

South Somerset District Council

Report of Internal Audit Activity

Annual Opinion Report 2016/17

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Accounts and Audit Regulations (England) 2015 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.

Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Background

The Internal Audit service for South Somerset District Council is provided by the 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). 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 through the work based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the 2016/17 year.

Internal Audit Annual Opinion 2016/17

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

Over the year SWAP have found 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 in areas where they perceive potential problems as well as welcome the opportunity to take on board recommendations for improvement.

Only 1 audit in the year has received partial assurance, the others being awarded reasonable or substantial assurance ratings. Several pieces of advisory work have also been completed in the year at the request of SSDC Management which is a strong indicator of the appetite to engage with Internal Audit to and establish best practice. Where high priority findings have been identified, overall these have been appropriately addressed, confirming the responsive nature of management.

During the year three audits were removed from the plan by Management without replacement. In one case (Culture) this was because alternative sources of assurance were available, making a further audit of this surplus to requirements. The other 2 audits (Elections and Scheme of Delegation) were removed at managements request owing to other Service commitments. The loss of these days has been taken into account when considering the annual audit opinion, and the impact has been mitigated by them not being high risk areas. We have no cause for concern in these areas and have agreed to revisit these two areas as part of the 2017/18 plan.

I have considered the balance of 2016/17 audit work and outcomes against this environment, and am able to offer reasonable assurance in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. Whilst I have certain concerns regarding some aspects of the control environment, I do not consider there to be any areas of significant corporate concern, provided they are kept under periodic review. This is particularly important owing to personnel changes within the Council. To this end, SWAP have agreed with the Chief Executive to attend

Summary of Audit Work 2016/17

SLT meetings quarterly to maintain the necessary communication channels with management.

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits agreed for inclusion in the Annual Audit Plan 2016/17 and the final outturn for the financial year. In total, 16 will be delivered, with 8 Healthy Organisation themes covered in one report. 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.

Of the 16 reviews in the revised 2016/17 audit plan, they are broken down as follows:

- Operational Audits 9
- Healthy Organisation (to be 1 incorporated in one report)
- IT 1
- Key Control 1
- Follow-up 1
- Certification 3

Summary of Audit Work 2016/17

Significant Corporate Risks

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



Significant Corporate Risks

Appendix A sets out the definition of the 4 Risk Levels applied to any corporate risks we identify.

The below audit risk was scored as a corporate risk within the Data Protection review completed during the year:

Risks	Auditors Assessment
Reputational damage or financial penalties arising from non-compliance by data processors.	Medium

Further details are available about this audit in the Quarter 4 Update report.

Summary of Audit Work 2016/17

SWAP Performance - Summary of Audit Opinions

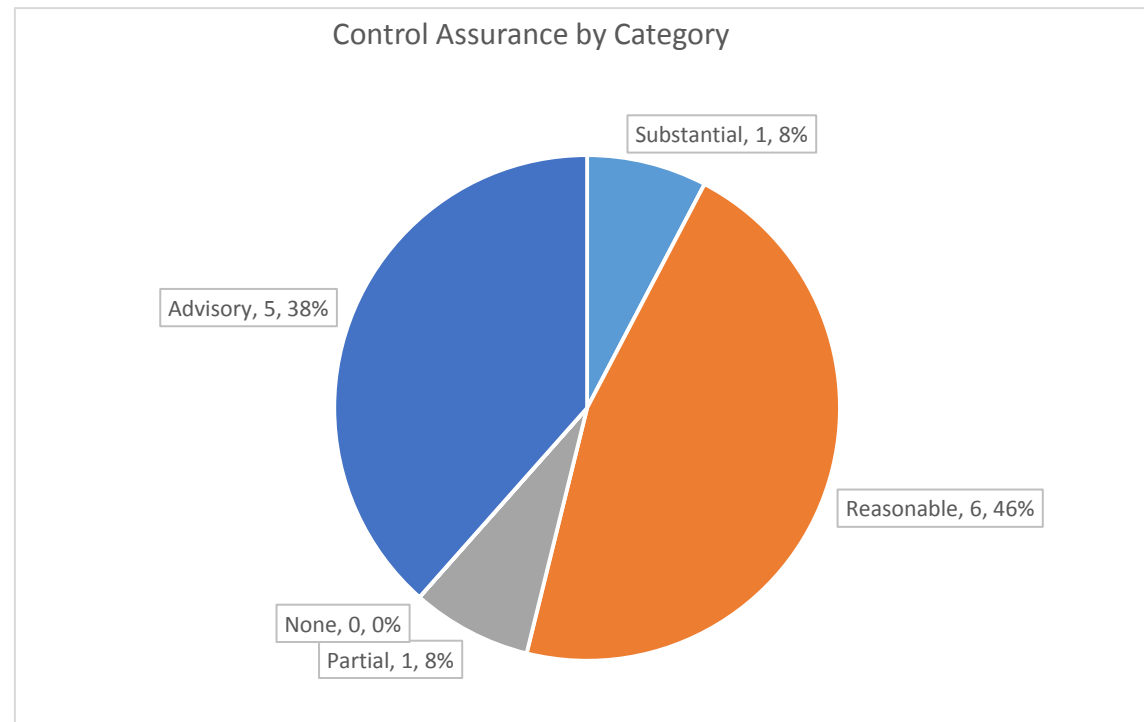
At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None
- Advisory (no opinion)



