



SWAP

INTERNAL AUDIT SERVICES

Helping Organisations to Succeed

South Somerset District Council

Report of Internal Audit Activity

2022-23 Progress Update Report January 2023

Contents

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Internal Audit Plan Progress 2022-23

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and 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 at its meeting in March 2022.

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
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Audit Plan. We have adopted an 'agile rolling plan' approach and whilst this will be a 'live' continuous approach, confirmed work will only cover every 3-6 months with a rolling 'back-log' for future consideration. Priorities will be assessed in conjunction with Senior Management, and we welcome input from members of the Audit and Governance Committee. The 2022-23 Audit Plan was reported to the Audit Committee and approved at its meeting in March 2022. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk within South Somerset District Council.

Internal Audit Plan Progress 2022-23

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.



Internal Audit Work Programme Update

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2022/23. 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 “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

The following table summarises Audits finalised since the last update in September 2022:

| Audit Area | Opinion |
|---|------------|
| Baseline Assessment for Fraud Follow Up | Advisory |
| Commercial Rents | Limited |
| Opium | Reasonable |
| Lufton Deport Follow Up | Advisory |
| Yeovil Rec improvements | Reasonable |

Please refer to Table 2 in **Appendix B** for LGR complete and on-going work.

As we report by exception, details on completed work that is not No/Limited Assurance or a follow up is available on request for members.

Internal Audit Plan Progress 2022-23

Significant Corporate Risks Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

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



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.



Approved Changes to the Plan

We will regularly re-visit and adjust our rolling programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems, and controls. Details of our current work areas are provided in **Appendix B**.

Our rolling plans are agreed with the Senior Leadership Team quarterly from the list of unscheduled audit areas that constitutes the rolling Audit Plan. Members of the Audit Committee are welcome to identify area where they need assurance for priority work to assist in their role with oversight of governance, risk and control. The following table highlights areas agreed for audit work up to March 2023.

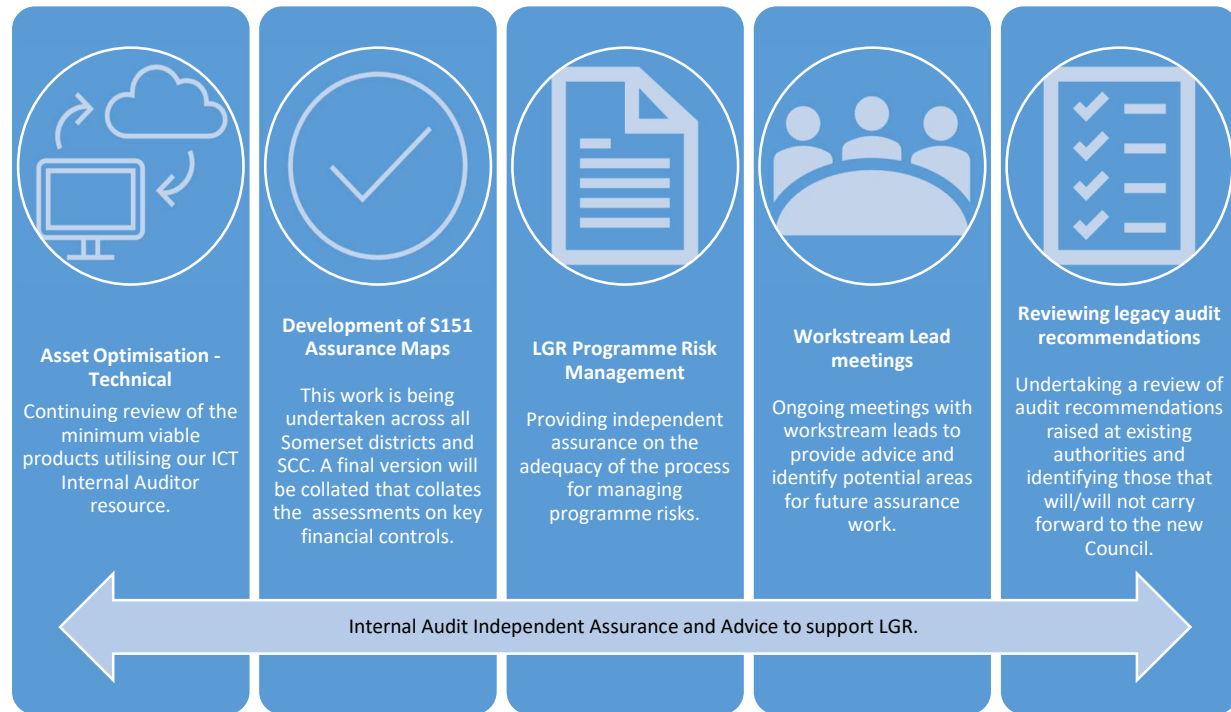
| Assignment | Amendment | Reason |
|---|-----------|---|
| Health & Safety Framework Review | Added | Added as a Q3/4 audit following discussion with SLT. |
| Energy Rebate Post Assurance | Added | Added as a Q3/4 audit following discussion with SLT. |
| Records Management | Added | Added as a Q3/4 audit following discussion with SLT. |
| Use of Consultants | Added | Added as a Q3/4 priority at request of Audit Committee. |
| Council Tax and NDR Follow Up | Added | Follow up added from previous Limited Assurance audit. |
| Test and Trace Support Payment Scheme – grant certification | Added | Grant certification request. |

