



Appendix A

South Somerset District Council

Internal Audit Plan – Review of 2013/14

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The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive of SWAP

Tel: 01935 385906

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917 628774

ian.baker@southwestaudit.co.uk

Andrew Ellins

Audit Manager

Tel: 07720 312464

andrew.ellins@southwestaudit.co.uk

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Annual Opinion:

The Chief Executive 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 Chief Executive of SWAP 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 Chief Executive 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) Ltd. 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 2013 to March 2014.

Summary of Work 2013/14

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
- THEMED AUDITS

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:

Audit Area	Audit Opinion
Payroll Service	▲ ★★ ★ Substantial
Fleet Workshop and Stores	▲ ★★ ★ Reasonable
Town Council Licensing Controls	▲ ★★ ★ Reasonable

The 3 reviews receiving audit opinions identified 20 recommendations for improvement; 1 level 4 priority risk, 17 level 3's and 2 level 2's.

The level 4 risk was a need for risk assessments for licensing enforcement performed by Yeovil Town Council rather than the District.

It was pleasing to be able to provide reasonable and substantial 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 C.

Summary of Work 2013/14

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 2013/14:

Audit Area	Audit Opinion
ICT Strategy	▲ ★★ ★ Reasonable
Event, Incident and Problem Management	▲ ★★ ★ Reasonable
Disaster Recovery Planning	Non Opinion

The ICT strategy Audit had 4 priority 3 recommendations and 1 priority 2 recommendation and was found to be generally well controlled.

Event, Incident and Problem Management also had 5 recommendations, all priority 3.

Audits Completed – Key Controls, Finance

In a change to previous years, it was agreed by the Audit Committee to replace Key Control Audits with Operational and Governance Audits for 2013/14. This reflects the positive assurance opinions that have been awarded in relation to Key Control Audits over the last few years, and an appetite to explore other risks and processes at the Council.

Summary of Work 2013/14

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 2013 to March 2014.

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Careline Income	▲★★★★ Substantial	Licensing Income	▲★★★★ Substantial
Car Parks Income	▲★★★★ Substantial	Plant Nursery Income	▲★★★★ Reasonable
Goldenstones / LED	▲★★★★ Reasonable	Homelessness Prevention Income	▲★★★★ Substantial
Octagon Theatre Income	▲★★★★ Reasonable		
Wincanton Sports Centre Income	▲★★★ Partial	Wincanton Sports Centre Follow Up	Non Opinion

The Wincanton Sports Centre audit was followed up as it received partial assurance and it was found that significant progress has been made, largely through transfer of the Sports Centre to Leisure East Devon. 31 out of 35 recommendations had been implemented with the remainder expected to be completed in the near future.

The remaining Key Income reviews resulted in 23 recommendations, though none of these were level 4 or high risks. There were 19 priority level 3's and 4 priority 2 recommendations.

Summary of Work 2013/14

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
External Collections	▲★☆☆ Partial	Yeovil Crematorium and Cemetery Annual Return	Non Opinion
Business Rates - Managing New Risks and Liabilities Theme	▲★★★★ Substantial	Fighting Fraud Locally	▲★★★★ Reasonable
Housing Benefits Fraud Prevention	▲★★★★ Reasonable	Corporate Procurement Cards	▲★★★★ Reasonable
Boden Mill and Chard Regeneration Scheme Statement of Accounts	Non Opinion	S106 Discharge of Planning Obligations	▲★★★★ Substantial
Debt Management Theme	Non Opinion	Asset Management – Leasing Theme	▲★★★★ Substantial
Family Focus Theme	In Progress	Resource Centre - Contract Compliance	In Progress

Summary of Work 2013/14

Continued.....

Audits Completed — Governance and Fraud continued

Audit Area	Opinion	Audit Area	Opinion
Unofficial Voluntary Funds	Non Opinion	TEN Risk Management Follow-Up	Non Opinion
Better Contact Management Follow Up	Non Opinion	Contract Management Standing Orders Compliance Follow-Up	Non Opinion

The Cash Receipting and Bank Reconciliation review was replaced by an audit on S106 Discharge of Planning Obligations during the year at the request of the Audit Committee.

The External Collections Audit resulted in 2 priority 4 recommendations, 17 priority 3 recommendations and 4 priority 2 recommendations. The findings concluded that a more corporate approach to managing external collections should be adopted. In addition to this, the introduction of new legislation in April 2014 has provided a fresh opportunity to reassess and re-launch existing practices and procedures in line with audit findings.

The remaining 6 reviews where an assurance rating has been given resulted in 32 recommendations, of which 23 were priority 3 recommendations and 9 were priority 2.

Where the review is of a consultancy nature they are usually non-opinion. For audits that received a partial assurance in 2012-13 we do a follow-up audit to ensure that agreed improvements have been implemented and that the risks identified are now controlled. These are also non-opinion though we would raise any concerns if they were still found.

Summary of Work 2013/14

Continued.....

Performance:

The Chief Executive of SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

Audits Completed - Special Reviews

I am pleased to report that since April 2013 there have been no irregularities reported to SWAP that have required investigation on behalf of SSDC.

SWAP Performance

With regards to the 2013/14 Annual Plan for South Somerset District Council, there was originally 36 reviews planned including advice. The Cash Receipting and Bank Reconciliation review was deferred to 2014/15 as the new system had not yet been embedded. An additional audit on S106 Discharge of Planning Obligations was added on the request of the Audit Committee.

Most audits have been completed and only 2 reviews are still in progress at the time of this report. These are targeted to be at report stage by the end of June 2014.

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 had increased this year to 85%.

Annual Opinion:

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

Audit Manager's Opinion

Of the Audits planned in 2013/14 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 2013/14. There were 9 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 20 audits where we gave a reported audit opinion, we were pleased to provide the highest level 'Substantial Assurance' to 8, we gave 10 'Reasonable Assurance' and only 2 have been afforded a 'Partial Assurance'. The reviews that received Partial Assurance are;

- External Collections (Bailiffs)
- Wincanton Sports Centre

Since the audit of External Collections, the introduction of new legislation in April 2014 has provided a fresh opportunity to reassess procedures in line with audit findings which identified the need for a more corporate approach to managing external collections. A follow up audit is planned for next year.

Because of the large numbers of recommendations made as a result of the Wincanton Sports Centre Audit, a follow up review was completed later in the year. We are pleased to report that a substantial number of recommendations have been implemented by Leisure East Devon, with plans in place to complete the remaining few.

I am pleased to report that out of an audit plan of 419 days, there have been no significant corporate risks identified. There have been areas requiring improvements in control and in total SWAP provided management with 143 actions for the 2013/14 audits. Of these actions, only 11 were assessed as being above level 3 priority. A list of all of the audits planned and completed for 2013/14, their status and the assurance ratings provided are tabled in Appendix B. There are 2 reviews awaiting an opinion as they are in progress at the time of this report.

Annual Opinion:

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

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 Head of 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 (compared to 2 audits in 2012/13) and Management and Audit Committee will address these issues. It should also be noted that there were no fraud (theft) investigations required in 2013/14 which is indicative of the control environment at South Somerset.