



## **South Somerset District Council**

Annual Report and Opinion 2010-2011

## The contacts at SWAP in connection with this report are:

### **Gerry Cox**

Head of Internal Audit  
Partnership  
Tel: 01935 462371  
gerry.cox@southwestaudit.gov.uk

### **Ian Baker**

Group Audit Manager  
Tel: 07917 628774  
ian.baker@southwestaudit.gov.uk

### **Andrew Ellins**

Audit Manager  
Tel: 01935 462378  
Andrew.ellins@southwestaudit.gov.uk

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## Annual Opinion:

**The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.**

## **Purpose of Report and Recommendation**

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.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

## **Background**

The Internal Audit service for South Somerset District Council 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. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year April 2010 to March 2011.

## Summary of Work 2010/11

*The agreed Annual Audit Plan covers 5 key areas of Activity:*

- 1) OPERATIONAL AUDITS
- 2) INFORMATION SYSTEMS
- 3) KEY CONTROLS
- 4) GOVERNANCE & FRAUD
- 5) SPECIAL REVIEWS

## Audits Completed—Operational

Operational Audits—are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested; risks are assessed against the risk appetite agreed with the SWAP Management Board. Where weaknesses or areas for improvement are identified, actions are agreed with management, prioritised and target dated. Based on the findings of each review, an overall Control Assurance is offered. Agreed actions are entered onto the Magique System and monitored through to completion by this Committee. Where Partial Assurance is given the relevant Service Manager should be called by the Committee to provide assurance that the risks are being managed and to see this through to satisfactory completion.

Operational Audits completed by SWAP during the Period April 2010 to March 2011, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Asset Management Follow-Up	▲★★★★ Reasonable	Innovation Centre	▲★★★★ Reasonable
		Financial Controls	
Building Control	▲★★★★ Reasonable	Octagon Contracts	▲★★★★ Reasonable
Careline (Piper Lifeline)	▲★★★★ Reasonable	Printing and Copying	In Progress
Catering (Canteen Service)	▲★★★★ Reasonable	Private Sector	▲★★★★ Reasonable
		Housing Grants	
Childcare Nursery	▲★★★★ Reasonable	Section 106	▲★★★★ Reasonable
		Follow-Up	
Community Safety	▲★★★★ Comprehensive	Streetscene	Deferred to 2011/12
Corporate Policy and Performance	▲★★★★ Reasonable	Tourist Information Centres	Dropped—Additional work on the Innovation Centre
Countryside (Health and Safety)	▲★★★★ Reasonable	VAT	▲★★★★ Reasonable
Housing—Choice Based Lettings	▲★★★★ Reasonable		

Summary of Work 2010/11

*Continued.....*

## Audits Completed — Information Systems

Information Systems—IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given. The following IS audits were in the plan for 2010/11:

Audit Area	Audit Opinion
IT Corporate Back-Up Routines	▲★★★ Reasonable
IT Network Security— Firewall Change Management	▲★★★ Reasonable
IT Threat Protection	▲★★★ Reasonable
IT South West Information Security Group	Non-Opinion

The Corporate Backup Routines review aims to ensure that the Council is taking adequate precautions to ensure that data is available for recovery should the worst happen to the data centre or Council offices. Overall the function appeared well controlled with only 2 recommendations resulting from the review.

Firewall Change Management was interested in how the Council controls access to its network through the use of firewalls and how changes to these devices was restricted and monitored. Reasonable assurance was awarded as only 4 medium priority actions were recommended but this must be viewed in the context of the low volume of transactions combined with the immaturity of the existing procedures. It is likely that this area will be re-visited in 12 months time.

Threat protection is a review into how the Council ensures that its servers and systems remain virus free. Once again systems were found to be well controlled with only a single medium priority risk and 2 low risks being identified.

Summary of Work 2010/11

*Continued.....*

## Audits Completed—Key Controls

Key Control Audits — The Key Control Audit process focuses primarily on key risks relating to the Council’s major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. The findings from these reviews are considered by the External Auditors when they assess the Council’s Financial Statements at year end.

