

## 6. South West Audit Partnership - Annual Report 2007/2008

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### Purpose of the Report

The Accounts and Audit Regulations (England) 2003 requires public authorities to publish an Annual Governance Statement (AGS).

The Statement is an annual review of the System of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. Guidance from the CIPFA Finance Advisory Network states that “the Head of Internal Audit should provide a written annual report to those charged with governance timed to support the Annual Governance Statement”. – *Meeting the Requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment)(England) Regulations 2006 (IPF Publication)*.

The same reports state that the annual report from the Head of Internal Audit should:

- include 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.

The purpose of this report is to satisfy this requirement.

### Recommendation

The Audit Committee is recommended to note the content of this report.

### The Role of Internal Audit

The Internal Audit service for SSDC is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually and the CIPFA Code of Practice for Internal Audit in Local Government. Following a favourable triennial review by the Audit Commission the Charter was updated and approved by the Audit Committee at its meeting on 25 October 2007.

Internal Audit provides an independent and objective opinion on the authority's control environment by evaluating its effectiveness. Primarily the work of the Unit includes:

- 4 -Year Plan of Operational Audit Reviews
- Annual Review of Key Financial System Controls

### **Internal Audit Work Programme for 2007/2008**

#### **Operational Audits**

Operational Audits are a detailed evaluation of a service's control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. In total 19 operational audits were planned, however, 2 of these reviews were not completed and with the approval of the Head of Financial Services, 1 review has been rescheduled for 2008/09. A further 3 Audits were completed from the previous year.

As part of the Auditor's Opinion, each review is given a 'star' rating offering management the following levels of assurance:

▲★★★★ **Full** - The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.

▲★★★ **Reasonable** - 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** - Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

▲★★★★ **None** - 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.

Where low to medium control or administrative weaknesses are identified, normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan.

The following is a summary of the reviews. Those completed at least to draft stage have resulted in 242 agreed actions for improvement:

3 audits were completed from the previous year:

- Corporate Governance – A formal report was not produced from this work, rather a summary of findings resulting from a questionnaire was produced to highlight areas where awareness could be raised.
- Careline - ▲★★★ **Reasonable**
- Public Relations - ▲★★★ **Partial**

11 audits were completed and final reports issued:

- BVPI's - ▲★★★ **Reasonable**
- Car Parks - ▲★★★ **Reasonable**

- Cemetery and Crematorium - ▲★★★★ **Reasonable**
- Democratic Services - ▲★★★★ **Reasonable**
- Housing Benefit Fraud - ▲★★★★ **Reasonable**
- Goldenstones - ▲★★★★ **Partial**
- Register of Electors - ▲★★★★ **Full**
- Tourism - ▲★★★★ **Reasonable**
- Wincanton Sports Centre - ▲★★★★ **Partial**
- Yeovil Town Centre Management - ▲★★★★ **Reasonable**
- Housing Benefits - ▲★★★★ **Reasonable**

2 audits are at draft stage:

- Health and Safety at Work - ▲★★★★ **Reasonable**
- Training and Development - ▲★★★★ **Reasonable**

For the following 3 audits, testing has been completed and a draft report will be issued shortly:

- Octagon Theatre
- IS Networks
- Renovation Grants

3 audits were not completed from the plan with agreement of management:

- Procurement – rolled forward to 2008/09
- Fleet Management – cancelled due to development of Somerset Waste Partnership
- Healthy Opportunity Fund – cancelled due to Client availability and maternity leave

### **Managed Audits**

Managed audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. The review for Housing Benefits has been incorporated into the Operational Audit above. In addition the following reviews have been completed which resulted in 43 agreed actions for improvement:

- Capital Accounting (2)
- Main Accounting (3)
- Payroll (9)
- Treasury Management (0)
- Creditors (7)
- Debtors (3)
- Council Tax (6)
- NNDR (13)

The External Auditors are likely to focus on these weaknesses when they carry out their work to sign off the Council's final accounts. Therefore a summary of all actions arising from the Managed Audits has been provided to the Head of Financial Services who has undertaken to monitor these through to completion. However, it should be noted that the weaknesses identified are mainly of an administrative nature. In the case of NNDR, the risks centred on a lack of supervisory review. On the whole I am able to offer reasonable assurance that key financial controls are in place and working as intended.

## Other Activities

At the request of management a special review was carried out on the Spend to Save Scheme and to support the Housing Strategy Inspection a Follow-Up Review was completed on the Homelessness Audit, which was completed in 2006/07.

A partnership review of Sickness was performed which led to an opportunity to share best practice across the County.

Management also requested a review of Concessionary Bus Fares, which again was completed on a partnership basis.

In addition to the above activities Internal Audit continue to provide support and advice to management on a wide range of internal control and risk matters including the facilitation of ad-hoc risk sessions. In addition the Group Auditor acts as the Data Protection Officer, providing necessary advice and dealing with Subject Access Requests. The Group Auditor also acts as the Key Contact for the National Fraud Initiative and coordinates the Council's response.

