

APPENDIX A



South Somerset District Council

Report of Internal Audit activity
Quarter 3 update, 2014-15

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 385906

gerry.cox@southwestaudit.co.uk

Ian Baker

Director - Quality

Tel: 07917 628774

ian.baker@southwestaudit.co.uk

Andrew Ellins

Audit Manager

Tel: 07720 312464

andrew.ellins@southwestaudit.co.uk

Summary:

Role of Internal Audit	Page 1
Overview of Internal Audit Activity	
Internal Audit Work Programme 2014/15:	Page 2
Operational Audits	Page 2
Key Controls; Finance Audits	Page 3
Key Controls; Main Income Streams	Page 3
Governance, Fraud and Corruption	Page 4
Information Systems	Page 5
Special Reviews	Page 5
Future Planned Work	Page 6
Conclusions	Page 6

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 last approved in February 2014.

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 approved by the Audit Committee at its meeting in March 2014. Since March, a number of minor scheduling changes have been made to the audit plan. An updated list of all audits planned for 2014/15 and their status at the end of Quarter 3 is detailed in [Appendix B](#).

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

Quarter 3 Outturn:

We rank 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 2014/15. 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 five Operational audits undertaken. A review of the new Payroll system was deferred to 2015/16 as it is not, as yet, fully operational. Out of the three services areas audited to date all were found to be well controlled.

Audit Area	Opinion	Audit Area	Opinion
Economic Development	Substantial	Payroll Service New System	Deferred
Landfill Site Management	Reasonable	Leisure Centres	In progress
Cash receipting	Reasonable		

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

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

Key Controls, Finance Audits

Key Control audits are usually performed in Quarter3. Out of the five audits scheduled for this year, three to date have been completed and all have received substantial assurance:

Audit Area	Opinion	Audit Area	Opinion
Main Accounting	Substantial	Creditors	In progress
Treasury Management	Substantial	CTAX and NDR	In progress
Housing Benefit & CTR	Substantial	-	-

Key Controls, Main Income Stream Audits

In previous years a significant number of audit days were allocated to undertake a separate audit of each of the Councils main income streams. Separate audits were carried out on income from the Plant Nursery, Homelessness Prevention, Licensing, Car Parks, The Octagon and Careline. This is because shortfalls in income have a significant impact on the budget and are considered higher risk areas.

For 2014/15 it was felt that as Substantial and Reasonable assurance had previously been provided for most of the income areas, that a combined audit called Key Income Streams requiring less days was possible. This audit is scheduled for Quarter 4.

Quarter 3 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.

There were two Governance audits scheduled for Quarter 3:

Audit Area	Opinion	Audit Area	Opinion
Starters and Leavers	In progress	Fraud Audit - 1	Removed

Due to the SWAP Restructure, Management Board have agreed to a reduction in the number of days to be delivered during this financial year, therefore the audit called Fraud Audit -1 was removed from the 2014/15 plan.

Quarter 3 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.

One IT Audit was scheduled for Quarter 3:

Audit Area	Opinion
Back-up and recovery	In progress

Another IT Audit 'PSN Code of Connection' is scheduled for Quarter 4.

Special Reviews

I am pleased to report that since April 2014 there have been no irregularities reported to SWAP that have required investigation on behalf of SSDC.

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](#).

The Committee will be aware that in May 2014, SWAP were pleased to provide an Audit Opinion for the Annual Governance Statement for 2013/14 that gave Reasonable Assurance. Work carried out to date in Quarters 1 to 3 largely supports this level of assurance for 2014/15 to date.

There have been no significant Corporate Risks identified from the work completed in Quarter 3.

Our approach to the audits for 2014/15 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.

A list of all audits planned for 2014/15 and their status at the end of Quarter 3 are detailed in [Appendix B](#).