

# South Somerset District Council

## Report of Internal Audit Activity

### 2017-18 Outturn Report Update

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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 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 for the 2017-18 plan year 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
- 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. The 2017-18 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 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 2017/18. 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.

Since the last update in February 2018 the following audits have been completed:

- Organised Crime Checklist (Reasonable Assurance)
- Governance of Service Redesign - Transformational Support (Non-Opinion)
- Financial Services Processes Redesign - Transformational Support (Non-Opinion)
- Business as Usual - Transformational Support (Non-Opinion)
- Housing Benefit Claims/Subsidy (Non-Opinion)
- Elections (Substantial)

### 2017/18 Audit Plan

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’ are reported; there are no Partial Opinion reports this time.

Whilst no Partial Opinion Audit have been identified, I have included in **Appendix C** a summary of the work we carried out to support the transformation programme; this was non-opinion advice to support senior management.

## Internal Audit Plan Progress 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 audit plan for 2017/18 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 South Somerset 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 Manager and the Section 151 Officer.

There have been no further plan changes since the February 2018 update.

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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

<b>Substantial</b>	▲ ★ ★ ★	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.
<b>Reasonable</b>	▲ ★ ★ ★	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.
<b>Partial</b>	▲ ★ ★ ★	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.
<b>None</b>	▲ ★ ★ ★	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.

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.



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 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.

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.

**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.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
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	1	0	0	1	0	0
Operational	Licensing	1	Final	Reasonable	3	0	0	3	0	0
ICT	Cyber security	1	Final	Reasonable	3	0	1	2	0	0
Governance, Fraud & Corruption	Grant Funding Fraud Audit	2	Final	Substantial	2	0	0	2	0	0
Governance, Fraud & Corruption	Organised Crime checklist	2	Final	Reasonable	2	0	0	2	0	0
Key Control	Treasury Management	3	Final	Substantial	0	0	0	0	0	0
Governance, Fraud & Corruption	Business Rates Fraud Audit	3	Final	Reasonable	2	0	0	2	0	0
Key Control	Creditors	3	Final	Reasonable	1	0	0	1	0	0
Key Control	Cash Receipting	3	Final	Reasonable	4	0	0	4	0	0
Key Control	Payroll	3	Final	Substantial	0	0	0	0	0	0
Operational	Governance of Service Redesign (Transformational Support)	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Financial Services Processes Redesign (Transformational Support)	4	Final	Non-Opinion	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	Business as Usual (Transformational Support)	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Housing Benefit Claims/Subsidy	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Elections	4	Final	Substantial	0	0	0	0	0	0
Operational	Records Management 1718 - SSDC	1	Removed	-	0	0	0	0	0	0
Operational	Risk Management Support 1718 - SSDC	1	Removed	-	0	0	0	0	0	0
Follow Up	Risk Management Follow Up	2	Removed	-	0	0	0	0	0	0
Operational	LED contract compliance 1718 - SSDC	3	Removed	-	0	0	0	0	0	0
Operational	Programme and Project Management 1718 - SSDC	3	Removed	-	0	0	0	0	0	0
Operational	Procurement Review 1718 - SSDC	3	Removed	-	0	0	0	0	0	0
Operational	Key Income Streams 1718 - SSDC	4	Removed	-	0	0	0	0	0	0
Operational	S106/ CIL 1718 - SSDC	4	Removed	-	0	0	0	0	0	0
Operational	Accountability 1718 - SSDC	4	Removed	-	0	0	0	0	0	0
Operational	Business Continuity Key Service Test 1718 - SSDC	4	Removed	-	0	0	0	0	0	0

Schedule of significant findings identified from Internal Audit work Since the 2018 February Audit Committee Update

No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
<p><b>No significant Findings to bring to your attention however, below is a summary of the conclusions reached and recommendations made in relation to the reviews relating to the Transformation Programme.</b></p>						

**Audit Assignments completed since the February 2018 update:**

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.



**Summary of Transformational Work**

The following information provides a brief summary of each of the Transformation Audits that we have undertaken since the February 2018 Audit Committee.