Supporting the formation of the new unitary authority by providing advice and independent assurance on activities being undertaken via the workstreams.



Support for LGR

As part of our planning for 22/23 we have included time to provide Unitary Programme Assurance Work as well as Unitary Workstream support. Most Programme Assurance will be covered by the PWC Quality Reviews. We should be able to take assurance from their work to contribute to the Internal Audit Annual Opinion to avoid any duplication. We will provide a critical friend role to LGR work supporting delivery of outcomes. This is advisory/consultative work with rapid feedback via meetings/e-mail, or brief summary reports. Some of the areas we're focussing on are detailed in the chart below. Details of all our LGR work are contained in Table 2: LGR Support & Assurance Work within **Appendix B**.



| Assurance Definitions | |
|-----------------------------|---|
| No | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited. |
| Limited | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| Reasonable | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Substantial | A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Non-Opinion/Advisory | In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. |

| Definition of Corporate Risks | |
|-------------------------------|--|
| Risk | Reporting Implications |
| High | Issues that we consider need to be brought to the attention of both Senior Management and the Audit Committee. |
| Medium | Issues which should be addressed by management in their areas of responsibility. |
| Low | Issues of a minor nature or best practice where some improvement can be made. |

| Categorisation of Recommendations | |
|---|---|
| In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions: | |
| Priority 1 | Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management. |
| Priority 2 | Important findings that need to be resolved by management. |
| Priority 3 | Finding that requires attention. |

| Audit Type | Audit Area | Status | Opinion | No of Rec | 1 = Major | ↔ | 3 = Minor | Comments |
|-----------------------|---|----------|-------------|-----------|----------------|---|-----------|---|
| | | | | | Recommendation | | | |
| | | | | | 1 | 2 | 3 | |
| Completed Work | | | | | | | | |
| Grant Certification | Arts Council Culture Recovery Fund grant certification | Complete | Advisory | - | - | - | - | |
| Grant Certification | Protect and vaccinate – CIA sign off | Complete | Advisory | - | - | - | - | |
| Grant Certification | Covid Outbreak Management Fund – CIA Sign off | Complete | Advisory | - | - | - | - | |
| Assurance | Yeovil Cemetery & Crematorium Annual Accounts | Complete | Substantial | - | - | - | - | |
| Grant Certification | Covid-19 Grants – Restart Grant Post Payment Assurance – CIA sign-off | Complete | Reasonable | - | - | - | - | |
| Advisory | Unitary Lessons Learned | Complete | Advisory | - | - | - | - | |
| Follow Up | Baseline of Maturity for Fraud Risk | Complete | Advisory | - | - | - | - | See Appendix C |
| Assurance | Commercial Rents | Complete | Limited | 11 | - | 4 | 7 | See Appendix C |
| Assurance | Opium arrangements | Complete | Reasonable | 4 | - | 4 | - | See Appendix C |
| Follow Up | Lufton Depot | Complete | Advisory | 18 | - | 5 | - | See Appendix C. 13 Priority-2 actions complete. |
| Assurance | Civil Emergencies | Complete | Substantial | 0 | - | - | - | |
| Assurance | Yeovil Rec improvements | Complete | Reasonable | 1 | - | 1 | - | |

