

# South Somerset District Council

## Report of Internal Audit Activity

2018-19 Progress Update October 2018

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### 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 which was approved by the Audit Committee at its meeting in March 2018.

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
- Governance Audits
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Leadership Team. The 2018-19 Audit Plan was reported to this Committee and approved at its meeting in March 2018.

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

## Internal Audit Plan Progress 2018/19

### 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 2018/19. 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 in **Appendix A**.

Since the last update in June 2018 the following audits have been completed:

Audit Area	Quarter	Status	Opinion
Bank and Cash Procedures at Octagon and Westlands	1	Final	Advisory
Boden Mill	1	Final	Advisory
Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory
Data Protection Query	1	Final	Advisory

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’ are reported; there are no Partial Opinion reports this time.

A number of audits have been pushed back to later in the year for a variety of reasons, which are documented below in the ‘approved Changes to the Audit Plan’ section. We will endeavour to manage these changes and ensure all key areas of work are completed to inform the annual audit opinion.

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



### Approved Changes to the Audit Plan

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to South Somerset District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Manager and the Section 151 Officer.

Since the previous update the following changes have been made:

- The Section 106 Audit has been moved from quarter 2 to quarter 4. The reason for this is due to the implementation of a new system at this point in time. The new system will be operational in quarter 4 and will be included within the scope of the review. To accommodate this review being moved, the Lone Working Arrangements review has been brought forward to quarter 2.
- Leisure East Devon (LED) Contract Compliance has moved from quarter 1 to quarter 2 with a request not to start until September 2018 due to personnel changes as a result of transformation.
- Accounts Payable was originally planned to commence in quarter 3 but has now been moved to quarter 4. The reason for this was to accommodate the implementation of the new system that will be included within the scope of the review.
- Procurement & Contract Management (Supply Chain) has been moved from quarter 1/2 to quarter 4 at the request of management as the procurement officer had not been appointed at that point in time.
- The Commercial Strategy/Income Generation review has been brought forward to quarter 3 from quarter 4.

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



Audit Framework Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

Control Assurance Definitions

<b>Substantial</b>	▲ ★ ★ ★	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.
<b>Reasonable</b>	▲ ★ ★ ☆	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.
<b>Partial</b>	▲ ★ ☆ ☆	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.
<b>None</b>	▲ ☆ ☆ ☆	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.

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.



Audit Framework Definitions

**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.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>FINAL</b>									
Cross cutting, Governance, Fraud and Corruption	Bank and Cash Procedures at Octagon and Westlands	1	Final	Advisory					
Annual Accounts Certification	Boden Mill	1	Final	Advisory					
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory					
Cross cutting, Governance, Fraud and Corruption	Data Protection Query	1	Final	Advisory					
<b>DRAFT/REVIEW</b>									
Cross cutting, Governance, Fraud and Corruption	EU General Data Protection Regulations	1	Drafting						
Cross cutting, Governance, Fraud and Corruption	Lone Working Arrangements	2	Drafting						
Cross cutting, Governance, Fraud and Corruption	Financial Resilience/Contract Monitoring	2	Draft						



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>IN PROGRESS</b>									
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Re-engineering workshops	1,2,3	In Progress						
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Petters Way Front of House	1,2,3	In Progress						
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Benefit Realisation Strategy	1,2,3	In Progress						
Operational	LED Leisure Contract Compliance	2	In Progress						
Key Financial Controls	Cash Receipting	3	In Progress						
Cross cutting, Governance, Fraud and Corruption	Commercial Strategy/Income Generation	3	In Progress						
<b>NOT STARTED</b>									
IT Audit	Agile Working	1,2,3							
Key Financial Controls	Main Accounting, Budgetary Control and Capital Accounting	3							Scope agreed due to commence November.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation			Comments
						1 = Major	↔	3 = Minor	
						1	2	3	
Key Financial Controls	Treasury Management and Bank Reconciliations	3							Scope and dates agreed for October.
Key Financial Controls	Payroll	3							Scope and dates agreed November.
Key Financial Controls	Accounts Receivable	3							Scope agreed due to commence November.
Key Financial Controls	Accounts Payable	4							Scope Agreed
Cross cutting, Governance, Fraud and Corruption	Procurement/Contract	4							
Cross cutting, Governance, Fraud and Corruption	Housing Benefit Subsidy Claims	4							
Operational	S106/CIL	4							
Cross cutting, Governance, Fraud and Corruption	Risk Management	4							
Cross cutting, Governance, Fraud and Corruption	Benefits Realisation	4							
IT Audit	Disaster Recovery	4							

Schedule of significant findings identified from Internal Audit work Since the 2018 June Audit Committee Update

No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
<b>No significant Findings to bring to your attention.</b>						