SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

South Somerset District Council
Report of Internal Audit Activity
Annual Opinion Report 2017/18

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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The SWAP 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 and the Annual Internal Audit Opinion given.

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The SWAP 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.

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below:

The Three Lines of Defence Model

Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

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Annual Opinion

This Annual Report gives the opinion of the Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within South Somerset District Council. Internal Audit has not reviewed all risks and assurances relating to South Somerset District Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success to knowingly take risk rather than be unwittingly exposed to it. Under control could expose the organisation to unacceptable risk and destroy value as over control takes valuable resources and can create inefficiency. Therefore, the Internal Control Environment needs the right balance to help South Somerset District Council to deliver its services with ever decreasing resources.

For the 2017-18 audit plan for South Somerset District Council there will be a total of 17 reviews delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' in order to respond to the transformation programme and any new and emerging risks.

All reviews have been completed to report stage. Of the 17 2017-18 reviews, 10 have returned opinions and there were no 'Partial' opinions offered. There have been 4 reviews that have received Substantial Assurance, and this is highly commendable, with 6 reviews receiving reasonable assurance.

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Annual Opinion Continued

It is also worth noting the number of 'Non-Opinion' audits during 2017-18. Given the level of change within the authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of areas of change. Although no opinion is offered with this work, details of the work and findings are shared with the Committee and an action plan to address areas for improvement is agreed where necessary.

I have considered the balance of 2017/18 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 some recommendations have been made for improvement, 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 will continue to attend Leadership and Management meetings and Senior Leadership Team meetings to maintain the necessary communication channels with management.

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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 2017-18 and final outturn for the financial year. In total, 17 have been delivered. 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 17 reviews in the 2017/18 audit plan, they are broken down as follows:

Type of audit	2017-18 original plan	2017-18 revised plan
Operational Audits (including Income Reviews)	13	7
Key Control	4	4
Grant Certification	1	2
Governance, Fraud & Corruption	4	3
ICT	1	1
Follow-up	1	0
TOTAL	24	17

As outlined above a number of were 'exchanged' or 'removed' in order to respond to the transformation programme and any new and emerging risks.

In addition to the 2017-18 annual Audit Plan, we have also undertaken a number of benchmarking and comparison pieces of work during the year that are summarised in the 'added value' section of this report.

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Significant Corporate Risks

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

Significant Corporate Risks

We provide a definition of the 4 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we give a summary where we have assessed the risks as 'High'.

There we no significant corporate risks identified this year however, the Council faces some significant challenges in the year ahead with its transformation programme, cyber security and GDPR preparedness. At this point in time we are satisfied that good progress is being made and these areas will be included in the 2018/19 Annual Plan.
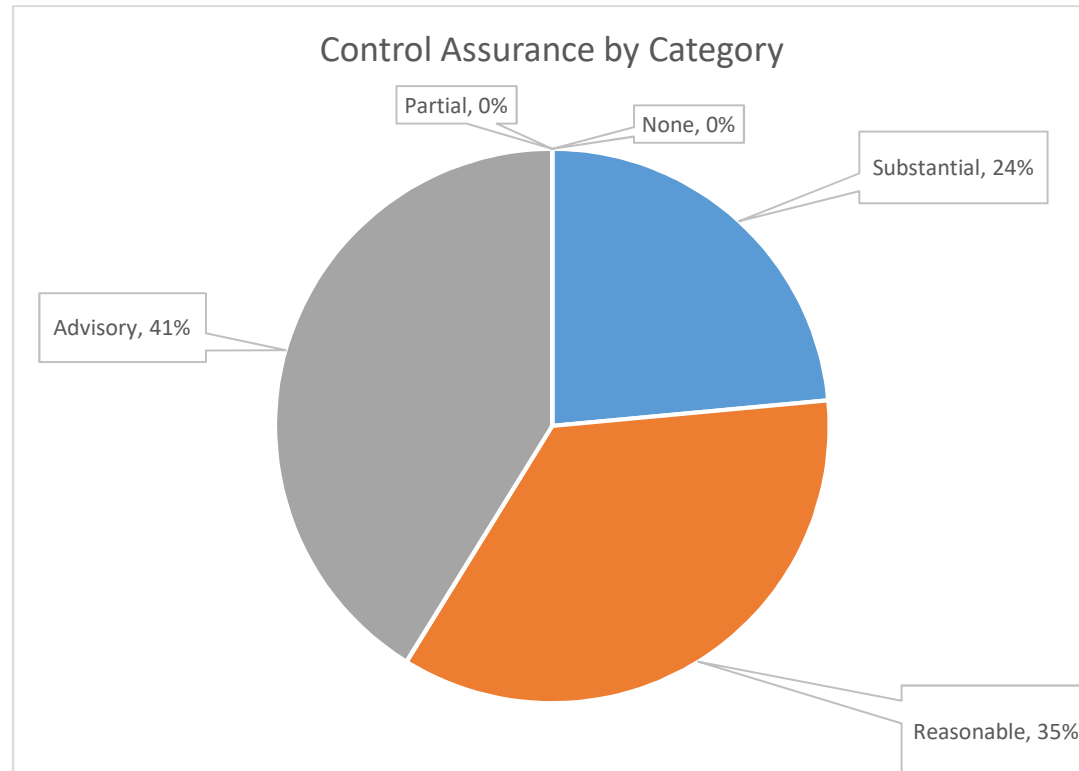
SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition":

