

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2016/17 Quarter 4 and 2017/18 Quarter 1

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Summary

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



Audit Opinion

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.

A separate report has been presented to the Audit and Governance Committee to satisfy this requirement and Members are asked to note its content. The opinion provided in that report is Reasonable Assurance in respect of the areas reviewed during the year.

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Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **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 to be approved by the Audit Committee at its meeting on 22 June 2017.

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
- IT Audits
- Grants
- Other Special or Unplanned Reviews

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Outturn to Date:

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



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2016/17 and 2017/18 Plan.

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 pages 8 and 9 of this document.

In the period Quarter 4 and Quarter 1 the following audits have been completed from the 2016/17 Audit Plan:

- Safeguarding (Reasonable)
- Regeneration – Grant Certification (Substantial)
- Key Income Streams (Reasonable)
- Key Financial Controls (Reasonable)
- Local Council Tax Support System (Substantial)
- Lufton Vehicle Workshop (Reasonable)
- IT Skills (Advisory)
- Data Protection (Partial)

Only 1 audit is in progress at the time of writing this report and a verbal update will be provided to the committee on this:

- Leisure East Devon (originally scheduled for Quarter 4) In progress

A further 2 audits remain in Draft stage, awaiting responses from Management to the recommendations and findings raised:

- Corporate Health & Safety

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- Healthy Organisation

Work has commenced on the following 2017/18 audits, scheduled for Quarter 1 (all in progress):

- Yeovil Cemetery & Crematorium Annual Accounts
- Cyber Security
- Records Management
- Organised Crime Checklist

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

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

Primarily Internal Audit is an assurance function and will remain as such. However, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”.

The SWAP definition of “added value” is “it refers to 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”.

As we complete our operational audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. Examples in Quarter 4/ Quarter 1 include the following:

- 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.

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The Assistant Auditor 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>

Internal Audit Plan Progress 2016/17

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



Approved Changes to the Audit Plan

The following changes have been made to the audit plan in Quarter 4 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement or at the request of the Section 151 Officer:

- Elections – This audit was lost without replacement due to cancellation by Management at short notice. The service was unable to accommodate an audit at that time and we have agreed to consider this area again as part of the 2017/18 audit plan, in liaison with the Section 151 Officer.
- Scheme of Delegation - This audit was lost without replacement due to cancellation by Management at short notice. The service was unable to accommodate an audit at that time (same service as above). In addition to this, the timing of the audit proved to be less than satisfactory due to the stage in the Transformation Programme. Having discussed this audit with the Chief Executive, we have agreed to consider this area again as part of the 2017/18 audit plan, in liaison with the Section 151 Officer.
- Risk Management Follow Up- this was deferred until Quarter 1 of 2017/18 due to client staff sickness and transfer of management oversight responsibilities as part of the Transformational Change program. We have confirmed however that responsibility has been reassigned and the Risk Manager attended the Audit Committee in April 2017 to provide an update on current matters. This audit was replaced with some grant certification work relating to the remedial works at Whatley Gasworks site.

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
2016/17										
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
Operational	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
Key Control	Key Financial Control Audit	3	Final	Reasonable	6	0	0	6	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
Advice	Risk Management Support	1	Not Started		0	0	0	0	0	0
Operational	Licensing	1	Not Started		0	0	0	0	0	0
Governance, Fraud & Corruption	Fraud Audit	2	Not Started		0	0	0	0	0	0
Governance, Fraud & Corruption	Organised Crime checklist	2	In Progress		0	0	0	0	0	0
Key Control	Key Controls Provision	3	Not Started		0	0	0	0	0	0
Governance, Fraud & Corruption	Fraud Audit	3	Not Started		0	0	0	0	0	0
Operational	LED Contract Compliance	3	Not Started		0	0	0	0	0	0
Operational	Programme and Project Management	3	Not Started		0	0	0	0	0	0
Operational	Procurement Review	3	Not Started		0	0	0	0	0	0
Operational	Key Income Streams	4	Not Started		0	0	0	0	0	0
Operational	S106/ CIL	4	Not Started		0	0	0	0	0	0
Operational	Accountability	4	Not Started		0	0	0	0	0	0
Operational	Business Continuity Key Service Test	4	Not Started		0	0	0	0	0	0
Operational	Housing Benefit Claims/Subsidy	4	Not Started		0	0	0	0	0	0
Operational	Tourism	4	Not Started		0	0	0	0	0	0