Key Control Audits completed by SWAP during the period April 2010 to March 2011 and previously reported to Committee are as follows:

Audit Area	Opinion
Capital Accounting	▲★★★★ Comprehensive
Council Tax	▲★★★★ Reasonable
Creditors	▲★★★★ Comprehensive
Debtors	▲★★★★ Reasonable
Housing Benefits	▲★★★★ Comprehensive
Main Accounting and Budgetary Control	▲★★★★ Comprehensive
NNDR	▲★★★★ Reasonable
Payroll	▲★★★★ Reasonable
Treasury Management	▲★★★★ Comprehensive

In all there were only 6 actions resulting from these reviews of which only 1 was a level 4 Service priority action. These have been assigned to responsible officers and target dates for completion have been agreed. It is likely that the External Auditors will focus on these findings when they carry out their work to sign off the Council’s Accounts.

Summary of Work 2010/11

*Continued.....*

## Audits Completed—Key Controls, Main Income Streams

These other Key Control Audits have been performed as South Somerset consider these Services to have a significant impact on the Councils ability to meet its overall budget. These are areas of high and in many cases volatile income streams where poor internal controls could result in material losses.

Key Control Audits– Main Income Streams completed by SWAP during the period April 2010 to March 2011 and previously reported to Committee are as follows:

Audit Area	Opinion
Car Parks Follow-Up	▲☆☆☆ <b>Partial</b>
Goldenstone's	▲☆☆☆ <b>Reasonable</b>
Homelessness	▲☆☆☆ <b>Reasonable</b>
Licensing Follow-Up	▲☆☆☆ <b>Reasonable</b>
Octagon Theatre	▲☆☆☆ <b>Reasonable</b>
Yeovil Recreation Centre	▲☆☆☆ <b>Reasonable</b>

In all there were 47 actions resulting from these reviews which have been assigned to responsible officers and target dates for completion have been agreed. Only 3 actions were Service level 4 priority and there were no significant Corporate risks identified through these 6 reviews.

Details of audits with only partial assurance are provided in Appendix C.

Summary of Work 2010/11

*Continued.....*

## Audits Completed — Governance and Fraud

Governance and Fraud Reviews — The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk

The following 11 reviews of this type were completed:

Audit Area	Opinion
Business Continuity (Major Partnerships and Contractors)	▲☆☆☆ Reasonable
Data Quality - Performance Indicators	▲☆☆☆ Reasonable
Equalities and Diversity - Impact Assessments	▲★★★★ Comprehensive
Fees and Charges	▲☆☆☆ Reasonable
Health and Safety - Internal Awareness and Training	▲☆☆☆ Reasonable
Income Collection (Analytical Review including Budgets and Methods of Payment)	▲☆☆☆ Reasonable
Performance - NI179 Efficiency Statements	▲★★★★ Comprehensive
Performance - NI188 Use of Natural Resources	▲★★★★ Comprehensive
Risk Management (Risk Registers including Major Projects)	▲★☆☆ Partial
Register of Interests - Members	▲★★★★ Comprehensive
Register of Interests - Staff	▲★☆☆ Partial

These reviews resulted in 23 improvement to Internal Control, however, only 1 was Service priority level 4 and there were no significant Corporate risks identified. Details of audits with only partial assurance are provided in Appendix C.



## Summary of Work 2010/11

*Continued.....*

### Audits Completed — Special Reviews

Special Reviews — Occasionally, when Management identify a potential area of weakness or an unexpected problem arises in a service area, Internal Audit are requested to undertake a review to provide advice and, if appropriate, recommendations for improvement. Where this process is followed, it is likely that the review will not have an audit opinion. In some cases it has been necessary to defer planned reviews in order to complete these special reviews, but wherever possible the impact on the plan has been minimised.

The following reviews of this type were completed:

Audit Area
Air Control Industries Site and Chard Regeneration Scheme
Cemeteries and Crematoria
Innovation Centre
Whistleblowing

As with other reviews, where areas of weakness have been identified, targeted action plans have been produced and agreed.

Performance:

**The Head of Internal Audit Partnership reports performance on a regular basis to the SWAP Management and Partnership Boards.**

## SWAP Performance

The beginning of last year saw the introduction of a second County Council into the South West Audit Partnership. SWAP now covers the two County Council's of Somerset and Dorset, the five Somerset Districts, two District Council's in Dorset, one District in Devon and one District Council in Gloucester. In addition to these 11 key partners, SWAP also provides an internal audit service to a number of subsidiary bodies, including the Somerset Waste Partnership.

With regards to the 2010/11 Annual Plan for South Somerset District Council, there were a total of 47 reviews planned. It was necessary to defer 2 of these audits. However, an additional 5 reviews (including 2 whistleblowing investigations) were conducted at the specific request of Management. In total we have undertaken 50 reviews.