Summary of Audit Opinion

At the time of writing this report 3 audits had yet to reach Final reporting stage (Corporate Health & Safety and Healthy Organisation are at Draft Stage and LED is still in progress). The following diagram therefore includes information for completed audits only and an update on the outstanding audits will be provided as part of the next Audit update. For the 1 audit in progress there are no significant issues to bring to your attention from the testing completed so far. For comparison, in 2015/16 there were 3 Substantial Assurance Audits, 12 Reasonable Assurance Audits and 1 Partial Assurance Audit.



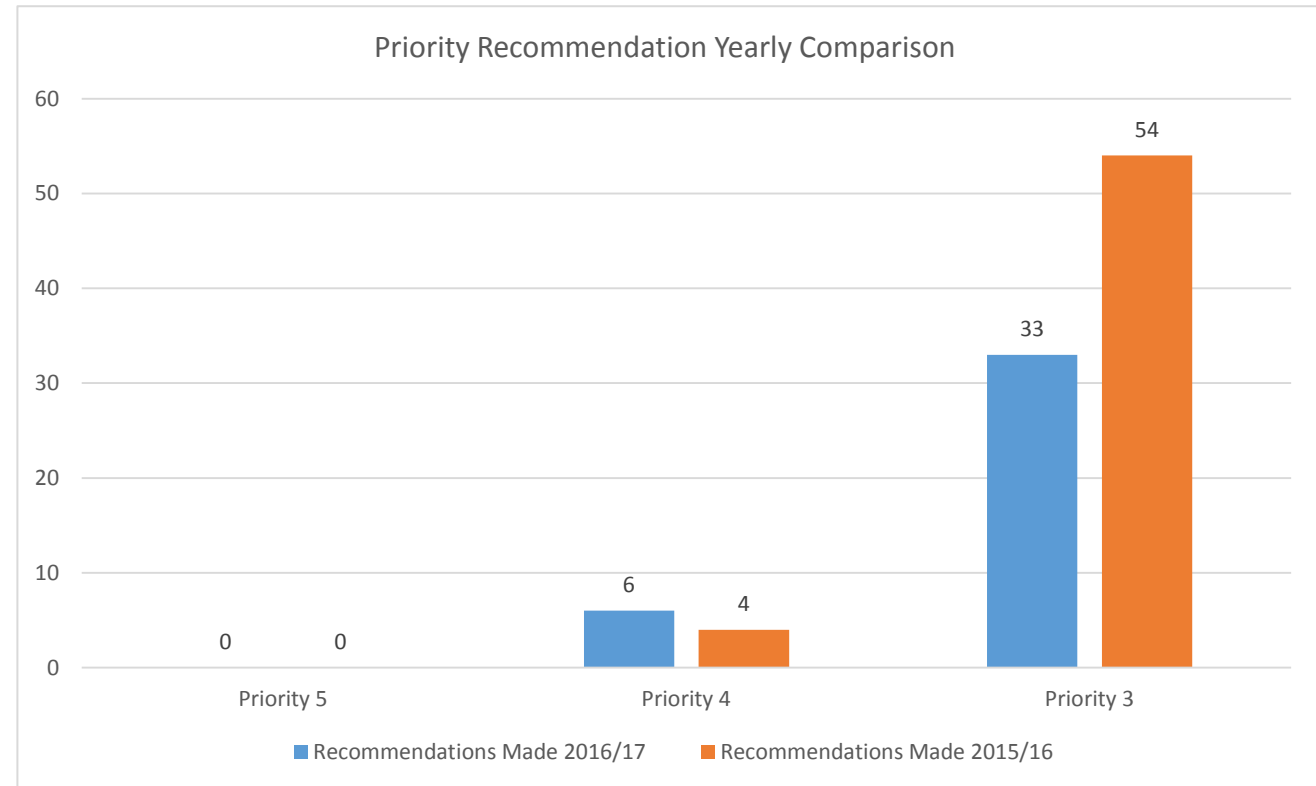
Summary of Audit Work 2016/17

SWAP Performance - Summary of Audit Recommendations by Priority

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



Priority Actions



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Throughout the year, SWAP has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost. This has included the communication and circulation of industry bulletins (such as Corporate Plan for Public Sector Audit Appointments 2015-18) and fraud prevention alerts wherever possible. We will also share the outcomes of any benchmarking undertaken across our SWAP Partner base. SWAP also aim to share the results of emerging areas of risk, or the findings from relevant audit reviews undertaken at our Partners, to enable the sharing of best practice and comparison of common findings. Examples of where we have collated and shared information to add value include:

We provided SSDC with examples of risk management strategies and policies provided by SWAP Partners to assist in the Council's Transformation process.

We have shared a report on comparisons in the different methodologies used for setting fees and charges across SWAP Partners.

A review of Audit Committee work plans has been shared across SWAP Partners.

SWAP Partners provided examples of Equality Impact Assessments which was disseminated.

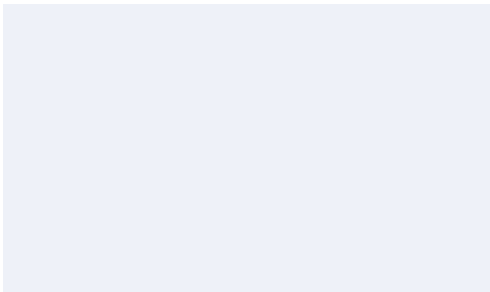
A comparison of land charges was completed and shared with SWAP Partners.

A report was circulated which compared Housing Benefits processing performance across SWAP Partners.

Further, throughout the course of the year, the following value was added through the following assurance audits completed:

- Advice during handover periods to a new contract lead officer
- Inclusion of specialist areas within the audit scope

Plan Performance 2016/17



- Sharing of best practice / benchmarking for specific assignments
- Providing specialist advice within the IT Skills Audit.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector organisations. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2016/17 year (as at 2 June 2017) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress</p>	<p>94% 6%</p>
<p><u>Draft Reports</u> Issued within 5 working days</p>	<p>84% (Average Days of 3) (2015/16 83%)</p>
<p><u>Final Reports</u> Issued within 10 working days of discussion of draft report</p>	<p>91% (Average Days of 5) (2015/16 69%)</p>
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	<p>81% (2015/16 83%)</p>

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in Conformance with the Standards.

An extract from the recent review confirming this has been included at Appendix C for information.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

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



Audit Framework Definitions

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Follow Up	Property Services	3	Final	Advisory	0	0	0	0	0	0
Follow up	Risk Management	1	Removed – Deferred to 17/18	N/A	0	0	0	0	0	0
ICT	IT Skills Audit	1	Final	Advisory	0	0	0	0	0	0
Operational	Culture	1	Removed	N/A	0	0	0	0	0	0
Certification	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Advisory	0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	Final	Advisory	0	0	0	0	0	0
Operational	Safeguarding	2	Final	Reasonable	4	0	0	1	3	0
Healthy Organisation	Healthy Organisation - Corporate Governance, Financial Management, Risk Management, Performance Management, Commissioning & Procurement, Programme & Project Management, Information Management, People & Asset Management	2	Draft	Medium	x					
Operational	Delivering Cost Savings & Increasing Income	2	Final	Reasonable	1	0	0	1	0	0
Operational	Land Charges	2	Final	Reasonable	4	0	0	4	0	0
Operational	Key Income Streams	3	Final	Reasonable	4	0	0	4	0	0
Operational	Corporate Health & Safety	3	Draft	Reasonable	0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Key Control	Key Financial Control Audit	3	Final	Reasonable	6	0	0	6	0	0
Operational	Local Council Tax Support Scheme	3	Final	Substantial	3	0	0	3	0	0
Operational	Scheme of Delegation	3	Removed – Deferred to 17/18	N/A	0	0	0	0	0	0
Operational	Leisure East Devon	4	In Progress		0	0	0	0	0	0
Operational	Data Protection	4	Final	Partial	14	0	6	8	0	0
Operational	Elections	4	Removed – Deferred to 17/18	N/A	0	0	0	0	0	0
Operational	Lufton Vehicle Workshop	4	Final	Reasonable	5	0	0	5	0	0
Grant Certification	Regeneration	4	Final	Advisory	0	0	0	0	0	0

The below is the key summary from the recent External Quality Assessment of SWAP Internal Audit Activity, carried out by the Devon Audit Partnership:

As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. For a detailed list of conformance with individual Standards, please see Attachment A. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SWAP is a well-established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all of their partners and clients. A well-developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.