

## APPENDIX A



### South Somerset District Council

Report of Internal Audit Activity  
Quarter 2 Update, 2012/13

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Our audit activity is split between:

- **Operational Audit**
- **Key Controls, Finance**
- **Key Controls, Income**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Special Reviews**

## Role of Internal Audit

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, but 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 in February 2012.

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
- Annual Review of Key Financial System Controls
- Annual Review of Main Income Stream System Controls
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

## Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer following consultation with Directors, Assistant Directors, Service Managers and External Audit. This year's Audit Plan was reported to the Audit Committee at its meeting in February 2012.

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

## Quarter 2 Outturn:

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

## Quarter 2 Outturn:

### Audit Assignments undertaken in the Quarter

- Operational Audits

## Internal Audit Work Programme

The schedule provided at [Appendix B](#) contains a list of all audits as agreed in the Annual Audit Plan 2012/13. 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 “control assurance” opinions together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in [Appendix C](#).

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council’s operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

## 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 Quarter 2 there were 3 Operational audits planned;

- Debt Management
- Energy Management
- Development Control

The Development Control audit provided reasonable assurance and was issued as a final report on the 18<sup>th</sup> October 2012. At the time of this report, Energy Management was at draft report stage and a full update will be provided within the next report. The Debt Management Review has been deferred to Qtr4.

## Quarter 2 Outturn:

### Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**

## Key Controls, Finance Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control.

The Key Control Audits provide assurance over the main financial systems;

Capital Accounting
Council Tax and NNDR
Creditors
Debtors
Housing and Council Tax Benefits
Main Accounting
Payroll
Treasury Management

These audits are always undertaken in Qtr 3 (October to December).

At the time of this report most of the key control audits are in progress and a full update will be provided in the next report for 2012/13.

## Quarter 2 Outturn:

### Audit Assignments undertaken in the Quarter

- **Key Controls;  
Main Income Stream  
Audits**

## Key Controls, Main Income Stream Audits

These other Key Control Audits have been performed as South Somerset considers 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.

In Quarter 2 there were three (out of the annual plan of nine) key income stream audits planned;

- Wincanton Sports Centre Income
- Workplace Nursery Income
- Plant Nursery (Horticultural) Income

Wincanton Sports Centre received partial assurance in 2011/12 and the Audit Committee rightly have sought assurance that the risks identified are now being managed and the improved controls recommended by audit have been implemented and are operating effectively. As reported in the Quarter 1 update there were some recommendations that were being implemented and therefore this review was moved to Quarter 2 in order that we could give an accurate assessment over whether the new controls are indeed working. This audit is now at draft report stage and we are pleased to report that improvement has been made. A full update of findings and assurance rating will be provided in the Quarter 3 Update Report.

The Workplace Nursery was delayed to allow for the transfer to the external provider to take place. The current review is in progress and an update will be provided in the next quarterly report.

The Plant Nursery audit objective was to ensure that Plant Nursery Income is well controlled; pricing and fees and charges are set appropriately and all income due is received and banked promptly and securely. A Final Report has been issued verifying that the risks associated with the achievement of this objective have overall been met and we have given reasonable audit assurance.

## Quarter 2 Outturn:

### Audit Assignments undertaken in the Quarter

- **Governance, Fraud and Corruption Audits**

## Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus 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. This work will in some cases enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting these reviews at all of our Client sites.

We reported in the last update that two reviews were still in progress and were to be updated within this report;

- Data Security Breaches
- Fraud and Corruption – Creditors

The Data Security Breaches testing has been completed and it is expected to report Substantial Assurance but at the time of this update report the findings have not been agreed with Management. A full update will be in the next Update Report.

A Final Report has been issued for the Fraud and Corruption review of Creditors and provided Reasonable assurance over the controls tested.

In quarter two there were 2 Governance, Fraud and Corruption audits planed;

- Non Compliance of EU rules
- Fraud and Corruption- Contracts

These audits are still in progress at the time of this report and will be completed in Qtr3.

## Quarter 2 Outturn:

### Audit Assignments undertaken in the Quarter

- Information Systems
- Special Reviews

## Information Systems

Information Systems – IT audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.

There were no IT Audits planned for Quarter 2.

The SWAP IT Manager has recently met with the SSDC ICT Manager to identify IT Risks that would benefit from audit assurance. Audits will be undertaken in Qtr3 and 4, once agreed with the S151 Officer.

## Special Reviews

At the request of the Assistant Director – Health and Well-Being and in agreement with the Section 151 Officer, SWAP undertook an independent investigation to provide assurance that the Council had acted fairly and demonstrated an adequate duty of care following an accusation by a member of staff that she felt she was the victim of bullying and harassment. SWAP reported their findings to the Strategic Director – Place and Performance as the Management representative leading the review for the Council.



We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

## Future Planned Work

This is detailed in [Appendix B](#) and is subject to any changes in agreement with the S151 officer.

## Conclusions

For the audits completed to report stage, each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of Recommendations section of [Appendix C](#).

It is not uncommon for audits to be in progress at the end of Quarter 1 as priority is given to finishing off audits in progress from the previous financial year. It is fully expected that when we report the half year position at the end of Quarter 2, we will be able to give a stronger indication of the control environment in 2012/13. Furthermore, the Committee will be aware that in May 2012, SWAP were pleased to provide an Audit Opinion for the Annual Governance Statement for 2011/12 that gave Comprehensive Assurance.

Our approach to the audits for 2012/13 reflects this positive assurance and we are seeking to undertake more challenging and cross-cutting reviews rather than traditional service reviews that we have done over recent years, given that these areas have now proven themselves to have adequate and often good internal controls. We shall continue to give ongoing assurance on key controls, but similarly we can do this with less resource than we have previously.

A list of all audits planned for 2012/13 and their status at the end of Quarter 2 are detailed in [Appendix B](#).