



Appendix A

South Somerset District Council

Internal Audit Plan – Review of 2012/13

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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 2012 to March 2013.

Summary of Work 2012/13

The agreed Annual Audit Plan covers the following key areas of Activity:

- OPERATIONAL AUDITS
- INFORMATION SYSTEMS
- KEY CONTROLS, Finance
- KEY CONTROLS, Income
- GOVERNANCE & FRAUD
- 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 TEN System and monitored through to completion by this Committee. Where Partial Assurance is given in the final report 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 for the Period April 2012 to March 2013, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Energy Management	▲★★★★ Reasonable	Yeovil Crematorium	▲★★★★ Reasonable
Development Control	▲★★★★ Reasonable	Housing Benefit Fraud Follow-Up	Non-Opinion
Goldenstones	▲★★★★ Reasonable	Debt Management	Deferred
Property Services Follow-Up	Non-Opinion		

The 4 reviews receiving audit opinions identified 33 recommendations for improvement; 2 level 4 priority risks, 22 level 3's and 9 level 2's. It was pleasing to be able to provide reasonable assurance for all of the Operational reviews. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Definitions of Risk Levels, please refer to Appendix D.

Summary of Work 2012/13

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 completed in 2012/13:

Audit Area	Audit Opinion
ICT Service Management and Governance	▲☆☆☆ Reasonable
Data Security Breaches (Draft)	▲☆☆☆ Reasonable

The ICT Service Management audit only had 3 level 3 recommendations and was found to be well controlled generally.

The Data Security Breaches audit has reported 17 recommendations (9 level 3's and 8 level 2's), however, many of these are improvements but low risks and there were no significant corporate risks identified.

Audits Completed – Key Controls, Finance

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 2012 to March 2013 and previously reported to Committee are as follows:

Summary of Work 2012/13

Continued.....

Audits Completed – Key Controls, Finance (continued)

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Capital Accounting	▲ ★★★ Substantial	Main Accounting	▲ ★★☆☆ Reasonable
Council Tax & NNDR	▲ ★★☆☆ Reasonable	Payroll	▲ ★★☆☆ Reasonable
Creditors	▲ ★★☆☆ Reasonable	Treasury Management	▲ ★★★ Substantial
Debtors	▲ ★★☆☆ Reasonable	Housing and Council Tax Benefit	▲ ★★★ Substantial

From the 95 key controls tested in these audits there were only 14 recommendations of which only 2 were a level 4 Service priority action (Main Accounting). These have been assigned to responsible officers and target dates for completion have been agreed. There were 9 level 3 risks and 3 level 2 risks.

It was pleasing to find that the vast majority of key controls were all operating effectively. Indeed all of the systems have received at least reasonable assurance.

Previously the Audit Commission focussed on these findings when they carried out their work to sign off the Council's Accounts. However, Grant Thornton as the new External Auditors have a different approach and as such, in agreement and through request from the S151 Officer, SWAP will base key control work on a cyclical rather than annual review programme using a risk based methodology. This will start from 2013/14 and is also due to the fact that there have been high levels of assurance over the key control audits in recent years.

Summary of Work 2012/13

Continued.....

Audits Completed—Key Controls, Main Income Streams

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.

Key Control Audits – Main Income Streams completed by SWAP for the period April 2012 to March 2013;

Audit Area	Opinion	Audit Area	Opinion
Careline Income	In Progress	Octagon Theatre Income	▲★★★ Reasonable
Car Parks Income	▲★★★ Reasonable	Section 106 Agreements Income	▲★★★★ Substantial
Plant Nursery Income	▲★★★ Reasonable	Wincanton Sports Centre Income	▲★★★ Reasonable
Homelessness Income	In Progress	Workplace Nursery Income	Removed
Licensing Income	▲★★★ Reasonable		

In all there were 26 actions resulting from the 6 completed reviews which have been assigned to responsible officers and target dates have been agreed. These reviews provide annual assurance and it was pleasing to find no significant corporate risks and no actions were Service level 4 priority. There were 17 level 3's and 9 level 2 priority risks.

The Workplace Nursery was removed as the service was outsourced to Mama Bears. Careline and Homelessness were delayed as a key officer was on long term sick but we will complete these by the end of May 2013.

Summary of Work 2012/13

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 reviews of this type were completed:

Audit Area	Opinion	Audit Area	Opinion
Boden Mill Site & Chard Regeneration Scheme Statement of Accounts	Non Opinion	Yeovil Cemetery and Crematorium Annual Return	Non Opinion
Change Management	In Progress	Fraud – Creditors	▲ ★ ★ ★ Reasonable
Asset Management Planning	▲ ★ ★ ★ Reasonable	Fraud – Expenses Claims (Draft)	▲ ★ ★ ★ Reasonable
Better Contract Management	▲ ★ ★ ★ Partial	Treasury Management Strategies	In Progress
Contract Procurement (Draft)	▲ ★ ★ ★ Reasonable	Members Related Parties Follow-Up	Non Opinion
TEN Risk Management System (Draft)	▲ ★ ★ ★ Partial		

These Governance reviews resulted in 41 improvements to Internal Control. There were 3 level 4 priority risks but these are not high corporate risks. There were a lot of areas where we offered improvement in control with 34 level 3's and 4 level 2 priority risks.

Summary of Work 2012/13

Continued.....

Performance:

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

Audits Completed - Special Reviews

There was one special review undertaken during 2012/13 following a formal complaint made against the Council by a current employee who felt that she had been the victim of bullying and harassment. SWAP used their independence to review the evidence of the Claim and provide the CEO with a report detailing the facts.

SWAP Performance

With regards to the 2012/13 Annual Plan for South Somerset District Council, there was originally 40 reviews planned including advice. A Special Investigation was required and replaced an audit on Debt Management as it was felt by the S151 and Audit Manager that as the new Debt Management Policy was not being approved and implemented until the end of the year, Debt Management would be better audited in 2013/14 which is to be the case. The only other change to the original plan was to drop the Workplace Nursery Audit as the service was outsourced.

Most audits have been completed to report stage with 4 drafts to be finalised and 4 reviews in progress at the time of this report. These are targeted to be at report stage by the end of May 2013 and finalised before the end of June 2013.

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 82%. For South Somerset the average feedback score was 78%, however, this was due to one feedback score of 51% which meant that the average dropped significantly and otherwise feedback has exceeded 82%.

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

Of the Audits planned in 2012/13 there were 2 that were agreed with the S151 Officer to be removed/deferred as changes in the area meant that the audit would not be best done in 2012/13.

There were 6 reviews which were non-opinion, primarily as we do not give an opinion for follow-up audits on the areas that had received partial assurance previously.

For the completed 26 audits where we gave a reported audit opinion, we were pleased to provide the highest level 'Substantial Assurance' to 4, we gave 20 'Reasonable Assurance' and only 2 have been afforded a 'Partial Assurance'. There are 4 reviews awaiting an opinion as they are in progress at the time of this report.

The reviews that received Partial Assurance are;

- TEN Risk Management System
- Better Contract Management

I am pleased to report that out of an audit plan of 419 days (reduced by 40 days from 459 in 2011/12) there have been no significant corporate risks identified. There have been areas requiring improvements in control and in total SWAP provided management with 134 actions for the 2012/13 audits.

A list of all of the audits planned and completed for 2012-13, their status and the assurance ratings provided are tabled in Appendix B.

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 (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 TEN 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 am able to offer ▲★★★ **Reasonable** assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Only 2 audits received partial assurance and Management and Audit Committee will address these issues. It should also be noted that there were no fraud (theft) investigations required in 2012/13 which is indicative of the control environment at South Somerset.