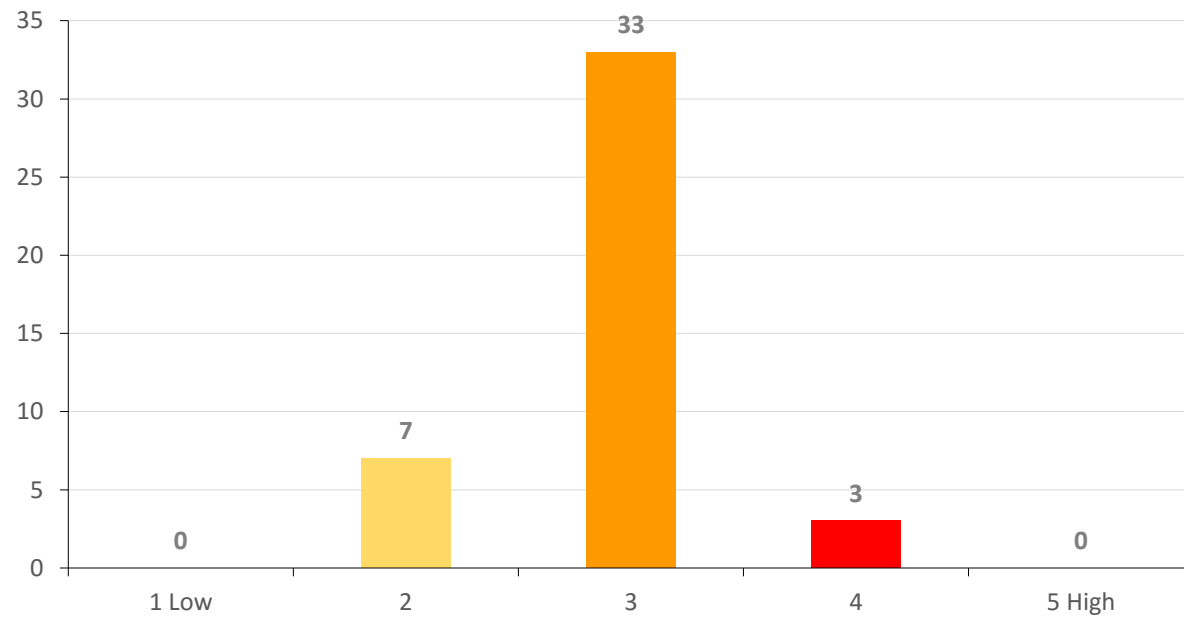
Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Summary of Audit Recommendations by Priority



Summary of Recommendations

Audit Recommendations by Priority



Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

The Assistant Auditor 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 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2015/16 year (as at 8 June 2016) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress</p>	<p>76% 24% (2014/15 95% of plan completed at this stage with 1 Audit in Progress)</p>
<p><u>Draft Reports</u> Issued within 5 working days</p>	<p>83% (Average Days of 3) (2014/15 60%)</p>
<p><u>Final Reports</u> Issued within 10 working days of discussion of draft report</p>	<p>69% (Average Days of 21) (2014/15 53%)</p>
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	<p>83% (2014/15 77%)</p>

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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



Approved Changes to the Audit Plan

The following changes have been made to the audit plan in Quarter 4/ Quarter 1 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement or at the request of the Section 151 Officer:

- Contract Compliance – PPR Compliance was removed at the request of the client as this area had recently been reviewed by the South West Counter Fraud Partnership. It was replaced with a review of Corporate Procurement Cards which was originally scheduled for Quarter 1 2016/17. A replacement audit has yet to be determined.

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

- Substantial
- Reasonable
- Partial
- None



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.

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.

