

## APPENDIX A



### South Somerset District Council

Report of Internal Audit Activity  
Quarter 3 Update, 2012/13

# Contents

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](mailto:gerry.cox@southwestaudit.gov.uk)

**Ian Baker**

Group Audit Manager  
Tel: 01278 436422  
[ian.baker@southwestaudit.gov.uk](mailto:ian.baker@southwestaudit.gov.uk)

**Andrew Ellins**

Audit Manager  
Tel: 01935 462378  
[andrew.ellins@southwestaudit.gov.uk](mailto:andrew.ellins@southwestaudit.gov.uk)

Summary:

Role of Internal Audit Page 1  
Overview of Internal Audit Activity

Internal Audit Work Programme 2012/13: Page 2

Operational Audits Page 2

Key Controls; Finance Audits Page 3

Key Controls; Main Income Streams Page 4

Governance, Fraud and Corruption Page 5

Information Systems Page 5

Special Reviews Page 6

Future Planned Work Page 6

Conclusions Page 7

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 3 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 3 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 3 there were no Operational audits planned as we undertake the Key Financial audits in this quarter (see page 3 below).

- Energy Management

Energy Management was at draft report stage in Qtr2 and has since reached final report stage. We were able to provide reasonable assurance as no significant risks were unmanaged.

**Quarter 3 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;

Audit	Assurance Provided
Capital Accounting	▲★★★★ Substantial
Council Tax and NNDR	▲★★★★ Reasonable
Creditors	▲★★★★ Reasonable
Debtors	▲★★★★ Reasonable
Housing and Council Tax Benefits	▲★★★★ Substantial
Main Accounting	Discussion Document
Payroll	▲★★★★ Reasonable
Treasury Management	▲★★★★ Substantial

These audits are always undertaken in Qtr 3 and are the main focus of our work in this quarter.

In all there were only 8 recommendations for improvement, most of which are minor and overall the key financial systems continue to be well controlled. The Main Accounting audit has found some areas for improvement but at the time of this report these had yet to be agreed with management. A verbal update will be available at the Committee meeting.

## Quarter 3 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 3 there were two (out of the annual plan of nine) key income stream audits planned;

- Licensing Income
- Homelessness Prevention Income

The Licensing Income audit and the Homelessness Prevention Income audit are not yet to Final as we give priority to completing the Financial Key Controls Audits (see Page 3 above). Thus far we have no concerns to raise and a verbal update can be provided at the Committee Meeting (this report has been produced 3 weeks before the Meeting).

- Wincanton Sports Centre

This was a Qtr2 audit but was still in progress when we last reported - 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. We are now pleased to report that most of the issues previously found have been addressed and reasonable assurance has now been provided.

## Quarter 3 Outturn:

### Audit Assignments undertaken in the Quarter

- **Governance, Fraud and Corruption Audits**

- **Information Systems**

## 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.

There are four governance, fraud and corruption reviews in progress and an update will provided in the final quarterly update report;

- Treasury Management Strategies
- TENS Risk Management System
- Non-Compliance with EU Procurement Rules
- Contracts Fraud

## 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.

The SWAP IT Manager has met with the SSDC ICT Manager to identify IT Risks that would benefit from audit assurance. Audits will be undertaken in Qtr4, once agreed with the S151 Officer.

## Quarter 3 Outturn:

### Audit Assignments undertaken in the Quarter

- **Special Reviews**

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

## 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.

## Future Planned Work

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



## Quarter 3 Outturn:

## 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](#).

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.

We are continuing to add value by making recommendations for improvement, although we are finding that the key controls are operating effectively and it is rare that we cannot give reasonable or substantial assurance over the areas reviewed. This indicates a good internal control environment in the Council.

A list of all audits planned for 2012/13 and their status at the end of Quarter 3 are detailed in [Appendix B](#).