



SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2019/20 as at January 2020

Contents

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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 approved by the Audit and Governance Committee at its meeting in March 2019.

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
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2019. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.



Plan Progress 2019/20

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2019/20. 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 **Appendix A** of this document.

The following table summarised Audits finalised during 2019/20:

Audit Area	Quarter	Status	Opinion
Civil Contingencies	1	Final	Reasonable
Creating New Companies	2	Final	Reasonable
Benefit Realisation Position Statement	3	Final	Advisory
Financial Resilience/Contract Monitoring Follow Up	3	Final	Follow Up

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 2019 update there are no ‘Partial Assurance’ reviews I need to bring to your attention.

To provide assurance to members on recommendation progress of previously identified areas of weakness we have included detail in **Appendix C** in relation to Financial Resilience/Contract Monitoring Arrangements.

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work Programme Contd.

'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 2019 update there are no new 'High' risks that I need to bring to your attention from our work.

Plan Progress 2019/20

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



Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector 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 2019/20 (as at 7 January 2020) were as follows:

Performance Target	Target Year end	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started	>90%	57% 26% 17%
<u>Quality of Audit Work</u> 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>	>95%	100%
<u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%	Reported Year end



Plan Progress 2019/20

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



Approved Changes to the Audit Plan 2019-20

The audit plan for 2019/20 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 Service Manager and the Section 151 Officer.

No further changes to the plan have been made since our previous update in October 2019.



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

- Substantial
- Reasonable
- Partial
- None
- Non-Opinion/Advisory



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.



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

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.



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 service's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

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 both senior management and the Audit Committee.



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
						Recommendation			
						1	2	3	
FINAL									
Annual Accounts Certification	Boden Mill	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory	0	0	0	0	
Grant/Certification	Growth Deal Capital Expenditure (YIC Phase 2)	1	Final	Advisory	0	0	0	0	
IT Audit	Data Centre - Physical and Environmental Controls	1	Final	Reasonable	9	0	0	9	
Operational	Affordable Housing Programme	2	Final	Reasonable	2	0	0	2	
Follow Up	Lone Working Arrangements	2	Final	Advisory	5	0	4	1	
Governance, Fraud and Corruption	SSDC Opium Power	2	Final	Advisory	4	0	4	0	
Operational	Civil Contingencies	1	Final	Reasonable	5	0	1	4	
Governance, Fraud and Corruption	Creating New Companies	2	Final	Reasonable	4	0	0	4	
Follow Up	Financial Resilience/Contract Monitoring	3	Final	Follow Up	0	0	0	0	See Appendix C
Operational	Benefits Realisation Position Statement	2	Final	Advisory	-	-	-	-	



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
						Recommendation			
						1	2	3	
DRAFT									
Key Financial Controls	Payroll	2	Draft						
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Draft						
IN PROGRESS									
Key Financial Controls	Council Tax & NNDR	3	In Progress						
Key Financial Controls	Housing Benefits	3	In Progress						
Key Financial Controls	Creditors	3	In Progress						
Key Financial Controls	Debtors	3	In Progress						
Key Financial Controls	Main Accounting	3	In Progress						
Cross cutting, Governance, Fraud and Corruption	Information Governance - GDPR	3	In Progress						
NOT STARTED									
Governance, Fraud and Corruption	Risk Strategy & TEN Risk Management	4							
Operational	Benefits Realisation	4							



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
						Recommendation			
						1	2	3	
Operational	Performance Indicators Data Quality	4							
IT Audit	Wide Area Network (WAN)	4							
DROPPED/DEFERRED									
Transformation	Income Generation - service improvements	4			Move to quarter 1 of the 2020-21 Audit Plan to accommodate the work undertaken on SSDC Opium Power Ltd.				

2018-19 Outstanding Reviews

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
						Recommendation			
						1	2	3	
IT Audit	Disaster Recovery	4	Draft	Reasonable					

Audit completed since the October 2019 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.

Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in October 2019 where we deem it necessary to share findings. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Follow Up

Follow up reviews are undertaken where a previous audit has returned a 'Partial Assurance' or 'No Assurance'. This is to provide assurance to the Corporate Governance Committee that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review and are usually undertaken 6 months after the original review to allow time for recommendations to be implemented.

Financial Resilience/Contract Monitoring Follow Up

In the Financial Resilience/Contract Monitoring audit completed January 2019 we offered partial assurance. Three recommendations were raised; one was given a priority-one, one priority-two and one priority-three.

Assessments of supplier financial resilience is important to ensure that supplier failure is not going to have a detrimental impact on the Council's ability to deliver services. Partial assurance was awarded due to weaknesses identified in identifying key suppliers and having plans in place to mitigate potential supplier failure. This included an inconsistent approach to monitoring suppliers, a lack of business continuity or supplier failure plans and contract managers not having access to guidance on how to manage the contracts.

Whilst carrying out this follow-up audit in November 2019, the progress made against each recommendation is summarised below in table 1:



Summary of Significant Audit Findings

APPENDIX C

Audit completed since the October 2019 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.

Follow Up Continued

Progress Summary				
Priority score	Complete	In Progress	Not Started	Total
Priority 1	1	0	0	1
Priority 2	0	1	0	1
Priority 3	1	0	0	1
Total	2	1	0	3

As the table above demonstrates, two of the three recommendations have been fully implemented and action has been taken to move the other along. A Revised date for completion is the end of March 2020.

Detailed explanation against the outstanding recommendation can be viewed below.

No	Weaknesses Found	Recommendation	Revised Date for Completion	Manager's Update
Financial Resilience/Contract Monitoring				
1	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.	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.	31 March 2020	The Commodity and Supplier Risk Model identifies if the council has seen the supplier's business continuity plans so they know how they will manage to meet the contract should anything occur. It also identified how easy it would be to replace the supplier and the level of reliance the Council have on any one supplier for a certain commodity or service area. They do not yet have sight of all the required BCP's and these are being requested as part of the retendering process for the key critical suppliers. They will also be working on supplier failure plans alongside this process as the BCP will help identify what the Council may need to do should they fail.