**Business as usual - Advisory**

**Objective:**

*To provide assurance that steps have been taken to ensure that Business as Usual is maintained as reasonably as possible through the Transformation Programme.*

**Risk:**

*Transformational change will cause disruption to the delivery of council services, leading to financial loss and reputational damage.*

**Scope:**

It was agreed that we would conduct meetings with Managers within the Corporate Performance Team to seek to assess what activities were considered business critical, statutory requirements or ‘nice to have’ to attempt to provide a judgement of where activities could be temporarily ceased to allow the release of resources to support the Transformation Programme.

**Audit Assignments completed since the February 2018 update:**



### Summary of Transformational Work

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

#### **Outcome from Meetings with Service Managers:**

Of the 23 managers we met with, it is fair to say that without exception there is a feeling that their Service is already stretched to the limit and they are operating with reduced staff either as a result of vacancies or long-term sickness.

In all we captured 125 individual service lines of which 85 were considered Critical, 36 Non-Critical and four as Nice to Have. Of the 85 Critical service lines 35 were considered to be Statutory.

The outcome of the meetings with Managers indicates that potentially difficult decisions may need to be made if Managers are required to release capacity to support Transformation and would give rise to a risk of non-delivery of statutory/Critical services.

We recommended that Senior Management should now review the findings of the report in conjunction with the details of the meeting outcomes with Service Managers to identify areas where they would look to release capacity to support Transformation. A logical approach would be to consider the 'Nice to Have' and Non-Critical services first, working up to more critical services. There may be opportunities for releasing capacity here, however a Senior Management or Director judgement will be required. This will also allow for a strategic, corporate decision to be taken across Services, rather than a siloed approach for each Service. Subsequently, an impact assessment can be taken across the Council and reported to Members accordingly.

Audit Assignments completed since the February 2018 update:



These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

## Summary of Transformational Work

### **Financial Services Process Redesign - Advisory**

#### **Objective:**

*To review the redesign of Financial Services processes to provide assurance that an approach has been undertaken which seeks to meet Transformation objectives, whilst giving due consideration to maintenance of necessary controls, audit trails/requirements and the management of risk.*

#### **Risk**

*Service redesign does not deliver the anticipated benefits through Transformation, leading to financial loss through increased resource requirements, circumventing of new technology, additional requirements from Internal & External Audit and unanticipated/unidentified risks through weakening/loss of controls in redesigning the process.*

#### **Conclusion**

The steps taken to redesign Financial Service processes appear reasonable on the basis of this review. The Council has taken steps to manage risk, however the process maps do not and cannot reasonably highlight all control areas and as such, to provide assurance that controls are operating effectively once redesigned, it is recommended that a full review of financial key control areas is conducted as part of the 2018/19 audit plan. In addition we will be attending service reengineering workshops for high profile/risk services in order to provide an audit view on the residual control environment.

Audit Assignments completed since the February 2018 update:



These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

## Summary of Transformational Work

### Service Redesign – Governance Arrangements - Advisory

#### **Objective:**

*To provide assurance that effective governance exists over the Service Redesign process.*

#### **Scope:**

*We were asked to review whether there were effective governance arrangements in place around Service Redesign. This included providing advice and support on the escalation process and the Issues and Decisions Group.*

#### Key areas of focus

- Business Plan
- Implementation Plan
- Decision Making and Approval
- Issues and Decisions Group
- Business Analysts (BA)

Our conclusion was that the Service Redesign team have implemented appropriate governance arrangements to ensure that the monitoring, managing and reporting of the service redesign process is effective. These include a Service Redesign Guide detailing clear roles and responsibilities, an escalation process, Issues and Decisions Group and regular reporting to the Programme Board.

At the time of reporting there were a small number of areas that were yet to be finalised and these are summarised below for clarity:

- Confirmation whether there is sufficient Business Analyst resource
- Designing of Jira (planning and tracking software) to fit the requirements of the project

**Audit Assignments completed since the February 2018 update:**



### Summary of Transformational Work

**These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.**

- Updating of Terms of Reference for the Issues and Decisions Group

We have not raised any specific recommendations relating to these points in this report as we are assured by the Service Redesign Lead that they are currently being implemented by the Project team.