

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2017/18 Quarter 1 and Quarter 2

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 385906

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 01935 385906

david.hill@southwestaudit.co.uk

Laura Wicks

Senior Auditor

Tel: 01935 385906

laura.wicks@southwestaudit.co.uk

➔	Role of Internal Audit	Page 1
➔	Internal Audit Plan Progress	Page 2
➔	Added Value	Page 4
➔	Approved Changes to the Audit Plan	Page 5
➔	Appendices:	
	Appendix A – Internal Audit Definitions	Page 6
	Appendix B – Internal Audit Work Plan	Page 8
	Appendix C – Significant Risks	Page 12
	Appendix D – Partial Opinions	Page 17

Internal Audit Plan Progress 2016/17 & 2017/18

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control 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 which was approved by the Audit Committee at its meeting on 22 June 2017.

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 work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Leadership Team and External Auditors. This year's Audit Plan was reported to this Committee and approved at its meeting in March 2017.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2016/17 & 2017/18

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 and 2017/18 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 in Appendix A.

In the period Quarter 1 and Quarter 2 the following audits have been completed from the 2016/17 Audit Plan:

- Corporate Health & Safety (Reasonable)
- Leisure East Devon (Reasonable)

In the period Quarter 1 and Quarter 2 the following audits have been completed from the 2017/18 Audit Plan:

- Yeovil Cemetery & Crematorium Annual Accounts (Non Opinion)
- Boden Mill & Chard Regeneration Scheme Statement of Accounts (Non Opinion)

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:

2016/17 Audit Plan

- Healthy Organisation (originally scheduled for Quarter 2) – Draft Report Stage

Internal Audit Plan Progress 2016/17 & 2017/18

Outturn to Date: continued.....

2017/18 Audit Plan

- Cyber Security
- Licensing
- Grant Funding Fraud Audit
- Organised Crime checklist
- Business Rates Fraud Audit
- Key Controls Provision – areas to be covered include: Creditors, Cash Receipting, Payroll & Treasury Management

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 2016/17 & 2017/18

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”.

During Quarter 1 and Quarter 2, we have sought to add value as follows to the completed audits from the 2016/17 and 2017/18 audit plans:

- Completion of a review of the annual accounts for the Boden Mill Site and Chard Regeneration Scheme;
- Providing assurance to support the Annual Return for the Yeovil Cemetery and Crematorium Accounts on behalf of the Cemetery and Crematorium Committee; and
- Advice / Support provided during the handover period to a new contract lead officer within the Leisure East Devon 2016/17 audit.

Internal Audit Plan Progress 2016/17 & 2017/18

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 and Quarter 2 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement with or at the request of the Section 151 Officer:

- Fraud audits – an audit of fraud was scheduled in both Quarter 2 and 3 of the 2017/18 Plan. The focus of these has been determined as Grants and Business Rates Avoidance respectively.
- Key Controls – the focus for this round of key financial controls work has been determined as Creditors, Cash Receipting, Payroll and Treasury Management.
- Records Management has been deferred from Quarter 1 to Quarter 3/4 to enable value to be added through the audit process to this review on aspects of the transformation programme.
- An Elections audit has been scheduled to replace Tourism in Quarter 4. This audit was originally deferred from the 2016/17 audit plan due to election commitments.

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
2016/17										
Follow Up	Property Services	3	Final	Non Opinion	0	0	0	0	0	0
ICT	IT Skills Audit	1	Final	Advisory	0	0	0	0	0	0
Operational	Culture	1	Removed	-	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	Final	Reasonable	0	0	0	1	3	0
Healthy Organisation	Corporate Governance	2	Draft							
Healthy Organisation	Financial Management									
Healthy Organisation	Risk Management									
Healthy Organisation	Performance Management									
Healthy Organisation	Commissioning & Procurement									
Healthy Organisation	Programme & Project Management									
Healthy Organisation	Information Management									
Healthy Organisation	People & Asset Management									