## SWAP - Performance

In 2007 SWAP expanded to include Sedgemoor District Council (July 2007) and Somerset County Council (October 2007), meaning that it now covers all five Somerset Districts and the County Council. Performance standards are maintained across the partnership and in 2008/09 SWAP are introducing a new web based auditing system (MKInsight) to improve management information and increase the flexibility of its staff.

With regards to SSSDC on the plan for 2007/08 performance was as follows:

Operational Audits completed in year compared to the plan:	16 out of 19 (84%)
Number of actions for improvements agreed by managers:	242
Managed Audits completed in year compared to plan:	8 out of 8 (100%)
Number of actions for improvements agreed by managers:	43
Additional reviews completed not in plan:	4

Customer Satisfaction – 80% where 75% represents Good.

## SSDC – Summary of Activity

Compared to the audit reviews from last year, there has clearly been a marked improvement in the number of services receiving a reasonable assurance and one service given full assurance. Only two services received a partial assurance.

For all of the reviews an agreed action plan has been drawn up with the cooperation of the service management to address identified control weaknesses.

The managed audits of the key financial systems did not identify any serious concerns. Although there were 43 agreed actions resulting from these reviews they were of an administrative nature and the findings would not have had an impact on the Council's final accounts. The Head of Finance has been provided with a record of the 43 actions and has agreed to monitor progress through to completion.

The areas of particular concern were:

**Goldenstones** – The auditor’s opinion of partial assurance was summarised as follows:

“Since the last internal audit review the level of internal control has diminished along with clear delegation and individual ownership of responsibilities. The service has been operating for a number of years where there has been substantial opportunity over time to ensure there are robust systems of internal control, instead the basic elements upon which assurance can be assessed are not satisfactorily in place. This stems in part from a general lack of understanding and appreciation of the importance of these controls by some staff.

The Head of Sport Art and Leisure is fully aware and supportive of the issues raised in the report and is taking immediate action to help eradicate current practice and performance.”

**Wincanton Sports Centre** - The auditor’s opinion of partial assurance was summarised as follows:

“Although several of the risks identified in this audit are of a minor nature which Management may decide to tolerate, there are a number of fundamental control weaknesses which need to be addressed as soon as possible. For many of these I have found procedures are in place, which just need refining or in some cases, need to be enforced.

Many of my findings could be attributed to the number of staffing changes within the last two years, following the appointment of a new Centre Manager. A lot of progress has already been made by the Centre Manager and the remaining team at the Sports Centre to ‘turn the business around’ from one which was losing money into a more cost-effective one. By continuing with this level of commitment in other areas, such as building security and health & safety, Wincanton Sports Centre will be better placed to become one of the leading providers of quality leisure activities in the area.”

**Homelessness Follow Up** – The original audit resulted in no assurance being offered. The auditor was able to move this to a partial assurance based primarily on the commitment from management to move forward. The auditor’s findings were summarised as follows:

“This follow up audit has identified that some progress has undoubtedly been made. While there have been some unforeseen circumstances that have hindered progress, I am assured that the building blocks for further improvement are taking shape. Resources have been made available to deal with the outstanding backlogs, but as recognised, this must be pursued in a pragmatic way to ensure that these resources are effectively targeted. It is also important that the current drive to manage new and existing accounts must be maintained to avoid the backlog from growing.

Based on the evidence and commitment I have seen, I feel able to improve the level of assurance we can offer to Partial Assurance in that some of the key areas reviewed are still not adequately controlled. However, if the current momentum is continued, I feel that the prospects for improvement are positive.

The Homelessness Service will be subject of an Operational Audit again in Quarter 4 of this year. At this time many of the initiatives identified in this report will have had time to ‘bed’ down and it is hoped as a result our assurance level will improve further.”

**Managers Operational Statements** - For those areas not covered by an Internal Audit Review, the Head of Financial Services has sought the assurance of the relevant Head of Service as to the adequacy of the internal control environment. A signed Operational Statement has been returned for each service offering further assurance that necessary controls are operating as intended; these have been reviewed and countersigned by the appropriate Director.

### **SSDC - Group Auditor's Opinion**

Last year I was disappointed to only be able to offer a 'Partial' assurance based on the reviews we completed, although in my opinion there was strong evidence and a commitment to ensuring that the situation would improve. For the year 2007/08 there has been a significant improvement for the reviews carried out and based on our findings and the assurance received from Heads of Service Statements, I feel able to offer 'Reasonable' assurance that internal controls were in place and working well for those services reviewed.

For those reviews where concerns have been raised, I am confident that Heads of Service and the Corporate Governance Group have these on their 'radar' and are monitoring progress to a satisfactory conclusion.

The key financial systems have again been found to be operating effectively and for those actions agreed, the Head of Financial Services is monitoring these through to completion.

**Background Papers:** *None*

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