- **Substantial**
- **Reasonable**
- **Partial**
- **None**
- **Advisory (Non-Opinion)**

Summary of Audit Opinion

The breakdown of audit opinions by category is summarised below. Definitions for each assurance category can be found in **Appendix A.**

Control Assurance by Category

Partial, 0%

None, 0%

Substantial, 24%

Advisory, 41%

Reasonable, 35%

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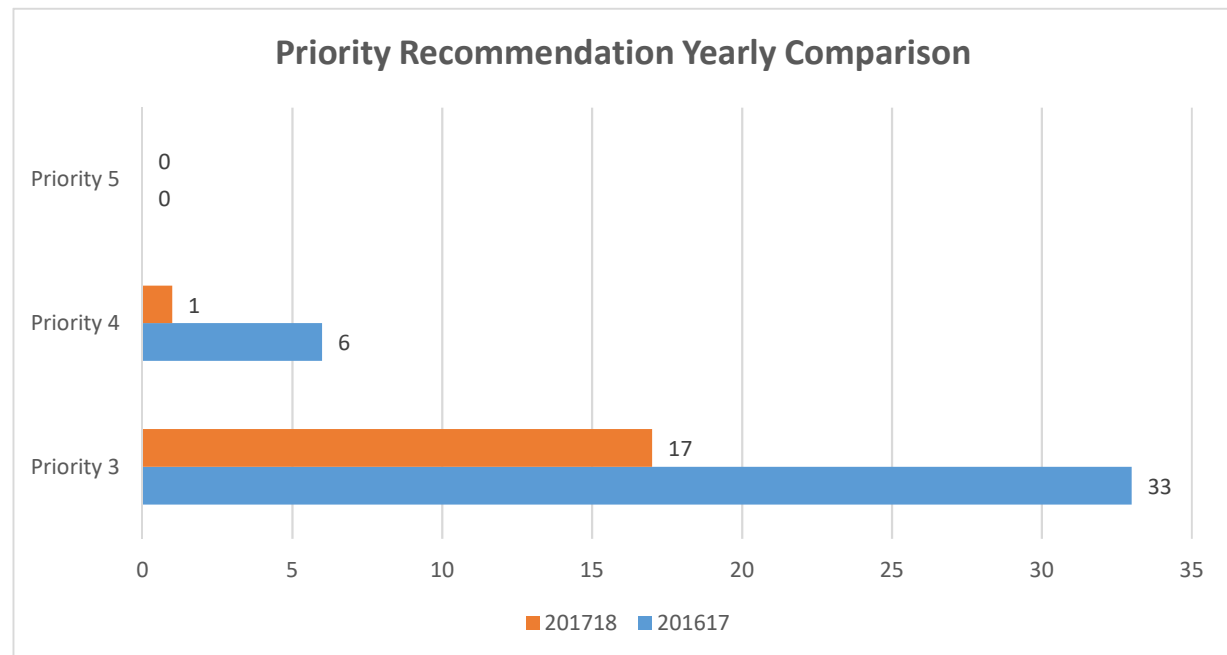
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SWAP Performance - Summary of Audit Recommendations by Priority

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

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. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 5 recommendations being more important than priority 3. All recommendations as currently contained in **Appendix B** are summarised below and compared to the previous year.

Priority Recommendation Yearly Comparison

Priority	201718	201617
Priority 5	0	0
Priority 4	1	6
Priority 3	17	33

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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, as we complete our 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. 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".

In addition to audits undertaken in **Appendix B**, where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where SSDC has requested or participated in a request enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.

- **Partners Newsletters** – We also produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies.