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major		↔		1 = Minor	
						Recommendation					
						5	4	3	2	1	
Operational	Delivering Cost Savings & Increasing Income	2	Final	Reasonable	1	0	0	1	0	0	
Operational	Land Charges	2	Final	Reasonable	4	0	0	4	0	0	
Operational	Key Income Streams	3	Final	Reasonable	0	0	0	4	0	0	
Operational	Corporate Health & Safety	3	Final	Reasonable	8	0	1	7	0	0	
Key Control	Key Financial Control Audit	3	Final	Reasonable	0	0	0	6	0	0	
Operational	Local Council Tax Support Scheme	3	Final	Substantial	0	0	0	3	0	0	
Operational	Scheme of Delegation	3	Removed	-	0	0	0	0	0	0	
Operational	Leisure East Devon	4	Final	Reasonable	0	0	0	3	1	0	
Operational	Data Protection	4	Final	Partial	0	0	6	8	0	0	
Operational	Elections	4	Removed	-	0	0	0	0	0	0	
Operational	Lufton Vehicle Workshop	4	Final	Reasonable	0	0	0	5	0	0	
Grant Certification	Regeneration	4	Final	Substantial	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
2017/18										
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Operational	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	1	0	0
ICT	Cyber security	1	In Progress		0	0	0	0	0	0
Advice	Risk Management Support	1	Not Started		0	0	0	0	0	0
Operational	Licensing	1	In Progress		0	0	0	0	0	0
Follow Up	Risk Management Follow Up	2	Not Started		0	0	0	0	0	0
Governance, Fraud & Corruption	Grant Funding Fraud Audit	2	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Organised Crime checklist	2	In Progress		0	0	0	0	0	0
Key Control	Key Controls Provision – areas to be covered include: Creditors, Cash Receipting, Payroll & Treasury Management	3	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Business Rates Fraud Audit	3	In Progress		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
Operational	LED Contract Compliance	3	Not Started		0	0	0	0	0	0
Operational	Programme and Project Management	3	Not Started		0	0	0	0	0	0
Operational	Procurement Review	3	Not Started		0	0	0	0	0	0
Operational	Records Management	3	In Progress		0	0	0	0	0	0
Operational	Key Income Streams	4	Not Started		0	0	0	0	0	0
Operational	S106/ CIL	4	Not Started		0	0	0	0	0	0
Operational	Accountability	4	Not Started		0	0	0	0	0	0
Operational	Business Continuity Key Service Test	4	Not Started		0	0	0	0	0	0
Operational	Housing Benefit Claims/Subsidy	4	Not Started		0	0	0	0	0	0
Operational	Elections	4	Not Started		0	0	0	0	0	0

Schedule of potential significant risks identified from Internal Audit work in the period Quarter 1 and Quarter 2

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
35702		Data Protection	For individuals supporting the Authority, either by secondment or as private contractors paid through the Authority's payroll system, there was insufficient assurance that they have been fully trained with regard to data protection requirements. There is also some uncertainty as to their status, i.e. whether they are	If they are data processors rather than employees then the authority is in breach of the DPA. There is an increased risk of fines and reputational damage if these individuals are responsible for further data breaches.	I recommend that the HR Manager/Housing and Welfare Manager as appropriate should confirm the status of these officers (within the context of Data Protection legislation). If it is determined that individuals are employed on a secondment basis or are considered employees, confirmation should be sought that data protection induction and	HR Manager - The Interim Assistant Director for Transformation has been provided with a copy of the induction programme which includes guidance on Data Protection provided to all staff on induction. H&W Manager – Confirmation to be obtained regarding Homefinder Scheme Co-ordinator status and Data Protection induction.	31 st May 2017	

			employees or contractors.		training has been carried out. If the individuals are considered private contractors, a written contract covering data protection issues should be used.			
35703		Data Protection	Where contracts are in place, these contracts often lacked sufficient detail re the data processing requirements and service managers should have sought input from the Fraud and Data Team if they were unclear what the DPA required.	The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational damage.	I recommend that the Procurement and Risk Manager should issue a reminder to all Service Managers, stating that where contracts are to be extended beyond their natural term, advice is taken from the Procurement and Risk Manager on the legality of the extension (which may otherwise be unlawful), and written confirmation and	Agreed. Reminder to be issued.	31 st July 2017	