| Audit Type | Audit Area | Status | Opinion | No of Rec | 1 = | ↔ | 3 = | Comments |
|---------------------|---|---------------|----------|-----------|----------------|---|-------|--|
| | | | | | Major | | Minor | |
| | | | | | Recommendation | | | |
| | | | | | 1 | 2 | 3 | |
| Reporting | | | | | | | | |
| Advisory | NEW: Recommendation Tracking & Reporting | Ongoing | Advisory | | | | | |
| Assurance | NEW: Records Management | Review | | | | | | |
| In Progress | | | | | | | | |
| Advisory | Octagon Theatre Expansion | Ongoing | Advisory | | | | | Ongoing project support throughout the year. |
| Grant Certification | Decarbonisation Grant - CIA sign off | In Progress | Advisory | | | | | |
| Assurance | NEW: Use of consultants | In Progress | | | | | | |
| Grant Certification | NEW: Test and Trace Support Payment Scheme – grant certification | In Progress | | | | | | |
| Assurance | NEW: Energy Rebate Post Assurance | Audit Scoping | | | | | | |
| Assurance | NEW: Health & Safety Framework | Audit Scoping | | | | | | |
| Not Started | | | | | | | | |
| Follow Up | NEW: Council Tax and NDR Follow Up | Not Started | | | | | | |

Table 2: LGR Support & Assurance Work

| Audit Type | Audit Area | Status | Opinion | No of Rec | 1 – Major 3 – Minor | | | Comments |
|----------------------------|--|----------|----------|-----------|------------------------|---|---|----------|
| | | | | | 1 | 2 | 3 | |
| Complete | | | | | | | | |
| Advisory | PCIDSS | Complete | Advisory | - | - | - | - | |
| Advisory | Data Centre | Complete | Advisory | - | - | - | - | |
| Advisory | IT Minimum Viable Products | Complete | Advisory | - | - | - | - | |
| Advisory | M365 and Active Directory | Complete | Advisory | - | - | - | - | |
| Advisory | Cyber Security Strategy Framework | Complete | Advisory | - | - | - | - | |
| Advisory | Cyber Security Training and Awareness | Complete | Advisory | - | - | - | - | |
| Advisory | Disaster Recovery and Incident Response | Complete | Advisory | - | - | - | - | |
| Advisory | S151 Assurance Map | Complete | Advisory | - | - | - | - | |
| Advisory | LGR Programme Risk Management | Complete | Advisory | - | - | - | - | |
| Advisory | Local Community Networks (Support) | Complete | Advisory | - | - | - | - | |
| In progress/Ongoing | | | | | | | | |
| Advisory | Risk Management Workstream Support | Ongoing | Advisory | - | - | - | - | |
| Advisory | Asset Optimisation: Technical Workstream Support | Ongoing | Advisory | - | - | - | - | |

| Audit Type | Audit Area | Status | Opinion | No of Rec | 1 – Major 3 – Minor | | | Comments |
|-------------------------|--|------------------|----------|-----------|------------------------|---|---|----------|
| | | | | | 1 | 2 | 3 | |
| Advisory | Legacy Audit Recommendations & AGS Actions | In progress | Advisory | - | - | - | - | |
| Assurance | Business Continuity | In progress | | | | | | |
| Waiting to Start | | | | | | | | |
| Advisory | Service Alignment Strategy and Policy Review | Waiting to Start | Advisory | - | - | - | - | |
| Assurance | Payroll – Data matching/validation | Waiting to Start | | | | | | |
| Advisory | Tech Forge Data Validation | Waiting to Start | Advisory | - | - | - | - | |

Please note that PWC are the Quality Assurance provider overseeing the whole LGR programme and provide monthly updates to the Programme Board.

