

# South Somerset District Council

## Proposed 2019-20 Internal Audit Plan and Internal Audit Charter

## The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2019/20 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.

### Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's Annual Governance Statement (AGS).

It is the responsibility of the Authority's Senior Leadership Team and the Audit Committee, to confirm that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

# The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation’s strategies, key business objectives, associated risks, and risk management processes.

## Approach to Internal Audit Planning 2019/20

The factors considered in putting together the 2019/20 internal audit plan have been set out below:



Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will adopt an 'agile' approach and each quarter I will review the next quarter's plan to ensure that we are auditing the right areas at the right time; any necessary changes will of course be agreed with Senior Management and the Audit Committee will be kept informed.

# The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

As above, it is the responsibility of the Authority's Leadership Team, and the Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.

## Internal Audit Annual Risk Assessment

Our 2019/20 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for South Somerset District Council:



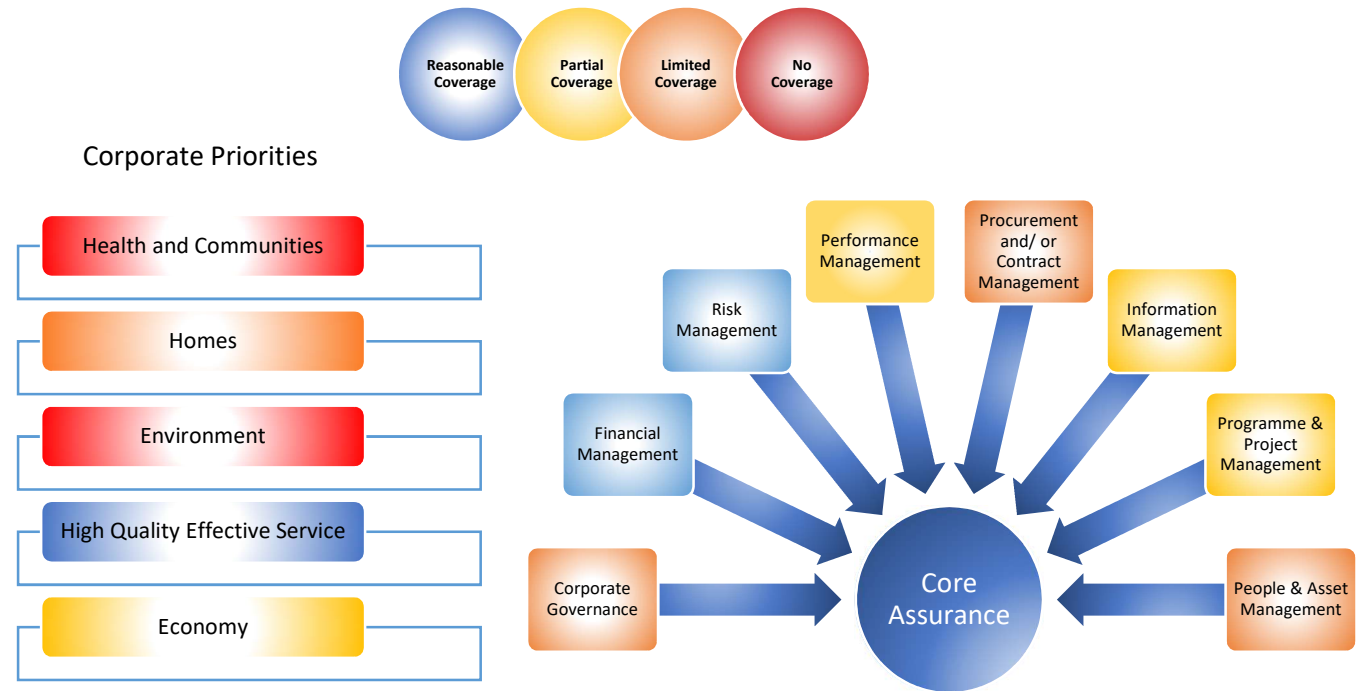
# The Internal Audit Plan: Coverage

Following our SWAP Risk Assessment above, we have set out how the proposed 19/20 plan presented in Appendix 1 provides coverage of the Authority's key corporate outcomes, as well as our core areas of recommended coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

## Internal Audit Coverage in 2019/20

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives, as well as our core areas of recommended coverage. Where we have highlighted limited or no coverage, Senior Management and Audit Committee should seek and document assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:



*Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.*



# The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 26 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

## Your Internal Audit Service

### Audit Resources

The 2019/20 internal audit programme of work will be equivalent to 354 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for South Somerset District Council are:

Alastair Woodland, Assistant Director – Alastair.woodland@SWAPaudit.co.uk, 07720312467  
Adele Mitchell, Senior Auditor – Adele.mitchell@SWAPaudit.co.uk

### Conformance with Public Sector Internal Audit Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in March 2016 which confirmed conformance with the Public Sector Internal Audit Standards.

### Conflicts of Interest

We are not aware of any conflicts of interest within South Somerset District Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, and Competency.

### Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

### Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

# The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and risks
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

## Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

## Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><b><u>Delivery of Annual Internal Audit Plan</u></b> Completed at year end</p>	>90%
<p style="text-align: center;"><b><u>Quality of Audit Work</u></b> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%
<p style="text-align: center;"><b><u>Outcomes from Audit Work</u></b> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%

*It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.*

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link to Corporate Outcome	Healthy Organisation Theme
<b>Key Control:</b> <i>Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.</i>				
Main Accounting including budget responsibility and reserves management	<i>Financial statements need to reflect a true and fair picture of activity of the organisation in question. This review will consider aspects regarding budget planning, budget monitoring, feeder systems reconciliation, opening/closing balances, suspense accounts, journals, System access, virements, bank reconciliation. It will also include reserves management and an assessment/comparison of the risk assessment used for minimum level of reserves.</i>	3	High-Quality Cost-Effective Service	Financial Management
Creditors	<i>Given the extent of change and staff turnover there is an increased risk risks around the payment process. This review will seek to ensure key controls, such as Authorisations, master data controls, direct debit risks, access to the system, VAT, etc is appropriately controlled during this time of change. There is also a new system being implemented.</i>	3	High-Quality Cost-Effective Service	Financial Management
Debtors	<i>With the level and extent of change it is likely that certain invoices may not have been raised or chased due to changes in staffing. This review will seek to provide assurance around key controls, namely, reconciliations between none centralised systems, regular and timely action in chasing debts, processes for identification of all debts, management information and monitoring arrangements.</i>	3	High-Quality Cost-Effective Service	Financial Management
Treasury Management	<i>This review will seek to ensure the following key controls are operating effectively: compliance to the approved Treasury management Strategy; cash flow monitoring arrangements; Authorisation and Access limits to transfer funds; segregation of duties; main accounting records; regular reconciliations; management information and prudential indicators; regular reporting and monitoring.</i>	2	High-Quality Cost-Effective Service	Finance Management
Payroll	<i>Given the level of change at the Authority this review will seek to provide assurance that key payroll controls are operating effectively. The review will seek to provide assurance that staff changes are adequately reflected within the payroll system, leavers have been removed, proper checks are in place for expenses. This review will also consider the cover arrangements to ensure suitable skills remain to adequately process payroll.</i>	2	High-Quality Cost-Effective Service	Finance Management



Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link to Corporate Outcome	Healthy Organisation Theme
Council Tax and NNDR	<i>Given the volume and value running through these systems and the level of change it is imperative that controls are operating effectively and amounts due are collected in line with agreed collection targets and procedures. This review will focus on reconciliations with the Valuation Office Listing, discounts and exemptions applied in line with council policy; arrangements for billing; reconciliation between CT/NDR and the General Ledger; review of suppressed accounts, review of credit reports, user access and profiles, write-offs, suspense accounts, segregation of duties.</i>	2	High-Quality Cost-Effective Service	Finance Management
Housing Benefit	<i>With the roll out of Universal Credit the volume of work in HB has reduced. However, risks remain the same as before and it is imperative that claims are processed without error to avoid SSDC picking up the cost of incorrectly processed applications/amendments. The change in the organisation would increase the potential risk of error.</i>	4	High-Quality Cost-Effective Service	Finance Management
<b>Governance, Fraud &amp; Corruption:</b> <i>Governance, Fraud and Corruption Audits focus 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.</i>				
Creating new Companies	<i>The Council is looking to create some commercial companies that will deliver additional income to the Council. The process of creating these companies needs to be done carefully as there are a number of pitfalls the Council could fall into. Audit should be looking at the transparency of the roles between the Council and the Company, work to reduce the cross purposes between roles in the Council and in the company and assess the governance in place to manage these companies.</i>	2	Economy	Corporate Governance
Boden Mill & Chard Regeneration Scheme	<i>Annual Audit to check statement of accounts for this scheme have been accurately produced against the budget monitor spreadsheet.</i>	1	Economy	Finance Management
Yeovil Cemetery & Crematorium Annual Accounts	<i>Annual Audit to check the accounts for the Cemetery &amp; Crematorium</i>	1	High-Quality Cost-Effective Service	Finance Management
Information Governance - GDPR	<i>GDPR has not yet been looked at by Audit for this Council. Training was compulsory for all staff and members. 11 members have refused to complete GDPR training and there is resistance to moving from their current IT devises to Council provided devises. Looking at the compliance of members would be a good focus. There is a risk the council is not GDPR compliant and a data breach occurs resulting in financial and reputational damage.</i>	3	High-Quality Cost-Effective Service	Information Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link to Corporate Outcome	Healthy Organisation Theme
Civil Contingencies	<i>There has been a change in responsibilities for managing Civil Contingencies (Emergency planning). There have been a number of calls out of hours that are not the council's responsibility. This has resulted in a new Civil Contingencies response being introduced in January 2019. An audit to look at this process and check those officers on the rota are aware of their responsibilities and how they should react to a given situation.</i>	1	High-Quality Cost-Effective Service	Risk Management
New Risk Management Strategy/System	<i>New Risk Management system being introduced, the audit should assess how well the new system is working, links to risk governance &amp; Controls adapting to change from risk in focus report as well.</i>	2	High-Quality Cost-Effective Service	Risk Management
<b>Transformation</b>				
Benefit Realisation	<i>The main driver was financial, but other customer focused benefits were also articulated. This review would seek to provide independent assurance that the intended benefits from the transformation programme have been delivered as intended and that the benefits are sustainable.</i>	2	High-Quality Cost-Effective Service	Programme & Project Management
Income Generation – Service Improvements	<i>As part of the Commercial Strategy there is a target to increase income across services of approximately £250k. When we audited the strategy in 18/19 the income generation area was still in development. This should have now moved forward and a review of progress against the targets would be useful to assess achievement of the agreed targets in the strategy. Looking at Improvement of services, cost saving and introduction of new income generating services.</i>	4	High-Quality Cost-Effective Service	Programme & Project Management
<b>ICT/Information Management:</b> <i>These audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.</i>				
Data Centre/Backups resilience	<i>SSDC's general approach to their ICT enterprise and it appears that for the foreseeable future that they will maintain an "on-prem" in house provision with no real ambitions to move infrastructure to the cloud. This raises specific risks to manage surrounding those on-prem provisions, such as Data Centre &amp; back-ups. Not reviewed for 8 years and previous review was partial.</i>	1	High-Quality Cost-Effective Service	Information Management