Schedule of potential significant risks identified from Internal Audit work in the period Quarter 4

Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
Data Protection – Data Processors	See Appendix D					

Summary of key points related to ‘Partial Assurance’ reviews (Priority 4 and above)

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Data Protection – Data Processors	<p>No contract was found for the Out of Hours Service provided by data processor Dean Helpline</p> <p>This is a breach of the Data Protection Act and if the ICO became aware it could result in heavier penalties being imposed on the Authority.</p>	<p>The Civil Contingencies Manager has agreed to put a formal agreement in place between the Authority and the Deane Helpline Service, covering all necessary data protection responsibilities and obligations including liaison with the Fraud and Data Team as necessary.</p>	Oct 2017	Qtr 3
Data Protection – Data Processors	<p>From sample testing, where contracts did exist, they were often found to contain insufficient data processor requirements and/or had not been signed.</p> <p>The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational damage.</p>	<p>The Fraud and Data Manager has agreed to issue a reminder to all service managers that they should liaise with her when drafting any contracts with Data Processors, to ensure that all relevant clauses are included.</p>	End May 2017	Qtr 3
Data Protection – Data Processors	<p>Section 9.11 of the Authority’s constitution requires that a copy of all contracts should be lodged with the Legal Team who should then catalogue and maintain a central repository in a fire proof storage area. Our testing found that this was not happening.</p>	<p>The Procurement and Risk Manager has agreed to arrange for a copy of all significant contracts, including low value contracts where there are significant risks in terms of DPA compliance, to be lodged with the legal team for retention within the central</p>	Jul 2017	Qtr 3

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<p>Contracts may be hard to or impossible to locate as responsible officers change posts or leave. In the event of a major incident such as a fire/flood, paper based contracts may be permanently lost.</p> <p>The Authority may be unable to enforce contractual obligations including those relating to data protection or demonstrate that reasonable steps were taken to ensure the data protection requirements were met.</p>	<p>repository.</p> <p>The Procurement and Risk Manager has also agreed to ensure that all service areas are aware of this requirement.</p>		
Data Protection – Data Processors	<p>Some existing contracts do not include a Data Processing Agreement.</p> <p>The council may be exposed to Data Processing risks related to data disposal, use of personal data and other data restrictions.</p>	<p>The Fraud and Data Manager has agreed to issue a reminder to all Contract Managers that where contracts are renewed or it is agreed to roll them forward, that data protection issues are covered.</p>	End of May 2017	Qtr 3
Data Protection – Data Processors	<p>Some contracts have been extended yet no record of approval of this has been retained.</p> <p>The Council may be exposed to reputational damage in the event the letting of a contract on an unapproved extended term is challenged.</p>	<p>The Procurement and Risk Manager has agreed to issue a reminder to all Service Managers, stating that where contracts are to be extended beyond their natural term, advice is taken from the Procurement and Risk Manager on the legality of the extension (which may otherwise be unlawful), and written confirmation and authority for this extension should, as a point of good</p>	July 2017	Qtr 3

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
		practice, be drawn up and held with the contract documentation in the Deed Room		
Data Protection – Data Processors	<p>The Council cannot show that reasonable steps have been taken to ensure Data Protection requirements have been met for individuals employed on a secondment basis or contractors who are for Tax and NI purposes treated as employees.</p> <p>If they are data processors rather than employees then the authority is in breach of the DPA.</p> <p>There is an increased risk of fines and reputational damage if these individuals are responsible for data breaches.</p>	<p>The HR Manager/Housing and Welfare Manager have agreed to confirm the status of these officers (within the context of Data Protection legislation). If it is determined that individuals are employed on a secondment basis or are considered employees, confirmation should be sought that data protection induction and training has been carried out. If the individuals are considered private contractors, a written contract covering data protection issues should be used.</p>	End May 2017	Qtr 3