Most audits have been completed to report stage with 2 drafts to be finalised and one review in progress at the time of this report. These are targeted to be finalised before the end of June 2011.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 75% would represent good. The latest Scorecard for the Partnership shows the current average feedback score to be 81%. For South Somerset the average feedback score was 86%.

## Annual Opinion:

**The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.**

## **Group Audit Manager's Opinion**

Off the 50 Audits undertaken in 2010/11 there were 6 which were non-opinion. For the remaining 44 where we gave an audit opinion, we were pleased to provide the highest level 'Comprehensive Assurance' to 10, we gave 30 'Reasonable Assurance' and only 3 have been afforded a 'Partial Assurance'. There is 1 review in progress at the time of this report.

The reviews that received Partial Assurance are;

- **Risk Management - Risk Registers including Major Partnerships**
- **Register of Interests – Staff**
- **Car Parks Follow-Up**

A summary of all Significant Corporate Risks would have been attached as Appendix C, however, our audit work in 2010/11 found no issues that required us to raise such concerns with Management. This is testament to an effective internal control environment at South Somerset.

I have attached in Appendix C, extracts from the Audit Report Management Summaries which briefly explain why only Partial Assurance could be provided at the time of the audits.

As in previous years, I am encouraged by the management response and readiness to accept recommendations. All recommendations are input to the Magique system and regularly reported to this Committee and seen through to satisfactory implementation.

Annual Opinion:

Continued.....

## Group Audit Manager's Opinion - Continued

It is not possible for the Annual Internal Audit Plan to cover and provide assurance on all areas of the Council's business. In order to seek assurance, the Group Manager, Finance annually seeks the assurance of Senior Managers as to the adequacy of the internal control environment for their service areas. A signed Operational Statement has been returned for each service offering assurance that necessary controls are in place and operating as intended.

As identified already, all audit recommendations are entered onto the Magique system for monitoring by Management and this Committee. This process is based on a self assessment by the service manager and where target dates are not achieved and signed off, the Committee will call the relevant service manager to account.

Over the year SWAP have found the Senior Management of South Somerset District Council to be supportive of SWAP findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly into areas where they perceive potential problems and again welcome the opportunity to take on board recommendations for improvement.

I have considered the balance of audit work and outcomes against this environment and feel able to offer 'Reasonable Assurance' that the systems of internal controls are in place and working well. I am confident that where weaknesses have been identified, management have confirmed that they have or will take the necessary action to address these findings.

## Audit Framework Definitions

### Control Assurance Definitions

<b>Comprehensive</b>	▲ ★★★	I am able to offer comprehensive 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.

### 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.

### 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.

### **Risk Management - Risk Registers including Major Partnerships**

Although guidance and procedures are in place, particularly for the management of service risks, the approach to documenting the risks of major projects was found to be inconsistent and there was a lack of evidence that all the project sponsors were monitoring projects after funding had been approved.

It appears that Managers have been anticipating the implementation of TEN and have as a result seen the updating of Magique as a low priority. There is also evidence that some services use Magique more than others.

Reporting to Senior Management on significant risks has ceased since the Council restructured but this needs to be brought back on schedule. The Procurement & Risk Manager has agreed that the implementation of the system will provide an ideal opportunity to address the issues around the regularity of system updates by managers, through training and guidance.

### **Register of Interests – Staff**

South Somerset District Council have demonstrated their compliance with the Local Government Act through the guidance given in the Staff Code of Conduct. They also have a robust procedure for dealing with any complaints.

Unfortunately despite these controls, there is a lack of uniform good practice across the Council at present and we cannot give reasonable assurance as it is likely that some staff have not declared interests which could have an impact if they were found to be undertaking other duties that conflict with their Council duties.

By implementing the recommendations made in this report, reasonable or comprehensive assurance can be given.

### **Car Parks Follow-Up**

The 2010 report highlighted a number of control weaknesses, the results of this follow up review shows that only 5 of the 11 agreed actions had been put in place and were being consistently followed. Some improvements have been made by the Engineering and Property Services Manager however I am disappointed that two agreed actions have still not been implemented:

- Quarterly inspections – this has been recognised as a problem each year and it is not an area that should be missed, improvements to collating and monitoring information has been developed and should be introduced from January 2011
- Missed collections from ticket machines are refunded by Loomis – missed collections should be identified within 90 days and a request for a credit note made by the Engineering and Property Services Manager however this is not carried out regularly and checked to ensure received.