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link to Corporate Outcome	Healthy Organisation Theme
Wide Area Network (WAN)	<i>To assess the readiness for the procurement. Have the requirements been clearly defined to ensure what is procured is what is correct for the council. IT Specialist has indicated it would be useful to tap into our experience gained at Dorset County Council.</i>	4	High-Quality Cost-Effective Service	Information Management
<b>Operational:</b> Operational audits are a detailed evaluation of a Service’s control environment. A risk matrix is devised, and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.				
Performance Indicators Data Quality	<i>New KPIs introduced 12 months ago. This audit will look at the data quality being used to produce the KPI results so management and members can have assurance in the information presented to them as reliable. Review to be undertaken towards the end of the year to have sufficient data to analyse.</i>	4	High-Quality Cost-Effective Service	Performance Management
Affordable Housing Programme	<i>The council have historically underwritten a number of affordable homes schemes to help them move forward. Housing associations apply for funding from Homes England, they require a certain amount of work to be completed before they will approve a grant for building, the Council have underwritten the costs for these to help the scheme progress, often Homes England do cover these costs. With the changes across the council it would be helpful to check that this process is still working well. Any other schemes could also be looked at in this area.</i>	1	Homes	Programme & Project Management
<b>Follow -up:</b> Follow up reviews are undertaken where a previous audit has returned a ‘Partial Assurance’ or ‘No Assurance’. This is to provide assurance that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review.				
Lone Working Follow Up	<i>Follow up on partial assurance audits</i>	4	High-Quality Cost-Effective Service	People & Asset Management
Financial Resilience/Contract Monitoring Follow Up	<i>Follow up on partial assurance audits</i>	3	High-Quality Cost-Effective Service	Procurement and/or Contract Management
<b>Planning, Advice and Support</b>				
Follow Up	<i>Time to follow up Partial/No Assurance audits that arise in year and need to be followed up.</i>	2-4	N/A	N/A

Audit Name	Areas of Coverage and Brief Rationale	Quarter	Link to Corporate Outcome	Healthy Organisation Theme
SWAP Audit Development	<i>The importance of the IA team keeping up to date with developments in the services they audit, latest audit and risk developments in the Public Sector and necessary training.</i>	1-4	N/A	N/A
Corporate Advice	<i>Guidance and advice on best practice, members training</i>	1-4	N/A	N/A
Committee Reporting & Attendance	<i>Drafting Reports and attending Audit Committees</i>	1-4	N/A	N/A
Planning/Client Liaison	<i>Audit planning, liaison with S151 Officer, Senior Officers, SMT and External Audit</i>	1-4	N/A	N/A

## The Internal Audit Charter

### Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within South Somerset District Council, and to outline the scope of internal audit work.

### Approval

This Charter was approved by the Audit Committee on 27 April 2017 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit Committee on 28 March 2019\*.

### Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

### Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### Responsibilities of Management and of Internal Audit

#### Management<sup>1</sup>

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

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<sup>1</sup> In this instance Management refers to the Senior Leadership Team.

\*subject to approval in March 2019



### **Internal Audit**

Internal audit is responsible for operating under the policies established by management in line with best practice.

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) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for South Somerset District Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

### **Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

### **Status of Internal Audit in the Organisation**

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP, the Executive Director and Assistant Director also report to the Strategic Lead - Finance, as Section 151 Officer, and reports to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for South Somerset District Council for all matters relating to the Audit Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the partner or client.

### **Scope and authority of Internal Audit work**

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property South Somerset District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;

- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether South Somerset District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
  - the internal auditor's independence is not compromised
  - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
  - the scope of the consultancy assignment is clearly defined, and management have made proper provision for resources within the annual audit plan
  - management understand that the work being undertaken is not internal audit work.

### **Planning and Reporting**

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised March 2019