Baseline Assessment of Maturing in relation to Fraud

**Baseline Assessment of Maturity in relation to Fraud – October 2022
Follow Up review**



Baseline Assessment of Six Themed Areas

- Resource and Communication
- Fraud Risk Management
- Policy Related
- Committee Related
- Culture and Awareness
- Reporting, Investigating and Monitoring

Scope and Ambition

This baseline assessment is a corporate view of fraud maturity within the organisation. This exercise is a revisit of the assessment performed in 2021 and shows any progress with regards to counter fraud work and any increase in the level of maturity at the authority.

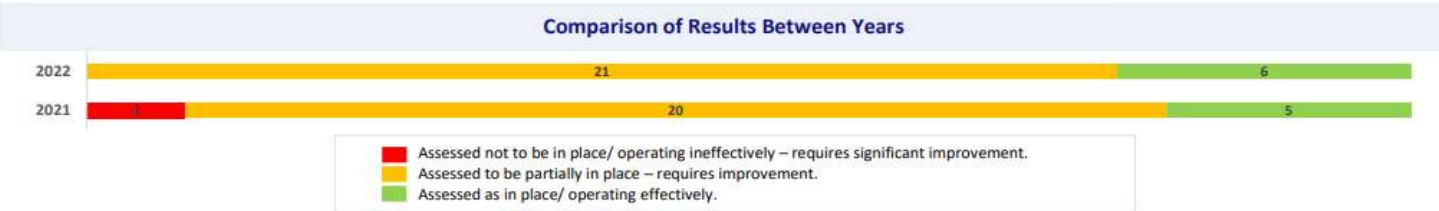
Management should ensure the key findings from this work are considered to reduce risk of fraud and to protect the public purse.

SWAP's Counter Fraud Team is committed to helping Partners and Clients to reduce the risk of fraud and to protect the public purse.

- Key Findings**
- Anti-fraud related policies and strategies still require update and review. These are not readily available to key stakeholders at present.
 - There is no programme for Counter Fraud work in place and no dedicated fraud resource at the authority.
 - Risk appetite and treatment plans have not been developed following the completion of the fraud risk assessment.
 - There has been no fraud awareness training provided to staff or Members recently.
 - The Whistleblowing policy has been updated and is now available on the Councils website so all staff and third parties can access the policy. The Members Code of Conduct has been updated and the Employee Code of Conduct is out for consultation.


Assessments per Area Reviewed

| | |
|----------------------------|---|
| Resource and Communication | Fraud Risk Management |
| Policy Related | Committee Related |
| Culture and Awareness | Reporting, Investigating and Monitoring |





Commercial Rents – Limited Assurance

Commercial Rents – Final Report – November 2022

Audit Objective To establish whether the council collects all expected income from its commercial investments.

