South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2016/17 Quarter 2

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors and the CIPFA Code of Practice for Internal Audit in England and Wales.

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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 2016/17.

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 7 and 8 of this document.

In the period Quarter 2 work has progressed on the following audits from the 2015/16 Audit Plan:

- Risk Strategy & TEN Risk Management – Partial - Final

In the period Quarter 2 work has progressed on the following audits from the 2016/17 Audit Plan:

- IT Audits – work on an IT skills audit is currently being scoped – Scoping work in Progress
- Culture – In Progress – Although we have experienced delays in obtaining approval from SSDC regarding the scope of work.
- Safeguarding – In Progress
- Land Charges – Discussion Document Stage.
- Delivering Cost Savings and Increasing Income – In Progress

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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 Continued

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.

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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 2 include the following:

- A benchmarking report on income generation has been shared with SSDC, based on SWAP partner information.
- A benchmarking report on debt management has been shared with SSDC, based on SWAP partner information.
- We have shared a paper on joint working arrangements based on information gathered from within SWAP.
- We are in the process of collating benchmarking information on Equality Impact Assessments (which SSDC has contributed to).
- We shared a document called "What every Director should know – How to get the best from Internal Audit" which was a good summary of best practice in relation to Internal Audit Services.

The Assistant Auditor for SWAP

SWAP Performance

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

SWAP now provides the Internal Audit service for 23 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 2016/17 year (as at 1 Nov 2016) are as follows;

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress	15% 52%
Draft Reports Issued within 5 working days	100%
Final Reports Issued within 10 working days of discussion of draft report	50%
Quality of Audit Work Customer Satisfaction Questionnaire	80%

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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 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.
- IT Audits – Following a meeting of the Corporate Governance Group, an audit on IT Skills is currently being scoped.

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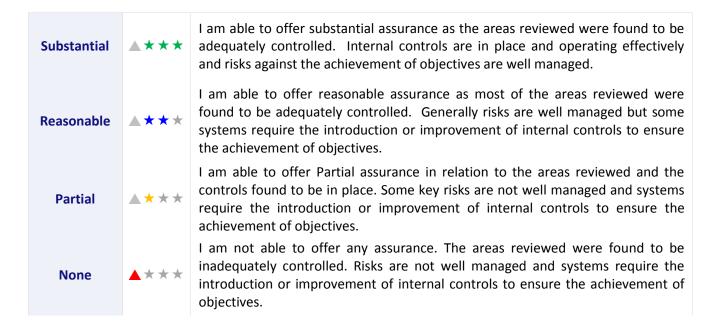
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At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **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.

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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 5 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

- 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 $\longleftrightarrow$ 1 = Minor Recommendation				
						5	4	3	2	1
2015/16										
Operational	Risk Strategy & TEN Risk Management	4	Final	Partial	10	0	4	3	3	0
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	IT Skills Audit	1	In Progress		0	0	0	0	0	0
Operational	Culture	1	In Progress		0	0	0	0	0	0
Operational	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Operational	Safeguarding	2	In Progress		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
Healthy Organisation	Programme & Project Management	2	Not Started		0	0	0	0	0	0

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major		Recommendation		1 = Minor
						5	4	3	2	1
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	In Progress		0	0	0	0	0	0
Operational	Land Charges	2	Discussion Document		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

SWAP

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Schedule of potential significant risks identified from Internal Audit work in the period Quarter 2

Ref	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
1	Risk Strategy & TEN Risk Management	See Appendix D	Business objectives are not achieved due to failure to anticipate future uncertainties or events.	See Appendix D			

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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
Risk Strategy & TEN Risk Management 2015/16	The Council's Corporate Objectives are not linked to Strategic Risks.	The Assistant Director – Finance and Corporate Services, has agreed to ensure, in consultation with the Management Board, that each of the Council's corporate priorities are risk assessed and the risks included on the risk register.	31/3/17	Qtr 1 2017/18
		The Assistant Director – Finance and Corporate Services has agreed to ensure that any risk on the risk register can be directly (and easily) linked to the relevant Corporate Priority to which it relates.	30/4/17	Qtr 1 2017/18
	Risks are not reported to Members frequently enough.	The Procurement and Risk Manager has agreed to confirm with the Audit Committee the frequency of reporting required by them (with a move to twice a year being preferable to keep members informed), and will offer training on access to the risk management software system.	31/3/17	Qtr 1 2017/18
	Risks are not monitored by Management Board as part of a regular monitoring cycle.	The Assistant Director – Finance and Corporate Services has agreed to ensure that the frequency and extent of risk reporting to the Management Board is formally established so that the leadership team are clear on their roles and responsibilities to review and monitor risks and have a framework in which to do this.	31/3/17	Qtr 1 2017/18