- **Disabled Facilities Grants, Better Care Fund and Home Improvement Grants** - Comparisons were made with performance targets set, number of grants approved, value of grants approved, staffing arrangements, funding received from the Better Care Fund (except for Powys Council who do not benefit from this funding), population and household data, whether a Home Improvement Agency (HIA) is used, and whether loans are offered as an alternative to grants.

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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 Continued

- **Fees & Charges for Discretionary Street Scene Service Provision** - a comparison of the fees and charges for discretionary Street Scene services provided to the public among our partners; which is attached to this test.

- **Licensing Total Cost Recovery in the Provision of the Licensing Service** – Review on licensing fees compared to cost of service delivery.

- **Environmental Protection** – One of our partners requested the processes relating to permitted installations were compared in the following areas: Information available online for operators; Number of permitted installations and frequency of inspections; Pro-active investigations / Intelligence gathering; For enforcement Number of notices issued / Prosecutions brought against operators; Public Register; Fees and Charges; Payment methods; Annual Subsistence Charge / Late payment charge; Debt Management / Revocation or Suspension of Permit; Cost Accounting

- **Elections Payroll** - Comparisons were made in relation to recruitment, the availability and appointment process, the payment of expenses for election duties through Payroll, the requirement to declare any personal interests, and whether the responses demonstrated a separation of duties.

- **Electoral Registration** - Under the Representation of the People Act 1983, the Council has a duty to maintain registers of UK Parliamentary and local government electors. Although a process for fulfilling this duty is prescribed and overseen by the Electoral Commission, Councils have some discretion in how they implement this process. One of our partners requested that we undertake a benchmarking exercise with our partners to identify any areas in which they could improve the effectiveness and efficiency with which they implement this process.

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

SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. 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 2017-18 year are as follows;

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress	100% 100%
Quality of Audit Work Customer Satisfaction Questionnaire	87%*

*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. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report.

The SWAP Director 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 full conformance to the International Professional Practices Framework and the PSIAS. As a result of the external assessment, a Quality Assessment Improvement Plan (QAIP) was produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

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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.

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. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

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Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

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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.

- 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.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

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.

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major		1 = Minor		
						Recommendation				
						5	4	3	2	1
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	Final	Non-Opinion	0	0	0	0	0	0
Operational	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non-Opinion	1	0	0	1	0	0
Operational	Licensing	1	Final	Reasonable	3	0	0	3	0	0
ICT	Cyber security	1	Final	Reasonable	3	0	1	2	0	0
Governance, Fraud & Corruption	Grant Funding Fraud Audit	2	Final	Substantial	2	0	0	2	0	0
Governance, Fraud & Corruption	Organised Crime checklist	2	Final	Reasonable	2	0	0	2	0	0
Key Control	Treasury Management	3	Final	Substantial	0	0	0	0	0	0
Governance, Fraud & Corruption	Business Rates Fraud Audit	3	Final	Reasonable	2	0	0	2	0	0
Key Control	Creditors	3	Final	Reasonable	1	0	0	1	0	0
Key Control	Cash Receipting	3	Final	Reasonable	4	0	0	4	0	0
Key Control	Payroll	3	Final	Substantial	0	0	0	0	0	0
Operational	Governance of Service Redesign (Transformational Support)	4	Final	Non-Opinion	0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation 5 = Major ⟷ 1 = Minor				
						5	4	3	2	1
Operational	Financial Services Processes Redesign (Transformational Support)	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Business as Usual (Transformational Support)	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Housing Benefit Claims/Subsidy	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Elections	4	Final	Substantial	0	0	0	0	0	0
Grant Certification	Growth Deal Payments (YIC Phase 2)	4	Final	Non-Opinion	0	0	0	0	0	0
Operational	Records Management 1718 - SSDC	1	Removed	-	0	0	0	0	0	0
Operational	Risk Management Support 1718 - SSDC	1	Removed	-	0	0	0	0	0	0
Follow Up	Risk Management Follow Up	2	Removed	-	0	0	0	0	0	0
Operational	LED contract compliance 1718 - SSDC	3	Removed	-	0	0	0	0	0	0
Operational	Programme and Project Management 1718 - SSDC	3	Removed	-	0	0	0	0	0	0
Operational	Procurement Review 1718 - SSDC	3	Removed	-	0	0	0	0	0	0
Operational	Key Income Streams 1718 - SSDC	4	Removed	-	0	0	0	0	0	0
Operational	S106/ CIL 1718 - SSDC	4	Removed	-	0	0	0	0	0	0
Operational	Accountability 1718 - SSDC	4	Removed	-	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
Operational	Business Continuity Key Service Test 1718 - SSDC	4	Removed	-	0	0	0	0	0	0

Total	18	0	1	17	0	0

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