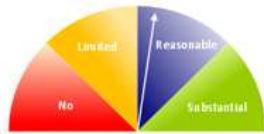
| Assurance Opinion | Number of Actions | | Risks Reviewed | Assessment |
|---|-------------------|--------|--|---------------|
|  <p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively mitigate risks to the achievement of objectives in the area audited.</p> | Priority | Number | Expected income is not received or maximised. | Medium |
| | Priority 1 | 0 | | |
| | Priority 2 | 4 | | |
| | Priority 3 | 7 | | |
| | Total | 11 | | |
| <p>Key Findings</p> <ul style="list-style-type: none">  In 2021/22 the council collected £6.38m in gross rental income from commercial properties against a £6.71m budget. This represents a 95% collection rate against expected income, which varies throughout the year due to acquisitions and voids. The shortfall (£0.33m) did not have a significant impact on the 2021/22 outturn.  The council does not use a property management system. Commercial Property team records are often incomplete or inconsistent. This makes it difficult to confirm how much investment income is expected for a given period. There is also a greater risk key tenancy management tasks will be missed.  The Commercial Property team has no documented procedures, so there are no defined standards for key management activities. This could lead to inconsistencies in practice and decision-making.  Though the Commercial Property team collect deposits for some properties, there is no agreed approach for handling these deposits.  The Financial Procedure Rules state that Commercial Property records and the asset register must be reconciled at least annually. There is no formalised reconciliation of these records. | | | <p>Audit Scope</p> <p>We assessed the following areas:</p> <ul style="list-style-type: none"> • record keeping, including portfolio records, key lease events, and retention of documentation • leases, use of discounts and incentives, applicant vetting and rent reviews • the council’s approaches to tenant relationship management, and tenancy start and end processes • income is collected in line with the terms of the lease, including rent setting, deposit management, invoicing, debt recovery and write offs; and • implementation of past SWAP recommendations. <p>Our testing focused on properties managed by the Commercial Property team only. We have not assessed yield return. Outside of debt procedure testing, we have not audited service charge income.</p> | |
| <p>Additional information</p> <p>The council has agreed to complete 11 actions by 31st March 2023. Due to Local Government Reorganisation (LGR), we will not be conducting any follow up of these actions. However, management should consider the issues raised in this report as part of LGR preparation.</p> <p>We acknowledge the officer with primary responsibility for day-to-day management of the commercial investment portfolio left the council just before this audit started. This officer was a single point of failure. Their resignation created an initial knowledge gap in the Commercial Property team, as well as an ongoing resource shortage. While there are good income collection processes, weaknesses in other areas mean we cannot provide a higher level of assurance. These weaknesses have also contributed to our medium risk assessment.</p> | | | | |






Opium Arrangements – Reasonable Assurance

Opium Arrangements – Final Report – December 2022



Audit Objective To assess if SSDC Opium Power Ltd is achieving the objectives outlined in the original business case and adequately controlled and monitored.

| Assurance Opinion | Number of Actions | | Risks Reviewed | Assessment |
|---|-------------------|--------|--|------------|
| | Priority | Number | | |
|  <p>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</p> | Priority 1 | 0 | SSDC Opium Power Limited is not delivering intended benefits and cannot meet the loan repayments/income generation requirements to SSDC, resulting in financial loss and reputational damage to the Council. | Medium* |
| | Priority 2 | 4 | | |
| | Priority 3 | 0 | | |
| | Total | 4 | | |

| Key Findings | Audit Scope |
|--|---|
|  <p>There are some limitations as part of this report detailed below. We have not been able to obtain all relevant documents and records needed to come to a full conclusion in these areas.</p> | <p>The audit aimed to review the below controls:</p> <ul style="list-style-type: none"> Governance arrangements with SSDC Opium Power Limited are in place The Company is delivering against the business plan and reporting back progress against this to SSDC Budget monitoring is completed and reported to ensure that income and expenditure is monitored, and variances identified and justified where they occur Loan repayments are being made to SSDC in line with the planned repayment schedules Share dividends are being paid to SSDC and Opium Power in line with the agreed payment schedules. <p>*We have not assessed the Interest rate risk as part of this work, but given the increasing interest rates this could expose the council to higher risk if sufficient mitigations are not in place. We recommended stress test on different loan repayment rates against future predicted income.</p> |
|  <p>Reports to Members on Commercial Investments are produced and include the income SSDC OPL is making and how much SSDC have received as loan repayments in the year but it does not include how this compares with the expected repayments to date so Members can't see what impact this may have on the Councils finances.</p> | |
|  <p>There is no risk register in place for the Company. We understand from management that on site risks are managed by a contractor, (H&S, maintenance, etc.) however there is no single risk register to quantify and record all the risks faced by SSDC Opium Power Limited to assist with oversight.</p> | |
|  <p>The shareholder's agreement outlines reports which can be provided to the Council for their oversight but no records of these being provided <u>as</u> been seen.</p> | |
|  <p>The loan agreement has not been updated with the actual values drawn down by SSDC Opium Power Ltd. The loan schedule spreadsheet held by the Council for interest and repayment purposes contains the correct drawn down values. The revised figures need to be shared with all parties to the loan for clarity on repayment requirements and amounts of interest to be paid.</p> | |