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



Audit Framework Definitions

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

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.
Very 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	5= Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
2015/16										
Follow Up	Printing & Copying Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Streetscene Enforcement Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Expenses & Reimbursements Fraud Prevention	1	Final	Reasonable	4	0	0	4	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts 2015-16	1	Final	Non Opinion	0	0	0	0	0	0
ICT	Mobile and Remote Working_SSDC	1	Final	Reasonable	5	0	0	5	0	0
Operational	NDR - New Business Rates System	1	Final	Reasonable	6	0	0	3	3	0
Operational	Business Continuity	1	Final	Reasonable	4	0	0	4	0	0
Governance, Fraud & Corruption	Lean Thinking Benefit Realisation	2	Removed	N/A	0	0	0	0	0	0
ICT	Telephony	2	Final	Reasonable	6	0	1	5	0	0
Operational	Council Tax Collection	2	Draft		0	0	0	0	0	0
Operational	Housing & Council Tax Benefit	2	Final	Substantial	1	0	0	0	1	0
Operational	Yeovil Innovation Centre	2	Final	Reasonable	9	0	1	7	1	0
Operational	Private Sector Housing - Environmental Health	2	Final	Substantial	1	0	0	0	1	0
Operational	Key Income Stream Management	2	Final	Substantial	2	0	0	1	1	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	S106 Discharge of Planning Obligations	2	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Contract Compliance - PPR Compliance	3	Removed	N/A	0	0	0	0	0	0
Governance, Fraud & Corruption	Leisure Centre / Hub Contract Compliance	3	Removed	N/A	0	0	0	0	0	0
Grant Certification	Repair and Renewal Grant	3	Final	Non Opinion	0	0	0	0	0	0
ICT	Physical and Environmental Controls	3	Discussion Document		0	0	0	0	0	0
Operational	New Payroll System	3	Final	Reasonable	7	0	0	7	0	0
Operational	Aged Debt Management	3	Final	Reasonable	3	0	0	3	0	0
Operational	Asset Register & Land Record Management	3	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Property Services	4	Final	Partial	5	0	2	3	0	0
Governance, Fraud & Corruption	Imprest Accounts	4	Final	Reasonable	4	0	0	2	2	0
Governance, Fraud & Corruption	Ninesprings Cafe	4	Final	Reasonable	3	0	0	2	1	0
Operational	Mobile and Remote Working_H&S	4	Final	Reasonable	6	0	0	6	0	0
Operational	Risk Strategy & TEN Risk Management	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Procurement Cards	4	Final	Reasonable	3	0	0	2	1	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
2016/17										
Operational	TBA to replace Corporate Procurement Cards completed 2015/16	1	Not Started		0	0	0	0	0	0
Advice	Follow Up Contingency	1	Not Started		0	0	0	0	0	0
ICT	TBA - IT Provision	1			0	0	0	0	0	0
Operational	Culture	1	Not Started		0	0	0	0	0	0
Operational	Yeovil Cemetery & Crematorium Annual Accounts	1	In Progress		0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	In Progress		0	0	0	0	0	0
Operational	Safeguarding	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Corporate Governance	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Financial Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Risk Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Performance Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Commissioning & Procurement	2	Not Started		0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Healthy Organisation	Programme & Project Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Information Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	People & Asset Management	2	Not Started		0	0	0	0	0	0
Operational	Delivering Cost Savings & Increasing Income	2	Not Started		0	0	0	0	0	0
Operational	Land Charges	2	Not Started		0	0	0	0	0	0
Operational	Key Income Streams	3	Not Started		0	0	0	0	0	0
Operational	Corporate Health & Safety	3	Not Started		0	0	0	0	0	0
Key Control	Provision - Key Financial Control Audit	3	Not Started		0	0	0	0	0	0
Operational	Local Council Tax Support Scheme	3	Not Started		0	0	0	0	0	0
Operational	Scheme of Delegation	3	Not Started		0	0	0	0	0	0
Operational	Leisure East Devon	4	Not Started		0	0	0	0	0	0
Operational	Data Protection	4	Not Started		0	0	0	0	0	0
Operational	Elections	4	Not Started		0	0	0	0	0	0
Operational	Lufton Vehicle Workshop	4	Not Started		0	0	0	0	0	0

Schedule of potential significant risks identified from Internal Audit work in the period Quarter 4

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)	
			<p style="text-align: center;">There were no significant risks in the period.</p>						

Summary of key points related to ‘Partial Assurance’ reviews

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
<p>Property Services</p>	<p>A partial Assurance rating was given for the following reasons:</p> <ul style="list-style-type: none"> Annual condition surveys are not on schedule. These surveys play an important role in identifying faults and informing plans for maintenance, alongside SSDC officers reporting faults. The condition surveys do not always definitively state what actions are required or when these actions will take place. In addition to this, they are not updated to record any changes or slippages to maintenance plans. There is a risk that due to a lack of up to date information, faults may go unidentified and unreported for a significant period of time which could result in an injury or increased costs for repairs. There is concern that it is not always clear to Property Services how repair responsibility is delegated for SSDC properties occupied by tenants. Tenancies may end without the knowledge of Property Services. 	<p>The Property and Engineering Services Manager has agreed to ensure that formal guidance for key security and lock changing procedures is made available to all SSDC staff who are responsible for property security.</p> <p>The Property and Engineering Services Manager has agreed to ensure that condition surveys are conducted and monitored in accordance with specific timescales for all SSDC properties. There has been some slippage in the condition surveys with the surveyors being involved in other projects. This will be addressed and surveys allocated to various staff and monitored with specific timescales.</p> <p>The Property and Engineering Services Manager has agreed to ensure that condition surveys are regularly reviewed and updated to definitively state what action is required and when this action is due, and to record any changes and slippages to the plan.</p> <p>The Property and Engineering Services Manager has agreed to ensure that in advance of the implementation of the new HEAT system, checks are carried out to gain assurance that those issues previously identified with the existing PSR system</p>	<p>30th September 2016</p> <p>31st July 2016</p> <p>31st July 2016</p> <p>31st August 2016</p>	<p>Quarter 4</p>

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<ul style="list-style-type: none"> SSDC property security is generally well managed, however there is a lack of formal guidance for key handling and lock changes. 	<p>have been rectified and that appropriate training on the use of the new HEAT system has been administered. The new system will not be allowed to replace the existing PR system until we are satisfied it is fit for purpose.</p> <p>The Property and Engineering Services Manager has agreed to ensure that the Estates Asset Management system is utilised in order to view repair responsibilities for SSDC rented properties and to inform staff of tenancy end dates. Potential training and access to the Estate Asset Management system to be investigated.</p>	31 st October 2016	