

# South Somerset District Council

## Report of Internal Audit Activity

2018-19 Progress Update January 2019

# Contents

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➡	Role of Internal Audit	Page 1
➡	Internal Audit Work	Page 2 – 3
➡	Approved Changes to the Audit Plan	Page 4
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 5 – 6
	Appendix B – Internal Audit Work Plan	Page 7 – 9
	Appendix C – Summary of Relevant Findings	Page 10 – 12

### 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 October 2018 the following audits have been completed:

Audit Area	Quarter	Status	Opinion
EU General Data Protection Regulations Common Findings	1	Final	Advisory
LED Leisure Contract Compliance	2	Final	Reasonable
Financial Resilience/Contract Monitoring	2	Final	Partial
Treasury Management & Bank Reconciliations	3	Final	Substantial
Payroll	3	Final	Substantial

### 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 Continued

#### **Partial Assurance / No Assurance Audits**

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. Since the October 2018 update there is one 'Partial Assurance' review I need to bring to your attention, this being Supplier Resilience. This audit was focusing on the supplier financial resilience and how this and the contracts were being monitored. We identified that there is no corporate approach to monitoring the financial resilience of the suppliers and that the business continuity plans did not contain any process of managing the failure of a key supplier. Further details can be found in **Appendix C**.

#### **'High' Corporate Risk**

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention.

Since the October 2018 update there are no 'High' risks that I need to bring to your attention from our work. Whilst Supplier Resilience returned a Partial Assurance, SSDC have very few suppliers that have been contracted to deliver more than one service; whilst there will be some disruption should these fail there are no business-critical services that are currently outsourced. This does reduce the impact on service delivery, as a result of supplier failure and the fact that the number of contracts in place is less than for a council with a high number of outsourced services. For this reason, the risk assessment at a corporate level returned a 'Medium' assessment rather than 'High'.

## Internal Audit Plan Progress 2018/19

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 Agile Working audit has been removed from the plan and was replaced by the Cyber Security Follow Up audit. The reason for this is due to timing when our IT Audit resource was available and the heightened risks around Cyber Security.

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



Audit Framework Definitions

Control Assurance Definitions

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

<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 3 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 1: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Findings that require attention.

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	0	0	0	0	
Annual Accounts Certification	Boden Mill	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory	1	0	0	1	
Cross cutting, Governance, Fraud and Corruption	Data Protection Query	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	EU General Data Protection Regulations Common Findings	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Financial Resilience/Contract Monitoring	2	Final	Partial	3	1	1	1	
Operational	LED Leisure Contract Compliance	2	Final	Reasonable	1	0	0	1	
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Final	Substantial	0	0	0	0	
Key Financial Controls	Payroll	3	Final	Substantial	0	0	0	0	
<b>DRAFT/REVIEW</b>									
Cross cutting, Governance, Fraud and Corruption	Lone Working Arrangements	2	Draft						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
						Major		Minor	
						Recommendation			
1	2	3							
Cross cutting, Governance, Fraud and Corruption	Commercial Strategy/Income Generation	3	Draft						
Key Financial Controls	Cash Receipting	3	Draft						
Key Financial Controls	Accounts Receivable	3	Draft						
<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						
Key Financial Controls	Main Accounting, Budgetary Control and Capital Accounting	3	In Progress						
IT Audit	<b>New:</b> Cyber Security Follow Up	3	In Progress						
Key Financial Controls	Accounts Payable	4	In Progress						Scope Agreed

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
						Major		Minor	
						Recommendation			
1	2	3							
<b>NOT STARTED</b>									
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							
<b>Deferred/Removed</b>									
IT Audit	Agile Working	1,2,3				Replaced by Cyber Security			

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

Audit Assignments completed since the October 2018 update:



Summary of Audit Findings and High Priority Service Findings

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

The following information provides a brief summary of each audit review finalised since the last Committee update in October 2018. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the October 2018 update there is one Partial Assurance audit opinion that I need to bring to your attention.

Governance, Fraud and Corruption Audits

The Governance, Fraud and Corruption Audit process focuses 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. This work will enable SWAP to provide management with assurance that key controls are in place. SWAP will use the findings of these reviews to support the assurance that is required as part of the Council’s Annual Governance Statement; it will also provide assurance to the External Auditor on areas that they have requested specific assurance.

Financial Resilience/Contract Monitoring

Contract Managers are generally aware of their responsibilities for managing the contract performance but since the collapse of Carillion monitoring financial resilience of key contractors has not been re-evaluated.

At the initial procurement stage, the financial position of all new suppliers is evaluated as part of the decision-making process. However, we identified that there is no consistent approach for monitoring supplier’s financial resilience across the Council once in contract. This could result in service failure if the supplier went into administration.

## Audit Assignments completed since the October 2018 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

## Governance, Fraud and Corruption Audits Continued

If services are outsourced this would increase the risk in this area, however, the Council do not outsource many services as they are delivered by the Council directly rather than through third parties, which reduces the risk in this area.

Contract Managers are unaware of the guidance documents which provide a corporate approach to monitoring suppliers and managing contracts. In addition, although Contract Managers understood what action they should take if the suppliers went into administration, this is not formally recorded Business continuity plans.

The monitoring of contracts being undertaken is reasonable for the types of contracts. Where the costs are not capped within the contract all expenditure is checked back to ensure the goods or service has been received and the prices charged are correct. The monitoring is also ensuring that the outcomes expected from the Contract are being delivered and the supplier is being held to account where they are failing to meet the agreed outcomes.

Due to there being no consistent financial monitoring being undertaken partial assurance has been awarded.

No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
1	Financial Resilience / Contract Monitoring	No consistent approach to monitoring the financial resilience of suppliers.	A supplier goes into administration resulting in delays or failure to meet service delivery by the council causing financial and reputational damage.	We recommend that the Procurement Specialist implements a process to ensure the critical suppliers are identified, the impact of their failure should be assessed, and a suitable in contract financial monitoring approach implemented.	Define SSDC spend categories: Undertake procurement risk assessment to identify areas of risk: For high risk spend categories conduct deeper review of supply market and classify suppliers according to risk level. Implement financial monitoring plan (Frequency of review tbc with input from SWAP / finance specialist.) Implement category development plans as appropriate.	February 2019
2	Financial Resilience / Contract Monitoring	Business Continuity Plans do not include provisions on dealing with suppliers who have gone into administration and can no longer deliver their contracted goods or services.	The Council is not prepared to manage a supplier failure, and this causes service delivery failure resulting in financial and reputational damage.	We recommend that the Lead Specialist – Strategic Planning ensures that supplier failure plans are developed for critical suppliers and the Business Continuity Plans are updated to include reference these.	Contact owners of business continuity plans by service area and review current supply chain recovery plans. Review adequacy against good practice supplier failure plans (to be obtained from SWAP). Agree ownership of category / supplier failure plans with responsible officers. Log these onto procurement risk schedule as a controlling document where appropriate. Implement regular review of risk schedule as appropriate.	March 19