Opinion
On face value SSDC Opium Power Limited has delivered on its business case and has begun to repay the loans. Dividends are yet to start, although once these do there should be a reliable income stream based on forecast projections from Linejump. However, there are some areas where monitoring and oversight could be strengthened, and the loan repayments are £2million behind profile (as of October 2022). There is also the on-going risk around interest rates rising to service the loans which is being carried by SSDC and not SSDC Opium.

Audit Limitations
We have not been able to access all records needed to fully review the arrangements for managing SSDC Opium Power Ltd (SSDC OPL) as part of this audit. Where we have not been able to see the records, we are unable to provide assurance on how well the controls are working and this limits the assurance opinion we are able to provide. Limitations to the audit are:

- We have not seen the records that detailed the SSDC charges to SSDC OPL for staff time spent working on company tasks therefore we cannot provide assurance on recharges.
- Budget monitoring – evidence of cashflow reports have been seen for 2022. Agendas and minutes we have been provided with included finance updates, but no budget monitoring elements were listed for discussion. Therefore, we are unable to provide assurance on the quality and challenge within the budget monitoring process.
- No share dividends have been paid yet therefore we are unable to assess the controls in place for managing this element.

Lufton Depot - Follow Up

Lufton Depot – Final Report – December 2022



Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 audit report have been implemented.

| Follow Up Progress Summary | | | | |
|----------------------------|-----------|-------------|-------------|-----------|
| Priority | Complete | In Progress | Not Started | Summary |
| Priority 1 | 0 | 0 | 0 | 0 |
| Priority 2 | 13 | 5 | 0 | 18 |
| Priority 3 | 0 | 0 | 0 | 0 |
| Total | 12 | 6 | 0 | 18 |

Follow Up Assessment

The original audit of Street Scene Control Weaknesses was completed in October 2021. The original report identified weaknesses found during the special investigation that was undertaken.

The follow up audit has found the majority of actions have now been completed. Key findings from the audit follow up have been summarised below.

Key Findings



A Code of Conduct (COC) has been updated and approved by SLT in September 2022. This will be a mandatory part of training but at present the training has not been rolled out. The COC has had updates to reflect the observations from the special investigation and will be an essential document in improving the site.



There are a few actions still in progress including the use of council vehicles for private use, training and compliance with financial procedures. Steps have been taken to address these issues with some needing specific contractual intervention and sign off from the Full Council. Overall, these steps are on track to be completed soon and have shown the teams dedication to improving the working environment and clarity of acceptable behaviour.



There are several areas of good practices now being observed at the site with noticeable improvements. Under the direction of a new Environmental Services Manager the culture has seen a marked improvement, which has been confirmed by employees. Many new processes and improvements are in place and there appears to be an overall strong team ethic to push the final few changes across the line.

Summary

Testing has been performed in relation to all priority 1 and 2 actions and supporting evidence obtained to support implementation of actions. Reference [Appendix A](#) for details of all actions.

The majority of the actions agreed have been completed or are making progress to completion. Some key documents are being updated and were approved at the 3rd November 2022 Senior Leadership Team meeting these should be rolled out within the next few weeks. The team are working hard to close gaps in policies and knowledge to provide a safe, inclusive and respectful environment. With some new leaders in place and more inclusion of Union reps the site appears more organised and positive.