Summary of Significant Risks

APPENDIX C

					authority for this extension should, as a point of good practice, be drawn up and held with the contract documentation in the Deed Room.			
35704	Data Protection	Where contracts are in place, these contracts often lacked sufficient detail re the data processing requirements and service managers should have sought input from the Fraud and Data Team if they were unclear what the DPA required.	The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational damage.	I recommend that the Fraud and Data Manager issues a reminder to all Contract Managers that where contracts are renewed or it is agreed to roll them forward, that data protection issues are covered.	Happy to do this.	28 th April 2017		
35707	Data Protection	The central repository for contracts, maintained by the legal team,	Contracts may be hard to or impossible to locate as responsible officers	I recommend that the Procurement and Risk Manager should arrange for A copy of all	Agreed. Service areas to be made aware.	31 st July 2017		



			is often not used by service areas. We found that in the majority of instances service managers retain the only copy of contracts in their services' area.	change posts or leave. In the event of a major incident such as a fire/flood, paper based contracts may be permanently lost. The Authority may be unable to enforce contractual obligations including those relating to data protection or demonstrate that reasonable steps were taken to ensure the data protection requirements were met.	significant contracts, including low value contracts where there are significant risks in terms of DPA compliance, to be lodged with the legal team for retention within the central repository. The Procurement and Risk Manager should ensure that all service areas are aware of this requirement.			
35708		Data Protection	Where contracts are in place, these contracts often lacked sufficient detail re the data processing requirements and service managers should have	The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational	The Fraud and Data Manager should issue a reminder to all service managers that they should liaise with her when drafting any contracts with Data Processors, to ensure that all	Happy to do this again (have already made aware in past).	31 st May 2017	

Summary of Significant Risks

APPENDIX C

			sought input from the Fraud and Data Team if they were unclear what the DPA required.	damage.	relevant clauses are included.			
35709	Data Protection		A contract could not be located for the Out of Hours Service.	This is a breach of the Data Protection Act and if the ICO became aware it could result in heavier penalties being imposed on the Authority.	I recommend that the Civil Contingencies Manager should put a formal agreement in place between the Authority and the Deane Helpline Service, covering all necessary data protection responsibilities and obligations including liaison with the Fraud and Data Team as necessary.	Agreed.	31 st October 2017	

Summary of key points related to ‘Partial Assurance’ reviews

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Data Protection	<p>A partial Assurance rating was given for the following reasons:</p> <ul style="list-style-type: none"> • Only a small number (3 out of 12) of contracts/agreements from our sample were catalogued and held in the central repository (consisting of a fire proof room) by the legal team. There is a risk that this could lead to the permanent loss of contract documents, which in turn could lead to difficulties in dispute resolution with regard to data protection issues with data processors. • Contracts were also not in place for all data processors which is a direct breach of the Data Protection Act. • Service areas conducting procurement exercises where data processors are to be used are not ensuring the requirements of the DPA are met. They are not, generally, seeking advice from the Fraud and Data Team at an early stage which reduces the level of expertise used when developing such arrangements and increases the risk of a breach. • Transmission of data between the Authority and data processors was not always carried out securely and although not generally of a sensitive 	As detailed in the above table.	As above	TBC

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<p>nature, a breach could result in financial penalties being incurred.</p> <ul style="list-style-type: none"> The Authority utilise a number of individuals in roles that have access to personal data who are not direct employees but are also not treated as data processors and so have not been subject to a formal contract containing the mandatory conditions nor have they met the other DPA requirements e.g. concerning security measures. 			